

INTERNATIONAL

ECONOMIC

RELATIONS

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International Economic Relations

Six major moves considered essential to our economic recovery are here presented to the American people by the Commission of Inquiry into National Policy in International Economic Relations. These six steps, unanimously recommended by a group of men representing widely varied interests, are the settlement of war debts, removal of many tariffs, stabilization of the dollar's gold content, granting of wider powers to the Tariff Commission, freedom for private foreign loans, and abandonment of restrictions on agricultural exports.

This book is the complete report of the Commission, containing the material that these investigators gathered in all parts of the country during a year's work that consisted of a thorough study of fact and competent opinion on proposed measures. Established by the Social Science Research Council and financed by the Rockefeller Foundation, the Commission was entirely non-partisan. Alvin H. Hansen, professor of economics in the University of Minnesota, now chief economic analyst in the Department of State, directed the research. Public hearings were held in New York, Chicago, Des Moines, Denver, San Francisco, Houston, and New Orleans in which business men, farmers, industrialists, and economists, as well as public officials and group leaders, took part.

Thus the report presents a notable attempt by a non-governmental, non-political group to formulate a sound and consistent policy for the United States to follow in its economic relations with the other nations of the world. It contains the recommendations of the Commission, reasons for these recommendations, the report of Alvin H. Hansen, significant statements made before the Commission and excerpts from memoranda submitted to it, a summary of the hearings, and a full index.

International Economic Relations

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Report of the Commission of Inquiry
into National Policy in
International Economic Relations



1934

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THE COMMISSION OF INQUIRY INTO
NATIONAL POLICY IN INTERNATIONAL
ECONOMIC RELATIONS

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ACKNOWLEDGMENTS

The Commission cannot record in detail its obligations to all who have assisted it. It must, however, express its gratitude to Alvin H. Hansen, Secretary and Director of Research until July 1, 1934; and to Carl L. Alsberg, the member of the Commission upon whom the task of formulating the statement of our views has primarily fallen. The report rests on the work of Mr. Hansen. From the date of Mr. Hansen's withdrawal Mr. Alsberg devoted his entire time to the preparation of the section that appears, after its discussion and revision by the Commission, as Part Two. Without Mr. Hansen the Commission would have committed many grievous errors; without Mr. Alsberg it would not have been able to submit this report in the present form.

ROBERT M. HUTCHINS, *Chairman*

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International Economic Relations

REPORT OF THE COMMISSION OF INQUIRY INTO NATIONAL POLICY IN INTERNATIONAL ECONOMIC RELATIONS

ORIGIN AND PURPOSE OF THE COMMISSION

In times of crisis almost all branches of the national economy are sick. It is then that the interdependence of various groups becomes more evident than ever and it is then clearer that there can be no recovery for one group without consideration of the interests of all. At such times it is the welfare of the body politic as a whole that concerns us, and national policy must be directed toward combating general unemployment and toward raising the real income of the population as a whole. Inevitably the interests of those who have succeeded in securing an especially favored economic position are jeopardized, and they must recognize, and indeed sooner or later do, that some surrender of their favored position is unavoidable if there is to be recovery.

The need, then, in times of stress or emergency like the present is a unified national policy. The elements of such a policy are by no means obvious. They are domestic as well as international, political as well as economic. Recognizing the complexity of the problem, the Social Science Research Council¹ proposed in the autumn of 1933 to initiate an inquiry into the elements of such a policy in so far as these involved the international economic relations of the United States. In testing the timeliness of its proposal the Council consulted many persons, including President Roosevelt and certain members of his

¹ This Council is an autonomous body representing seven national professional societies in the social science field: American Anthropological Association, American Historical Association, American Economic Association, American Political Science Association, American Psychological Association, American Sociological Association, American Statistical Association.

Cabinet. The President's judgment is expressed in the following letter:

THE WHITE HOUSE
Washington

November 17, 1933.

MY DEAR DR. CRANE:

At your request, the Secretary of the Interior has submitted to me a communication from the Social Science Research Council with reference to its proposal to institute two commissions of inquiry on subjects of major significance in the life and welfare of the American people, namely, National Policy in International Economic Relations, and Public Service Personnel.

I approve of the plan as outlined. I believe that in making the result of their studies available to the Government these commissions will be able to make a distinct contribution.

Sincerely yours,
(signed) FRANKLIN D. ROOSEVELT

Mr. Robert T. Crane,
Executive Director, Social Science Research Council,
230 Park Avenue,
New York, N. Y.

Thereupon the Commission of Inquiry into National Policy in International Economic Relations was appointed by the Social Science Research Council.² The Commission was asked to examine the present situation in the United States in which various practices and principles of nationalism and internationalism bear on national policy in international economic relations; to canvass the directions and objectives of American policy, and their possible results in terms of the welfare of the American people; to make a report presenting an analysis of the problems involved together with relevant recommendations.

At the request of the Social Science Research Council, the Rockefeller Foundation financed the work of the Commission. Having once been established, the Commission became an autonomous body. It was nonpartisan in personnel and purpose. Its members were: Robert M. Hutchins, Chairman,

² Twenty-one of the Council's present membership of twenty-eight represent the constituent societies. The additional seven are a variable group of members at large elected by the Council itself.

Full information regarding the Council will be found in its Decennial Report, 1923-1933, obtainable from the Executive Director, Dr. Robert T. Crane, 230 Park Avenue, New York City.

William Tudor Gardiner, Vice-Chairman, Carl L. Alsberg, Isaiah Bowman, Guy Stanton Ford, Beardsley Ruml, Alfred H. Stone. Alvin H. Hansen, Professor of Economics, University of Minnesota, was Director of Research and Secretary until July 1, 1934, at which time he became Chief Economic Analyst of the State Department. After Professor Hansen's resignation the Commission had the able assistance of Dr. Arthur R. Upgren. The Commission held its first meeting on January 4, 1934.

In order to perform its task the Commission consulted public officials, business men, farmers, industrialists, economists, bankers, and many specialists in international affairs. It examined recent and current literature, European as well as American. It received a large number of written statements. It held hearings in Washington, New York, Chicago (where appeared representatives from Minneapolis and St. Paul), Des Moines, Denver, San Francisco, Houston, and New Orleans. A local committee was organized in each community where a hearing was held, except in New York and Washington. This committee sponsored the hearings and suggested persons who could best speak for the various points of view represented in its particular region. These committees undertook the work with great enthusiasm and success. Everywhere there were earnest, vigorous statements of opinion on the relation of international affairs to the economic welfare of the local community. The Commission endeavored to secure a broadly representative expression of all shades of opinion held by any considerable section of the various regions of the country. The Commission desires to express its appreciation of the effective cooperation it received.

This report consists of five parts.

Part I gives the recommendations of the Commission.

Part II gives the reasons for these recommendations.

Part III is a report made to the Commission by Dr. Alvin H.

Hansen, until July 1, 1934, Director of Research and Secretary to the Commission.

Part IV presents representative selections from the written statements submitted to the Commission together with revised transcripts of the statements of some of the witnesses at the public hearings of the Commission.

Part V summarizes the views expressed by witnesses at the hearings, except those included in Part IV. Although the business or professional connection of each person is given, it should be understood that the views expressed represent the opinions of individuals and not of the corporation or institution with which the individual is connected. The various speakers are presented in the order in which they appeared before the Commission.

The Commission is responsible neither to the government, nor to the Social Science Research Council, which selected its members, nor to the Rockefeller Foundation, which financed its work. It makes this report directly to the American people.

No more difficult time in American or world history could be chosen for the proposal of a policy in international economic relations. Yet these very difficulties make the issues we have weighed insistent and inescapable and make it necessary to devise practicable measures to meet them. For over a century the interdependence of all nations in the exchange of goods and services has been weaving the world into a seamless web. This reality has not been obscured, it has been made more evident, in the war and the post-war years.

The problems dealt with in this report are so urgent that we are justified in asking the thoughtful consideration by the American people of the conclusions we submit. They have been formed, not by our thinking alone, but by the aid of men and women in all sections of the country, who united in one interest—their concern for the national welfare.⁴

The American people have been forced into a new situation. That situation is the result of our rapid and increasing urbanization, of our change from debtor to creditor status, and of the compulsion to change our tariff policy if world trade is to revive. Reshaping policies and measures developed in other times and under other conditions is never easy. But there is no escape from the necessity of grappling with this task and of trying to find, within the framework of our democracy and within the limits of international compromise, some lines upon which we can agree to go forward.

⁴ See Parts IV and V and list on page 391.

- PART I

RECOMMENDATIONS

I. THE GENERAL OBJECTIVE OF AMERICAN INTERNATIONAL ECONOMIC POLICY

In order to advance the recovery of the world, the United States must promote the interchange of goods and services among nations. We believe that this policy is indispensable to the recovery and development of the United States.

The American government must labor to maintain peace. It should do everything in its power to remove impediments to world trade. It should by action as rapid and dramatic as possible endeavor to reverse the trend toward economic isolation. Otherwise it must be prepared to accept a drastic dislocation and reorganization of industry and agriculture, of capital and labor.

The principal difficulty in the way of admitting additional imports into this country is the ten million unemployed in the United States. An increase in imports might increase this number temporarily, although some tariffs could be lowered without throwing people out of work; others are ineffective. Whatever the effect on the volume of new imports, the influence of removing or lowering these barriers on the trade policies of other governments and hence on the ultimate revival of world trade would be substantial. A bolder policy could accompany an ascending scale of national recovery.

Many nations now feel that they must try to become self-sufficient because of the danger of war. Although the United States cannot engage to guarantee the security of any nation or group of nations, the measures herewith recommended would do much to contribute to a sense of political security throughout the world.

II. POLITICAL MEASURES

International economic relations cannot be greatly improved until the distrust and tension now prevailing in the

world are relieved. Therefore we recommend that our government adopt the following measures:

1. Continued participation in the Disarmament Conference, cooperation with the League of Nations in such of its activities as cannot involve us in European conflicts, and adherence to the World Court. We commend the recent action of Congress in adhering to the Arms Convention and in joining the International Labor Organization. We urge it to make the necessary appropriations for the latter without delay.
2. Continuance of present policy in South America and the Caribbean as exemplified by the Montevideo Conference, the repeal of the Platt Amendment, and the withdrawal of troops from Haiti.
3. Immediate withdrawal from the Philippines on terms that will protect their economic life from injury by American tariffs.
4. Placing of Oriental immigration on a nondiscriminatory basis.
5. Repeal of the Johnson Act forbidding loans to countries in default.
6. Immediate settlement of the war debts. We do not believe that the interests of the United States require any payment. Since, however, some countries desire to pay something, we recommend the appointment of a commission with full power to effect settlements. We suggest a lump-sum payment, possibly to be effected through the transfer of securities to be obtained by foreign governments through the exchange of their bonds for American issues held by their nationals or by any other method that minimizes transfer difficulties. The proposed commission should have discretion to accept in part settlement defaulted obligations of political units of the United States.
7. We recommend that our government make it clear that future investments abroad are at the investor's risk. We point out the possibilities of friction involved in even the customary diplomatic representations as to foreign investments. The investor should be remitted for assistance or redress to the authorities of the country where the investment is made.

III. ECONOMIC MEASURES

To achieve a more wholesome balance in the international accounts of the United States we recommend that our government take the following measures:

1. The Tariff

- a. The removal of tariffs in all cases in which no serious addition to unemployment would result. Among such tariffs are:
 - (1) Tariffs on noncompetitive products
 - (2) Ineffective rates
 - (3) Tariffs exclusively for revenue
 - (4) Tariffs on goods of which we import almost all our domestic consumption
 - (5) Tariffs on goods requiring types of craftsmanship not developed in the United States
 - (6) Tariffs on certain minerals of which the United States has scanty supplies, or which have been overextended in submarginal production areas
 - (7) Seasonally, those on seasonal imports
- b. If these measures do not prove adequate to increase imports to the necessary degree, rates on other commodities should be lowered, with the proviso that the increases in the volume of goods admitted be subject to control in order to minimize the danger of unemployment. It is desirable in the interest of internal law and order and international trade to restore tariff and internal revenue rates for imported beer, wines, and spirits to the levels of the Underwood Tariff of 1913.
- c. We recommend that the government consider the payment, under proper safeguards, of a dismissal wage to labor thrown out of employment as a direct consequence of sudden changes in the tariff.
- d. We favor the speedy negotiation of reciprocal trade agreements pending downward revision of the tariff. We do not regard reciprocal trade agreements as a substitute for tariff revision because the Trade Agreements Act limits reductions to only 50 per cent of existing rates and only to cases where other countries reciprocate. We recommend the conclusion of such agreements only on condition that they be used

to enlarge rather than divert world trade. We suggest an arrangement under which most-favored-nation treatment would be accorded all countries that make such agreements with us.

2. Agricultural Policy

The Commission recognizes the present necessity for fundamental readjustments in American agriculture, and feels that the policies now being applied by the Department of Agriculture should be continued long enough to determine their practical value.

- a. We recommend the continuation of subsidies such as those provided under the present domestic allotment program as supplements to agricultural tariffs, which are likely to be ineffective. The Commission suggests subsidies only in this restricted sense and only to compensate agriculture for the effects of existing industrial tariffs.
 - b. Since any attempt to raise American agricultural prices, without differentiation between domestic and world prices, will stimulate foreign production to the detriment of the farmer's export market, all price-raising measures of this character should be discontinued at the earliest possible moment.
 - c. We recommend further that all other measures tending to restrict exports, such as the cotton loan policy, be abandoned at the earliest possible moment. Such policies not only tend to restrict exports by maintaining an artificially high price for American cotton, but may also make necessary severe reductions in cotton production in this country in order to protect the loan extended by the government.
- ## 3. Foreign Investments
- a. We are opposed to governmental restrictions on long-term private loans abroad beyond such regulations as are necessary to prevent fraud. We regard foreign lending by the United States government itself as unwise.
 - b. We recommend that arrangements be made to make available currently complete information as to the volume of international short-term lending.

- c. We recommend that no steps be taken by the government to restrict the operation or establishment of American branch factories abroad.
4. Monetary Policy
- a. We recommend that gold stocks be used exclusively as at present for the balancing of international payments.
 - b. We recommend that in order to promote confidence the government announce that although it will retain its present powers under the Gold Purchase Act to change the price of gold within the limits there stated, it does not intend to exercise those powers and that it will freely permit the export of gold at the present official price for the settlement of international payments.
 - c. We believe that there is only a minor relationship between the official prices of gold or silver and the general price level, and that the correspondence between commodity prices and the official prices of these metals is substantial only for those commodities which move importantly in international trade. The government may enlarge purchasing power through maintaining for a time a large federal deficit, which may be created by reducing taxes as well as by increasing expenditures. Such a deficit for emergency purposes need not threaten our financial structure if accompanied by sound policies for increasing production and employment.

V. ADMINISTRATIVE MEASURES

1. The Tariff

- a. We recommend that Congress confer upon the Tariff Commission the power to change tariff rates subject to congressional veto according to the principle of the amendment to the Hawley-Smoot Tariff Act proposed in 1930 but rejected. The Tariff Commission would then fix rates according to such principles as Congress might establish, and the new rates would take effect in sixty days unless rejected by joint resolution of Congress.
- b. We recommend that, if the powers of the Tariff Com-

INTERNATIONAL ECONOMIC RELATIONS

mission be enlarged as herein proposed, the powers granted the President for three years to negotiate reciprocal trade agreements be allowed to lapse, unless the emergency continues.

- c. We recommend that if the life of the National Industrial Recovery Act is extended, its tariff-making features (Section 3e) be repealed and power over all tariffs transferred to the Tariff Commission.

2. Coordination

The coordination of international economic policy requires the exchange of information between governmental departments, clearance with the State Department of proposed actions affecting foreign trade, and cooperative planning by the proper departments. Therefore we recommend:

- a. The present interdepartmental Executive Committee on Commercial Policy should be given an adequate staff.
- b. There should be provided as a part of the permanent organization of the Department of State an additional Assistant Secretary of State and a Division Chief to clear information on actions affecting foreign economic relations and to formulate cooperative plans in this field. The Assistant Secretary should be chairman of the Executive Committee on Commercial Policy.
- c. Each branch of Congress should establish a liaison committee to coordinate legislation affecting international economic relations.

ROBERT M. HUTCHINS, *Chairman*
WM. TUDOR GARDINER, *Vice-Chairman*
CARL L. ALSBERG
ISAIAH BOWMAN
GUY STANTON FORD
BEARDSLEY RUMML
ALFRED H. STONE

PART II

REASONS FOR THE RECOMMENDATIONS

ECONOMIC NATIONALISM AND INTERNATIONALISM

Economic nationalism, as the word is used today, means a policy of withdrawing from intercourse with foreign peoples to the greatest possible degree, a policy directed toward as much self-containment as is feasible in the modern world. It assumes that foreign commerce is dangerous because through it the economic disturbances arising in one country may be transmitted to another. It is based on the belief that the national security obtained by withdrawing from international commerce is worth the sacrifices that admittedly have to be made in the way of some depression of the standard of living, unpredictable in degree, and of some narrowing of the national culture.

Internationalism when applied to economic matters means, on the contrary, intercourse between nations on a basis as free as possible from artificial barriers. It assumes that, since in the past one hundred years or more man reached his highest economic and cultural development while engaging in international trade and financial intercourse under minimum restrictions, to interrupt such intercourse would lead to a prolonged and profound economic dislocation everywhere and start mankind upon a road leading no one knows whither.

Despite this apparently sharp contrast between these two philosophies, the Commission came to realize, as it proceeded with its inquiry, that in fact the distinction between them is superficial and unreal. No national policy is wholly nationalistic, none wholly internationalistic. Every policy contains many compromises; each is "national" in the sense that it is intended to promote the interests of the nation that adopts it. Internationalism is national in the sense that it is never in practice followed except with the intent to promote the interests of the nation. Internationalism in this sense is nationalistic. No one can say, except arbitrarily, at what point a given policy ceases to be international and becomes national. The Commission be-

believes that the effort to set up a distinction between nationalism and internationalism is unprofitable as a starting point in the study of international economic relations. It has therefore prepared this report from the point of view of what it conceives to be the best interests of the United States without confusing the issue by classifying this or that measure as nationalistic or internationalistic. The Commission believes that if this report is to serve any useful purpose it must be realistic and propose a program adapted to our present economic position.

NATIONAL SECURITY

In this post-war world, economic nationalism is being urged not because the peoples of the earth regard this policy as an ideal, such, for example, as the democratic ideal of the late eighteenth and early nineteenth century. Quite the contrary, there are few responsible statesmen who do not deprecate it; they adopt it in response to a deep-seated feeling of insecurity or to the pressure of economic necessity. For most nations economic nationalism is largely a sort of rationalization of sacrifices that must in any event be made. The objectives are not wholly economic but political and cultural as well; economic nationalism is a price that must be paid for pursuing these ideals.

The fears of nations for their security are partly political, partly economic. In fact, it is often impossible to separate the two and that is why political measures are quite as important for the improvement of international economic relations as are economic measures. The feeling of insecurity abroad in the world is especially significant for America because one of its first expressions is the struggle of many nations to produce at home all the foodstuffs they need. It is one of the main reasons why our agriculture has lost many of its export markets. Some of them can probably never be fully recovered until the world feels more secure politically.

The liberalizing of trade and intercourse between nations would ease many a political strain. Conversely, the lessening of political friction would smooth the path for economic intercourse. There can be no doubt that the struggle for markets and the worry over sources of raw materials is responsible for much of the feeling of insecurity that finds expression in the race for armaments.

Take Japan for example. She has coming into the labor market two hundred thousand mouths a year. No birth control, no slowing up of the adjusted birth rate—already in evidence—can alter the situation in the next fifteen or twenty years. These workers are already born. Japan can find work and a livelihood for them only by industrializing. She can industrialize only if she has access to raw materials and markets for her surplus manufactures. Her industrial development is hampered by tariffs, exchange controls, and quotas.

Freer exchange of manufactures and more assured access to raw materials are necessary conditions for the peace of the world in the immediate future. To this we can contribute vastly by making it our declared and considered policy, as suggested in this report, to remove as rapidly as feasible the barriers to trade that we ourselves have erected, by taking immediate first steps in that direction, and by using every legitimate means at our command to induce others to remove their barriers.

The United States is in a more favorable position than perhaps any other nation to contribute to the restoration of confidence and the creation of a feeling of political security. Fortunately, the present administration has already taken first steps in this direction through the declarations of Secretary Cordell Hull at Montevideo, through the withdrawal of marines from Haiti, and through the repeal of the Platt Amendment. This policy should be enlarged and made permanent. We should go a step further and make the unilateral declaration that the United States renounces any policy of economic penetration; that the flag shall not follow the dollar.

The withdrawal of the United States from the Philippines should not be delayed and should be made on terms that will protect the economic life of the Islands from the effects of the American tariff. This may perhaps best be accomplished by treaty, for the execution of a treaty would not impair the sovereignty of the Islands.

Oriental immigration should be placed on a quota basis. This would admit so few immigrants as to be of no moment to the country but its effects upon the attitude of a great part of the world toward the United States would be beneficial.

Among the first acts of the new Congress to convene in January should be the making of the appropriation necessary to

complete membership in the International Labor Organization, an autonomous body for the improvement of the condition of laborers throughout the world. In becoming a member the United States commits itself to nothing so far as the League or the peace treaties are concerned. The scope of the Organization is limited to those problems affecting labor which nations have in common. "It is not a substitute for domestic legislation, but, on the contrary, grows out of it. It does not interfere with the normal processes of lawmaking but only seeks to make them more effective by raising the common standard of the conditions of life, so that those nations which lead the world in social reform may not be placed at an undue disadvantage by those which compete with them by the exploitation of their labor."¹

The United States should continue participation in the Disarmament Conference and cooperate with the League of Nations in such of its activities as cannot involve us in European conflicts. On this last point there is widespread misunderstanding abroad. Europeans generally fail to recognize that the people of the United States will not permit the country to enter into any agreements which would commit America to entering into European clashes. No American statesman could long remain in public life who took any other position. This is a fixed idea of the American people which must be taken for granted in any matter involving the foreign relations of the United States.

We recommend adherence to the World Court. The idea of such a court is an historic part of American policy, and participation under the Root reservations can be undertaken without reasonable objection. In view of the fact that both great parties are pledged by their platforms to such action, there should be little room for hesitancy or controversy. Ratification is now in large part a matter of good faith between our own political leaders and the people who elected them. It would also remove the bewilderment and uncertainty, amounting almost to mistrust, among other peoples about American policy and make clearer to the rest of the world the lines along which we are ready to cooperate in world affairs.

¹ James T. Shotwell in the Introduction to *The Origins of the International Labor Organisation* (Columbia University Press, New York, 1934).

The Johnson Act forbidding loans to countries in default should be repealed. If this law was designed to exert pressure on defaulting governments to make them pay, it has failed. If it was designed to protect American lenders from their own folly, it is ill-advised. The Johnson Act has done and is doing serious damage. It has created a great deal of ill-will abroad without accomplishing anything beneficial at home, and this ill-will has reinforced the determination of many nations to discriminate against American trade. In addition, the Johnson Act makes it impossible to lend to foreign governments for refunding when this might be in the interest of American nationals, and it prevents Americans from loaning funds to some financially strong foreign governments even though this may be to America's advantage. In other words, it prevents Americans from dealing as effectively with foreign governments indebted to them as they do with domestic private debtors. The Johnson Act can serve no useful purpose.

Finally, the war debts should be settled at once. Nothing is more important, for not merely are these debts the point from which much of the ill-will and friction between America and other nations start but they also clog the channels of international trade and are therefore a serious obstacle to world recovery. The specific recommendations of the Commission regarding war-debt settlement are presented below (pages 86-87).

The Commission is convinced that none of these measures will endanger the United States economically or politically. On the contrary, they will contribute to national security and to the restoration of our trade with the rest of the world. In default of resort to *some or all* of the measures mentioned, the world will have no confidence in other more distinctly economic policies we may adopt, and the consequences of any immediate economic steps that may be taken will be small.

THE FUTURE OF WORLD TRADE

Signs are not wanting that people here and in other lands are beginning to weary of the sacrifices they are making in the interest of national security, that they feel the price they must pay is too great. The student of the situation in France, in Italy, and in Germany, for example, cannot escape the impression that today the people are voicing more energetically their

objections to the high price or the poor quality of bread, while on the other hand agrarian interests seem more content to strive to retain the protection gained earlier and less inclined to press for greater and ever greater protection. There is good reason to believe that if the peoples of the earth could feel more secure and were under less economic pressure, the urge toward economic nationalism would lose in force.

We must be cautious, therefore, in forecasting the future of world trade. We are not justified in assuming that because trade has decreased it must continue to dwindle and ultimately become a mere exchange of a few essential raw materials. The truth is that the volume of goods being exchanged between nations has declined comparatively little; it is the money value of these goods that has dropped (see page 117).

Nor are we justified in assuming that world trade must ultimately be limited to a few raw materials because undeveloped countries are striving to industrialize and some may ultimately succeed. It is true, for example, that China formerly imported a large volume of cigarettes from America and then imported cigarette-making machinery till at present the importation of tobacco is replacing the importation of cigarettes. Such shifts from the importation of manufactures to the importation of raw materials will no doubt continue, but the trade of the world no longer consists overwhelmingly in the importation of raw materials and foodstuffs by industrialized countries and the exportation by them of manufactured goods. Indeed, the trend of trade has been away from an exchange of raw materials for manufactured products; it is coming more and more to involve an exchange of merchandise which is apparently alike but which differs materially in kind or type. It is premised upon mass production methods, which when successfully employed require large volume outlets. Even when different communities or countries appear to manufacture the same product, concentration upon certain styles and grades results because it makes possible the best utilization of mass production methods and low-cost operation. Thus before the war distorted conditions, the best customers of industrialized countries were industrialized countries. For example, England was one of Germany's best customers and Germany was one of England's best.

A rich nation, like the United States, will not content itself

with the importation of a few essential raw materials like rubber, coffee, tea, silk, nickel, and tin. Whether or not more or less satisfactory substitutes are available Americans will insist on having the genuine articles. This will certainly prove true of many luxury goods and of all articles that lend themselves to conspicuous consumption. Thus people will insist on having real gems. They do and will continue to demand genuine rubies and sapphires though the artificial stones are chemically and crystallographically identical. So long as they are able to buy the genuine they will not accept imitations or substitutes for a large variety of articles. They will continue to demand a multitude of things we are certain for many years to find it difficult, inconvenient, or costly to produce. We need only make mention of drugs derived from tropical plants like quinine, cocaine, and ipecac; of tropical spices and flavoring materials like pepper, cloves, mace, allspice, vanilla, and ginger; of certain tropical woods like teak, mahogany, and ebony; of certain hides, skins, and furs derived from animals neither indigenous to nor domesticated in the United States; of works of art; of handicraft products like Oriental and Chinese rugs, hand-made laces, and hand embroideries; of precious stones like diamonds, rubies, emeralds, and sapphires not found in appreciable volume in the United States; of unmanufactured rattan and bamboo; of foreign language books, maps, and prints; of nickel and cobalt; of platinum essential in our laboratories and in our chemical and electrical industries; of kauri, copal, and lac for varnishes; of chicle, tragacanth, and kadaya gums; of special foods like Brazil and cashew nuts, smoked sturgeon, bananas, limes and lime juice, special types of cheeses not produced in the United States, and out-of-season fruits from the antipodes; of many types of tanning material (e. g., quebrachio and mangrove) to supplement our dwindling supplies of oak bark, and tanning extracts from our vanishing chestnut and hemlock forests; of sisal, Manila hemp, and other tropical fibers. Of many of the goods of the types that will for a long time continue to be in demand, no large volumes or values are or will be imported, but the total aggregate of their values mounts up.

Furthermore, we have now in foreign lands about 1,500 branch factories. If the profits earned by these plants are to be enjoyed by the American stockholders of the present con-

cerns, dividends must be brought in in the form of imported goods, or gold. If such importation is prevented, the profits will accumulate abroad and the plants might as well be given away or junked so far as any benefit to American investors is concerned. If the plants are sold the proceeds must be brought in as goods or gold. If this is made difficult the factories will pass very rapidly into the hands of local capitalists, a tendency that is already marked.

One thing we may accept as certain: It is that in the long run there will continue to be a considerable volume of world trade. It is clear that America will continue to import much from abroad.

THE COMPONENTS OF INTERNATIONAL ECONOMIC RELATIONS

If it be a fact that for many years to come there must be abundant intercourse between nations, it is important to understand of what this intercourse consists. International economic relations consist of the following components:

1. Imports and exports of merchandise.
2. Payments for and receipts from freight services.
3. Expenditures made by tourists going abroad and received from tourists coming from abroad.
4. Immigrant remittances sent abroad or received thence.
5. Payments for and receipts from miscellaneous sources, such as insurance, advertising, royalties for motion pictures, books, plays, patents and copyrights, communications (cable, wireless, telegraph, post), electric power sent across the border, etc.
6. Current government transactions, such as the maintenance of consulates, legations, and embassies, of legation guards, of warships on foreign stations, passport visa and other fees, canal tolls, etc.
7. Philanthropies such as the maintenance of missions and schools in foreign lands.
8. Loans and credits made and received.
9. Exports and imports of gold.

The items covered by class 1 are goods—material things one can weigh, touch, taste, or see. They are therefore often described as visible items, visible trade, or simply as “visibles.” Item 9 might also be classed as a visible, for it is a corporeal,

visible thing. But, since gold serves in international trade to settle accounts, it has been found convenient to assign it to a class by itself. The other classes, 2 to 8 inclusive, are not corporeal things. When a New York exporter pays a British steamship company for transporting goods he is sending to Europe, this payment is deposited by the New York branch office of the British company in a New York bank. No part of it necessarily goes to Britain. It may be used to pay port charges or to pay stevedores, or to buy supplies in New York. Or the credit in favor of the British steamship company in the New York bank may merely be used to offset a debt owed by someone in Britain to someone in America. Except for a letter or a cable nothing visible passes from the United States to Britain or from Britain to the United States. Nevertheless a transaction between the two countries has occurred; and this is an item of trade between them. Hence items of this kind are known as invisible items of trade or simply as "invisibles."

Items 2 to 8, inclusive, are sometimes classed together as "services," and the foreign trade of a country is often spoken of as consisting of the exchange of "goods and services." This is not strictly accurate. Thus tourists' expenditures (item 3) consist in part of genuine services but in large part they are the equivalent of the export of goods by the foreign country in which the tourist travels to the home country from which he comes. The tourist consumes food and buys clothes and other commodities, fuel is burned for his benefit, etc., etc. He consumes these goods abroad, to be sure, but he pays for them with wealth drawn from home. The consequences upon the economic relations of the two countries are not very different from those that would result if the tourist imported the food, clothing, fuel, etc., stayed at home, and consumed the goods there. This is also true to a greater or lesser degree of items 4 to 7, inclusive. The term "services" is open to objection because it is possibly confusing, for the payment of interest on, and amortization of, loans is sometimes termed the "servicing" of loans.

Items 4 and 7 are sometimes grouped together as gifts.

Because visible items are visible and conspicuous they attract far more attention than the invisible ones. In consequence the practice has grown of speaking misleadingly (or inaccurately) of the balance of trade as being favorable when a coun-

try exports more merchandise than it imports and, conversely, of the balance of trade as unfavorable when it exports less merchandise than it imports. However, under such circumstances it is correct only to say that the balance of *merchandise trade* or of visible trade is favorable or unfavorable, as the case may be.

These terms, "favorable" and "unfavorable," are unfortunate, for they imply that a "favorable" balance of merchandise trade is a thing in itself desirable and an "unfavorable" balance of the same trade undesirable, if not, indeed, dangerous. Neither is necessarily true. It would be better to speak of an active and a passive balance, as is the custom in some countries. The only question of policy is whether or not the relation between the different accounts is what we as a nation would like it to be.

As a matter of fact, the sum total of a nation's trade, debits and credits, whether visible or invisible, must always balance. And this remains true whether a policy of contracting or expanding trade be followed. If it did not, a country would forever be becoming more and more indebted to other nations, or the reverse. Creditor countries would not for long tolerate this state of affairs on the part of a country indebted to them unless the debtor country met its interest and amortization obligations.

How are these obligations met? How is international trade in the long run kept in balance? Any unbalance in a country's merchandise trade is compensated by a corresponding unbalance of its invisible trade in the opposite direction. If a country imports more goods than it exports, then it pays for the difference in services, in tourists' expenditures, in immigrant remittances, in loans or credits, in gold exports, or in a combination of two or more of these. Or if a country borrows more than it lends, then it has interest payments to make (and ultimately also at least some of the capital must be returned). The country does this by exporting more merchandise than it imports, by performing services, by tourist expenditures, by immigrant remittances, or by export of gold. Normally the net result is that the economic relations between the country and the rest of the world are made to balance.

If a country continues in this course, interest payments on past borrowings from abroad ultimately begin to overshadow new borrowings; the country becomes a mature debtor country.

Large annual interest charges are then due on foreign capital invested there. Large merchandise exports are made in payment and the excess of merchandise exports over merchandise imports tends to parallel the interest payments due, except in so far as a portion of the interest owing is reinvested in the debtor country. The country thus has a favorable or active balance of merchandise trade. This state of affairs is a matter neither for congratulation nor regret. Usually it merely signifies that the debtor country is developing rapidly, needs capital, and furnishes a sufficiently favorable field for investment to attract it from abroad. Before the World War the United States was in this stage of economic development.

Similarly an unfavorable or passive balance of merchandise trade need not alarm statesmen. It may merely signify that the country is performing more services for foreign nations than it

BALANCE SHEET SHOWING CREDITOR POSITION OF THE UNITED STATES *

	<i>Debits</i>	<i>Credits</i>
	<i>(In Millions of Dollars)</i>	
Exports		4,959
Payment on past debts and investments:		
War debts	218	
Private debts (net).....	565	783
	<hr/>	
Miscellaneous services		19
Errors due to inaccuracy in sources of figures		153
		<hr/>
Total credits.....		5,914
Imports	4,202	
Gold imports (net, including earmarked deposits)	42	
Services:		
Tourist expenditure	615	
Shipping payments	65	
Government transactions (except on debts)	77	757
Gifts:		
By recent immigrants, etc.....	202	
Charitable and missionary contributions..	50	252
	<hr/>	
Total debits	5,253	
Net credits, i. e., sums due to us which were loaned to foreigners and their governments †		661
		<hr/>
Balancing, 1928-30, at	5,914	5,914
	<hr/>	<hr/>

* Based on estimates of the Department of Commerce averaged for 1928-30.

† This sum may be regarded as the excess of our sales to Europe which were financed really by credit, i. e., loans; this is the reason why the excess of exports is called "capital exports."

accepts from them or is being repaid more money than it has loaned, or both. In other words, it is a creditor nation. It follows, therefore, that a country cannot have a favorable or active merchandise trade balance and be at the same time a creditor nation unless it is sending large sums abroad as further loans or immigrant remittances, or is making large tourist expenditures, accepting a large volume of services or of gold, or doing all of these. This has been the post-war position of the United States.

THE FUTURE OF THE UNITED STATES AS A CREDITOR NATION

Since the character of the foreign trade of a creditor country must be complementary to that of debtor countries, it is of first importance in formulating the economic policy of the United States to know whether or not we are to remain a creditor country, and if so, how long. In the immediate future we will doubtless remain a creditor nation. It is true that many foreign loans are in default but this does not mean that nothing will ever be paid on them or that they will be wiped off the books. Lenders have hardly ever ceased their efforts to collect at least something on defaulted loans. It has been the British experience that some bad loans have paid something after many years; indeed, sometimes a loan has in the end been paid in full. It is not to be presumed that American investors will follow a different policy. Loans good and bad will be kept on the books so that, technically at least, they will tend to keep America in the position of a creditor, even if no further foreign loans are made.

For the long run a forecast is more difficult. The preponderance of opinion is that the United States will continue on balance to be a creditor for a long time to come though probably to a much less degree than at present. One or two competent dissenting voices were, however, heard by the Commission. The two unknown factors in the situation are: (1) Will Americans again invest abroad? and (2) Will Europeans and others invest heavily in America? These questions cannot now be answered but they are so basic that the possibilities deserve at least to be weighed.

It is true that the American investing public is not likely to make new foreign loans, at least not in its present mood. But will its present mood last? If the savings of Americans are not

loaned abroad they must be invested at home, but what is the market for capital in the United States likely to be in the future? America is only partly developed, and a good deal of capital will probably find profitable employment in its less developed sections. However, the general nature of future American development is likely to be different from that of the past. The frontier is practically gone; little new land remains to be opened up. The rate of population growth is slowing down and there is little immigration. Less and less capital will be required to finance new settlement because little new settlement is likely to be made. And less and less capital will be needed to give employment to increasing numbers of people because the natural growth of the population is slowing down. Perhaps in the near future capital may find its principal employment in America in new and as yet unpredictable industries and in reorganizing and raising the efficiency of the physical plant of the country.

The United States is now very much like the patriarchal couple who began housekeeping in a three-room house and added a room for each child as it came, then wings for the wives and husbands of their children, and finally quarters for the grandchildren. Such a house may be picturesque, but housekeeping in it is neither convenient nor economical. We may find it advantageous to rebuild the United States, to redistribute industry, relocate railroads and highways, and transfer population. We may find good use for our savings at home but reconstruction will not hold out to investors the same promise of large rewards that original construction in new countries holds out. It is probable, therefore, that capital will be in demand only if it is comparatively cheap. If low interest rates do in fact prevail, some American capitalists will prefer to invest abroad wherever higher interest rates can be obtained. While it is not unlikely that the world is entering upon an era of general low interest rates, there are certain to be some countries where capital may be employed more profitably than at home although with greater risk. We may in the future again export capital.

On the other hand, the United States, because it is as yet but partially developed and because it seems bound to remain politically one of the most stable countries on earth, is likely

to prove most attractive to foreign capitalists who seek safety and stability. They may invest in America more heavily than Americans invest abroad. In that event the United States may become on balance a debtor country though perhaps not to a large degree. The distant future is not clear; for the immediate future it seems highly probable that the United States will remain a creditor since our large commercial investments abroad are likely to remain an important factor in our balance of payments.

THE BALANCING OF THE INTERNATIONAL ACCOUNTS OF THE UNITED STATES

If the United States is to remain a creditor nation in the immediate future as it has been since the war, what must be the relationship to one another of the several components of its foreign trade? For the three-year period 1928-30 the United States exported 661 million dollars of capital net each year, that is, it loaned large sums abroad. In earlier pre-war years also large loans were made and in some years large imports of gold were received. From the beginning of the depression up to 1934 American international accounts were kept in balance by the withdrawal of large short-term credits previously placed in the United States by foreigners. These are now pretty well exhausted. How are our international accounts to be kept in balance hereafter?

Foreign debtors cannot pay in American currency collected abroad; there isn't enough of it. They cannot pay in the currencies of the debtor countries; nor can they pay in the currencies of other countries (such as Holland and Switzerland). They cannot pay in gold, for the production of new gold is too small. However large or small the gold stocks that the United States may hold in the future, payment of interest and repayment of capital in gold alone year after year cannot go on indefinitely.

Payment might be made in the following ways or in a combination of them:

1. Lending foreign debtors enough to enable them to pay interest due.
2. Increasing immigrant remittances, foreign expenditures of tourists, payments for services, etc.
3. Selling in this country American securities held by foreign

investors, the proceeds to be applied to interest payments on and amortization of foreign loans.

4. Reducing American exports of merchandise.

5. Enlarging American imports of merchandise.

That these are the only possibilities left the reader will see clearly if he will re-examine the balance sheet for the United States presented on page 21.

Lending Foreign Debtors to Pay Interest Due.—Restoration of the foreign trade balance with money borrowed from us is, obviously, only a stop-gap measure. Loans are essentially delayed imports or, to put it another way, advances on contracts for future delivery of merchandise and services. Ultimately principal and interest can only be repaid in goods and services. Loans merely delay the day of final settlement. Through many of the post-war years Americans were making loans that made possible putting off the day of reckoning. They did so largely because America was unwilling to accept payments due her in the form of imported merchandise. The day of reckoning came with the depression and demonstrated the futility in ordinary times of lending your debtor the funds with which to pay you the interest on his debt to you. That is almost exactly what America did in the pre-depression years—in fact we loaned more than this.

However, these are not ordinary times, and every banker and business man knows that in times of crisis putting off the day of reckoning may be most helpful to both lender and borrower if thereby the borrower is enabled to carry on and ultimately to work himself out of bankruptcy into solvency. It may well be that a certain amount of sound, judicious lending by Americans in these critical times might benefit us by assisting other nations to work themselves out of the depression. In the present mood of American investors foreign loans, except perhaps for refunding, are not likely to be made, though the prospects, as pointed out above, are by no means bad that at some time in the future foreign lending may in some measure be resumed. But lending to foreign governments in default is barred by the Johnson Act; the act should be repealed.

Immigrant Remittances, Tourist Expenditures, Services.—With our present immigration policy immigrant remittances are not likely to grow beyond their volume in the past; indeed

they are more likely to dwindle. There is, therefore, small hope from this source.

Tourists' expenditures may again grow to something like their pre-depression total or even beyond. This would help in the future but is not likely to be an important factor at once. In any event tourist expenditures are quite unlikely to supply enough credits to remedy the maladjustment of our international accounts unassisted.

The same may be said of services not rendered to tourists. One of the most important of these is shipping. It is frequently charged in foreign shipping circles that national subsidies to our merchant marine prevent foreign countries from making contributions to debt payment by shipping services. The fact exists, but the implication is usually exaggerated. During the ten years 1922-32, the total sum paid for freight on goods coming into and leaving this country was roughly 2,335 million dollars, of which the credit side had 989 million and the debit side 1,346 million dollars. If foreign ships had carried all the goods both ways, the annual added contribution made possible to debt payment would have been only 99 million dollars a year.

Purchase of American Securities Held Abroad.—Selling in this country American securities held by foreign investors would be helpful only until all such American capital had been repatriated. It might, however, be of very considerable immediate temporary help; in the long run it would only increase our creditor position, for little foreign capital would remain in the United States so that there would be less interest to be paid by Americans to foreigners to help balance the interest payments due Americans from foreigners. No ultimate permanent benefits from this source can be expected.

Reducing American Exports.—Reducing American exports of merchandise would be a possible method of working toward a more natural balance of our trade than now exists, and, indeed, it is what is taking place. Two ways are open to foreigners to balance their trade with a creditor country that will not accept their goods, erects a tariff to shut them out, and will not accept enough services; these are to refuse to buy the creditor country's goods and to refuse to pay interest due. We are suffering from both. As everyone admits, one of the causes

of the hardships many farmers, manufacturers, and industrial workers are suffering is the loss of export markets. To keep our export trade at its present low level, or to contract it deliberately still further, would aggravate these conditions and cause further unemployment. It is true the foreigner might use the funds he would have used to buy American goods to pay us interest but there is nothing to compel him to do so. The net result of deliberate reduction of our export trade might be unemployment without compensating gain.

The Consequences of Reducing Exports.—It is worth while exploring the consequences of reducing exports, for the economic nationalist looks upon such reduction with complaisance. Our physical plant, our farms, forests, mines, and factories are adjusted to export definite proportions of their products. In the pre-depression years we exported about 10 per cent of our production taken as a whole, and the proportion has not fallen greatly since. We still export about 7 per cent. It has been argued that, because we export so small a proportion of our production, exports are not at all vital to our economic life, and that therefore we could very largely dispense with our export trade. This might possibly be true if our export business were equally distributed throughout all of our industries and throughout all branches of our agriculture, though even this has been disputed. However, some of our industries and some types of our farming produce little or nothing for export, while others produce much. The export market is much more important to some producers than to others. To reason that interference with our export trade would not be serious, because, taking our production as a whole, we export less than 10 per cent of it, is misleading. The direct economic dislocations that would follow would not be spread evenly over our whole economic structure. They would strike primarily at certain kinds of manufacturing and at certain types of farming.

Some of the more prominent of our exports are given in the table on page 140; the list might be largely amplified by the inclusion of such commodities as pork, films, and lumber. The reader will note in that table that even in the very bad depression year 1933 the exports of seven classes of industrial products ranged from 40.2 per cent of our total production (refined copper) to 3.3 of our total production of iron and steel

rolled products. For agriculture, exports were still more important. In that bad year they ranged from 65.6 per cent of our total cotton crop to 5.5 per cent of our wheat crop. While American policies since the war were premised upon the self-contained nation, the United States was exporting more than one-half of the cotton, more than one-third of the copper and tobacco, a fifth of the wheat and flour, an eighth of the refined oil, a quarter of the agricultural machinery, and a tenth of the automobiles produced in the United States. At the same time Americans became more extensively involved abroad financially than ever before.

Let the reader visualize what the disappearance of these exports or even their substantial reduction would mean in idle mines, idle factories, cold furnaces, and idle labor, in uncultivated fields and orchards and farm families driven off the land, in idle packing plants, idle canneries, empty port elevators and warehouses, in freight lost to railroads and cargo to lake and ocean steamers, in unemployment in the transport industries. But let him visualize also what an appreciable loss of cotton exports would mean to the South, of tobacco exports to Kentucky, Tennessee, and the Carolinas, of wheat exports to the Pacific Northwest and to the Southwest, of dried and canned fruits to California. A policy even tending in these directions is not to be adopted lightly.

The Commission was impressed at its hearings in the cotton states by the very real fear there existing that the present cotton reduction and government programs would so stimulate production in foreign lands that much of our export market is likely to be lost. Certain representatives of the cotton trade point to the fact that foreign production of cotton has doubled during the past few years, that it reached a peak of 12,600,000 bales in 1933-34 with prospects of an even larger crop this year. The acreage of cotton planted in countries other than the United States was also 6 per cent higher in 1933-34 than in any previous year and is expected to be even larger this year. It seems to be generally agreed that restriction of production in this country below what would otherwise be produced will stimulate foreign production. We will have less cotton to export. The loaning policy of the government may also tend to maintain prices of American cotton at a higher level in relation

to foreign cottons than they would otherwise be, and thus tend to reduce the present export market for American cotton. Such policies, however, have only a temporary effect on our export markets. Cotton produced must be sold or disposed of on domestic or foreign markets. If cotton loans have reduced our exports of cotton, we must have a larger supply to export than we would otherwise have. The loss of foreign cotton markets is due in part to relatively higher prices for American than for foreign cotton. This situation may be reversed. The wisdom of our cotton loan policy must be considered in the light of the possible necessity of having to continue restriction of production for a longer period than would otherwise be necessary to secure a balance between production and consumption.

The continuation of high tariffs at home and of import quotas as well as high tariffs abroad would necessitate marked reduction in the capacity of our country to produce export commodities such as wheat and cotton. As has been explained elsewhere our policy of restricting imports makes it difficult for many foreigners to buy American cotton, and this, as well as relatively high prices, has been another factor in stimulating foreign production of cotton. If the present barriers to international trade are not removed or reduced, the capacity of our agricultural plant would need to be reduced. Such a reduction could be brought about by permitting the ruthless operation of economic processes without interference. Or it might be brought about by government control until cotton production was in equilibrium with existing conditions of international trade. The question involved is the relative wisdom of the two courses.

Government control involves determining in advance how much reduction is desirable and then securing the desired reduction. The cotton trade and perhaps others are alarmed by the danger of a loss of foreign trade because such loss is immediate. In the absence of a governmental control program, farmers would continue to produce large amounts of cotton for a fairly long time, in spite of present international barriers. It might be advisable for them to do so. Shifts are made slowly, and cotton might continue to be their better alternative. And before a very material reduction occurred, some beneficial reduction of international trade barriers might take place.

If our exports are to dwindle to insignificance these branches of industry and of agriculture, and many others besides, will have to be shrunk till their respective outputs suffice merely for the domestic market. We cannot start from scratch. The factories have been built, the mines opened, and the farms developed on a scale to supply markets abroad. If these markets are to be abandoned there must result a corresponding overcapacity both in industry and in agriculture, an overcapacity far greater than exists today, with no possibility that it could be re-employed, for our population is no longer increasing rapidly. Before many years it may become stationary. A very large amount of industrial plant and equipment would have to be junked with great capital losses and destruction of wealth. Large numbers of workers would be thrown out of employment. Many fields would stand fallow and revert to grass and forest. Many farmers would have to seek other means of livelihood; with extensive unemployment already prevalent in industry, they would find this difficult. Large readjustments would have to be made; population and industry redistributed; and the proportions of agricultural, industrial, and white-collar workers changed to fit the new conditions. Ultimately an equilibrium would be reached at which things might go along rather smoothly. In the period while this equilibrium was being approached economic turmoil with much suffering and destruction of human values could hardly be avoided unless the new régime were approached very gradually step by step. In that event it would hardly help us to deal with the present crisis.

Enlarging American Imports.—There remains then to be considered enlarging American imports of merchandise. To put it in another way, if our international accounts are to be balanced by imports of goods, the balance of our merchandise trade must be passive; the value of goods imported must be greater than the value of goods exported. Thereby surplus credit is created for the exporting debtor country which it may apply to its indebtedness to us. In this way our international accounts could be made to balance without abnormal strains.

If the United States were to lower its tariffs today there would almost certainly be an increase in its imports. If debts

were not extensively in default there would be a compensating increase in exports unless America chose to borrow from abroad—beyond this point we need not trace the consequences for the moment. But even leaving war loans out of consideration there are heavy defaults. An increase in imports would yield foreigners dollar exchange, i. e., wealth expendable in the United States or purchasing power here, and one or more of the following consequences are to be expected:

A. Depression of the industries (and agriculture) that compete with imported goods, and increase in unemployment in them to a degree not now to be predicted.

B. Foreigners might buy more American products; United States exports would increase.

C. Prosperity of industries (and agriculture) that export, and increase in employment in those industries to a degree not now to be predicted.

D. Foreigners might use the dollar exchange to service loans; in that event fewer foreign loans would be in default.

E. Foreigners might use the dollar exchange to invest in America.

F. Export of gold.

It is impossible to forecast in what proportions foreigners would follow courses B, D, and E. Not one of these is undesirable from the American standpoint. However, since no one can tell certainly in advance which will predominate, no one can tell how soon or to what extent C will take place. Similarly no one can tell to what extent or how soon A will take place. Let us suppose foreigners used all their dollar exchange secured from enlarged imports into the United States to service loans (D). In that event there need be no immediate stimulation in the export industries but almost certainly American producers of all sorts would sooner or later feel the benefits. Americans who received payments on their foreign loans theretofore in default would be put in possession of increased purchasing power and this would lead to a corresponding stimulation first of consumption, then of production.

On the other hand foreigners might divide their new dollar exchange between B and E. Then both C and A might occur; export industry might be stimulated. Those in these industries and also those whose loans were being repaid (E) would have

increased purchasing power that might stimulate the non-export industries more than enough to counteract the depressing effect upon them of increased imports. No one can say with certainty what the sequence of events will be; there might be a time lag. Increase of exports may come more slowly than increase of imports. In that event there may well quickly develop more or less increase of unemployment lasting for some time before the increased exports or/and the increased purchasing power of American owners of foreign securities cause enough increase of employment in the export industries and enough general increase of consumption to compensate the immediate, or almost immediate, depression of industries that have to meet the sharpened foreign competition arising out of lowered tariffs and rising imports.

In moderately prosperous times, or at any rate when times are improving, that is, during the ascending phase of the business cycle, a time lag like this would hardly be serious. But in times of depression and especially when foreign trade is as upset by defaults on foreign loans as at the moment in the United States, the time lag might be considerable—no one can say—and unemployment during the lag might be sufficiently increased to delay recovery. While this possibility exists, it is more probable that the time lag would be inconsiderable, for traders would begin, as soon as lowering of tariffs had become a certainty, to speculate in anticipation of the course of events. Raw materials, and especially cotton, might feel the stimulus at once.

The Consequences of Increasing Imports.—Essentially then the danger of lowering tariffs lies in the fact that we are now in a depression when any increase in unemployment is serious, and next that foreigners may use their increased purchasing power to service their debts to us or to buy American securities rather than to buy American goods. The only one of these that might be serious, so the Commission believes, is unemployment, and there are ways and means, as we shall show, of minimizing dangers from this source.

The United States has never imported large volumes of the products of the fields of temperate climates. Indeed many of them, cotton, tobacco, pork, lard, fruits, we produce so efficiently that we have exported large quantities; that is to say,

as the economist would express it, we have a comparative advantage in these commodities. Therefore, if we enlarge our imports, we would probably not have to shrink this major part of our agriculture. The only danger of shrinkage would be in those branches of agriculture in which we have no comparative advantage, i. e., in which we are high-cost producers. In industry similar conditions would obtain. There would be danger of unemployment in industries operating at high comparative cost, i. e., industries protected by tariffs and not exporting. There would be increase in employment in industries operating under comparative advantage because foreigners would have credits, obtained by exporting to us, with which to buy more American goods. Certain trades would suffer more unemployment, certain others would employ more workers. The sum total of employment might not fall appreciably; it might even rise.

By enlarging imports we shall reduce to the minimum the tremendous and painful dislocations that would otherwise come from the necessity of shrinking so many branches of industry and so much of our farming, for we would retain most of our export markets; indeed we might enlarge some of them.

If we are ready to import more, the volume of our foreign trade would increase so that we might even under such a policy collect a considerable proportion of our debts. It is only with a very large volume of export and import trade that we are at all likely to recapture much loaned capital. Moreover the importance of a large volume of trade as a general stabilizer is great, for strains and maladjustments most easily develop if trade in small volume follows narrow paths. What would be most desirable of all would be to increase our imports materially while at the same time slightly increasing our exports so that the surplus of our imports over our exports may be large enough to assist substantially in restoring the desired balance of our foreign accounts. As has just been pointed out, taking more imports would tend to stimulate our exports and permit agriculture and industry in so far as they work for export to make fuller use of existing production capacity. Otherwise they might be forced to contract exports still further. Increasing imports would tend to prevent this threatened contraction.

Volume of Trade and Standard of Living.—A small volume

of foreign trade, the inevitable consequence of restricting imports, would tend to lower the American standard of living. Probably the United States could, if it would, exist with a far smaller volume of imports than it now brings in. Considering the great natural resources of America there might even be a fairly high standard of living. But we should have to produce ourselves many things that we now import or find domestic substitutes for them. Under such circumstances the wealth produced each year could not possibly be as great as it would otherwise be; too much labor and too much capital would have to be diverted to the production of goods which cannot be produced as efficiently under American conditions as they can elsewhere. With less wealth to divide, the standard of living could not possibly be as high as otherwise it might be. Furthermore, even though the standard of living were high in a material sense, American life would be less rich, less full, than if foreign commerce were more extensive. The characteristic goods of other lands, the products of their handicrafts, of their special skills, their arts, their letters, the products of their peculiar genius, would be less available to our masses than they might be otherwise.

Conclusions Regarding the Components of Foreign Trade.— This completes the review of the methods that might be used to bring about a more desirable balance of our foreign accounts than we now have. We have seen that gold cannot produce the desired result because borrowers cannot pay in gold; nor can immigrant remittances, tourist expenditures, and services be depended upon, at any rate not in the near future. Bringing back American securities held abroad could not help except perhaps temporarily even if there were a good way to repatriate American capital. The consequences of further limiting imports would be disastrous. To put it tersely, the United States cannot continue to

- (1) export manufactures;
 - (2) export foodstuffs and raw materials;
 - (3) export capital;
- and at the same time
- (4) refuse to accept interest either in manufactures or in foodstuffs and raw materials.
- But this is exactly what we have been attempting. So debtor

nations default and some even make a virtue of it, saying it isn't really defaulting when creditors will not accept payment in the only way the debtor can pay, namely, in goods.

By a process of elimination we have arrived at the conclusion that we would do well to take steps to increase imports as rapidly as possible until this country has a decidedly unfavorable or passive balance of merchandise trade. It is the most feasible non-monetary method of securing a more normal condition in our international accounts in the immediate future, relieving strains in international economic relations, and increasing international trade in a large way. In the more distant future, after recovery from the depression, when perhaps our tourist expenditures may again be large and the total volume of foreign trade great, the situation may be different, especially if then the United States is less markedly a creditor nation or possibly even to a small degree a debtor nation. But at the present our most promising policy is to increase our imports until our balance of merchandise is passive.

Danger, of course, there is in this policy, but there is danger in any policy. Our concern must be to minimize this danger. The most serious danger, as above pointed out, is more unemployment in industry through the importation of such goods as compete with domestic products. This danger, as explained elsewhere, is greatest in times of business depression. Therefore the safest measures to enlarge imports are those that produce little or no unemployment. This is the test that should be applied to all such measures.

BARRIERS TO WORLD TRADE

If we are to enlarge imports and no longer refuse to accept, as we now do refuse to accept, many kinds of manufactures, foodstuffs, and raw materials, it is not enough that we lower the barriers to trade we have ourselves erected, namely high tariffs, sanitary and other regulations, and domestic taxes. We must also try to remove other barriers now blocking the channels of trade though not employed by us, such as quotas, exchange control, blocked exchanges, import monopolies, linked-purchase regulations, and a host of other direct and indirect, open and concealed, obstacles. But even this is not enough. We must strive to reduce the obstacles that arise out of the general con-

dition of the world rather than out of the acts of any single nation, namely, psychological states which, as already pointed out, lead to a general feeling of political and economic insecurity, and instability of exchanges resulting from the condition of the world's monetary systems.

THE AMERICAN FLEXIBLE TARIFF

American tariffs have always been rigid and therefore tariff bargaining has been impossible. The so-called flexible provision of the Tariff Act of 1922 did not change that situation because its purpose was to make the sum of the cost of production abroad and the duty equal to the cost of production in the United States. The President was empowered to raise or lower rates not more than 50 per cent if this could be shown to be necessary to make costs at home equal to those abroad. This principle of equalizing costs is of no use at all in tariff bargaining. It is no advantage to a foreign country to have the United States fix rates at such a level that the cost of laying down goods in the United States is the same as the cost of production in the United States, for obviously in that event there would be practically no imports from the foreign country into the United States. Americans would not very generally buy foreign goods if the duty-paid price were the same as the price of the domestic product. Thus this principle gives the United States nothing with which to bargain. Moreover, the principle if applied everywhere to all commodities would render any large volume of world trade impossible. Basically, what calls world trade into being is differences of costs. Some countries produce some commodities at lower costs than other countries and exchange these commodities for others produced at lower cost elsewhere. If all costs were everywhere exactly equal, there would be little world trade.

THE HAWLEY-SMOOT TARIFF

Very general resentment was engendered by the enactment of the Hawley-Smoot Tariff.² It played an important part in bringing about "the mutual insanity of the different nations of

² House Document No. 476, 71 Congress, 2 session, Tariff Act of 1930. Copy of Public Law No. 361 to provide revenue, to regulate commerce with foreign countries, to encourage the industries of the United States, to protect American labor, and for other purposes, as approved by the President of the United States on June 17, 1930. United States Government Printing Office, Washington, 1930.

the world with respect to international trade,"³ the symptoms of which are the world-wide race toward higher tariffs and the enactment of retaliatory measures in other countries. After thirty-three foreign nations had filed formal and official protests against our new tariff, several among them began to revise their tariff legislation with the evident intent to retaliate against the United States. Spain passed a new tariff law on July 22, 1930.⁴ In Italy an intense propaganda against American-made automobiles and other manufactures resulted in a series of substantial increases in forty-one import duties and in a switch in the country's imports to reciprocating markets. In Switzerland an intensive and most effective boycott of American products was started as a measure of retaliation against our tariff increase. France adopted a drastic system of customs quotas designed to reserve the domestic market for domestic producers and to redress the country's trade balance. Canada retaliated in kind by raising its tariff to the highest levels in the history of the country and by hitting severely practically all of our more important exports. In 1931 Great Britain adopted a system of general tariffs against foreign importations and in 1932 through the Ottawa Agreements she took a further important step designed to limit her trade with foreign nations. In Austria a complicated system of discriminations against American automobiles, American films, and other American products was inaugurated.

On the whole the repercussions of the Hawley-Smoot Tariff may be summarized thus: widespread, intensive retaliation against American products of the sort just described, a change in the commercial policies of the world's leading trading nations expressed in the widespread and open disregard for existing most-favored-nation agreements, and finally, as a result of the two developments just mentioned, the gradual undermining of the foundations of our own foreign trade and tariff policy.⁵

³ Secretary of Agriculture H. A. Wallace in Foreword to *Tariff Retaliation* by J. M. Jones cited below.

⁴ Rates on articles imported almost exclusively from the United States, such as automobiles, tires and tubes, and motion picture films, were raised to practically prohibitive levels. One of the results of this tariff was a shrinkage of our automobile exports to Spain from 7,415 cars in 1929 to 841 cars in 1931. In addition, through a special trade treaty concluded with France, the benefits of which were not extended to us, most-favored-nation treatment was practically withdrawn from the United States.

⁵ J. M. Jones, *Tariff Retaliation Repercussions of the Hawley-Smoot Bill* (University of Pennsylvania Press, Philadelphia, 1934).

Amendment of 1934.—In 1934 with the repeal of the cost of production equalization provisions of the Tariff Act of 1930 and with the amendment giving the President authority to contract reciprocal trade agreements with other countries and for that purpose to lower existing rates of duty by an amount not to exceed 50 per cent, the United States abandoned for three years its traditional rigid tariff policy. Tariff agreements with other countries are now possible so far as the limitation that rates of duty cannot be reduced more than 50 per cent permits.⁶ This act recognizes the most-favored-nation principle (note the italicized language of footnote). But the proviso (see footnote) leaves the application of this principle to the discretion of the President.

MOST-FAVORED-NATION PRINCIPLE

“The unconditional most-favored-nation clause, inserted in bilateral treaties, i. e., treaties between two states, guarantees that all favors and concessions granted by either contracting state to third states shall be extended immediately and unconditionally to the other contracting state.” The object of this provision is to maintain equality of treatment and to insure to each state that it will at all times be treated as favorably as the state which is “most favored.” The most-favored-nation principle is clearly intended to prevent discrimination and to liberalize intercourse between nations. If nevertheless it is here listed among the barriers to world trade, it is because it threatens to become such a barrier; and this for the reason that the attitude of nations with tariffs fixed by law toward this principle is very different from that of nations that fix their tariff

⁶ Trade Agreements Act, June 12, 1934. The pertinent language of the law is as follows: “Sec. 350 (a). For the purpose of expanding foreign markets . . . the President . . . is authorized from time to time—

“(1) To enter into foreign trade agreements with foreign governments or instrumentalities thereof; and

“(2) To proclaim such modifications of existing duties and other import restrictions, or such additional import restrictions, as are required or appropriate to carry out any foreign trade agreements that the President has entered into hereunder. No proclamation shall be made increasing or decreasing by more than 50 per centum any existing rate of duty or transferring any article between the dutiable and free lists. *The proclaimed duties and other import restrictions shall apply to articles the growth, produce, or manufacture of all foreign countries, whether imported directly or indirectly:* Provided, That the President may suspend the application to articles the growth, produce, or manufacture of any country because of its discriminatory treatment of American commerce or for other reasons; . . . The President may at any time terminate any such proclamation in whole or in part.” (Italics are the Commission’s.)

rates by negotiation. These conflicting attitudes have been potent in the restriction of intercourse between peoples.

Thus if two nations negotiate an agreement by which they concede to one another a 10 per cent tariff reduction, all countries with whom these two nations have most-favored-nation treaties are entitled to demand that this tariff reduction be conceded to them also. If their tariffs are fixed by statute they are unable to give anything in return. They claim the benefits that come from special treaties without themselves doing anything to deserve these benefits. Three courses are then open to a nation that desires to negotiate reciprocal trade agreements. It may refrain from making reciprocal trade agreements in order not to be compelled to extend the benefit of such agreements to high fixed tariff nations with which it has most-favored-nation-treaties. It may cancel its most-favored-nation treaties and then proceed to negotiate reciprocal trade agreements. It may by one device or another circumvent its most-favored-nation obligations.

No doubt many nations have followed the first course, at least in some instances. The United States will encounter this attitude in attempts now under way or contemplated to negotiate reciprocal trade agreements.

Few nations have followed the second course. They hesitate to abrogate commercial treaties containing the most-favored-nation clause even though they would secure complete freedom of action. No doubt one reason is that new commercial treaties would be difficult to negotiate and nations fear the commercial chaos that would follow a widespread epidemic of denouncing treaties. But a more potent reason is perhaps that world opinion still respects the most-favored-nation ideal and few nations are ready publicly to renounce that principle; everywhere the hope is cherished that sooner or later the world as a whole will practice this principle even though at present it is in seeming disrepute. Exemption from the most-favored-nation principle for those countries wishing to make regional agreements is most important in the Western Hemisphere. The agreements under the Montevideo Convention must be open to all nations. Such an arrangement with Mexico and with Canada would be advantageous for the United States as well as for these countries. But such a treaty would be equally valuable for European

countries, especially for the succession states of the Austro-Hungarian Empire.

Most of these states do not possess sufficiently varied resources to stand alone. Their independent existence may be justified on political or cultural but not on economic grounds. This is especially true of the new states of the Danube basin. Though culturally distinct, they form a single economic unit; and this natural economic unity was firmly consolidated during the centuries they were all a part of Austria. The desirable policy for these countries would be to form some sort of economic federation which would give them jointly an economic territory large enough for their subsistence. This is recognized by many of their statesmen but they are helpless in the face of more powerful nations who on the principle of the most-favored-nation prevent the granting by these weak states of special favors to one another. In other words, the negotiation of treaties of a regional character designed to improve the economic relations between several contiguous peoples is prevented.

It is therefore not astonishing that some of these Danubian countries are following the third of the courses open to a nation with negotiable tariffs in dealing with fixed tariff countries, namely, circumvention of the most-favored-nation clauses of their treaties by a great variety of subterfuges that change almost from day to day. As soon as one becomes the subject of serious diplomatic protest another takes its place.

But it is not only in these weaker states that the most-favored-nation principle tends to restrain trade. It is often the general desire and tendency of officials negotiating reciprocal trade agreements to limit the reduction in tariffs granted to products of a particular country with which the trade agreement is being made. They feel that if they succeed in doing this they will be in a better bargaining position to obtain counter concessions. Back of this idea, of course, is the laudable purpose of obtaining concessions from all countries involved rather than making a blanket reduction in the tariff to the world and getting nothing for it. What such officials forget is that no country, as we shall see, can make a reduction of its tariff and get nothing for it.

To limit the reciprocal trade agreement in this way involves

a good deal of chicanery. One method by which a nation with many treaties containing the most-favored-nation clause may limit the benefits of a reciprocal trade agreement to the country with which it is made is to write definitions for each product involved and to make these definitions so narrow that they only apply to certain specific products or grades coming from the specific country in question. Of course no one is deceived and ill-will may be generated in other countries.

EXCHANGE CONTROL

It would, of course, be a gross exaggeration to attribute the raising of trade barriers well-nigh everywhere wholly or even predominantly to the Hawley-Smoot Tariff Act. From the middle of 1929 the steady deepening of the depression, particularly in raw-material countries, greatly reinforced the pressure for higher tariffs. Most of these raw-material countries are heavy debtors. We have seen how necessary it is for the United States, a powerful creditor country, to balance its international accounts by buying, i. e., importing, more. For a debtor nation, struggling to meet its foreign obligations, to balance its international accounts is even more necessary. But, unlike a creditor nation, in order to do so it must buy, i. e., import, less. At first debtor nations bought less; they reduced imports by raising tariffs in order to provide a strong favorable or active balance of merchandise trade to meet their foreign commitments.

Later, exchange control was introduced to supplement tariffs. In the beginning this control was in most—but not in all—cases a measure of desperation accepted by a nation in great straits, that is, one which, on balance, was a heavy debtor and without a considerable active balance of merchandise trade. In such a country there must inevitably be a scarcity of funds that can be expended in creditor countries, that is, a scarcity of exchange. If the United States is the creditor, then our foreign debtors on capital account have difficulty in securing dollar exchange after the items in the merchandise account have been cleared.

Let it be assumed for the sake of simplicity, and it is largely true in fact, that importing and exporting merchants first exchange their bills of trade, their individual debits and credits. This implies that those who buy and sell goods internationally

have, in effect, a clearing house where such transactions are cleared before the buyers of foreign exchange for use on investment account appear upon the scene. The dollar bills of exchange received by foreigners who sell to Americans are turned over to the foreigners who buy from Americans. If our exporters clear their transactions with our importers, and these accounts practically balance, what then develops when foreign governments try to secure dollar exchange for war-debt payments scheduled to our government? What happens next when, simultaneously, foreign governments and foreign nationals try to secure dollar exchange to make payments due to the American government and to American nationals? These debtors find the counter denuded of dollar exchange. The dilemma, of course, is not essentially different if the available dollar exchange were first seized upon to pay sums due on investment account, to the embarrassment of merchandise trade. The counter would be found equally denuded of dollar exchange. In either event gold must be exported with the ultimate result that the debtor country's reserves of the metal are reduced to the point at which the country is off gold. If gold is not exported then exchange becomes increasingly unfavorable to the debtor. In either event the debtor country's economic system is endangered.

It was to deal with this dilemma that exchange control was originally established in many debtor countries. Its primary purpose was to protect the domestic currency and only to control merchandise trade in so far as this is necessary to that end. A few years ago the debtor countries sought to give preference to interest payments due abroad, in order to maintain their foreign credit. With the coming of the depression and the fall in prices it became more important to secure a favorable or active balance of merchandise trade by encouraging the export of goods. Therefore more recently the tendency has been to finance exports of goods while reducing imports at the risk, and with the occurrence, of default on interest payments. It is clear that where there is a scarcity of exchange, a government may by rationing of exchange limit the import of goods or even exclude them as effectively as by tariffs, or more so.

The creditor country stands more or less passive; it cannot dictate what use debtor countries shall make of limited supplies

of foreign exchange. It does no good for holders of foreign obligations to make claim of priority; the debtor countries have the right and the power, and indeed the obligation, to decide on the uses to which available foreign exchange shall be put. It may be said that payments on international debts are a tax on international commerce; but the tax may be defaulted and there is no recourse like foreclosure for default of domestic taxes.

Since creditor countries stand powerless in the face of exchange control, debtor countries have not been slow to use exchange rationing as a club in bargaining and also for the purpose of giving preference in trade to countries to which, on balance, they are not indebted or to which they are indebted to a lesser degree than to other countries. A case in point is the Runciman-Roca Treaty between Great Britain and Argentina.⁷

Blocked Exchanges.—The blocked exchange is a special case of exchange control. Where it exists the government does not permit the foreign merchant who has funds owing him to transfer those funds to his home country. The funds remain his but he cannot get them out of the country. Usually he is permitted only to expend them locally or to use them to finance export from the country. This predicament is a stimulant to the establishment of American branch factories.

INSTABILITY OF EXCHANGES

Before the war the principal trading countries were on the full gold standard. This meant: (1) that the several monetary units were defined in terms of a fixed quantity of gold of a specified fineness; (2) that there was unlimited acceptance of gold by the government at a fixed rate; (3) that all payments within the country were redeemable on demand at a fixed rate in gold for the purpose of international transactions; and finally (4) that there was complete freedom to export or import gold. When these four conditions exist in any country it is on the full gold standard. Because national monetary units were defined in fixed quantities of gold it was possible to compare any two of them. One unit was exactly so many times heavier (or

⁷ Great Britain Treaty Series No. 2, 1934 and 4492, or G. B. No. 1, 1933 and 4310. Also *Board of Trade Journal*, May 11, 1933, CXXX, U. S. 727-9 Great Britain Treaty Series No. 3, 1934 and 4494. Also *Board of Trade Journal*, October 19, 1933, CXXXL, U. S. 298-300.

lighter) than that of another country; and this makes comparison a very simple matter. If in any given country gold for any reason became scarce and would therefore purchase more goods, foreigners promptly sent gold into that country to take advantage of the situation. Thereby gold became less scarce and its purchasing power soon returned to the world level. Such a state of affairs gives international and other traders a feeling of confidence. They know that during the short time intervening between the beginning and end of a business transaction the fluctuation of the values of two gold standard currencies relative to one another will be negligible and so they can calculate with reasonable certainty in advance the probable profit or loss in any transaction.

At the present time the gold standard has been abandoned by a great many countries and there is, as we have seen, a widespread control of foreign exchanges. The rules determining the character of the currency and the control of exchange are different in different countries and liable to change from time to time. To be sure, any single government if it is solvent and financially strong may manage its currency in such a way as to keep it reasonably stable. There is, however, no guarantee that any given government will do this, still less that two or three or many governments will do so. International traders can never be certain what the purchasing power of the currency in which they will be paid may be in terms of the currency of their own country. This introduces a very large risk into international transactions. Men have to be induced to take risks; they have to be paid for facing hazards. The parties to international transactions insure themselves against such risks by undertaking the transactions only if the margin of profit is so large that it compensates for the risk involved. In other words, with unstable exchanges, international commerce is only undertaken if the margin of profit is large. Obviously, this is a great barrier to international trade; indeed much of this trade, of necessity done on a narrow margin, will not be done at all.

DEVALUATION

A nation may be said to go off the gold standard if it fails to fulfill one or more of the four requirements of the full gold standard just enumerated on page 43, but it need not thereby

dispense entirely with the use of gold. Gold may still remain the medium with which the balance of payments in international transactions is settled. This is termed the *external* use of gold. If a nation refuses to export gold at its stated value even though it does not change the weight of gold in its monetary unit, then the country's money may be discounted in international transactions and the currency is said to be depreciated. This is what the United States did in the period from April, 1933, to January, 1934.

If, on the contrary, a nation lowers the weight of gold in its monetary unit it is said to be devaluing. Devaluation may be done at the same time that a nation off gold returns to the full gold standard. This is what France did in 1926. The purpose of such a devaluation is to enable the country to return to the gold standard without materially changing its level of prices.

The consequences of this increased purchasing power on the part of foreigners arising out of the cheaper dollar is that exports increase, and the existing tariffs of other countries temporarily lose more or less of their effectiveness. Depreciation of the currency has the effect for a time of subsidizing exports. Exporting under these conditions is sometimes known as exchange dumping. This causes resentment in other countries, especially where there is high protection. The stimulus to Japanese exports given by the depreciation of the yen, the reader will recall, was bitterly resented in the United States. Even though the effects are recognized as transitory, the possibility of stimulating exports by depreciation has led countries to take this course for the purpose of stimulating foreign trade especially when the securing of an active merchandise trade balance seemed vital to them. When one country does this, other countries are tempted to do likewise in self-protection, and competition between countries in depreciation of the currency may develop.

Devaluation not merely subsidizes exports temporarily; it also decreases imports temporarily. The depreciated currency is worth less in foreign lands; therefore the price of imported goods rises in the country devaluing and naturally less are consumed. Depreciation thus has the same effect as raising tariff rates, for all most tariffs do is to increase the cost of foreign goods and this is precisely what depreciating a currency does.

This, too, is resented. The net result is all too often retaliation by raising tariffs, by quotas, exchange control, and other restrictions (see pages 51ff.). The United States followed such a course after the war, though only through the use of tariffs. It will be remembered that the so-called emergency tariff was motivated in part by the fear that countries with currencies greatly depreciated with respect to American currency would export into the United States large quantities of goods over the existing tariff; and this was also an argument advanced in justification of some of the high rates of the Hawley-Smoot Tariff of 1930.

Thus we see that devaluation (and also depreciation) of the currency may become a serious barrier to foreign trade.

Let us next see whether the recent monetary policy of the United States has obstructed foreign trade. With the abandonment of the gold standard by the United States in April, 1933, gold ceased to serve as hand-to-hand money within the country. Nevertheless, gold was acceptable in payment of balances due us from outsiders although in fact until January, 1934, no foreigner would have paid in gold because in the interim we did not accept gold at any higher figure in dollars than before. But measured in terms of the United States dollar of that period the price of gold had risen substantially.⁸

By January, 1934—the interim period will be considered later—the new situation was recognized by the reduction in the weight of the gold dollar to 59.06 per cent of its former weight. As already explained, the price of gold was thereby raised. What actually happened was that the government, recognizing the new situation, provided by executive order that we would accept gold from outsiders and that only 59.06 per cent as much gold would have to be paid, either to secure a given amount of credit at Federal Reserve or other banks, or to secure a given amount of paper dollars from the government.⁹ Thus the foreign holders of an amount of gold equivalent to 590,000,000 dollars at the old rate now found that we would give 1,000,000,000 of our so-called new dollars in credit (or paper money) for this same quantity of gold. They sent us almost

⁸ Gold purchases of October, 1933, and following were, of course, the initial way in which we started to accept gold at a higher price.

⁹ But only via the Federal Reserve Banks.

precisely this quantity of gold (\$1,000,000,000) in the first eight months of 1934.¹⁰

This price is such that foreigners having gold found that a given amount of it would procure many more dollars than formerly. Consequently the foreign holders of 590,000,000 dollars of the old size found that we would give 1,000,000,000 of our so-called new dollars in credit (or paper money) for but slightly over half as much gold as on the old basis. They sent us almost precisely \$1,000,000,000 in gold in the first eight months of 1934. This inflow of gold, at a rate almost the highest in all our history, cannot be permanent. Sales made cannot permanently be financed in this manner. Through these gold imports the devaluation of the dollar under the circumstances created \$410,000,000 of purchasing power by the legal fiat of making each gold dollar a good deal smaller. Such a process follows dubious precedents; its origins are found in the acts of monarchs years ago who used precisely the same methods to "turn a penny." It is the very nature of the operation which precludes a very frequent repetition of it even though it may on certain occasions be necessary to devalue.

Devaluation may be *said* to contribute to a price rise in two ways: first, new dollars are created by those holding gold; second, the gold reserves behind all bank credit are enlarged, which might induce an enlargement of deposit currency. As a matter of actual experience, it is true that foreigners have used their newly created purchasing power, but actually there has been no increase in bank deposits of any importance at all. Canada furnishes a good example of gain of purchasing power by foreigners. In the five months of 1933 ending with May our exports to Canada amounted to \$67,527,994; in 1934 to \$122,068,948. For the same period in 1933 our imports from Canada for consumption amounted to \$55,179,564; in 1934 to \$83,540,544.

While the purchasing power of foreigners is enlarged in our

¹⁰ The arithmetic of conversion: one ounce formerly was \$20.67; now 59.06 per cent of an ounce is \$20.67; a full ounce is 69 per cent more than 59.06 per cent of 40.94
 an ounce (100.00 per cent — 59.06 per cent = 40.94 per cent; ————— = 69 per cent).
 59.06

An ounce formerly worth \$20.67 is now worth 69 per cent more, or \$14.33 more (69 per cent times \$20.67 = \$14.33), thus making the new total value of an ounce \$35.00.

markets as the result of devaluation, it cannot be too strongly pointed out that to the extent that new purchasing power is used here, it is *not* used in their home markets.¹¹ Consequently, contrary to popular opinion, by virtue of declining business and prices in the so-called gold countries, the result of our devaluation has been a doubtful gain to ourselves and a distinct injury to business in other countries. If we accept a smaller quantity of gold as our unit of account, then our price level after a period of time may not actually be higher; it may only have risen *relative* to prices in countries from which the gold comes and in which the money unit has not been changed. The point cannot be too strongly emphasized for it has been assumed by a vast majority that prices must rise absolutely in a country revaluing gold. The reason is that, to foreigners, our prices in gold are low when a smaller or cheaper dollar may be used to buy things. Admittedly, the prices are low relative to prices of the countries from which gold comes. But our prices may not remain permanently higher and their prices may definitely fall.¹² In summary, our prices tend to rise or depart from *their* prices but if their prices continue to *fall enough* (and they have fallen substantially in "gold" countries since January, 1934), then there may be no improvement in our own country but only harmful effects to other countries.

To see the effects of devaluation or of increasing the price of gold, one must follow the actions of those who have gold. Disregarding new gold production, which in the United States is substantially less than 100 million dollars annually, and disregarding expenditures within the country by the government—the only legal holder of monetary gold in the United States—we find that the holders of gold in foreign countries can buy more in the United States. Their actions in buying here tend to raise prices as long as the gold moves. But the great difficulty is that they buy from us only a limited amount of goods and that limited amount is of very limited varieties, primarily raw materials, machinery, and mass production goods. Stated in another way, only the prices of those goods we *export* tend to rise. We do not export at all houses for rent, theater tickets,

¹¹ Some assert that devaluation may call into use idle purchasing power, but if it is used in the devaluing country it cannot be used at home.

¹² The possibility exists of course that expansion in the devaluing country may occur so rapidly as to carry business with it in the rest of the world.

domestic services, use of hotel rooms, electric power, street railway transportation, et cetera, so there is no beneficial effect on the prices of these things.¹⁸ Then against the gains of devaluation must be charged the higher prices we have to pay for goods we *buy* from European countries that have *not* devalued their currency, for it takes more of our now smaller dollars to buy a given amount of their money. Things we buy from those countries cost more. In summary, prices of goods and services sold only within the country are unaffected and prices received by our producers for goods sold abroad rise.

An example may be helpful. Cotton as an article of export selling at 8 cents prior to devaluation sells at 13 cents after devaluation because the same amount of gold paid for it by people outside the country has become over half again as much in dollars. House rents, a strictly domestic price, do not change at all, for no one has any more dollars because of devaluation, with which to pay a higher rent. As an import commodity, gloves bought from France which cost 100 francs, or \$4.00, the price of 100 francs before our devaluation, now at 100 francs cost an American almost \$7.00 because the franc has risen proportionately to the fall in the dollar since its gold content has not been changed.

The foregoing example reveals how the gain to exporters is paid for by those who pay more for goods imported, which, of course, finance the exports. In the short run if foreigners pay for our enlarged exports with gold after our devaluation then those receiving gold in paying the new higher price for it are furnishing the extra dollars which the producers of export products receive. Over the longer run the purchasers of imports—gloves in the example given—contribute in the higher price they pay the extra dollars which exporters receive, for total imports and exports of all types must balance.

The principal advantage in devaluation is that the process just described redresses the economic unbalance of different economic groups within a country. In the depression raw material prices declined most, so that the group, the export industries, which suffered the most was distinctly benefited by devalua-

¹⁸ It is true that domestic prices tend to rise because exporters can pay higher prices with their greater receipts consequent to devaluation. This impetus is rather small and is slow in working out, for their purchases are a small part of total purchases.

tion. Other groups whose purchasing power was less seriously impaired are taxed, by the rise in prices of foreign currencies, in their purchases of imported goods to pay the larger number of dollars received by producers of goods exported. Devaluation is a method of redistributing incomes. Whether the redistribution is desirable depends upon a judgment with respect to the position of different economic groups. Their position and interests in countries such as France, Holland, and Switzerland may be so substantially different from ours that devaluation is perhaps not only quite unattractive but bitterly opposed. Two principal groups in opposition are importers and creditors.

The analysis so far has been confined to devaluation of the dollar since January, 1934, in comparison with the old dollar existing until April, 1933. In the attempt to make a difficult series of consequences easier to see, the gap, i. e., the events from April, 1933, to January, 1934, has not yet been considered. Attention now should be directed toward the events of this interim period.

The combination of the effects of the depreciation of currencies following England's abandonment of the gold standard in 1931, together with the effects of the banking crisis of the United States in March, 1933, resulted in our electing to abandon the gold standard on April 19, 1933. With our abandonment of the gold standard, the value of the dollar fell in the foreign exchange markets. While devaluation came only nine months later, the fall of the dollar in terms of foreign currencies may be said to have been the consequence either of expected later devaluation (as partially confirmed when "gold purchases" were started in October, 1933) or of such monetary measures as would bring about a radical inflation. At any rate, fear regarding the future of the dollar then led both Americans and others to get rid of dollars or to bid less for them, thus sharply depreciating their price. Prior to this depreciation, our exports were less and less able to compete with those, for example, of the United Kingdom from 1931 to 1933, for sterling exchange had declined from its "par" of \$4.86 to about \$3.25. This depreciation caused our exporters to put every possible downward pressure on prices to try to meet by a cut in prices what Great Britain had done by letting the value of the pound fall (after abandoning gold). As a result, no further fall in Britain's in-

ternal prices was required, for depreciation of the pound gave British goods to buyers from the outside, at a much lower cost in their own money.

In 1933 we reversed the situation. Then as the dollar fell, other currencies rose. We took the advantage as against Great Britain, for example, for the pound rose to over \$5.00 from a low of about \$3.25. As matters now stand, the United States and Great Britain are against each other about where they were in 1931, for the pound is about back to its old par. Both have, however, cheaper currencies in comparison with those few countries of Europe—the gold bloc—which have not depreciated their currencies nor abandoned the gold standard.

Depreciation of the currency, whether followed by devaluation or a continuation merely of the use of paper money not backed by gold, i. e., a “managed currency,” strikes at one blow a competitive advantage. Only with *very extreme* reluctance, when under a pressure unequivocally greater than another nation is experiencing, should that competitive advantage be resorted to. It is a weapon which may freely be used by all and monopolized by none.

The United States should avoid further devaluation; the need for it is very substantially reduced with so many countries already having devalued. It has been estimated that in the terms of trade and international finance only 20 per cent of the world has not devalued. We should not fear devaluation by that 20 per cent unless that devaluation is of an extremely drastic nature. Some assert, of course, that before power further to devalue is abandoned, an agreement should be secured with Great Britain and the important sterling area or group of countries whose currency is linked to sterling. In our view this is unnecessary (though not necessarily undesirable), for an agreement in itself will not sustain a currency. The improved business situation in the United Kingdom is the greatest assurance that moderate methods will be pursued in financial affairs.

EMBARGOES AND QUARANTINES

To protect national health and plant and animal life, states enforce embargoes, quarantines, and import restrictions on certain products of agriculture. They usually do this without warning to or consultation with other affected parties and with-

out the possibility of appeal to an impartial authority. The result is uncertainty in trade, suspicion of the motives of the discriminating state, ill-feeling, and, not seldom, reprisal. In 1897 the United States protested against proposed French legislation on meat products, which was described by the American ambassador as not only "unjust as leading to the destruction of an important branch of commerce," but also as "unfriendly in character" because discriminatory.¹⁴ In those days the United States had no Food and Drugs Act, no Meat Inspection Act, no Horticultural Quarantine Act. Since the enactment of these laws the shoe has been on the other foot. Under these and other statutes a wide range of commodities have either been denied entry into the United States or have been admitted only under special, sometimes very burdensome, conditions.

The attitude of mind such regulations generate is well illustrated by the following passage: "A characteristic example is furnished by England, Germany, and Holland: they forbid the introduction and transit of potatoes and of various other vegetables, fruits, or plants, harvested in France within two hundred kilometers of a spot infested by doryphora. Germany even demands that the product be accompanied by a certificate declaring that the products are uninfested and that they have been harvested more than 200 kilometers from a doryphora focus. Why 200 kilometers rather than 100 kilometers or 20 to 25 as is prescribed by the French administration? It's pure arbitrariness. One may feel assured that it is a matter of hypocritical protectionism when one observes that the same measures are not applied to America whence the doryphora came to France and whence it will not fail one of these days to arrive at Liverpool, Rotterdam, or Hamburg as it came to Bordeaux."¹⁵

In the past, regulations of this sort have always caused resentment but rarely reprisals. In the present temper of the world they may lead and have led to reprisals. Spanish grapes present a case of this sort. Their exclusion by the Horticultural Board of the United States Department of Agriculture on the ground that pests might be brought in with the fruit and en-

¹⁴ Kuhn, *American Journal of International Law*, Vol. XXIII, pp. 816-17.

¹⁵ Michel Augé-Laribé, "Observations sur les contingents d'importation," *L'Europe Nouvelle* (1932), pp. 500-02.

danger the vineyards of the United States aroused the keenest resentment in Spain and was no small factor in bringing about Spain's discrimination against American goods (note, page 37). Spain felt this quarantine to be camouflaged discrimination since importations are limited to a few winter months for the Thanksgiving and Christmas trade when, so it was alleged, the cold weather safeguards American vineyards. This quarantine has recently been modified.

Another important case is the quarantine against certain kinds of Dutch bulbs. The land used to grow them could not be devoted wholly to dairying because of tariffs and other restrictions. Some of the land went into wheat and this in turn was a factor in leading Holland to impose tariffs on wheat and also milling quotas, and these are among the causes restricting the export market for American wheat and flour.

Labeling Requirements.—Unreasonable labeling requirements put into force without warning—sometimes even retroactive and applying to goods afloat or in Customs Bonded Warehouse—are another source of irritation and sometimes of serious loss because many thousands of dollars worth of labels are rendered worthless and the expense of relabeling goods already labeled and packaged are high. Many examples might be given but a ruling¹⁶ made recently by the Secretary of the Treasury may suffice. It was to the effect that the name of the capital of a country or of a particular division of a country could no longer be acceptable as meeting the requirements of the law that the country of origin should be marked on all goods capable of being marked. Had this ruling not been modified, Scotch whisky could not now be marked as a product of Scotland but would have to be marked as a product of the "United Kingdom of Great Britain and Northern Ireland." Rather rigid American requirements have resulted in other countries making some rather foolish regulations with respect to the marking of American goods.

INTERNAL REVENUE TAXES

A good example of how domestic taxes may serve as barriers to foreign trade is furnished by the several state and federal revenue taxes on margarine. Though not imposed for the pur-

¹⁶ Treaty Decision 46978, effective date extended to July 8, 1934, by T. D. 47044.

pose of influencing our foreign commerce, nevertheless, these may serve as examples of discriminatory revenue taxes, for they raise the domestic price of margarine, restrict its consumption, and to this extent limit the importation of those tropical vegetable oils that are used in the manufacture of certain kinds of margarine. A more recent example is the processing tax of three cents a pound on coconut oil from the Philippines, which was enacted with the avowed purpose of limiting the importation of coconut oil from these islands. It is a substitute for a tariff which was out of the question because of the dependent status of the Islands. Non-Philippine coconut oil pays five cents a pound processing tax.

Without taking a position the Commission cites these taxes as examples of generally familiar internal revenue taxes which may discriminate against imports. Such taxes are in fact used for this purpose in many countries. The United States might use them in tariff bargaining. For example, it might agree to levy a lower internal revenue tax on cigars made with certain types of imported wrappers in order to create a trading basis for certain concessions from the country producing that type of wrapper. Or it might agree to levy a lower internal revenue tax on certain types of French wine than on competing wines in return for adequate concessions from France.

MILLING QUOTAS AND OTHER RESTRICTIONS

A number of countries enforce milling regulations that require all domestic flour to be milled from blends containing a specified admixture of home-grown grain. Linked-purchase regulations require for every import some fixed proportionate purchase of domestic goods.¹⁷ Some governments have sought to control imports by setting up either governmental or allegedly private import monopolies, and such monopolies may practice discrimination. Other governments permit import only under licenses and practice discrimination in granting them.

TARIFF REVISION

It has been shown in this report that enlightened self-interest dictates that the American tariff be lowered in order that our international accounts may be balanced in a normal way through the medium of enlarged imports. It is also to our

¹⁷ See Part III, page 115.

interest to improve world psychology by saying to the world clearly and beyond possibility of misunderstanding that America is about to turn its back on tariff raising and to face squarely the other way. It is unnecessary here to take up the hoary free trade versus protection controversy and thresh over old straw. Such lowering of the tariff as is under consideration here has nothing to do directly with free trade or protection. Its purpose is merely to balance our foreign accounts by the simplest and most direct method, an increase in imports. One may still remain a protectionist and yet admit the wisdom of lowering tariffs sufficiently to admit enough imports to secure a sound balance of our international accounts.

REDUCTION OF TARIFFS

The Commission is of the opinion that at the present juncture no general substantial horizontal lowering of the tariff is advisable because extensive dislocations of industry are dangerous in times of stress. It believes that even a moderate general horizontal lowering of the tariff is unwise at all times because its effects are unequal. It corrects no injustices and introduces new ones. To most industries with tariffs higher than needed for protection, such a lowering would be a matter of indifference. To others with tariffs not high enough to protect them entirely from foreign competition, the results might be serious. A general horizontal lowering of tariffs would be discriminatory.

The "gradual" reduction of tariffs is often advocated. If by this is meant reduction by some general rule applicable to all rates alike, the proposal is unsound because discriminatory. A tariff that is prohibitive at, say, 100 per cent, does not gradually become less and less prohibitive in direct proportion to the reduction of the rate. The effect is small until the rate has been reduced to a certain point, when the effect of further reduction suddenly becomes large. At this point the least efficient concerns begin to be forced out. Further reduction forces out the less efficient until a point is reached at which either no producers remain or only those efficient enough to compete with foreign producers. Reduction beyond this point has little effect. In this sense there can be no "gradual" reduction of rates except in special cases.

But there is another sense in which a tariff may be reduced gradually. This is to deal one by one with the different rates, for then reductions can be made after the consequences have been forecast by careful study, and untoward effects guarded against.

The Commission does not recommend that tariff reductions be made only through reciprocal trade agreements, if the reductions are of the types suggested below which minimize the danger of adding to unemployment. No doubt a great many goods would be imported that are now excluded; but there is no danger of a long-continuing flood of imports without compensating United States exports or interest payments. In the beginning, if other countries maintain or increase their trade barriers the United States might be prevented from exporting more. This could not last long for we would then be getting all sorts of desirable goods without having to pay for them. In foreign trade as in everything else something is not to be had for nothing. Foreigners would insist on taking American goods in exchange for their goods, and it would be their affair to compel their respective governments to admit them. Or they might offer their goods in payment of interest owing in the United States. In the first case we would be paying for goods with goods; in the second we would be paying for goods with loans already made. Or foreigners might take some of our gold in payment for their goods but in our creditor position this could not do us harm or last long, if indeed it occurred at all. Foreigners, if they wanted to export to the United States, would then either have to give us goods for nothing or give us goods in payment of interest. If they elected to do neither they would have to admit our goods in exchange, i. e., they would have to remove their own tariff and other barriers against our goods.

It may be objected that what the United States needs primarily is export markets for its agricultural surplus; and that reciprocal trade agreements might be used to force such exports. It is, however, exactly our raw materials and foodstuffs that industrialized countries want and they can be depended upon to take these, as well as mass production goods, if it is made possible for them to sell more in the United States.

The United States could do nothing that would be more effective in clearing the clogged channels of world trade than to

lower its own tariffs substantially. This has been explained in the paragraphs on the consequences of increasing our imports (see pages 32-34). The danger is a time lag between increase of imports and stimulation of exports. This the Commission, as already stated, does not believe to be serious if the methods of reducing the tariff advocated in this report, or some equivalent method, be employed.

If the NRA is to be continued beyond June 30, 1935, its tariff-making provisions, Section 3e of the act,¹⁸ should be omitted. The grant of this tariff-making authority should not be continued, and the tariff-making powers implicit in it should be transferred to the Tariff Commission under the enlarged powers recommended in this report.

The Commission is apprehensive also of the principle of bilateral trade agreements. Negotiated to obtain special concessions they tend to cause friction between nations, which is likely to lead to counter tariff reprisals. Such agreements, if the concessions they contain are not generalized to everyone, can scarcely fail to disturb established currents of international

¹⁸ The text of the section is: "(e) On his own motion, or if any labor organization, or any trade or industrial organization, association, or group, which has complied with the provisions of this title, shall make complaint to the President that any article or articles are being imported into the United States in substantial quantities or increasing ratio to domestic production of any competitive article or articles and on such terms or under such conditions as to render ineffective or seriously to endanger the maintenance of any code or agreement under this title, the President may cause an immediate investigation to be made by the United States Tariff Commission, which shall give precedence to investigations under this subsection, and if, after such investigation and such public notice and hearings as he shall specify, the President shall find the existence of such facts, he shall, in order to effectuate the policy of this title, direct that the article or articles concerned shall be permitted entry into the United States only upon such terms and conditions and subject to the payment of such fees and to such limitations in the total quantity which may be imported (in the course of any specified period or periods) as he shall find it necessary to prescribe in order that the entry thereof shall not render or tend to render ineffective any code or agreement made under this title. In order to enforce any limitations imposed on the total quantity of imports, in any specified period or periods, of any article or articles under this subsection, the President may forbid the importation of such article or articles unless the importer shall have first obtained from the Secretary of the Treasury a license pursuant to such regulations as the President may prescribe. Upon information of any action by the President under this subsection the Secretary of the Treasury shall, through the proper officers, permit entry of the article or articles specified only upon such terms and conditions and subject to such fees, to such limitations in the quantity which may be imported, and to such requirements of license, as the President shall have directed. The decision of the President as to the facts shall be conclusive. Any condition or limitation of entry under this subsection shall continue in effect until the President shall find and inform the Secretary of the Treasury that the conditions which led to the imposition of such condition upon entry no longer exist."

trade. A market gained in one place will probably—in the case of standardized commodities traded in on exchanges, certainly—be lost elsewhere. These treaties are likely to foster imports from countries not best adapted to the production of the commodity in question. Moreover, bilateral trades endanger the vast volume of triangular world trade (see pages 150–152); for the United States this trade amounts to about one-third of its total foreign trade. These objections can only be overcome when all concessions are freely generalized under the unconditional most-favored-nation treatment. But when this is done the popular argument in favor of bilateral trades—that of special advantage—is lost.

MINIMIZING THE DANGERS OF TARIFF REVISION

In prosperous times tariffs may be revised with greater freedom than when the important question is how to lower tariffs with the least possible disturbance. At this time an increase of unemployment is to be feared. At present, therefore, such reduction or repeal of rates should be chosen as will produce a minimum of unemployment in any domestic industry. In the following pages is given a partial list of items on which the Commission believes a reduction of rates could be effected without causing any considerable unemployment.

If the lowering of such rates does not give the desired passive balance of merchandise trade, other rates should be lowered under precautions that will definitely limit the danger. The ideal procedure would be to lower rates in any one year only just enough to permit a small and fixed increase in imports. Unfortunately, as we have seen, this is not feasible. Too many variables enter into the calculation; no one can predict just how much a given reduction of a duty will increase imports unless the reduction be so large as to make the tariff virtually inoperative. Since this procedure is impracticable, resort might be had to direct limitation upon the increase of goods permitted entry—a special form of quota.

When a serious increase of unemployment is feared, the tariff might provide, after stating the new lower rate, that the volume of the commodity admissible under that rate in any one year should not be greater than a stated volume, say, 5, 10, or 20 per cent *more* than the average yearly imports of the preceding

ten years, or of the preceding year, or of the year of largest imports—whatever is deemed wisest. Any goods offered for import in excess of this volume would be required to pay the old duty. In this way the impact of increased imports might be limited in advance to any desired degree. The measure should be temporary. If it were found that the new duty did not let in as large a volume of goods as desired, the duty might be lowered still further. This procedure would give business exact knowledge regarding the amount of foreign competition to expect and would enable it to make appropriate adjustments. It would also enable Congress to control with greater exactness than hitherto the effects of a tariff and better to achieve its desired aims. It is probable that only under such conditions will it be possible to get substantial lowering of tariffs.

There would, for example, most certainly be much less opposition to a substantial reduction in the rate of duty on plate glass if it were known that only a definite quantity would be admitted. If the rate were reduced 50 per cent and the amount admitted were limited to 3 or 5 per cent of the annual consumption of this glass in the United States, foreign producers would secure a market in the United States far in excess of the annual importations of recent years, and at the same time a safeguard against the inroads of this foreign competition would be provided. It should not be difficult to effect a material reduction in the rate on linseed oil or flaxseed and on other products if American industry and agriculture were assured that the quantity which could be imported at the reduced rates would be definitely limited to an amount to which they could not seriously object.

Essentially this is a special form of quota but not, like those of most countries, designed to restrict trade. On the contrary, its purpose is to enlarge trade and cushion the impact of lowered tariffs. The Commission does not favor this plan for any commodities except those in which there is danger of increasing unemployment, mostly those of which we produce domestically a large proportion of our consumption.¹⁹ It should not be ap-

¹⁹ As a precautionary measure the government might also be given the power to exercise exchange control if it turns out, as the Commission does not believe it will, that the time lag between increase of imports and stimulation of exports (see page 32) becomes serious. Through such control foreigners might be compelled to buy goods rather than to service debts, especially in countries with which our mer-

plied to goods of which increased imports do not add to unemployment.

The quota should not be applied to industries which are monopolized, quasi-monopolized,²⁰ or cartellized²¹ unless it can be clearly shown that unemployment would result. The tariff has been called the mother of monopolies. The monopoly question is one of the crucial problems that must be solved if for no other reason than that without its solution it may be impossible to moderate the swing of the business cycle, the alternation of booms and depressions. During this depression great rigidity of prices has been shown by certain basic commodities, that is to say in the case of industries in which absence of effective competition is evidenced by the greatest reduction of volume of production (and of employment). It is in the industries dominated by a few large concerns that prices during this depression have been "stickiest." Their prices have responded comparatively slowly to general business conditions—a most serious matter and one that would be less likely to exist if there were no tariff wall. Moreover, an industry that is quasi-monopolized or cartellized is in good position to defend itself from foreign competition.

There is another way of accomplishing the same end, but this the Commission does not favor. Under this scheme the tariff would be retained at the existing or some higher rate, but imports would be increased by permitting a certain proportion or volume of the goods, the quota, to come in at a lower rate or free. There are objections to this procedure as a matter of principle which we do not propose to discuss, and there is some disagreement as to whether or not administrative difficulties are greater in working such a scheme.

Who, for example, is to decide what importers are to be allotted the quotas admitted at the lower rate? How is favoritism in the allocation of quotas to be prevented? One might of course handle the licenses to import under the quotas as the Treasury handles the sale of an issue of government bonds.

chandise trade balance is passive. Because exchange controls are barriers to trade, the Commission would not recommend that Congress make such control mandatory even though it might be a powerful bargaining weapon.

²⁰ By a quasi-monopolized industry is meant one in which the bulk of production is by a few large concerns, say, three or four.

²¹ By cartellized industries is meant those in which there are international agreements on such matters as prices, markets, or production.

One might call for sealed bids stating what the bidder is willing to pay the government for the privilege of importing a given volume under the quota and award the licenses to the highest bidders. The probabilities are that bidders would run up the price of licenses close to the full duty and one could not be certain that the net result would be the desired increase in volume of imports. Moreover, under this plan the consumer might gain little. However, the scheme has the advantage over the other one that, since it gives the government the power to allocate quotas, it places in its hands a powerful bargaining instrument.

Not only do administrative difficulties exist in the first plan, the straight limitation scheme, but the consumer would probably gain to only a limited extent. Importers will buy the goods cheap; and sell them as dearly as possible. The domestic price will be lowered only so far as the enlarged supply forces adjustment. Since the increase in imports will probably be made small, the domestic price will fall only a little. The importers will temporarily appropriate the difference. More of them will be drawn into the business till each makes on the average only the ordinary importer's profits; then the general consumer will benefit to the extent to which the enlarged supply forces down prices. This is not to be avoided in any scheme of this type, for the very purpose of the limitation is to prevent so severe a depression of the domestic price as to cause serious unemployment in the domestic industry.

REDUCTION OF DUTIES WITHOUT DANGER OF SERIOUS UNEMPLOYMENT

Ineffective Duties.—Ineffective duties should be repealed because this may be done without the least danger of adding to unemployment. Ineffective agricultural rates²² especially should be lowered or repealed. In respect to many of the goods herein involved we are on an export basis, e.g., California

²² Although the United States is normally on an export basis for wheat, the tariff is nevertheless sometimes in part effective because in some years the United States does not produce enough wheat of the highest quality to supply the domestic demand, whereas Canada nearly always does. Freight rates are also a factor in determining the effectiveness of tariffs in a country as large as the United States, where the producing regions are often at great distances from the consuming centers. Thus the beet-sugar producers of the Rocky Mountains region have the equivalent of a considerable tariff through a local monopoly over a wide though sparsely peopled territory because of the cost of shipping cane sugar from the seaboard.

canned and dried fruits, rosin and turpentine, automobiles, many types of special machinery. Of some there are small imports, but these are almost always of special grades or qualities not produced or little produced domestically. In any event, not much, if any, unemployment is likely to result. Since 1922 at least the protective principle has been extended by making raw materials dutiable and by placing higher duties on agricultural products. In the Tariff Act of 1930 agriculture was given some utterly meaningless concessions in return for which agricultural representatives yielded substantially increased tariffs for industrial products. The useless tariffs should be eliminated.

Subsidies Instead of Tariffs.—If it is really desired to do something for agricultural producers of these types of commodities, the most effective method is some form of subsidy. The subsidy, in whatever form, would have the advantage of helping to make effective for the first time tariff rates upon many of these commodities. Existing processing taxes furnish in effect either subsidies or a kind of bonus to a group to induce them to reduce acreage, which is unlike ordinary subsidies. However, the question of subsidies, except in so far as they may be employed as a substitute for tariffs, is a matter of domestic policy and therefore really beyond the terms of reference of the Commission. Subsidies are evils; they are open to many objections. They do not prevent lobbying; they merely change its character. Perhaps the principal value of a subsidy as compared with a tariff is that the extent and incidence of the burden it imposes is plain for every man to see. And yet there are ways of concealing even a subsidy. In special cases, as a tool with which to reduce a tariff relatively painlessly to a desired level, a subsidy has its uses. It is only in this very restricted sense that the Commission is disposed to suggest some experimentation with subsidies; and then primarily only in so far as may be necessary to compensate agriculture for the effects of existing industrial tariffs.

Goods Not Produced in the United States.—The goods in this category are articles not produced at all in the United States or produced only in minimal amounts. Letting them in free would consequently cause no unemployment. There is a bizarre variety of such articles. Examples are exotic foodstuffs

like mangoes, Brazil and other nuts, dried mushrooms, caviar, lentils, garbanzos (chick peas), and olives in brine, certain kinds of works of art and their replicas, certain tropical woods like mahogany, perfumery raw materials like ambergris, civet, and musk, crin vegetal, human hair and hairnets, potassium perchlorate and nitrate, canary seed, eucalyptus oil used in the concentration of ores, mixtures containing essential or distilled oils, glass Christmas tree ornaments, various scientific instruments and steel surgical instruments not produced domestically, lace machines, imitation precious stones.

Neither genuine nor imitation (more accurately described as artificial) precious stones are produced in the United States; but the imitations bear the higher rate of duty. Why compel those who want an artificial sapphire quite as beautiful as, and chemically identical with, a natural one to pay a heavier tax than richer persons who for purely sentimental reasons want and can afford to buy the genuine?

Articles Supplied Almost Wholly from Abroad.—Repeal of rates on many items of this sort would cause very little, if any, unemployment. Examples are cut diamonds and other precious stones, imitation pearls other than beads, and olive oil.

Olive oil in bulk bears a duty of 6.5 cents a pound, equivalent to 73.2 per cent ad valorem. Average annual imports for the nine years 1921–29 were 10,171,000 gallons; domestic production was 251,000 gallons during the peak year of that period, 1926.²³ Imports supplied from 97.1 to 99.0 per cent of domestic consumption from 1921–29. Production fluctuates greatly from year to year, which is characteristic of many by-products. The range of fluctuation of volume of production has been as much as 100 per cent, due in part to weather conditions. In 1931 production seems to have been appreciably larger than in 1926 but figures for recent years are not available. During the four years preceding 1931, 58 per cent of the crop was canned, 38 per cent pressed for oil,²⁴ culls and small olives being thus utilized. California, with less than 26,000 acres, produces practically the whole domestic supply. The returns to growers for olives pressed for oil, while much below the cost of production, are

²³ H. R. Wellman, *Olives*, Bulletin 510, Contribution from the Gianinni Foundation of Agricultural Economics (University of California, Berkeley, California, March, 1931).

²⁴ Wellman, *op. cit.*

considerably above the cost of picking and hauling. Consequently the manufacture of oil permits the reduction of the pack of canned olives. This might benefit growers in times like the present when the annual carry-over of canned olives is very large. On November 1, 1930, the carry-over was 307,000 cases, whereas the average total pack for the three years 1927-28 to 1929-30 was 740,000 cases a year.

Unless the imports of olive oil are greatly reduced by means of a very much higher tariff, it does not appear that the price of olive oil will rise high enough to raise the olive industry in California to a profitable level. But if olive oil prices were raised to any such level cottonseed and corn oil would displace olive oil to a considerable degree for salad oil and mayonnaise, and in the canning of sardines and other fish. Just how extensively this might occur cannot be predicted. On the other hand, if the duty on olive oil were repealed and the price correspondingly lowered, much larger quantities would undoubtedly be imported and used in the above ways. The use of oils for salads and in cookery would be stimulated. The bulk of our cottonseed oil is a joint- or by-product of cotton growing, and the labor factor in crushing and refining the oil for salad oil is quite small. No noticeable increase in unemployment would result.

Thus at the present rate of duty American consumers contributed during the years 1921-29 at least 4.75 million dollars a year to the United States Treasury for the protection of a form of agriculture occupying less than 26,000 acres of land and an oil-pressing industry with perhaps an investment of one million dollars. The cost to the consumer, however, was more than this because the retail price, as a result of pyramiding, is raised by more than the duty*. Here is a case for a subsidy if it is deemed desirable to support the olive oil industry. The average California production for the nine years 1921-29 was 183,400 gallons; the largest in any single year 251,000 gallons. If the producers of oil in that year had been subsidized at the full present tariff rate the Treasury would have paid out less than \$150,000. It would, of course, have lost the tariff revenue but more than this would have been gained by the consumer.

Goods Produced Almost Wholly Domestically.—These are articles of which we import only a small fraction of our consumption, for example, corn (maize), cereal breakfast foods

other than oatmeal and rolled oats, biscuits, certain photographic materials including films sensitized but not exposed, cocoa and chocolate.

The cornstarch factories of the Atlantic seaboard now and then import a few million bushels of corn; they sometimes prefer it because it is of the flint variety which gives somewhat better yields of corn oil than the dent variety almost universally grown domestically. When one considers that we are the world's greatest corn producer, our crop in normal years being around three billion bushels, that very little of this is sold, being mostly fed to hogs and other farm animals, that less than 20 per cent of the crop moves out of the counties where it is produced, it would seem that this tariff ought to be a matter of indifference to most farmers.

Of cereal breakfast foods, other than oatmeal and rolled oats, we produce over 99 per cent of our domestic consumption. Over half the imports come from Canada where United States manufacturers maintain branch factories.

Of biscuits, wafers, puddings, cakes, and other baked articles we produce over 99 per cent of our domestic consumption. Imports are mainly expensive specialties from the United Kingdom, Holland, Canada, and Japan. Some of them are characteristic home-country products imported for the foreign born; others no doubt compete with similar biscuits and crackers in the United States. However, the bulk of our biscuit and crackers are produced by a few companies.

Of films we are not merely the world's greatest producers, we are also exporters of unexposed films. The only imports come from Canada. Statistics of production are incomplete so that it is not possible to say what proportion of domestic consumption is imported; but we export more than we import. A considerable proportion of the imports are re-exported and the duty is refunded under drawback privileges. As in the case of biscuits and crackers, production is predominantly by a few large corporations.

Chocolate, cocoa, and cacao butter are also produced predominantly by a few large concerns and imports are small compared with domestic production. Indeed, of cacao butter, which is a joint product with cocoa, the United States has an exportable surplus, and in recent years domestic prices have as a rule

been lower than in the Netherlands, the principal foreign producer.

Goods Constructively Competitive with American Products.—These are articles not produced in the United States or produced in amounts representing only a small proportion of domestic consumption but assumed to be competitive with American products, e. g., vanilla and tonka beans, burlap, fine linens, fine china, and porcelain.

Vanilla and tonka beans are not grown in the United States. From vanilla beans alone can genuine vanilla extract be made. Presumably the duty was imposed to protect chemical manufacturers making synthetic vanillin and coumarin, two flavoring substances occurring naturally in the beans. This chemical industry is not a large one, does not employ much labor, and there seems no good reason why the housewives of the country should pay a high price if they want genuine vanilla extract.

Fine linens are not produced at all in the United States. Presumably the reason for the duty, aside from revenue, is that many women who would like to possess fine linens will not be able to afford them and will therefore be compelled to turn to cotton. It remains to be proved that this is true. It is just as likely that cheaper fine linen will lower the consumption of cotton goods by only an insignificant amount, if at all.

The tariff on burlap was presumably imposed for similar reasons—to compel people to turn to cotton substitutes, which are more expensive.

Fine china and porcelain are not produced in America despite a high tariff. It is doubtful if lowering the tariff would make serious competition for those coarser porcelains and earthenwares that we do produce.

Handicraft Products.—There would be little danger of adding to unemployment in lowering the tariff on many classes of goods requiring a great deal of hand labor in their production, e. g., hand-made lace, hand-embroidered linen handkerchiefs, hand-embroidered wearing apparel, hand-embroidered household linens, cotton warp-knit fabrics, a large number of fine products of handicrafts not susceptible of mass production. The duties on these articles are either for revenue or because they are intended to force Americans who prefer these kinds of goods to buy machine-made goods. It is doubtful that lower duties

would materially affect the consumption of domestic mass production goods. On the contrary, consumption of both kinds might be increased because of the improvement in public taste.

In the case of linen fabrics, which are not produced in the United States, the matter of lowering the duty is relatively easy. In the case of woolen textiles like Oriental rugs the duty presumably consists of two components, one compensatory for the duty on the wool entering into their manufacture and the other to equalize the cost of manufacture. The fact that the latter is high in the case of hand-woven rugs may explain why the duty was placed lower than on machine-woven ones. In any event the duty should be reduced at least to the point at which only the wool duty is compensated.

Mineral Raw Materials of Which the United States Reserves Are Small.—These are primarily manganese, tungsten, and vanadium. Of manganese our supplies are so scanty that it would be wise policy to conserve our resources for times of emergency and import what we need. The industry is a small one and employs less than four hundred workers. It is, however, important for the national defense. The government would therefore be justified in taking over the mines and plants and keeping them in stand-by condition. In this way our reserves would be conserved at small expense, ready for use in emergency, and users of manganese steel would not be taxed to maintain an industry that is exhausting a necessary natural resource.

Seasonal Perishable Agricultural Products.—These are mostly fresh fruits and vegetables, like tomatoes, green peas, and beans imported from the West Indies and Mexico during a few winter months when domestic production is small or non-existent. If the tariffs were made inoperative during these few months it would be an important gain for the public health, for it is generally held by nutrition experts that fruits and vegetables are a very important element in the diet. The suspension of the tariff when there is no domestic production could cause no unemployment. Indeed, complete repeal of the tariff would accomplish the same result, for examination of import statistics shows that imports cease just as soon as fresh domestic vegetables come on the market. It is sometimes claimed that these imported vegetables compete with canned vegetables. It may

be so, but there is no evidence of it. Nothing is known for certain about the seasonality of consumption of canned fruits and vegetables in the United States. In the United Kingdom, contrary to what one would expect, the peak of consumption of canned fruits falls in the summer months.

*Paragraph 1558.*²⁵—This section of the Tariff Act of 1930 imposes a duty of 10 per cent on raw and unmanufactured materials not specially provided for in the act and a duty of 20 per cent on all manufactures not specially provided for. It needs to be examined carefully to see how many items it covers on which the duties might be repealed without causing unemployment.

Tariffs for Social Reasons.—Opium bears a rate of \$3.00 a pound and coca leaves of 10 cents a pound. These rates presumably were imposed on the theory that if these drugs were made sufficiently expensive consumption would be reduced. Abuse, so far as it can be, is now controlled by the Narcotic Drug Import and Export Act and other legislation. The truth is that today the duties only put a premium on smuggling and are simply a direct tax on the sick. A large part of the coca leaves, however, is used in the manufacture of soft drinks after the cocaine has been removed and destroyed.

Similar considerations have played a part in the imposition of very high rates on alcoholic beverages, although the collection of revenue was probably equally controlling. There is great social need to suppress smugglers and bootleggers. They can operate only behind a high tax and tariff wall. At the present time this tariff is most effective in protecting the illegal trade in the United States. The Commission therefore recommends that imports of distilled spirits and wines be permitted entry into the United States at a total tariff and internal revenue tax not to exceed the rates of duties collected under the tariff acts of 1909 and 1913. The rates in these acts were identical.

This recommendation, as well as many others made in this report, requires an act of Congress, since the President is now empowered to reduce the duty only 50 per cent and has no power whatever to change internal revenue taxes.

²⁵ "Par. 1558. That there shall be levied, collected, and paid on the importation of all raw or unmanufactured articles not enumerated or provided for, a duty of 10 per centum ad valorem, and on all articles manufactured, in whole or in part, not specially provided for, a duty of 20 per centum ad valorem." Tariff Act of 1930, *op. cit.* This paragraph was brought forward from earlier tariff acts.

If this recommendation is adopted prices of distilled spirits and wines will be lower and bootlegging discouraged. Once smuggling and bootlegging have been brought under control, the government might gradually impose heavier domestic revenue taxes on alcoholic beverages whether of domestic or foreign origin. Thus it could be determined by experiment how high the tax could be pushed without unduly stimulating smuggling and bootlegging.

Furthermore, the course recommended would give the government a powerful bargaining weapon. Probably some \$70,000,000 of credits would be created immediately in Canada which might be used by Canadian firms to purchase goods in the United States. As much as \$25,000,000 or even \$30,000,000 in credits might be made available in other countries.

REDUCTION OF TARIFF RATES THAT MIGHT CAUSE UNEMPLOYMENT

While it cannot be stated positively that such tariff modifications as are herein suggested would of themselves bring about the desired condition in our international accounts, they would be a distinctly important step in the right direction.

If imports did not sufficiently increase, then the tariff could be reduced on certain other classes of goods even though the reduction might involve greater danger of causing temporary unemployment. If such reductions are made, the increase in volume of goods admissible should be limited in the manner above recommended.

It would be wisest to select the commodities for such tariff reductions from among those goods which enjoy an unusually high rate, say over 75 or 100 per cent, which is likely to be a sign that the production of these goods is uneconomic, though this is not necessarily true. It would also be well, so far as possible, to select goods produced without the direct employment of large numbers of workers. Existing monopolies, quasi-monopolies, and cartellized industries need especially to be examined as possibilities for tariff revision. As between two industries, one of which is monopolized, other things being equal, it would be well to select the monopolized or cartellized one. It is probably in the better position to defend itself against foreign competition so that the danger to labor is less. More-

over, without the protection afforded by a tariff, monopolies would be compelled by foreign competition to lower prices instead of maintaining them behind tariff walls by diminishing the supply of goods through contraction of production. Such a policy by monopolistic industries offers obstacles to recovery in the form of unemployment and the maintenance of high living costs.

COMPENSATION FOR LOWER TARIFFS

Since the types of tariff reduction here proposed are not motivated by any other idea than increasing our imports in the general interest of improving the country's economic condition through placing its international accounts on a sounder basis, the selections of specific commodities for tariff reduction must be rather arbitrary, the principal consideration being the causing of the minimum economic disturbance. Since reductions must, of necessity, be made from this point of view, and since nearly all tariff reductions are bound to meet with great opposition, the question arises whether it would not be well both as a matter of justice and in the interest of practical politics to provide compensation in those cases in which serious losses to both workers and investors can be clearly demonstrated. Such cases might be looked upon as analogous to the condemnation of property. The government when it condemns real property for a public purpose, say the building of a fortress, always pays fair compensation. Would not a similar procedure in the case of some downward revisions of tariffs be no less fair? With the possibility of compensation no industry would have a strong case if it was thought necessary in the public interest to liquidate that industry. It is not a procedure to which we are accustomed. Nevertheless, as a possible technique to calm opposition to absolutely necessary tariff reductions the principle of compensation deserves careful study by some competent body, preferably the Tariff Commission.

Compensation to labor offers fewer dangers. It does not open up the familiar opportunities for favoritism nor does it present as great administrative difficulties. It should be in the nature of a dismissal wage, designed to tide the worker over the time necessary to find and qualify for a new position. This is but a special form of unemployment wage; it is therefore consistent

with present trends in social legislation. The payment under proper safeguards of a dismissal wage where tariff revision is clearly the cause of the unemployment is recommended.

THE STATUS OF THE TARIFF COMMISSION

What should be the method of revising tariffs in the future? There was almost unanimity at the hearings held by the Commission on this point: almost all witnesses recommended "taking the tariff out of politics." Some advocated the transfer of tariff-making powers to the President, others that it be entrusted to the Tariff Commission much as the Interstate Commerce Commission controls railroads according to principles laid down by the Congress in specific laws. It is of course impossible "to take the tariff out of politics" or any other economic issue vitally affecting the interests of all the people. Indeed, it is inadvisable to do so, except in the sinister significance of the phrase, if this were possible, for such a course would be incompatible with our conception of a democratic form of government. The railroads have not been taken out of politics. The government's railroad policy is still determined by the Congress; the Interstate Commerce Commission merely administers that policy as laid down in laws, and the courts interpret those laws in case there is doubt about the intent of Congress. In this sense the tariff might be "taken out of politics."

The Tariff Commission should be given independent status with authority to fix rates in accordance with principles laid down by the Congress in laws; the Commission's interpretation of these laws would be subject to review by the courts in the usual way. If it is not deemed wise to confer this power without restraint, the plan of one of the rejected amendments to the Hawley-Smoot Tariff Act²⁶ might be adopted. This amend-

²⁶ H. R. 2867 relative to Section 336. Congressional Record, Vol. F2, Part 6, page 5952. "Sec. 336(b). The President, upon receipt of any such report of the commission, shall on the first day of any session of the Congress, or at any time during the session of the Congress, except within 60 days before adjournment thereof, proclaim such changes in classifications or such increases or decreases in rates of duty expressly fixed by statute as are stated in such report of the commission, and shall on the same day transmit to the House of Representatives and to the Senate copies of the proclamation and of the report of the Tariff Commission upon which the proclamation is based. Such changes or/and such rates so proclaimed shall go into effect 60 days after the President's proclamation: Provided, That the Congress shall not within such 60-day period have adopted a concurrent resolution disapproving such changes in duties and/or classifications so proclaimed."

ment was intended to apply to Section 336, "Equalization of Costs of Production," since repealed. Under the proposal made in this report it would become the duty of the Tariff Commission to investigate rates and classifications from time to time to determine whether they were in compliance with the principles enacted by Congress in laws. If the findings of the Tariff Commission, made after due opportunity had been given to all interested parties to present evidence, were that a given rate or classification failed to comply with these principles, the Commission would be required to alter the rate or classification accordingly, and to give notice thereof to Congress. Upon failure of Congress to reject these rates they would automatically go into effect after sixty days. This would not take the tariff out of politics by any means. The members of the Commission would remain political appointees, the general tariff policy would be changed by Congress from time to time in accordance with the dominant national interests and the shifts of public opinion. But rates would be proposed after careful study; Congress would not control every little detail of tariff making, and the opportunities for logrolling would be reduced.

For the present the power to make reciprocal trade agreements would have to rest in the hands of the President, because diplomatic problems only remotely of an economic nature are also involved. These the Tariff Commission is not qualified to handle but no reciprocal trade agreement should be approved that has not been arrived at through the fullest cooperation between the Department of State and the Tariff Commission.

RECIPROCAL TRADE AGREEMENTS

The Commission has stated its conviction that whatever tariff reduction the United States undertakes, lowering of rates of duty should not depend upon the securing of equivalent concessions from other powers. Such a course is at present impossible because Congress has not been willing to contemplate the lowering of rates except through reciprocal trade agreements negotiated by the President. The Commission believes that these powers should not be vested permanently in the President, but only until recovery has been achieved. After recovery there should no longer be need for such higgling over tariffs and other trade barriers as many, including Congress, now believe to be necessary. After recovery the tariff may be revised fur-

ther, as may be demanded by our then creditor or debtor position, according to some such procedure as that suggested above in connection with the recommendation that the status of the Tariff Commission be improved.

THE PROMISE OF RECIPROCAL TRADE AGREEMENTS

With the exception of the little-used power conferred on the President to modify tariffs, the only possible procedure at the moment to get tariffs lowered is by bargaining. We must next explore the possibilities of increasing trade with the different countries of the world in order that we may achieve a clear realization of the possibilities and limitations of reciprocal trade agreements.

Obviously the possibility of negotiating such agreements depends upon the nature of the goods the two parties to the agreement have to exchange, i. e., upon the character of their exports. In this respect the nations of the world fall naturally into two groups, those exporting raw materials predominantly and those exporting manufactures predominantly. The first group may be subdivided into tropical and non-tropical lands because they export quite different kinds of raw materials. The tropical raw-material producers export predominantly raw materials like rubber, tea, coffee, and cacao beans, none of which is grown by the non-tropical raw-material producers. These in turn export predominantly bread grains, wool, animal foodstuffs, etc. The raw materials exported by these non-tropical countries are of the same kinds as those produced and consumed domestically by the manufactures exporters. We have then the following groupings:

Raw-Material Exporters

Tropical lands, e. g., the Netherland Indies, Tropical Africa, the South Sea Islands, Mexico, Central America, Ecuador, Venezuela, Colombia, Brazil, Peru, Bolivia, the West Indies, *et al.*

Non-tropical lands, e. g., the United States, Canada, Australia, South Africa, much of Asia, Russia, Argentina, Bulgaria, Rumania, Yugoslavia, *et al.*

Manufactures Exporters, e. g., Britain, France, Belgium, Holland, Germany, Switzerland, Czechoslovakia, the United States, *et al.*

AMERICA AND INDUSTRIALIZED EUROPE CONTRASTED

Most of the reciprocal trade agreements in force today have been made by European powers. Is the United States in as good a position as some of the European countries to negotiate reciprocal treaties?

Industrialized nations of Europe make much of their living by importing raw materials, tropical as well as non-tropical, converting them, together with domestically produced raw materials, into highly finished products which they sell. Out of the proceeds they buy what food they need to supplement domestic production. The net result of the operation is a profit which raises the national wealth and the standard of living to a level much higher than the industrial country would achieve in a self-contained economy, in which industry for lack of imported raw materials and cheap foodstuffs could not have developed to so great an extent.

Since industrialized Europe needs foodstuffs as well as other raw material, it has been a good customer not merely of tropical but also of non-tropical raw-material countries. Both have, therefore, been able to pay easily with their export goods for purchases and loans in Europe. To be sure, in recent years under economic stress and fears for their security some European countries have imported less, but essentially the situation remains as it was.

The United States on the contrary makes its living in two ways. It produces raw materials and foodstuffs, part of which it consumes at home and part of which it exports. But it also produces goods manufactured mainly from domestic, but partially also from imported, raw materials. It consumes the greater part of its manufactures at home, but a part it exports. It is the only modern country that is at the same time a heavy exporter of raw materials, of foodstuffs, and of manufactures. In its foreign trade it confronts a dilemma no other modern nation has to face. It competes with non-tropical raw-material countries in the world's foodstuffs and raw-material markets while at the same time it bids for the custom of these countries with its manufactures. It competes in the world's markets for manufactures with industrialized countries at the same time that it bids for their custom with its foodstuffs and raw ma-

terials. We are, therefore, poorer customers of the non-tropical raw-material countries than industrialized Europe.

The possibilities of increasing our imports, as well as the consequences of doing so, are very different for the three groups of countries. Indeed, since the United States belongs to two of the groups, its position with respect to the negotiation of trade agreements is unique. Furthermore, the reader should note that the countries of Eastern Europe mostly belong to the non-tropical raw-material group. Their relations to industrialized Western Europe are analogous to those of Argentina, Australia, and Canada. Before the war this relationship was largely concealed because Austria, herself industrialized, acting as middleman, stood between them and Western Europe. With the elimination of Austria this relationship has become a direct one, and France, Italy, and Germany all vie with one another to take Austria's place. It is a mistake therefore to speak, as is customary, of the commercial relations of the United States with Europe. For the United States Europe is not an economic unit, but rather two units, Western industrialized Europe and Eastern industrially undeveloped Europe.

TRADE WITH TROPICAL RAW-MATERIAL COUNTRIES

The tropical group exports raw or unmanufactured materials that we need—rubber, tin, coffee, tea, spices, sugar, sisal, kapok, etc.—and mostly admit duty free. With a few exceptions, such as, for example, vegetable oils and sugar, enlargement of our imports from them would not disturb our economic structure because the imported goods are mostly non-competitive or very indirectly competitive. However, for the most part (again excepting sugar, vegetable oils, and a few other items) we are already importing all of them we can use—or did before the depression—and will no doubt again after it has passed. Our merchandise trade balance with many of these countries is passive or unfavorable because we buy more from them than we sell to them. Therefore, these countries as a rule have little difficulty in paying in goods for what they buy from us—indeed they may service their debts to us with goods. At present their difficulties chiefly arise out of the very low prices they receive for their exports. The prospects of greatly enlarging our imports are none too good.

However, in many of these countries many of the enterprises producing for export, whether industrial or agricultural, are in the hands of Europeans or Americans, for example, the quinine production of Java and the tea plantations of Ceylon. A large part of the profits of such undertakings goes to the Europeans and Americans who have furnished the capital and the management. Therefore, if the United States imported more goods produced by European enterprises in these countries, the dollar exchange thus become available could be transferred to Europe to an amount about equivalent to the profits due the European owners, and could be used to buy American goods or pay interest due Americans. In a sense this is a special form of what is known as triangular trade. Trade agreements may accomplish something even with these tropical countries by stimulating trade of this sort.

What is meant by triangular trade is well illustrated by commerce in rubber. The Netherland Indies sell us rubber, but we sell them very little indeed. Holland buys from us more than she sells to us, and sells her colonies, the Netherland Indies, more than she buys from them. Her colonies pay her for the difference with a part of the proceeds of their sales of rubber to us, and Holland uses a part of this to pay us for the difference between what she buys from us and what she sells to us. Thus the rubber trade is a trade with three participants, Holland, the Netherland Indies, and the United States. This is equally true for the rubber trade with British Malaya.

Today our trade with a number of European-controlled tropical colonies partakes of this triangular nature. Tin, for example, comes for the most part out of mines in the Netherland Indies and in the Federated Malay States owned and controlled by European companies. Payment for much of the tin imported into the United States is made to Europe. With a part of these funds Europe sends goods to Asia to pay for the costs of mining and keeps the difference. Indeed, before the war most of the tin went from Southeastern Asia to England or Holland whence the United States derived its supplies. It was credited in the statistics to England or Holland though nothing was done to it in these countries except sell and transship it. The increasing shipments of tin, rubber, and tea across the Pacific Ocean do not indicate that our trade relations since

the war have become correspondingly more important with Asia and correspondingly less important with Europe. The financial transactions have not changed as much as the shipping figures indicate. Delivery is now made in an easterly direction by way of the Panama Canal instead of in a westerly direction via Suez.

Aside from this, United States trade relations with Asia have actually become somewhat more direct — especially with Japan, China, and with those regions where the natives play an increasing part as independent producers for export. This is particularly true of rubber; before the war it was produced almost exclusively on European- or American-owned plantations. Today a very large proportion of the rubber exported from the Netherland Indies is produced by natives whenever the price is at all tempting. Of course this native part of the rubber trade is not triangular except indirectly. If America buys more rubber from natives they obtain increased purchasing power which they may employ in buying European, Japanese, or American goods. We may expect that in the future the natives in colonial countries will play an increasing rôle in the production of export goods that do not require, like sugar, difficult technical processing on the spot to prepare them for the market.

TRADE WITH NON-TROPICAL RAW-MATERIAL COUNTRIES

The non-tropical countries exporting raw materials export, for the most part, products that compete with our own. Australia's principal exports are wool, mutton, butter, wheat, and gold; New Zealand's the same, barring wheat; Argentina's wool, mutton, beef, tallow, hides, flaxseed, corn (maize), wheat; the Balkans' grain, animals and animal products, fruits, and petroleum; Spain's fruits, wine, and olive oil; Greece's the same; North Africa's phosphate, grain, wine, and olive oil; Russia's grain, flaxseed, petroleum, platinum, gold, animal and forest products, handicrafts, linens, and furs; Canada's wheat and other grains, animal and forest products, furs, nickel, gold, copper, and other metals; South Africa's gold, copper, diamonds, wool, and a little corn (maize).

It is obvious that nearly all these exports, so far as they are agricultural, are competitive with the same products produced in the United States. Of some of them the United States even exports a surplus; for example, in wheat the United States com-

petes on the markets of the world with Canada, Argentina, Australia, the Balkan countries, also now and then with Russia and with British India. With respect to others, for example, beef, mutton, and butter, the United States produces about enough to supply its own needs. Of others, such as wool, tallow, hides, and flaxseed, the United States produces a large volume but not enough for all its needs. The deficit is imported.

On most of these competitive products there are duties, even on wheat in regard to which the United States is on an export basis. Proposals to increase imports of competitive goods would meet with vigorous opposition. The non-agricultural products of these countries are non-competitive, with exceptions such as petroleum, copper, and forest products. Enlarging imports of non-competitive products would meet with much less opposition than would concessions on petroleum, copper, and forest products. With many of the countries of this group we have an active or favorable merchandise trade balance because we do not import their principal export commodities, or if we do, as in the case of wool, we let them in over a high tariff. Therefore these countries cannot easily pay with goods for what they buy from us. To make reciprocal trade agreements with these countries would let in competitive raw materials.

TRADE WITH COUNTRIES EXPORTING MANUFACTURES

The third group, industrialized countries, export principally manufactures of all sorts, many of which are directly competitive with the products of American industries. They export also some natural products, like potash (Germany)²⁷ and coal (England), but the characteristic of their foreign commerce is that they export few agricultural materials, except some specialities like wine (France), silk (Japan), and food delicacies and specialities (Dutch, French, and Swiss cheeses, a variety of home-country foods for the foreign born in America, etc.). Fundamentally they are exporters of manufactured products and importers of raw materials and foodstuffs.

Before the war they took our raw materials and some special manufactures and paid for them with manufactures and loans. The war, by making most of them debtors to the United States,

²⁷ There is a small and active American potash industry.

made a continuance of this relationship impossible. They would continue to take our raw materials and certain special manufactures if we would take their manufactures in exchange and permit them to service their debts to us with manufactures. These procedures our tariffs make impossible. They have the greatest difficulty in buying from us since they are not permitted to pay in goods. These countries, therefore, turn elsewhere for their raw materials and some default on their debts to us. Obviously imports from these industrialized countries might be enlarged by lowering United States tariffs on manufactures.

Summary.— Few raw-material countries, whether in tropical or temperate regions, import any large volume of the kinds of raw materials we produce. What they want from us is manufactured goods and capital. The tropical countries can easily pay for these in goods because they export non-competitive raw materials that we want. The non-tropical countries cannot pay so easily because the raw materials they export are mostly competitive with our own and we neither want nor need most of them. Industrialized Europe, however, wants and takes their goods, and gives them in exchange manufactures and loans. Therefore the trade relations of non-tropical undeveloped countries with Europe are closer than with the United States. Of this Argentina is a good example. Its trade balance with us is passive, but is active with Britain.

It follows that, since we already normally take from tropical countries all we have use for, we must either let in competitive agricultural products from countries of the temperate zone or manufactures from industrialized countries or both, if we are to increase our imports.

THE NEGOTIATION OF RECIPROCAL TRADE AGREEMENTS

With these relationships in mind let us next see what we may expect to accomplish with these three groups through reciprocal trade agreements.

With the tropical group, if we have a tariff upon their exports, as in the case of Cuban sugar, we may offer to reduce that tariff in return for equivalent concessions from them. If their exports to us are free the matter is not so simple. We have really nothing to offer except our good-will and continued buy-

ing as an important customer. This may be enough, for it is easier to obtain concessions from a man if you are his very good customer than if he is yours; and this holds true even more of nations. Brazil is a country of this kind; she must have our market for her coffee. We are therefore in a position to make a reciprocal trade agreement with her. We might make an arrangement with Brazil analogous to the Runciman-Roca Treaty between Argentina and Great Britain.

If, however, some of these tropical countries whose raw materials we admit free refuse to make concessions on the ground that, since we already admit their raw materials free, we have no concessions to offer, we should be helpless unless we threatened to put on a tariff for bargaining purposes or threatened to refuse loans. This has, of course, been very generally done by many countries, not merely by tariffs but also by quotas and embargoes. And there are other methods of compelling cooperation, but it is not recommended that such procedures be followed. There are already too many fighting tariffs, fighting quotas, and fighting embargoes in the world. If such nations are not ready to make us concessions because we are their very good customers, it would be better not to begin negotiations than to compel concession by erecting new barriers created solely for bargaining purposes.

When we come to the non-tropical raw-material countries the situation is far more difficult. The difficulties can perhaps best be made clear by examining the possibilities for a reciprocal trade agreement with Canada. Canada is a principal country for American investments, and Canadians have large investments in America. Much of the commerce between the two countries partakes of the nature of border trade. Of most of Canada's principal export products, wheat, lumber, canned salmon, copper, etc., we are also exporters. We are her principal market for newsprint and nickel, and our tourists make large expenditures there. She is an important market for us for fruits, vegetables, canned goods, tin-plate, steel, and a large variety of manufactured products. Because she is a surplus producer of many agricultural products that we also produce, we have created high tariffs against most of these: against wheat, meat animals and their products, dairy products, barley, oats, hay, and also against lumber, copper, etc. In re-

prisal²⁸ she created tariff barriers against our manufactured products. As a result many American concerns felt it necessary to erect branch factories in Canada. This is one of a number of reasons for our heavy investment there. In branch factories it is relatively heavier there than anywhere else.

The restriction of trade between Canada and the United States is primarily a matter of tariffs. If there is to be more trade between the United States and Canada it will have to be brought about primarily by reciprocal lowerings of the tariff. But here again we confront the difficulty that most of Canada's export commodities, her wheat, her copper, her lumber, her milk, butter, cheese, her barley, oats, and hay are competitive. One might suppose that because both Canada and the United States are on an export basis in regard to wheat, wheat would sell in both countries at the world price despite the American tariff and that therefore Canadian wheat would not enter the United States. As it happens, however, Canada grows a type of high quality, hard spring wheat of which the United States produces no surplus in most years. If there were no tariff, Canadian wheat would often come into the United States as far as freight rates permitted and force more of the poorer grades of American wheat into export than now. Ultimately, if there were no tariff on Canadian wheat and no special subsidy to spring wheat growers, United States production would probably be radically reduced.

There are a considerable number of American products against which Canada, although she needs them, has high tariffs. There are on the other hand few Canadian products that we need that are not already on the free list. In offering concessions to Canada the United States is therefore constrained to choose articles largely for considerations of practical politics. The following are a few suggestions of this sort: Liquors, though these are competitive. A lower tariff on aged whiskies, paradoxical though it seems, might reduce competition for American distillers because there would be much less incentive to smuggling, which is said to be very extensive. Certified seed potatoes, used throughout the Eastern United States and grown in Aroostook County, Maine. The farmers of Aroostook would

²⁸ It must, however, be noted that Canada's motives were not solely reprisal but also fear of economic penetration.

object, for they alone raise seed potatoes, whereas the remaining farmers of the East, who buy them for propagation purposes only and who are much more numerous, would applaud. Certain alloys of nickel, not produced in the United States, and aluminum, in which Canada leads in our imports.²⁹ Cereal breakfast foods, biscuits, crackers, and analogous baked goods. Fresh frozen salmon, cod, haddock, hake, mackerel, and salted salmon. The imports (duty 2-2.5 cents a pound) have not been over 5 per cent of domestic production. Most of these fish are brought in to be canned in the United States; the salted salmon is mild-cured. Fishermen might object but canners and cannery workers would approve. Halibut fresh or frozen are mostly caught in Bering Sea, where both Americans and Canadians fish. Sawed lumber and timber imports have represented less than 5 per cent of domestic production. Most of our imports of unexposed films come from Canada and our own production is so tremendous that reduction of this duty could not possibly create domestic difficulties.

This is not an imposing list but a careful combing of the commerce between the two countries has not revealed any other important concessions the United States might make without arousing serious opposition at home.

In return Canada could afford to lower her rates on citrus fruits and cease importing from Palestine and South Africa. She might lower the rate on peanuts, which she does not produce, on dried, evaporated, and certain canned fruits, on cottonseed oil, on anthracite coal, on cotton cloth, and certain manufactures of silk. There are a host of products Canada might admit without serious danger to her own young and growing industries.³⁰ The difficulty is not on the Canadian but on the American side. The prospects that by a reciprocal trade agreement any very large increase of trade between the two countries can be achieved are not good. And this is also true

²⁹ These industries are said to be monopolized or cartellized. If they are, lowering the American tariff would be tantamount to making the producers a present of the duty now collected. Nickel alloy now sells in the United States at the world price. Lowering of the tariff would probably not lower the United States price of nickel alloy or of aluminum, would therefore not increase consumption, and would not enlarge imports. The United States consumer would be neither worse off nor better than at present. The Treasury would lose a certain amount of revenue but this might be a small price to pay for concessions Canada might be willing to make.

³⁰ The Ottawa Agreements impose severe limitations on the concessions Canada could make to the United States. These agreements expire in 1937.

in greater or lesser degree for most of the other non-tropical raw-material countries. Such a situation reinforces what was said above about Canada, i. e., that the potent and direct way to revive trade is through the reciprocal lowering of tariffs.

For the industrialized countries the difficulties are also great unless we are ready to take more manufactured goods than we now do. If the lowering of individual rates suggested in a previous section of this report were used to negotiate agreements probably a good deal could be accomplished. Little unemployment would result. For example, if we were ready to reduce or repeal the tariff on olive oil substantial concessions could probably be obtained from Italy. Or we might get considerable concessions from France if we lowered the rates on French wines. With the safeguards that have been suggested above in connection with the lowering of tariffs some basis for reciprocal trade agreements with a number of European countries could be found. However, without the passage of appropriate legislation the prospects are none too good, because there are so few commodities, except tropical raw materials, that we have hitherto been willing to permit free entry. Even a 50 per cent reduction of existing rates—all that is now permissible—still leaves many of the rates very high.

So far as the debates in Congress indicate, the powers given the President to make reciprocal trade agreements were granted primarily for barter agreements whereby, in return for a lowering of our tariff on a given commodity which the other country is desirous of exporting to the United States, that country would lower some of its tariffs on commodities the United States is desirous of exporting to it. The analysis of the possibilities just presented shows that these are limited. But as already indicated, even if we succeed in getting tariff concessions in many cases these would be useless unless at the same time we got some relaxation of other barriers to trade, such as exchange control, quotas, and embargoes. Probably more can be accomplished if the negotiations are directed at the removal of these barriers than at specific deals in specific commodities.

Indeed, all reciprocal trade agreements should, so the Commission believes, have for their aim the loosening of exchange, quota, and other restrictions rather than merely barter aimed at lowering the tariffs of foreign countries on the specific com-

modities made the subject of agreement. If exchange control can be loosened up and dollar exchange can be made available for American merchandise, then it may safely be left to the importers and exporters of the countries involved to select those commodities for exchange that under existing tariff and price conditions are most demanded in the two countries. Indeed it would be sufficient in the case of many countries if we offered tariff concessions in return for an agreement with the other country that a certain large fixed proportion of dollar exchange would be allocated to the purchase of American goods, leaving it to the foreign country's importers to settle for themselves what American goods. American goods of some sort they would have to bring in, for if they did not, the dollar exchange assigned to American goods would be of no use. The foreign country would determine for itself how it would let the American goods in, whether by lowering certain tariffs, by assigning quotas to America, by abrogating embargoes, or what not. The method would be their affair and a matter of indifference to the United States. Foreign trade would be enlarged and that is what concerns us. We would be interfering less in the internal affairs of another power and we would not be interfering with triangular trade as much as we would if we insisted on straight barter.

It seems clear then that the results to be obtained from reciprocal trade agreements are likely to be disappointing. Furthermore, such as they are, they are certain to come slowly, for it will unquestionably take time to negotiate any considerable number of agreements. But the need for redressing our terms of trade, which have been balanced in the first eight months of 1934 only by the importation of \$1,000,000,000 in gold—a process which cannot continue in the future—is “instantaneous, overwhelming, and not admitting of delay.” We do not believe this condition can be met by the present slow process of reciprocal tariff trading.

Nevertheless, since at the moment no other course has been authorized by Congress, the negotiation of such agreements, if vigorously pursued, would tend to stop the trend toward higher tariffs and greater trade restrictions throughout the world. It would not be as effective as unconditional tariff reductions of the type recommended in this report but perhaps

the achievement of a new era of freer international trade may have to be approached by and through a plan which involves discrimination—distasteful though such a plan may be. The evils of discrimination might be minimized by organizing a number of nations in a group pledged to lower tariffs as rapidly as possible, to abide by a set of necessary agreed-upon rules of trade, and to make available to all members of the group any concessions made by any member to any other.

IMPROVED QUARANTINE PROCEDURE

These quarantines, even when made in good faith, will remain barriers to trade until the time in the far distant future when man shall have learned to control all of the pests and diseases of crop plants and domesticated animals or until all of them shall have spread to every spot where they can exist. In the meanwhile, every nation has the right to protect itself from these invaders. All that one can ask is that the responsible government agency in each country act in good faith and impose no quarantine for any other than sanitary purposes. It ought not to be difficult to bring this about. Quarantines are, or should be, based on scientific facts, and these facts ought to be available to all the world. Of course there is room for difference of opinion in the interpretation of facts; but a group of scientists of standing would have little difficulty in coming to agreement on most of the essentials. What is needed is an internationally recognized code of procedure in the establishment of quarantines. To develop a suitable code by the cooperation of the national scientific societies of the different countries should not be too difficult. The danger would be that politicians might exert pressure upon the scientists or might not accept the scientists' code. An international conference of scientists, not of politicians, should be called for the laying down of a set of principles defining the circumstances under which sanitary quarantines are *scientifically* justifiable as well as the forms they may take.

Once such a code has been drawn up, provision should be made for the filing of the scientific reasons for each quarantine with some international scientific body, possibly the International Institute of Agriculture at Rome. If the evidence filed were available for examination by scientists the world over, the

scientific justifiability (or unjustifiability) of each quarantine would at once be clear. The mere refusal to file evidence would render a country suspect. In this way such a code would probably serve as a deterrent to the imposition of quarantines for other than sanitary reasons.

In the meanwhile what can the United States do single-handed? It might through its Department of Agriculture call or cause to be called a world conference to draw up such a code. Furthermore, the Department of Agriculture should be required, except in cases of sudden emergency like an outbreak of foot and mouth disease, to submit any proposed permanent quarantine to the Department of State, the Department of Commerce, and the Tariff Commission in order that these bodies may have the opportunity to place before the Department of Agriculture the economic and political implications. The Department of Agriculture officials who initiate quarantines are highly competent entomologists, pathologists, and chemists, not economists or experts in international relations. They need advice from the point of view of those departments of the government that are more directly concerned with international relations. With their views before it the Department of Agriculture may consider whether the removal of the sanitary risk in question warrants the economic and political consequences. Also after it has been decided to promulgate a sanitary regulation it should be the rule, if merely as an act of courtesy, that the countries concerned be notified in advance by the State Department. It will usually be found, especially in matters involving such statutes as the Food and Drugs Act, that the foreign government is eager to do all in its power to remedy the condition complained of. It would be poor business for it to do otherwise.

WAR DEBTS

The Commission recommends that the war debts be settled at once. If payments were to be made in full, they would increase the credit position of the United States each year by something like \$265,000,000. If the reader will turn to the balance sheet for the international accounts of the United States on page 21, he will note that this would involve a very material increase in the credits coming each year to the United States. The reader will further recall that time and again in the course

of our discussions of the international economic position of the United States it has been pointed out that if we are to collect any considerable proportion of the sums due us either as interest or capital, we must have a decidedly passive or unfavorable balance of merchandise trade. We have also seen that in order to achieve such an unfavorable balance without cutting our exports to the point where the results would be disastrous, we must enlarge our imports. The enlargement of our imports involves the reduction of our tariffs, and the possibilities of lowering tariffs without danger of adding to unemployment in the depression are limited. If the United States should succeed in persuading the defaulting countries to pay the sums agreed upon in the refunding negotiations, a much larger volume of imports would have to be accepted. In view of the temper of the American people during the depression, it is altogether unlikely that they would agree to such an immediate and marked increase in competitive imports.

If this be true we may consider two other courses of action. Payment of war debts might be postponed until after recovery. In the meanwhile the United States might pursue the tariff policy recommended in this report, gradually increasing the volume of its imports and gradually reaching the point at which its balance of merchandise trade is decidedly passive. At the same time, with recovery the volume of the foreign trade of the United States would increase very greatly. When this point has been reached some time in the future, with a decidedly negative balance of merchandise trade and a large volume of foreign trade, it would be possible to accept large war-debt payments without much difficulty in bringing the sums paid into the United States. This plan, however, does not seem practical; partly because the other countries would probably not consent to it, partly because it is quite impossible to say when the United States will achieve the position in which the bringing over of the payments would cause no serious disturbance. And in the meanwhile the debts would be hanging over the world, continuing to exercise their disturbing influence upon national policies and international good-will and continuing the uncertainty which is so disastrous to trade.

The second possibility is to scale down the payments to a point at which they can be brought into the United States un-

der existing conditions without causing undue difficulties. It is this second course which seems to the Commission the only one feasible. It is imperative that the shadow of the debts be removed from the world. The Commission therefore recommends that the whole war-debt situation be settled at one stroke immediately by lump-sum payments representing a relatively small proportion of the face value of the debts. The Commission suggests further, to facilitate the problem of transfer, that the sums be paid so far as possible through a transfer of securities. Certain countries might exchange their own bonds for American issues held by their nationals. These American securities might then be sent to the United States. Such a plan is of course not feasible in certain countries because American securities are not held in all debtor countries in any large quantities. In other debtor countries there may be difficulties in mobilizing American securities but these difficulties should not be insuperable if the country in question is ready to make the exchange suggested on terms sufficiently favorable to prove attractive. Where the plan is not workable or workable only in part, any other method that avoids transfer difficulties may be followed.

We would further suggest that any debt commission be authorized in its discretion to accept in part settlement defaulted obligations of political units of the United States.

FOREIGN INVESTMENTS

From 1924 to 1928, inclusive, the interest and dividends (net) due us on private foreign investments averaged \$436,000,000 per annum. If we add the payments made on the political debts—\$195,000,000 per annum—the sum represents the creditor position of the United States in the world economy in the pre-depression period. However, we did not bring these sums into the United States. Instead they were all reinvested each year abroad so that from this source our foreign investments increased annually about \$600,000,000 (net). To have done otherwise would have necessitated buying more goods than we imported and accepting more services from foreigners, to the extent of \$600,000,000. Our tariff policy was one of the reasons why this was not done and why instead we piled up our foreign investments. It is perfectly good national policy to re-invest abroad a part of the interest due from abroad and Ameri-

cans will undoubtedly be compelled to follow this course because of the difficulty of bringing over into the United States interest due, so long as we impose restrictions upon imports. If, as is recommended in this report, we work as rapidly as feasible toward an unfavorable balance of merchandise trade, the transfer of interest and principal loaned out will gradually become easier. When a point has been reached at which the serious transfer difficulties that exist today are removed there can be no objection, as a matter of national policy, to lending a part of the sums due on foreign loans. In the meanwhile it may even be wise in the interest of starting the machinery of world trade going, to make further loans. Should the United States ultimately cease on balance to be a creditor, or a creditor only to a moderate degree, there will of course be nothing to reinvest. In any event, the Commission is of the opinion that no control over long-term lending other than prevention of fraud should be exercised by the government. Such control as the government is now exercising, through the Johnson Act, for example, should cease. The Commission does not believe that attempts by the government to direct or supervise capital movements in foreign lending are in the public interest.

We further recommend the utmost freedom from restraint in short-term capital movements. Free movements of gold and of capital on short-term loans are necessary to offset temporary strains occasioned by shifts in the balance of international payments. If sound banking practices are followed, short-term capital movements serve to prevent violent fluctuations in prices of exchange. Only when the solvency of banks or governments is questioned are these short-term funds likely to become the medium of speculation and thus contribute to the collapse of currencies.

Information concerning short-term capital movements should be made available to everyone.³¹ The Commission, therefore, recommends that some central statistical organization or credit clearing exchange be set up for the purpose of making available information regarding the total of short-term balances whether arising from foreign trade acceptances, from loans to foreign

³¹ Confidential data on balances held by New York banks abroad and foreign balances in New York banks are now tabulated weekly by the New York Federal Reserve Bank. Also annual data on these balances are published by the Bureau of Foreign and Domestic Commerce.

banks or corporations, from foreign deposits, or otherwise. Thus each individual bank may know the position of the United States with regard to short-term capital movements. It would then be in a position to play its part in avoiding the undue extension of short-term foreign credit. Such information might be cleared among the lending central banks through the International Bank at Basel.

MONETARY POLICY

There is a widespread conviction, in business and financial circles, that return to the gold standard is a major condition of the restoration of confidence in the future of business and investment. Whatever be the merits of this opinion from the viewpoint of economic analysis, its very prevalence makes it an important factor in the situation. The Commission therefore recommends that definite measures be taken to mitigate uncertainties as to the future gold value of the dollar.

Such measures may, and probably should, be taken, however, without commitment as to the permanent solution of our monetary policy. There are now many students, both here and abroad, who seriously question the advisability of return to the old gold standard system. This system has few of the merits which are commonly attributed to it as an automatic or "non-managed" mechanism of control. Its potentialities for the more distant future will depend upon the extent to which its "management," through the policies of the principal nations as to government finance, central banking, and, especially, commercial policy, can be reduced to some order and rule. More important even than international cooperation and coordination of national policies is the restoration of that degree of flexibility in domestic price structures and income structures without which orderly adjustments under the gold standard system are impossible. The most genuine spirit of international cooperation and of willingness to obey in domestic policies the fundamental rules of the gold standard system cannot prevail against pressures of unemployment and persisting dislocations within domestic price structures.

These perplexing considerations, while of vital importance for ultimate solution of our monetary problem, may largely be neglected for the near future. We may now safely and wisely commit ourselves, for a considerable period, to a gold policy

which would remove those obsessions of uncertainty which particularly afflict the financial community. To this end, the Commission recommends that the government announce (a) that, although it will retain its present powers under the Gold Purchase Act to change the price of gold, within the limits there stated, it does not intend to exercise those powers, and (b) that it will freely permit the export of gold at the present official price for the settlement of international payments.

Whatever the merits of our recent venture in devaluation no case can well be made for further raising of the price of gold as a means for raising domestic prices or promoting recovery.

Given existing tensions in international commercial relations, further devaluation by the United States (i. e., further effort to transfer some of the world's unemployment to other nations) would provoke a measure of retaliatory, defensive action abroad which probably would leave us in a worse competitive position than before. Even in the absence of this inevitable retaliation, we would achieve at best (a) only a small increase in the domestic prices of a not important part of our total commodity output, and (b) some increase in our already excessive gold stock and bank reserves. This drain of gold from abroad, while helping us not at all, would lead, in other countries, either to more deflation or to depreciation of their currencies against our own—in either case, to injurious effects within the United States.²²

Domestic recovery does not depend upon, and cannot be induced by, either increase in our gold stock or raising the excess of reserves of our banks. These reserves, it may be noted, are now so enormous as to permit a volume of bank lending sufficient, not only to recovery, but to the wildest sort of inflationary boom. Recovery depends proximately on internal dishoarding (investment and consumer-spending of hitherto idle funds) and upon expansion of the predominant item in our effective money, namely, bank deposits. These changes, in turn, may be brought about only by improvement of business earnings, actual and prospective; and the improvement of earn-

²² The next few pages of the report deal with questions which may well seem to be rather outside the proper scope of our inquiries. However, no adequate consideration of our international commercial policy can disregard questions of policy with regard to gold; and no recommendations regarding gold can be formulated cogently without consideration of the whole monetary and fiscal problem of the present emergency.

ings implies change in prevailing cost-price relations, especially in the case of consumers goods. (Costs in the capital goods industries are also vitally important for investment.)³⁸

There appears to be no substantial basis for the alarm with which our unbalanced budget is viewed in certain quarters in finance and industry. The maintenance of a large deficit, as an emergency measure, is nowise dangerous to our financial structure; indeed, this policy is probably the only one which will permit that financial structure to be held together at all. If there are dangers, they are less great than those of any alternative program. Indeed, it may be true that serious effort to balance the budget at present would actually make the real deficit larger and more enduring—simply because of effects on business earnings, production, and employment.

The widespread criticism of the various expenditure programs is not entirely unjustified, for the administration has given perhaps too little attention to temporary tax reduction as a means toward the desired deficit. In general, a deficit

³⁸The price of gold is proximately significant, as has been remarked above, merely for the domestic prices of commodities which are actively traded internationally; and our general level of commodity prices cannot be much influenced, over short periods, either by changes in the prices of those commodities or by change in the price of gold (changes in the number of dollars which our physical stock of monetary gold represents) or by changes in the size of the physical stock.

The important factors with regard to our internal price level are: (1) the rate of turnover of effective circulating media (changes as to hoarding and dishoarding), (2) the amount of effective circulating media, and (3) the amount of media generally acceptable, in lieu of actual circulating medium, for purposes of hoarding ("cash" or liquid reserves).

It is a commonplace that demand deposits of our banks constitute the predominant item of effective money (circulating medium) in the United States. Actual hand-to-hand currency in circulation (outside of banks) is relatively of minor importance. According to the estimates of Dr. Lauchlin Currie (*The Supply and Control of Money*, Harvard University Press, 1934, p. 33) our total money supply on June 30, 1933, was \$20,234,000,000, of which \$5,071,000,000 was in the form of cash outside of banks, and \$15,163,000,000 was in the form of (adjusted) demand deposits. The corresponding estimates for 1929 were \$26,691,000,000 (total money), \$3,947,000,000 (currency in circulation), and \$22,744,000,000 (adjusted demand deposits of all banks).

The volume of cash in circulation is even less important than the percentages would suggest and, moreover, is largely an independent factor in the situation. Changes in its amount reflect (1) changes in needs for till and pocket money, and (2) changes in the community's willingness to hold its reserves in other forms, notably bank deposits.

Neither of these forms of domestic money, moreover, is now controlled or controllable by the size of our dollar reserves in gold. Our hand-to-hand currency is largely in the form of notes of the Reserve Banks; and these institutions now have sufficient excess reserves of gold to permit enormous expansion of note issue, especially under present legislation as to the Federal Reserve Bank notes. As things stand, however, such increase of note issues would have no important effect, for

achieved by tax reduction is as reflationary as one obtained by extraordinary outlays. Reduction of the income taxes or estate taxes would probably have little favorable effect. Like open market operations and much of the government lending, such measures would serve largely to pour public funds into private hoards. There are attractive possibilities, however, in the reduction (to take the clearest case) of the many federal excise taxes, for this would operate both to augment private purchasing power and to lower costs for the industries concerned. In the case of products produced under less competitive conditions, reductions of excises should be made only after agreement by producers promptly to pass on the reduction in lower prices. The consequent price reductions, in the case of goods of wide consumption, would either markedly increase consumption and production directly, or leave people with larger amounts to be spent on other consumption goods.

It remains to point out that the one real source of danger in deliberate fiscal reflation lies in the possibility that the fundamental price maladjustments may be preserved *in spite of it*.

additional notes would be merely redundant, and would promptly return to the banks.

Increase in the main item, demand deposits, will occur only with a general resumption of bank lending. Ordinarily bank lending, and the volume of demand deposits, has some devious, ultimate relation to gold. The banks must maintain minimum reserves, again in the form of deposits, with the Federal Reserve Banks; and the volume of these reserves depends upon the volume of rediscounting and investment by the Reserve Banks. These institutions, in turn, are limited in their rediscounting and open market purchases by the legal requirements of reserves against these deposits and notes; and the reserves must in effect be largely in gold.

At present, however, the limitations of reserve requirements are of no importance, at any point along the line. The excess reserves of member banks with the Reserve Banks are enormous; and the Reserve Banks are in position to increase them greatly, by open market operations, lending, and rediscounting, if there were any occasion for such increase. Now, more than at any time in history, is it true that "the limit upon deposit currency is fixed, not by what the banks can provide, but by what business men care to use."

Thus, it should be clear that our internal monetary problem has to do, not with gold, or with hand-to-hand currency, but with the volume of bank deposits and, more important still, with hoarding and dishoarding. Moreover, the expansion of the deposit currency, and the return to more nearly normal behavior with reference to private hoarding, depends primarily upon an increasing disposition to borrow, to invest, and to consume — and mainly upon a more promising outlook regarding business earnings and employment.

The significance of the quantity of "hoarding media" apart from currency and demand deposits need not be emphasized here. The category is not easy to define closely, for it shades off very gradually. However, it should be clear that the quantity of savings deposits and Treasury certificates (to take the more obvious items) is of distinct monetary importance; for their increase will serve to release from hoards both actual currency and demand deposits; i. e., the velocity of circulating media will be greater if attractive substitutes are available for use as liquid reserves.

Developments during the past year and a half require that special attention be given to this point, by the administration and by business men. If reflation is accompanied by prompt upward movements of costs, and by price increases unsupported by large increase of output and employment—if it is accompanied by prompt increase in those prices which hitherto fell least—then the “pump-priming” will have been worse than futile.

There is, thus, one ominous possibility, namely, that temporary maintenance of a large deficit might fail to create the conditions economically necessary to balancing of the budget and establishment of a surplus—that fiscal reflation might fail to accomplish that measure of readjustment in relative prices necessary to the financing of further recovery on the basis of dishoarding and additional bank lending. Given the recovery which temporary reflation should initiate, in the absence of conflicting policies on the part of industry, labor, and the government itself, we should find existing taxes and tax rates adequate, not only to a balancing of the budget, but to rapid liquidation of the accumulated debt as well. Indeed, the existence of the debt recently incurred might only serve to dissuade us from repeating our fiscal policies of the last decade, and from aggravating the next boom by drastic and inopportune tax reductions.

The prospects of balancing our budget within a reasonable period appear to depend primarily upon the behavior of those groups which exercise a measure of organized control over prices and wages, upon government policy toward groups exercising such control, and, to single out one important factor, upon government policy as to freight rates. If only those producers who have gone furthest in sacrificing volume to price maintenance (and those labor groups which have suffered from unemployment rather than especially from decline of wage rates) would now make some concessions, or even accept their share of recovery in larger volumes instead of in higher prices, we might look forward to early conversion of the federal deficit into a large surplus.

The situation is clearly one which calls for coordinated action among many independent groups, in their mutual interest as well as for the general welfare. Some people believe that many

producer and labor groups have been maintaining prices and wages which are too high even as monopoly prices—too high, that is to say, for the best interests of the individual groups themselves; but the problem, in the main, is much larger than that of making each group see more clearly, and act more intelligently with reference to, its own special interest. It would undoubtedly redound to the advantage of each of the groups whose prices and wages are now out of line upward, if *all* of them would accept downward adjustments. For a particular group, however, demand elasticity is likely to be relatively low; and concessions by it *alone* might contribute little, either to its own volume of business or to general recovery. Thus, it may be doubted whether reduction of freight rates (to take an extreme case) would be particularly advantageous to the railroads themselves, or would induce substantial improvement of business generally, *unless accompanied* by reductions of other cost-determining prices which have been maintained against the general downward trend.

These considerations define an economic impasse. They indicate the need for action by particular groups which looks beyond their own particular and immediate interests, and the need for government intervention to persuade or force powerful groups into action which would be immensely beneficial to them all if taken by them all together, but advantageous to none proceeding alone.²⁴ Considerable public-spirited, cooperative action has recently been achieved along equally difficult and, for recovery, less promising lines. Similar methods are surely worth trying, to the end of bringing down, or at least *holding down* those prices whose *relative* decline is crucial for recovery—and for the achievement of a balanced federal budget. The possibilities are perhaps especially attractive at this time, for the recent organization of business and industrial groups provides agencies through which the government might seek simultaneous concessions, in several fields, to the common need for a greater volume of business.

The balancing of the federal budget, and even a distinct un-

²⁴ The same considerations argue, with respect to tariff policy, for earlier and larger decrease of duties in the case of basic products whose producers have been most successful in price maintenance since 1929. The lowering of these duties might bring down prices without any real increase of imports; and it might thus increase, instead of reduce, domestic employment.

balancing on the surplus side, will sometime—let us hope soon—become possible, and may actually be necessary for the avoidance of chaos. There is now enough money in circulation, and enough reserves in the banks, to permit a disastrous boom—if the velocity of circulation were to rise, and reserve ratios fall, to normal levels. *But it is doubtful whether the federal budget can safely or wisely be balanced so long as business earnings, industrial output, and total employment remain at or near their present levels.* Indeed, the volume and trend of total employment may afford the best single guide for sound fiscal policy under present conditions.

These conditions, of course, may change quite rapidly. While we are not prepared to recommend reduction of the federal deficit now, we would urge that the administration prepare itself for quick transition, as soon as there are indications of substantial and rapid improvement, to a surplus position and to a program of debt retirement. The fiscal position must be kept highly flexible; and the administration must be prepared, legislatively and administratively, both for rapid scaling down of expenditures and, in an extremity, for the prompt imposition of new and higher taxes. In other words, the government must be *prepared* rapidly to pump funds out of circulation, in order to be certain of being able safely to hold in check the recovery which its deficit is intended to initiate.³⁵

In support of our recommendation against further change in the price of gold, it has been argued that no case can be made for its revision upward. It likewise seems clear, given free movement of gold in settlement of our international balances, (a) that large export of gold is unlikely to occur, (b) that we could safely part with a large fraction of our present stock, and (c) that large export of gold would indirectly redound to our advantage by virtue of its favorable effects abroad.

It may be argued that, while there is unlikely to be any occasion for justifiable increase in the dollar price of gold, it might soon be expedient to lower the price: (a) to prevent a wastefully large accumulation of gold by the United States;

³⁵ The proper changes in our fiscal position will to some extent be automatic; the changes which would dictate reduction of the deficit will also increase the yields of existing taxes and reduce expenditures for unemployment relief. This automatic adjustment, however, cannot be relied upon heavily, for its lag will be marked (e. g., in the case of the income taxes) and its magnitude much too small.

(b) to promote distribution of our surplus stock among countries which have real need for additional reserves; (c) to check an over-rapid recovery or a potentially dangerous boom at home; or even (d) as one means of putting pressure on the reserves of a too rapidly expanding banking system. To any of these ends, however, a more attractive means is at hand, namely, reduction of our tariff duties, even beyond those already recommended. This strategy would afford us a better protection against an unhealthy boom and against over-large investment in gold; it would affect other nations in the same manner economically as would a lowering of our gold price; and it would probably be even more effective toward improving the spirit of international commercial relations.

Not least of the merits of this procedure is the prospect it offers for raising the internal prices of export products (notably, cotton and wheat) relative to other prices. Indeed, it might in the end prove to be an adequate justification of our recent gold policy, that it created this opportunity for gradually and systematically repairing the injury of our past tariff policy to agriculture. Our drastic devaluation, whatever its short-term effects, is likely to lead, slowly and over a long period, to a rise of our price level which could serve no good purpose and might work serious injury. However, if we undertake by tariff reductions systematically to correct favorable balances of payments, and even to send abroad part of our present stock of gold, we could avoid the upward pressure on many industrial prices, while allowing our export staples to enjoy the full effect of the devaluation.

The scheme here proposed is perhaps more elegant in principle than it could ever be in actual application. But it may be worth noting that, just as devaluation offered to post-war France a means for returning to gold without internal deflation, so devaluation offers to the United States a means for scaling down its barriers to trade *without internal deflation*. This opportunity, moreover, presents itself, fortunately from the viewpoint of domestic politics, at a time when there is widespread demand for just the assistance to agriculture that it so clearly offers. Furthermore, an expression by our government of the intention to prevent, by this procedure, any enduring injury to foreign countries from our devaluation, would do much to

smooth the way for future international understandings as to both monetary and commercial policy.

In this connection two observations are especially in point. (1) It is likely, in view of the condition of our balance of payments prior to devaluation, and in view of the prospect that many of the foreign measures for resisting gold drains will disappear with world recovery, that our present price of gold will prove distinctly excessive, unless measures are taken to offset the long-term effects of its sharp increase. (2) There are many strong considerations, not heretofore invoked in these pages, against resorting to reduction of our gold price in the future. Many of those who bitterly condemn our devaluation program will readily agree that little is now to be gained by trying merely to retrace our steps. If the rise in the price of gold may be held to have worked injury and injustice, it is still unlikely that reduction of that price at a much later date would accomplish much toward repairing the inequities. Those who lost (or gained) by the increase would be largely a different group from those who gained (or lost) from the reduction. Thus, all in all, a number of strong considerations appear to support the proposal for utilizing systematically the potentially large opportunities for tariff reduction which our recent devaluation promises to yield in the future. On this view, tariff reduction might be regarded as an agency of monetary stabilization for the near future and, quite consistently, as a means for helping agriculture at the same time.

The whole argument here may be regarded as supporting the position (pages 83-84) that our bargaining efforts should be directed especially toward concessions with regard to exchange controls, quota limitations, and similar barriers to our exports. These barriers, largely the product of the acute emergency, may be regarded in part as compensatory to our emergency gold policy. The prospect of their removal will depend partly on our willingness to make the concessions necessary to preservation of reasonable balance. The only major or equivalent concessions which we could offer are (1) reduction of our gold price and/or (2) lowering of our tariff barrier. There are reasons for our preferring the second of these, and no apparent reasons why it should not be equally attractive to other nations.

Thus, we would recommend (1) no alteration in the price of

gold, (2) free export of gold to meet any pressure against dollar exchange, and (3) deliberate use of tariff reduction for avoiding any persisting necessity for the acceptance by us of gold in the balance of international payments.

We recommend against return to our earlier arrangements regarding the coinage and internal circulation of gold. Our monetary gold stock should be retained in the vaults of the Treasury or Reserve Banks and utilized exclusively for settlement of international balances, i. e., for stabilizing the rates of exchange on other gold standard countries. The simplest expedient to this end is that of providing, as did England in 1925, for conversion of our currency only into gold bars suitable for export; but it may prove more expedient to arrange, by international agreement, for the use of monetary gold exclusively for transfer among the central banks or treasuries of the various nations.

The use of gold for coinage and internal circulation is a needless luxury, a dis-economy of a scarce medium of international settlement, and a source of serious danger in times of crisis. A financial system which permits people, as holders of bank deposits and debts of early maturity, suddenly to demand liquidation of contractual obligations in currency for hoarding, is dangerous enough to economic stability when the total amount of currency is a small fraction of such obligations. A system which in turn invites conversion of all currency into gold currency as a private hoarding medium is simply unworkable. In March, 1933, the banking crisis was at least hastened by the behavior of people who were concerned not so much about the relative value of their deposits and lawful currency as about the relative value of paper currency and gold.

At all events, the position that our currency should never again be made convertible into gold coin suitable for internal circulation is now almost beyond controversy. Even the most ardent advocates of return to gold are generally opposed to internal redemption in coin.

PART III
REPORT OF THE DIRECTOR OF RESEARCH

LETTER OF TRANSMITTAL

DEAR MR. HUTCHINS:

I submit herewith my report for the consideration of the Commission in formulating its recommendations. In its preparation I have profited from the discussions in the Commission of my earlier memoranda and am indebted to scores of scholars who have freely given me their aid in conferences or by letter. In gathering and organizing the body of data upon which this report rests I have had the exceptionally competent services of two staff members, Dr. Arthur R. Uppgren and Dr. William G. Welk.

Respectfully,

ALVIN H. HANSEN

*Secretary to the Commission
and Director of Research*

New York City
July 1, 1934

-PART III

REPORT OF THE DIRECTOR OF RESEARCH

I. THE BACKGROUND OF ECONOMIC NATIONALISM

A. WORLD-WIDE INDUSTRIALIZATION

The current world-wide trend toward economic nationalism or autarchy, the phrase so widely in vogue on the Continent, cannot be regarded as a superficial phenomenon. It is well to recognize at the outset the unmistakable fact that this movement is being carried forward by the swiftly moving stream of fundamental historical forces. The great war swept it, indeed, to abnormal heights from which a very material recession may reasonably be expected. It would, however, be a great mistake to assume, as some have, that the trend toward economic nationalism is merely a passing phase of post-war developments. On the contrary, this tendency is in line with the evolutionary course of modern industrialism. It is the result of the continued spread to all parts of the world of modern techniques of production. It is the backwash of the racial emotionalism of industrially backward nations against the tide of economic imperialism. Eagerly sought by racial or nationalistic ambitions, modern science has brought economic nationalism nearer the point of possible realization.

In the nineteenth century there developed a highly interdependent world economy. The equilibrium of world economic forces was based on an international division of labor which had slowly and gradually evolved. The world had become a closely knit, integrated economic structure with interdependent parts radiating from a central point. That center was the manufacturing belt of Northwestern Europe, erected on the basis of rich mineral resources. London was the commercial and financial heart of the whole system. Around this center, spreading in ever widening circles, were areas of intensive animal husbandry, grain production, and forestry, and, in the remoter parts, the extensive production of animals, cereals, foods,

and fibers. The closely articulated trade of quality products at the center rested upon the possibility of drawing the needed raw materials from the periphery of the integrated world economic structure.

This localization of industry and the interchange of products between nations and regions were a direct consequence of the unequal distribution of material and human resources. First and foremost was the unequal rate of progress in mechanical techniques and skills. Of these England retained well nigh a monopoly until the third quarter of the nineteenth century. The development of these new techniques in one part of the globe let loose forces which could not be localized. The rising industrial system of England could not remain isolated and insulated from the rest of the world. There was so much to be gained from an exchange of goods that it was inevitable that England with her new industrial techniques should enter into extensive trade relations with the rest of the world. The industrially backward countries found that their raw materials had become invested with new value and that they could now be exchanged for a variety of manufactured goods.

Around the middle of the century, economic internationalism reached its zenith. At that stage of the world development the inherent advantages of international exchange and relative freedom of trade were too obvious to question. But the techniques and skills, developed in England, became gradually diffused. The industrial system, born and nurtured in the British Isles, spread, bit by bit, to all parts of the globe. This process can, to a considerable degree, be described as the expansion of England. English capital, English techniques and skills, English labor, and English goods penetrated into the whole world.

Thus was brought to an end the manufacturing monopoly of England and with it the near approach to world-wide free trade based thereon. On the Continent and in America, British industry was now confronted with vigorous national competition. The rising industries of these newly industrialized countries very naturally sought and obtained the protection of a tariff wall surrounding the home market. Thus emerged in the closing decades of the nineteenth century a growing tendency toward economic nationalism. This was the inevitable by-product of the expansion and diffusion of the new industrial

technique to other parts of the world. The ensuing intensified nationalism steered headlong into the World War, and the disturbance following therefrom in turn enormously reinforced the trend toward highly nationalistic policies.

But while the very process of industrial diffusion and the industrialization of backward countries may, indeed, lead ultimately to greater national self-sufficiency, the transition stage, nevertheless, gives rise, for a time, to a large measure of economic interdependence and international trade. For this reason alone, world trade will, of necessity, continue on a considerable scale in the decades immediately before us. The industrialization of the world cannot take place without vast exports of capital from the more advanced industrial countries, and this implies, of necessity, a corresponding movement of goods. The transition to national self-sufficiency requires for its fulfillment a large measure of international trade, and especially the export of producers goods. Thus, while the exports of consumers goods from Great Britain, Germany, and the United States increased only 130 per cent from 1880 to 1913, the exports of producers goods increased 460 per cent. From 1913 to 1929 the exports of consumers goods from these three countries increased only 40 per cent while those of producers goods increased 100 per cent.¹ In passing, it may be noted, moreover, that from 1880 to 1913 the quantum of world trade increased at the rate of about 3.2 per cent per annum, approximately the same as (or possibly slightly in excess of) the rate of increase in world production.²

B. SCIENCE AND TECHNOLOGY

In the meantime, the advance of science and technology had begun to undermine some of the foundations upon which the localization of industry in the nineteenth century rested. We know that the situs of coal deposits, for example, was an important factor in the localization of important industries. But the current development of electrical power introduces a new factor. The sources of power are now more widely diffused, and, in addition, power resources, whether water or coal, can now be transported via electrical energy great distances at low

¹ Cf. Ernst Wagemann, *Struktur und Rhythmus der Weltwirtschaft* (Berlin, 1931).

² Cf. *World Economic Survey, 1931-32*, League of Nations.

unit costs. It is believed by many—the evidence thus far is certainly inconclusive—that the development of electrical power may become an important factor tending toward the decentralization of industry and toward greater national and local self-sufficiency.

There can be no question that the known and developed mineral resources are now more widely scattered than fifty or seventy-five years ago. While 75 per cent of the coal is produced in the United States, Great Britain, and Germany, a considerable volume is mined in eight countries, as follows: France, Russia, Japan, Belgium, India, Czechoslovakia, Australia, and China. Crude petroleum is produced in important quantities in eight countries: United States, Venezuela, Russia, Persia, Netherland Indies, Rumania, Mexico, and Colombia. The United States, however, dominates, with almost two-thirds of world production. The United States and France produce 70 per cent of the iron ore, but a substantial volume of output occurs in Great Britain, Russia, Luxembourg, Spain, and Sweden; and substantial known reserves exist in Brazil, Newfoundland, and Cuba.

In other minerals, production is fairly decentralized, with seven countries producing bauxite ore: France, Hungary, United States, Dutch and British Guianas, Italy, and Yugoslavia. Eight countries, United States, Mexico, Australia, Canada, Spain, Germany, Burma, and Belgium, produce substantial quantities of lead, the first three named supplying over one-half the total. Of zinc 80 per cent is produced in United States, Germany, Belgium, France, and the United Kingdom, but supplies of this metal are widely scattered. In copper, while 75 per cent is produced in the United States, Chile, Africa, and Canada, there are seven fairly important producing countries, including Japan, Mexico, Russia, Peru, Spain and Portugal, Germany, and Yugoslavia. The production of tin and nickel is perhaps the least scattered. Three-fourths of the total tin production is in Malaya, Bolivia, Netherland Indies, and Siam. In the case of nickel, practically all production is concentrated in Canada with a small amount found in New Caledonia.

There remains sufficient concentration of mineral products in Europe and North America to impose severe limits upon the trend toward nationalism and self-sufficiency. As far as one can

now see, one encounters here a bedrock foundation for the continued industrial supremacy of these areas.

The rise of modern chemistry and the development of cheap fertilizers has made possible the growing of grains at relatively small disadvantage in regions by nature not well adapted to such uses. With the aid of her great chemical industry, Germany has reached (under high tariff protection, it is true) a position of virtual self-sufficiency in food—a prospect not dreamed of by any statesman two decades ago. Modern chemistry is in process of making us less dependent upon certain organic raw materials which because of soil or climate were localized in special areas.

On the other side, one cannot overlook the fact that the advance of science and technology has opened up important new outlets for foreign trade. It is sufficient in this connection to point to the enormous importance of new industries and new products—motor cars, petroleum products, electrical equipment, rubber, machinery, radio sets, cash registers, sewing machines, typewriters, photographic goods, chemicals—in our own foreign trade.

It may be, as suggested in a recent report of the League of Nations,³ that international trade (before the depression) was tending toward a greater interchange of manufactured goods, and was becoming less dependent upon the exchange of manufactures for raw materials. The advance of science and technology must of necessity change the structure of international trade, but this does not necessarily mean that trade between nations will become of less importance in the world economy. With rising standards of living, the increased consumption of mass production goods in the poorer communities and of specialized quality products in the richer countries is likely to maintain or even increase the volume of world trade.

It is, therefore, by no means clear what the *net* effect of the advance of science and technology on international trade may be. Science can minimize the inconvenience which results from the curtailment of international trade, but there is no convincing evidence thus far that it tends to diminish the advantages which follow from an interchange of goods and services between the nations of the world. Science does not render international

³ *World Economic Survey, 1932-33*, pp. 207-08.

trade unimportant, but it does render the program of self-sufficiency easier if a nation has the determined will to strive toward the realization of that goal.

C. NATIONAL SECURITY

In consequence of the experiences of the war, there has developed in many countries a craving for the utmost measure of self-sufficiency as a means of national security. War engenders, of necessity, an intense political nationalism. This in turn develops and strengthens the trend toward economic self-sufficiency. One can well understand that Germany, starved into submission by the war and the post-armistice blockade, is willing to pay a very considerable price for self-sufficiency in food and the essentials of national defense. Even England, threatened with quick annihilation in the event that her navy could not keep the seas open, has for the first time in a hundred years acquired a frame of mind tolerant to the protection of British agriculture. There are, of course, also important economic considerations, growing out of changes in the structure of world trade, which dictate this new British policy.

A strong impulse was thus given in many countries to develop those industries which were important for the feeding of the population and for the manufacturing of munitions and of other war materials. This meant a more or less drastic re-orientation of the productive channels, of capital investment, and of the use of natural resources. In some countries it meant a forced industrialism and in others the development of agriculture on an uneconomic scale. Vested interests were thus created whose very existence supported those who wished on other grounds to achieve and maintain economic self-sufficiency.

One is compelled, moreover, to note that modern communities, suffering from economic instability, appear to be willing to make considerable sacrifices of economic progress and even of real income in the interest of greater economic security.⁴ Nor is it clear to the mass of the population that the international exchange of goods is of great significance for the maintenance of a high standard of living. Modern communities are profoundly impressed by a sense of great productive power and

⁴ This willingness is indicated by the numerous institutional controls designed to promote security. Doubtless the deliberate choice between progress and security is seldom consciously made.

capacity. They do not feel impoverished by any lack of things which in their view they cannot themselves produce. They stand aghast and horrified at the failure of the great giant industry to function swiftly and continuously, and many have the suspicion that international complications and entanglements, which might have been avoided, are in part to blame. In any event the belief is widespread that a reorganization of the internal system of production is far more important for the achievement of a high standard of living than is the maintenance or revival of international trade.⁵

It is quite understandable, especially under modern conditions, that this should be the view of the great majority of modern nations. It is quite natural for a people to wish to produce at home everything that it is possible, within reason, to produce. The economic law of comparative advantage is not easily understood, the repercussions upon the domestic economy of international policies that cause international strain are not readily traced to their intricate and obscure causes. It is not to be wondered at that the practical man in the street turns aside from these difficult speculations and seizes firm hold of benefits that lie close at home. Politicians everywhere find it difficult to get votes for an international program but can easily insure an election on domestic slogans.

D. ECONOMIC PLANNING

An additional impetus was given to economic nationalism by the war accentuation of the tendency toward economic planning.⁶ A war economy is, of necessity, a planned economy. It subordinates the working of the economic system to one supreme objective, and all the factors of economic life become so organized as to insure the fullest possible realization of this objective—the preservation or aggrandizement of the nation. This means the subordination of everything else to one aim, regardless of the hardships and regimentation it may entail.

⁵ Colonel Malcolm C. Rorty, in *Economic Forum*, Winter Number, 1934, argues that the total economic loss which can be imputed to a distortion of our economic organization by existing high tariffs does not exceed one-third of 1 per cent of our national income.

⁶ Note should also be made of an important pre-war political drift toward economic planning revealed in the development of governmental regulatory commissions, in the rigorous control or government ownership of public utilities, and in the general spread of *Planwirtschaft* ideas inherent in the social-democratic movement, notably in Germany.

Every war is, of necessity, accompanied by a more or less developed form of economic planning. But in the World War planning developed on an enormous scale, and after 1918 large sections of the community remained under its spell.

The coming of the depression revived and intensified the tendency toward economic planning throughout the world. And economic planning, in the current disjointed world economy, fosters economic nationalism. Domestic planning must of necessity not merely stop at the frontiers, it must defend those frontiers from international disturbing influences that may endanger the success of internal economic planning. This is the meaning of Section 9e of the National Recovery Act. Not until international planning is fully unified with and recognizes the dominant requirements of national planning, can the antagonism between economic planning, as now practiced in many countries, and internationalism be wholly overcome.

E. THE WAR UPHEAVAL

We have noted the background of the trend toward economic nationalism. Yet it is scarcely likely that we should be speaking of autarchy at all at the present moment had it not been for the international tangle created by the war and its aftermath, and especially by the devastating depression of the last four years.

The war caused profound disturbances in every phase of international economic life—trade, money, and finance. The upheaval was so terrific, the impact upon the international balance so disrupting, that the world economy did not, in point of fact, prove sufficiently flexible to make the necessary adjustments without a serious breakdown.

Consider first the disturbance to international trade. We need not here go into detail. A single specific illustration—and one of tragic significance and importance for the United States—will suffice. We refer to the astounding record of the physical volume of American agricultural exports from 1914 to 1933. In terms of quantity the exports of all agricultural commodities (cotton excepted) were 2.5 times greater in 1918–19 than the annual average for 1910–14. From this high point there was a continuous decline until by 1930–31 the total quantity exported had again reached the pre-war level. In

1918-19 the exports of dairy products were nearly 13 times greater, meat and grain exports nearly three times greater than in the pre-war period. These excess exports of American farm products filled the gap in European production; on the other side, the decline of exports since 1919 is correlated with the prodigious rise of European output in the post-war period.⁷ The dislocation of American agriculture caused by this colossal export rise and decline illustrates vividly the far-reaching war and post-war disturbances to international trade, which have played such havoc in the various national economies.⁸

The upheaval in international finance caused by the war is revealed dramatically in the sudden shift of the financial positions of Germany and the United States. Germany, a seven billion dollar creditor nation with a net excess of imports, was suddenly transformed, by the loss of her foreign investments and the imposition of reparations, into a debtor nation on a scale unprecedented in all history. This revolution in her international financial relations called for a shift in her trade balance. The international price system, obstructed by trade barriers and other regulations, was not sufficiently flexible, however, to produce rapidly the net excess of German exports required. Instead, her international accounts were balanced by vast private borrowings abroad.

The reverse of this situation occurred in the United States. In consequence of the repatriation of domestic securities held abroad, of new private investments abroad, and of the inter-governmental war loans, the United States was transformed from a debtor country of five billion dollars to a giant creditor

⁷The following table gives the relative changes in the physical volume of exports:

VOLUME OF AGRICULTURAL EXPORTS
1910-14=100

Year Ended June 30	All Com- modities	Grains and Grain Products	Livestock and Livestock Products	Dairy Products	Tobacco	Cotton	Fruit
1910-14	100	100	100	100	100	100	100
1918-19	145	272	287	1287	160	65	111
1928-29	117	174	102	943	144	99	372
1932-33	84	40	63	74	102	100	255

⁸Attention should also be called to the pre-war decline of agricultural exports from 1900 to 1914. The war upheaval interrupted, for a period, this long-run tendency. See E. G. Nourse, *American Agriculture and the European Market* (New York, 1924).

nation. A country long accustomed to a net excess of exports⁹ now faced the task of effecting a passive trade balance—a net excess of imports. Again trade barriers, and rigidities in the international structure, prevented a flexible adjustment. Instead the gap was temporarily bridged by a vast flood of foreign investments and by gold imports. In brief, the international exchange of goods and services, largely, to be sure, because of the governmental policies pursued, proved unable to adjust itself to the titanic international redistribution of the world's wealth occasioned by the war and its settlement.

The war destroyed, moreover, the international gold standard. The paper currencies, adopted during the war, brought a world-wide inflation of prices, varying in degree in different countries. The paper money countries dumped their gold stocks mainly on the United States. Struggling with the problem of returning to gold after the war, the European nations were confronted with a serious maldistribution of the world's monetary gold. To meet these difficulties the gold exchange standard was developed on a wide scale. The new international monetary system was reconstructed on a price level some 40 per cent higher than that of the pre-war period. This uncertain monetary structure, erected on stilts, crashed under the impact of non-monetary disturbances which were partly technological in character and in part arose from maladjustments in international trade and capital movements.

It should be added that the war doubtless stimulated the development of industrial technology. Some of the fundamental inventions, the new products, and new techniques, which had so large a bearing upon the post-war years, were highly perfected during the war and by 1918 a tremendously strong impulse for further technological development was present. The world came out of the war, not only with disrupted international economic relations, but with the germs of far-reaching developments in technique which in turn had serious repercussions upon the world economy.

To ascribe the whole responsibility for the depression to the World War is, of course, not correct. In considerable measure,

⁹ Unless merchandise exports and imports are explicitly referred to, the terms "exports" and "imports" will be used throughout in a special sense, including services as well as goods, but not including interest and dividends on foreign capital investment.

a business depression is a national problem. But the effects upon the national economy of mistakes committed in international economic relations proved to be decisive factors in bringing about the collapse. The policies pursued after hostilities were over not only failed to correct the maladjustments of the war years, but in many cases created new and dangerous disequilibria. Hence the lesson that a wise national economic policy must consider very carefully the national implications of its international economic relations.

F. THE INFLUENCE OF THE DEPRESSION UPON THE MOVEMENT TOWARD SELF-CONTAINMENT

The terrific impact of the depression greatly strengthened the trend toward economic self-sufficiency. The tariffs enacted in the early post-war period were already high. Leading European countries passed tariff measures in 1920 and 1921. The American tariff acts of 1921 and 1922 raised the level of rates on dutiable commodities from an average of about 20 per cent to an average of about 40 per cent.¹⁰ The new states, emerging from the dismemberment of old established empires, erected tariff walls. The new industries of backward countries, born and developed during the wartime derangement of trade, sought shelter from the competition of the established industrial nations. Moreover the World War had fanned into a burning flame the spirit of intense political nationalism. After the war this spirit found expression, in part, in a drive for economic self-sufficiency. Tariff schedules, particularly on industrial commodities, were being raised throughout the world. In 1925 Germany reimposed her pre-war tariffs on agricultural commodities. The movement for the protection of agriculture gained ground also in France and Italy and became a leading factor in the failure to arrest the upward trend of trade barriers.

In the brief period of world-wide prosperity from 1925 to 1929, it seemed as if the broken international structure was gradually being repaired. The trend toward economic national-

¹⁰ The rise in the level of rates was of course partly due to the fact that lower prices had the effect of increasing the real burden on commodities upon which specific, in contrast with ad valorem, duties were levied. However, the Underwood Tariff of 1913, in effect until 1921, represented a downward revision of the tariffs which had immediately preceded it, but this 1913 tariff had been largely ineffective because of the war.

ism was halted but not reversed. The World Economic Conference of 1927 sought to strengthen and solidify the basis of international relations. It recommended a general world-wide downward revision in tariffs. It was hoped that this might be accomplished through the making of general commercial treaties, through multilateral agreements, bilateral arrangements freely generalized to all nations, and even by unilateral tariff reductions by separate countries. Many new commercial treaties were, indeed, ratified. The unconditional most-favored-nation treatment was made increasingly a guiding principle of international trade relations. Some multilateral agreements with respect to specific commodities were made. Yet while the years 1927 and 1928 may be characterized, for the most part, as a period of relative tariff stability, the upward protective trend was quickly resumed. Germany sharply increased the duties on agricultural commodities in 1929 and again in 1930. The Hawley-Smoot Tariff Act of 1930 accentuated the movement in other countries. New, and in part retaliatory, tariff acts followed quickly in Canada, the United Kingdom, France, and other nations. By 1932 tariff increases had occurred in practically every country in the world. Not only were tariff schedules raised, but changes creating a high degree of uncertainty were introduced with great frequency. In some countries sliding-scale rates were introduced whereby the duties were automatically increased with every further fall in prices.

Had prosperity survived, the spirit of internationalism might well in a few years have been materially strengthened. But the depression turned the tide. The trend toward autarchy was enormously intensified. In 1930, at the very beginning of the depression, the Tariff Truce Conference, held under the auspices of the League of Nations, attempted to stem the current of protectionism. But its recommendations were never put into effect. Instead, the depression carried trade barriers to heights never before dreamed of. Falling prices, unemployment, gaps in the balance of international payments, the menace of exchange dumping, the determined will to protect the stability of the currencies proved to be irresistible forces bringing in their train an avalanche of trade restriction measures unprecedented in severity and scope.

Direct methods of restricting imports were inaugurated. Milling regulations requiring a certain proportion of home-grown grains, linked-purchase regulations requiring for every import a certain proportional purchase of domestic products, were introduced. Imports were definitely limited to quotas¹¹ adjusted from time to time by a cumbersome system of administration. Sanitary restrictions, ostensibly health measures, were tightened. Import monopolies were erected by certain governments. Exchange controls,¹² assigning fixed supplies of foreign exchange to importers and granting exchange only for essential imports, and the like were established. Transfer moratoria and blocked accounts which tied up funds in foreign currencies became widespread in Central and Southeastern Europe and in Latin America. Clearing and compensation agreements and barter¹³ arrangements were negotiated under which an effort was made to hold the imports and exports between specific countries, or groups of countries, in balance.

Thus, under the impact of the depression, we have reached a stage in the world's history quite unique from the standpoint of international commercial policy. From a mere tariff subsidy to aid and protect certain domestic industries, the goals aimed at have shifted to the protection of the balance of payments, the stability of the currency, and even to the more ambitious

¹¹ The quota system was first introduced in France. It is limited largely to European countries. The abandonment by England of the gold standard in September, 1931, and the sharp decline in the foreign exchange value of sterling, and in the currencies of other countries which joined the sterling area, threatened the trade balance of countries remaining on the gold standard. These countries were threatened with a serious dilemma. Three choices were open to them: (1) to depreciate their own currencies; (2) to deflate costs and prices sufficiently to offset the depreciation of the sterling area (and suffer the consequences in unemployment and economic demoralization incident thereto); (3) to set up protective devices to shield their domestic economies from the cutthroat price competition of depreciated currency countries. On the Continent of Europe, led by France, the third course (coupled in part with the second) was largely adopted.

¹² Exchange control has been instituted in the following countries in Europe and Latin America: Europe—Austria, Bulgaria, Czechoslovakia, Denmark, Estonia, Germany, Greece, Hungary, Italy, Latvia, Norway, Portugal, Rumania, Spain, Turkey, and Yugoslavia; Latin America—Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Honduras, Nicaragua, Paraguay, and Uruguay.

¹³ The following is a list of countries having clearing agreements. The figure given in parentheses indicates the number of clearing arrangements made: Germany (28), Greece (20), France (14), Yugoslavia (12), Austria (12), Chile (11), Hungary (11), Czechoslovakia (10), Switzerland (9), Rumania (8), Italy (8), Belgium (8), Spain (7), Bulgaria (6), Poland (5), Argentina (5), Latvia (4), Denmark (4), Estonia (4), Norway (4), Sweden (4), Netherlands (3), the United Kingdom (3), Portugal (1), and Finland (1).

program of autarchy or self-sufficiency.¹⁴ This presents a wholly new international problem.

Quota restrictions, barter arrangements, clearing and compensation agreements, exchange control, government trading monopolies, import control boards, and complicated bilateral trade agreements involving not only tariff schedules but also the allocation of import quotas and regulations with respect to the control of foreign exchange, the liquidation of debts, and the financing of future trade—all these present a picture of a world moving more and more toward a regimentation of international trade and finance.¹⁵ Under the impact of this powerful movement toward controlled or regulated trade, the principle of equality, best exemplified in the unconditional most-favored-nation treatment, is being superseded by the principle of special bargaining and special advantage.

The result can be no other than a profound readjustment in the structure of world trade. World specialization is undergoing a change of major proportions. Farm surpluses, created partly by technological developments, partly by the post-war maladjustments, and intensified by the depression, are being added to by this drive toward agricultural self-sufficiency of the industrial nations. Output thus has to be curtailed in the countries best endowed by nature to produce these products. The effect of this dislocation of international specialization is clearly revealed in the enormous price differentials between exporting and importing countries in such commodities as wheat, pork, and lard.

As a necessary corollary of this development, duplicate manufacturing plants are being erected at high cost in the backward countries at the very moment when the factories of the highly industrialized nations are unable to find a market. The final result of these developments, unless the tendency toward autarchy is checked, must inevitably be a reorientation of world

¹⁴ Germany, the leading example, is surrounding herself with a growing system of quantitative restrictions on international trade. This is leading to a highly regimented economy with elaborate control boards and governmental monopolies reminiscent of wartime. Economic self-sufficiency for Germany means a drastic decline of her export industries, a forced redistribution of the population from the great cities to the land, and it has already brought legislation tending to tie the peasant to the soil, restricting his freedom of movement.

¹⁵ Such regimentation of foreign trade inevitably leads to an extension of internal planning and control. Imported raw materials must be allocated to the various domestic industries on a priority basis. Thus in an ever widening circle the system drives on to a control of the whole process of production.

trade to an exchange of those indispensable commodities that cannot be produced in the home country or cannot be produced except at prohibitive cost.

Yet in the face of all the artificial trade barriers which have been erected, international trade exhibits astounding vitality. It is true that the money value of world trade declined from 1929 to 1932 by 61 per cent, but it is too frequently overlooked that the leading factor in this decline was the fall of export and import prices. The *physical* volume of world trade declined 27 per cent while world industrial production declined about 35 per cent. Since, however, agricultural output remained about constant it is clear that the quantum of world trade declined somewhat more than world production.¹⁶ The relatively small decline in the ratio of world trade to production despite the mass of artificial restrictions imposed, indicates how indispensable foreign trade is and how high the utility of foreign goods to the importing countries. International trade has, however, not increased in proportion to the gain made in production since 1932.

If we look at individual countries we find that for England and France the decline in the quantum of exports was considerably greater than that of industrial production, for the United States only slightly greater, while in the case of Germany physical exports and industrial production declined at about an equal rate. In all these countries quantity imports declined much less than quantity exports.

The marvelous tenacity of world trade, measured in physical units in relation to total production, despite the trade restrictions imposed, makes one very skeptical of the hasty conclusion that world trade is largely a thing of the past and can never in any event be returned to its pre-depression level. The restless energy and initiative of private enterprise finds unsuspected outlets for foreign trade even when confronted with an intricate tangle of restrictions and barriers.

G. REGIONAL GROUPINGS

The repercussions of the cumulative effect of growing trade restrictions upon the domestic economy has led countries, strug-

¹⁶ The point must not, of course, be overlooked that the drastic decline of world trade was itself one of the powerful factors causing the unprecedented decline in world production.

gling so to speak for breathing space, to look for some measure of relief in political or regional groupings.¹⁷ The best illustration is the Ottawa Conference of 1932, which established a system of preferential rates within the British Empire. These agreements represent the highest development thus far. Some attempts elsewhere are, however, at least indicative, although the results achieved hitherto are negligible. Among these may be cited as an example the Oslo Convention of 1930, including the three Scandinavian countries, Holland, and Belgium, involving consultation with each other with respect to contemplated tariff changes; the various conferences between the agricultural countries of Eastern Europe; the preferential agreements made by Estonia with Latvia, Lithuania, and Finland; the abortive Ouchy Agreement of 1932 between Belgium, Holland, and Luxembourg, providing for a progressive tariff reduction of 10 per cent each year on imports between the contracting parties until a 50 per cent reduction is reached; and the recent three-cornered agreement between Italy, Austria, and Hungary providing for the exchange of certain commodities and a 10 per cent tariff reduction on goods imported into Austria and Hungary through Trieste and Fiume.

II. THE DIRECTIONS AND CONSEQUENCES OF POST-WAR AMERICAN POLICY

Following a period of relatively low tariffs, the United States introduced in 1861 a highly protective system. Except for the low tariff of the Wilson administration, which however was made ineffective by the war, the policy of high tariffs introduced in the sixties has been persistently adhered to. The period of relatively free trade before 1861 was particularly suitable to the essentially agricultural character of our economy and to our position as a borrowing country. The high tariff policy beginning with 1861 was designed to foster the development of manufacturing. A decade or so after the inauguration of the system of high protection, the growing interest payments due on past borrowings from abroad began to overshadow our new borrowings. In her international financial relations the United States had entered the stage of a mature debtor country. Large annual interest charges were due on the foreign capital invested

¹⁷The term "regional" is not always apt, but it is difficult to find a better one.

here. These interest payments were paralleled more or less closely by the excess of merchandise exports which became the normal characteristic of our foreign trade during the forty years preceding the World War.

The tradition of protectionism and of an excess of merchandise exports had become deeply ingrained in the minds of the American public. Had the World War not come, the inevitable transition from a debtor country to a lending country and finally to a creditor country (one having a net inflow of interest and dividend payments on foreign investments), the day-to-day adjustment toward an excess of imports of goods and services,¹⁸ would have come piecemeal and by slow gradations. In consequence, no violent public reaction would likely have been registered against the inevitable emphasis on imports.

The war, however, thrust us into a creditor position almost overnight. It could not reasonably be expected that an import psychology could at once be developed. Social institutions change slowly and even under normal processes of evolution tend to lag behind fundamental changes in the basic technological and economic data. Taking a realistic view of social forces, one can scarcely escape the conclusion that the abrupt shift from a debtor to a creditor position could have had no other outcome than an irreconcilable conflict between hard economic realities and our prevailing political psychology toward international economic relations. In consequence we reached, perhaps inevitably, the impasse to which the policies of the decade of the twenties brought us. The tradition of prohibition or restriction of imports, and of emphasis on exports, continued.

Moreover the post-war business psychology and sales methods favored the sale of goods on credit. Internally, installment selling achieved a quite new position in sales technique. Real wages did not rise in due proportion to increases in productivity. The total wages and salaries paid out in manufacturing, public utilities, and mining were \$21,310,000,000 in 1923 and increased to only \$22,837,000,000 in 1929, while total wages and salaries in all lines of economic activity increased from

¹⁸ Under the term "services" as here used, interest and dividend payments on foreign investments are excluded.

\$42,893,000,000 in 1923 to \$52,793,000,000 in 1929.¹⁹ On the other hand the figures of the Federal Reserve Bank of New York for about five hundred corporations show an increase of net profits from \$2,480,000,000 in 1926 to \$3,347,000,000 in 1929, while the net profits of all corporations increased from \$6,640,000,000 in 1923 to \$9,130,000,000 in 1929.²⁰ Higher wages and lower profits, instead of the extravagant program of installment selling, would have contributed to the maintenance of business stability in this decade.²¹ And just as installment selling in the domestic field was substituted for an appropriate increase in wages, so also foreign lending in the international sphere was substituted for the enlargement of imports implicit in our new creditor position. The lack of balance, both internally and externally, was covered up temporarily by debt creation both at home and abroad.

Obviously, there was no conscious planning leading to this dangerous solution. International trade and international financial transactions seldom flowed through the same channels. But vast capital exports did nevertheless sustain an expanded foreign market for American goods. It was an artificial market, and our production plans were consequently based on illusory data. They served to "distort the judgment of individual producers of different kinds of goods as to the true eventual market."²² A combination of circumstances, rather than conscious planning, accounts for the fact that capital exports bridged the gap created by the co-existence of a creditor status and an export surplus. The vast gold stocks and the flow of gold to the United States created enormous possibilities for credit expansion. At the same time Europe was, after the war and during and after the inflation period, poor in capital, and money rates

¹⁹ See *National Income, 1929-32*, Senate Document 124, 73 Congress, 2 session; W. I. King, *The National Income and Its Purchasing Power*.

²⁰ See *Statistical Abstract, 1933*, p. 272; and *Bulletin 50* of the National Bureau of Economic Research, p. 2. The figure for all corporations excludes tax-exempt corporations and life insurance companies. There is some evidence which indicates that the increase in profits was, in part, a rebound from the relatively low (compared with pre-war) level of profits in 1919-23.

²¹ I do not regard the distribution of income, as such, to be of fundamental importance to business stability. But a violent *change* in income distribution, particularly a huge growth of profits, causes overinvestment and maladjustment in the capital market. From the standpoint of business stability, what is wanted is a condition of equilibrium in income distribution. A more equal distribution of income may, however, be desirable on its own account.

²² Statement by Secretary Wallace in the New York Hearings of the Commission.

were extremely high, often because of the risk involved. But the American investor was eager for the high interest rates and the possibility of making a "good investment." And few bothered much about the consequences or the meaning of our large foreign loans.

The development of our foreign trade in the twenties was therefore not the result of a normal exchange of commodities and services between nations but to a large extent the consequence of huge international loans. For this reason it rested on insecure foundations. Any disturbance to the flow of capital would of necessity overthrow this unstable equilibrium and permit the cumulating maladjustments to take their course.

It is to be noted, moreover, that the decline of unit labor costs incident to the improvement in technique and the stability of wages served also to intensify the international disequilibrium, enabling, as it did, the United States to sell some commodities widely in other countries, thereby increasing the volume of exports in relation to imports and making our creditor position still more untenable.

Confronted with the crisis thrown up by the war—the disturbed trade relations, the monetary upheaval, and the strained debtor-creditor relations—the United States was suddenly forced to play a leading rôle in international economic affairs without adequate experience, training, or tradition. Standing between the agrarian and the older industrial countries, she occupied a peculiarly difficult position. As a large exporter of both agricultural and manufactured products her economic prosperity was affected by the fortunes both of the agrarian and the industrial nations. She was led to make large loans and investments in both the industrial and the nonindustrial countries. The loans to Europe, while an almost inevitable consequence of the war, proved particularly embarrassing, since the goods which those countries wished to present in payment were in considerable measure competitive with her own products. Certain it is that the national policies pursued by the United States since 1920 led to disquieting results in terms of international disequilibria and domestic structural changes, notably those affecting agriculture.

I do not wish to suggest that the depression which we have suffered in the last four years, and are still suffering, had its

roots wholly in international disequilibria and the profound structural changes in our internal economy imposed by our post-war international economic relations. I do believe, however, that these international factors were of major significance. Nor do I wish to imply that the policies of the United States were alone at fault. Various nations contributed to the general ruin with varying degrees of guilt.

More specifically, the importance of tariff policy can easily be exaggerated. A candid view of all the facts leads, in my view, to the conclusion that a more enlightened tariff policy, in the decade of the twenties, could not alone have prevented the collapse. There were too many disturbing factors of overwhelming significance, too many rigidities in the economic structure, other than trade barriers, to permit the necessary adaptation to the changed conditions.

Brief mention of the major structural derangements, disrupting forces, and resistances to necessary readjustment must, at this point, suffice:

1. The development of agricultural surpluses,²³ partly due to the recovery of European production after the war, partly a result of the relative decline in the demand for cereals, and partly due to technological and chemical developments which expanded acreage and increased output, caused a disequilibrium in the international balance of payments between agricultural and industrial countries. Admittedly this development was intensified by the erection of agricultural tariffs in the industrial countries.

2. The war debts and reparations contributed to an unhealthy relation between debtor and creditor countries and made difficult proper adjustments in the international balance of payments.

3. The international movement of capital, both long-term and short-term, assumed abnormal proportions.²⁴ Foreign lend-

²³ Some farm surpluses were temporarily increased by attempts at price control, such as the Canadian Wheat Pool and the Federal Farm Board.

²⁴ It should be noted that the gross foreign investments far exceeded the amount necessary to balance our accounts. From 1923 to 1929 our gross foreign investments amounted to \$7,140,000,000, of which about 82 per cent was on long term. Offsetting this were counterinvestments by Europeans in the United States of \$4,568,000,000, of which more than one-half was on short term. Capital movements in abnormally large volume were going both ways. In effect about two-thirds of our investments abroad created dollar exchange, enabling foreigners to purchase securities in the American market and to accumulate short-term balances in this country.

ing and investment were indeed stimulated in part by tariff policy, but also in large measure by other post-war policies, notably the reparations payments and the intergovernmental war debts.

4. The maldistribution of gold occasioned by the war presented a difficult problem. It is of course true that this bad situation was made worse by post-war tariff policy.

5. The return of gold at wrong parities, French undervaluation of the franc, and British overvaluation of the pound, created a serious disequilibrium in international economic relations.

6. The failure of the international price system to function effectively, because of cost rigidities and control of price levels, intensified the post-war difficulties under which the reconstructed gold standard was operating.

7. Unsound investment and commercial banking policies, and Federal Reserve policy, made the economic structure extremely sensitive to disturbing forces.

8. The speculative American capital market of the late twenties, closely associated with an undue profit inflation, enormously intensified the tendency toward overinvestment, and played an important rôle in bringing about a sudden cessation of foreign lending.

From the standpoint of international economic relations certain dominant facts loom large in significance. They are: (1) the difficulty of the debtor countries to make payment in goods, owing to increasing tariff barriers and other trade restrictions; (2) the drain of \$1,375,000,000 of gold into the United States in the decade 1921-30; (3) the concealment of the underlying disequilibrium by the overdose of foreign lending, which in turn was stimulated by easy domestic credit conditions (partly due to the effect of the gold inflows on the reserves of the commercial banks, and at times to Federal Reserve Bank policy).

Thus the problems of trade, money, and loans were inextricably interwoven, and with fatal consequences. These consequences may briefly be recounted: (1) the breakdown of the gold standard, first in agrarian debtor countries, and finally in those industrial countries most vulnerable either because of lack of balance in their international accounts or because of the illiquid and insolvent position of the banking structure; and (2)

the disastrous fall in world prices consequent upon the damming up of agricultural and other surpluses, the deflationary pressure of depreciated currencies upon gold standard countries, and the liquidation of unsound banking assets. Here, in brief, are the major causes and consequences of the devastating international disequilibrium which underlies the unprecedented world-wide depression.

The causes of the world-wide collapse are, therefore, numerous and varied. Among them a restrictive tariff policy did indeed play a disturbing rôle. A more liberal tariff policy could have minimized the international strain measurably. With lower tariffs and a correspondingly larger volume of internationally traded commodities, the price mechanism could have functioned more effectively. A large volume of world trade relative to the flow of international capital is of great stabilizing value, because with broader channels of trade, strains cannot accumulate so seriously as when the channels of trade are narrow. The larger the volume of world trade, the easier it becomes for the price mechanism to restore a balance once disturbances, always arising in a highly dynamic world, have developed. No international monetary system can work in a world economy in which measures are progressively taken to shut off imports, while at the same time capital movements are taking place on a scale so huge that any sharp curtailment of foreign lending would cause gaps in the balance of payments of debtor countries of such proportions that they could not readily be filled by the equilibrating items—gold movements and short-term lending.

Not only would a more liberal tariff policy have eased off the strains in the post-war period, it would also have prevented some of the disrupting factors themselves. The high tariff walls throughout the world stimulated the erection of American plants abroad and thereby contributed to an excess of foreign lending. Here indeed the tariff policy of foreign countries was chiefly responsible, but the American tariff policy may indirectly have stimulated high tariffs elsewhere. Moreover, the post-war policies of the United States and other countries gave Germany, in particular, a popular argument which ran somewhat as follows: "We must develop an excess of exports in order to pay reparations. Our exports are checked by foreign

tariffs. Therefore we have no alternative; we must raise our agricultural tariffs, thereby check our food imports, and so produce a favorable balance of trade." Finally other arguments, such as that of national defense and the necessity of protecting the agricultural classes, served to raise European tariffs against farm products. These high tariffs contributed, along with other factors, to back up huge surpluses in the agricultural countries. Ultimately these surpluses broke through in a calamitous decline in raw material prices, and this in turn, along with the cessation of foreign lending, smashed the foreign exchanges in the agricultural debtor countries.

Thus the post-war tariffs profoundly intensified in two ways the disequilibrium which cumulated in the decade of the twenties: (1) they stimulated the flood of foreign investment; (2) they accentuated the raw material surpluses.

It is not difficult after the event to see that the United States was living, in the post-war decade, in a state of economic illusion. Very serious maladjustments underlay our economic structure, but they were camouflaged, covered up and obscured by illusory conditions which misled the public and their leaders and gave a false sense of security. There was disequilibrium in the balance of payments with the outside world. This problem was never squarely faced. The unbalanced condition was concealed by an excess of foreign lending. There was a serious maldistribution in the world's gold supplies,²⁵ but this defect was patched up by the spread of the gold exchange standard to a large part of the world, a standard resting on weak and unstable foundations. There was the illusion that the post-war price level could be maintained by American credit policies, but the fundamental lack of balance between debtor and creditor nations, occasioned by reparation payments, war debts, tariff policies, and abnormal exchange parities, gradually undermined the world price level. The lack of balance between the exchange rates and price levels was obscured and covered up by international movements of capital and particularly by huge accumulation of short-term balances, giving temporarily an illusory appearance of a stability that did not exist. The lack of balance in the cost-price structure in the United States, occasioned

²⁵ This maldistribution was accentuated by the net imports of \$1,375,000,000 of gold into the United States in the decade 1921 to 1930.

by the rapid progress in technology and in management efficiency, and giving rise to an enormous profit inflation, was obscured by the relative stability of the American price level. Above all, an easy credit policy, based on an overabundant gold supply, and the consequent expansion of funds, finding an outlet into speculative ventures at home and an excess of lending abroad,²⁶ concealed the essential disequilibria which existed in the post-war decade in our economic relations with the outside world.

Consider, moreover, the trend of American policy during the depression. The Tariff Act of 1930, agitated and introduced in Congress at the height of prosperity, and passed before the depression had become serious, gave the signal for the collapse of the proposed tariff truce and became the starting point for the erection of a succession of trade barriers.

The first significant action of the American government which took cognizance of the international tension, of which the depression was in large part an expression, was the Hoover moratorium — the beginning of the cessation of reparation payments and finally of token payments, and of defaults on war debts. The strain in the debtor-creditor relationship was thereby in some measure alleviated. The international chaos, however, became worse in other directions. Finally, with the abandonment of the gold standard by England and by the coterie of countries that attached themselves to sterling, the full impact of the havoc wrought to the world economy by the wrong policies pursued in the twenties descended upon the United States.

The terrific deflationary effect of these depreciated currencies, and the ensuing tightening of trade restrictions, upon security and commodity prices in the United States and in other gold standard countries, made urgent a World Economic Conference to stabilize the exchanges and liberalize commercial policy. The United States cooperated in 1932 with other na-

²⁶ The dollar exchange supplied through these loans was used, in part, by foreigners to pile up short-term balances in this country. Among the many reasons for the development of these huge short-term funds were the greater security of the dollar compared with many foreign currencies and, toward the end of the period, the high call-loan rate in the New York Stock Exchange. It is clear that the excessive export of long-term capital facilitated the import of short-term capital. And this vast overhanging volume of short-term indebtedness became a serious menace in 1931 to 1933, when the wholesale withdrawal of these funds sharply accentuated the deflation.

tions in the preparation for such a conference, chief emphasis being placed by the American administration upon currency stabilization. Congress had earlier in the year passed a bill calling for an international conference on tariffs, but this bill was vetoed by President Hoover in May, 1932.

In brief, then, the Republican administration stood firmly by the highly restrictive Tariff of 1930, and to this extent maintained a nationalistic position. However, it sought relief from the international deflationary forces through the attempt to re-establish stability in the foreign exchange rates. This effort, together with the Hoover moratorium, looked toward an international solution of the depression.

For a short period the incoming Democratic administration, despite the abandonment of the gold standard in April, favored early stabilization of exchanges. Conferences were held with foreign ministers, and public pronouncements were made looking toward the re-establishment of fixed exchange rates based on gold. The Democratic platform demanded reciprocal tariff agreements with other nations and an international economic conference designed to restore international trade. Up to June, 1933, the outlook of the new administration appeared, for the most part, to lean in the internationalistic direction.

A sharp and dramatic change in policy came during the session of the World Economic Conference. It became evident that international cooperation looking toward a rapid rise in gold prices was not possible. A cardinal feature of the program of the new administration, however, was the early restoration of the pre-depression price level. The pursuit of this domestic goal could not, therefore, in view of the position taken by the gold standard countries, be harmonized with the stabilization of exchanges and the return to the gold standard. Thus the Roosevelt administration embarked upon a definitely nationalistic monetary policy.

Moreover, on tariff matters a more liberal international outlook was necessarily endangered by the passage of the National Industrial Recovery Act and the Agricultural Adjustment Act. To be specific, Section 3e of the National Industrial Recovery Act makes provision for added protection, through the imposition of fees superimposed on top of existing tariff rates or through import quotas or an import licensing system. Such

action may be taken by the President whenever it is shown that the higher costs imposed by the codes threaten undue foreign competition. The drift toward the nationalistic position is further illustrated in the Johnson Act, approved April 13, 1934, which prohibits the purchase or sale of obligations of any foreign government issued after the passage of the act while such government is in default in the payment of its obligations to the government of the United States; in the Joint Resolution of Congress, approved March 26, 1934, requiring that all products must be shipped in vessels of the United States in case the Reconstruction Finance Corporation, or any other instrumentality of the government, finances the exporting of such products.

While a counter tendency appears in the administration measure designed to promote foreign trade through reciprocal trade agreements entered into with foreign governments, under authority granted to the President, nevertheless it is clear that there is in Congress a strong undercurrent of opposition to international entanglements. Resentment at the situation created by the vicious international snarl, in which the post-war policies and the depression have enmeshed the world, finds expression in the United States as elsewhere in nationalistic policies. A curious contradiction appears, moreover, in the continued insistence by Congress that the war debts shall be paid. While supported by the nationalistic elements, this policy faces the dilemma that one cannot at one and the same time favor self-containment and also collect interest and principle from foreign countries.

We cannot blind our eyes to the fact that stubborn economic realities in our international relations still have to be faced. There is real danger that again, as in the decade of the twenties, we shall camouflage them by illusory solutions, this time of a different variety. The depreciated dollar gave us, to be sure, release from the depressional influences of other depreciated currencies and made it possible for us to embark without restraint upon programs designed to lift our price level above the world price level. But the dollar exchange rate has not been permitted to seek its own equilibrium. It has been artificially depreciated until it is undervalued²⁷—how much is difficult

²⁷ On this point there is difference of opinion, but the weight of competent opinion favors the statement made.

to say—in relation to the more important currencies of the world. On the other side, account must be taken of the great weight of the United States as a creditor country in the world economy; in this regard the net balance is improved by dollar undervaluation. Yet taking the world at large, and considering our international relations with respect to trade and monetary and investment matters, it appears scarcely open to question that the current dollar devaluation has brought a new international maladjustment. The undervaluation of the dollar has already drawn a vast sum of gold to the United States, thereby increasing still further our responsibility for the maldistribution of the world's gold. Moreover, the menace of trade competition incident to this undervaluation makes it difficult to attack effectively the problem of securing, through reciprocal arrangements or otherwise, a removal of the artificial trade and exchange restrictions of foreign countries.

It is a notable fact that from the beginning of the depression up to 1934 our international accounts were balanced, as in the fatal decade of the twenties, by an "export of capital." In the period of prosperity the capital exports were of long-term funds; during the depression they assumed, in large part, the form of withdrawal of short-term foreign balances held in the United States. During the post-war decade an enormous volume of foreign short-term funds, aggregating by 1929 more than \$3,000,000,000, had accumulated in this country. Throughout the depression our international accounts have been balanced by the foreign withdrawal of these assets until they have by now been reduced to \$500,000,000, a bare minimum necessary for normal trade and exchange transactions.

Now that these funds are gone, how shall we in the future balance our international accounts? The disquieting fact is that the gap in our trade balance has up to this moment not been removed. Capital movements and gold movements²⁸ have had to fill the gap throughout the depression even as in the period of prosperity. This is not a healthy situation or one that can continue to prevail. The necessary structural readjustment in our trade balance still has to be made.²⁹ If this is not done, if

²⁸ In the current year the enormous gold imports into the United States were in part offset by the repatriation of foreign securities owned by Americans and by some backflow of American funds which had sought refuge abroad.

²⁹ It should, however, be noted that some tendency toward an adjustment was already evident during the decade of the twenties. Beginning with 1925 we have

our trade balance remains refractory, there threatens the danger that we shall witness a further extension of a new form of foreign loans—blocked foreign accounts—one from which we have already suffered. These accounts which American investors and exporters cannot transfer into dollars should, however, at last bring home to the American people the inevitable conclusion that we cannot bring our international economic relations into balance without an enlargement of imports in relation to exports.

There are, moreover, certain other domestic policies which threaten to prolong the current international tension. A moderate rise⁸⁰ in the commodity price level would serve to narrow or remove the margin of undervaluation and bring the dollar exchange into line with the prices in the major industrial countries. No rise in prices, however, is a healthy one unless produced by an increase in money income and an expansion of purchasing power. Any such rise in prices awaits fundamentally an expansion in the capital goods industries. But such expansion is checked if costs in these lines are unduly increased. The effect of the NRA codes in raising costs in the construction and basic industries merits particular attention. On the investment side, the recent amendments to the Securities Act will, it is hoped, measurably improve the capital market.

In certain industries it is possible that the NRA codes may affect the international situation in a quite different manner.

had each year a net import of goods and services. While we sold more merchandise abroad than we purchased from foreigners, on the other hand we purchased more services than we sold abroad. The two most important items are, of course, tourist expenditures and immigrant remittances, but shipping services, current government transactions, and other current service items, such as insurance, advertising, motion picture royalties, communication, etc., are by no means inconsequential. It is not generally realized that every year beginning with 1925 we have purchased from abroad more goods and services (omitting interest and dividends) than we have sold abroad. Properly speaking, for nine consecutive years our "imports" have exceeded our "exports." And the figure is not inconsequential since the net "imports" have, on the average, amounted to \$277,000,000 per annum in this period. But these net imports were not nearly large enough in view of our creditor position. In fact, our imports of goods and services fell short of balancing our accounts by \$509,000,000 per annum from 1924 to 1930 inclusive. It is true that the margin of disequilibrium had declined by 1931-33 to \$161,000,000 per annum. But this approach to a balance was achieved by default on public and private debts and by a drastic curtailment of our exports. An equilibrium reached through such processes is not a healthy one.

⁸⁰ I do not favor an increase in wholesale prices to the 1926 level. Without placing any special significance on any figure, I suggest a commodity price level of about 80 to 85, 1926 being 100, as one which might provide some approach to both international and internal equilibrium.

It is conceivable that costs, in certain branches, may be pushed up so high that the added protection against imports resulting from the devaluation of the dollar may be wholly wiped out, placing the domestic industry in a weakened position with respect to international competition. Moreover, it should be noted that Section 3e of the Industrial Recovery Act was introduced to safeguard the code industries from increased foreign competition. This legislation is aimed to protect against importation "into the United States in substantial quantities or increasing ratio to domestic production of any competitive article or articles and on such terms or under such conditions as to render ineffective or seriously to endanger the maintenance of any code. . . ."

The NRA thus places fresh obstacles in the way of a more liberal international commercial policy. Section 3e essentially perpetuates the Republican principle of tariff legislation—the equalization of costs at home and abroad.⁸¹ Under its provisions any tendency toward increase of imports may be effectively checked. This feature of the act is particularly unfortunate in that it tends to fix a definite maximum ratio of the imports of each special commodity to domestic production, despite technical changes which might materially alter international specialization.⁸² Such policies point toward the continuance of the disequilibrium in our international accounts which characterized the decade of the twenties.

The bill providing for reciprocal trade agreements under executive authority may or may not help to solve the two fundamental problems with which we are here concerned: the restoration of equilibrium in our international account, and the minimization of the structural changes in our economy incident to the collapse of our foreign markets. Whether reciprocal agreements will assist in the solutions of these problems depends on how they are handled. In themselves they offer no panacea. They could easily be so mismanaged that they would

⁸¹ As interpreted by the Tariff Commission, however, the cost equalization under 3e applies only in so far as to correct for changes in the relative cost situation which may have occurred since the Recovery Act was passed.

⁸² It should be noted, however, that the conditions established under 3e, and the few actual cases of increased restrictions on imports thus far, tend to allay undue fears of frequent or substantial invocation of this section. However, once costs and prices have risen sufficiently to offset in large part the current dollar devaluation, a larger number of complaints are likely to be filed.

destroy a large part of the triangular trade of the world. Exports might be unduly fostered through unwise credit arrangements, thereby tending to increase the disequilibrium in our balance of payments. Foreign trade might, under these arrangements, be fostered in areas where transfer difficulties are peculiarly pressing. On the other hand, these reciprocal trade agreements could, if rightly handled, become the means of liberalizing commercial policy not only in this country but throughout the world, of loosening exchange controls and arbitrary import restrictions, of increasing the ratio of American imports to exports, thereby achieving a tenable position as a creditor nation, and at the same time finding enlarged markets for those producers—notably the farmers—who have suffered so seriously from the collapse of world trade.

Loss of our foreign investments, a withdrawal from cultivation of a considerable part of our farm acreage (one-sixth of the total was formerly dependent upon foreign markets), a persistent volume of unemployment in our export industries until the long and hard path of transitional adjustments has been trod to the bitter end, and a lower standard of living—these are the prices that must be paid if constructive solutions are not found for: (1) the lack of balance in our international accounts and (2) the current strangling of world trade. Ultimately, of course, a new adjustment would be reached even under a policy looking toward autarchy. But such a policy would mean the sacrifice of special groups, agriculture and other export industries, and the holders of foreign securities. More important still, it would force the nation to face the overwhelming task of finding employment for the workers displaced by these terrific structural changes, and this at a time when technological and depressional unemployment places a dangerous strain upon the existing economic order.

III. THE FOREIGN TRADE AND INVESTMENTS OF THE UNITED STATES

A. THE CHARACTER AND SIGNIFICANCE OF OUR FOREIGN TRADE

Before the depression about 10 per cent of all the movable goods produced on American farms and in mines and factories was shipped abroad. In exchange for these exportations there was imported a somewhat smaller value of goods from other

countries. Somewhat less than 10 per cent of the goods consumed was, therefore, of foreign origin.

But the significance and importance of our foreign trade cannot be measured adequately in mere statistical terms. The utility we derive from the goods that we purchase abroad is far and away greater than the statistics on volume of imports indicate. These imports supply raw materials that are either indispensable or highly essential for our industries, and they supply wants that could not otherwise be satisfied. Were these goods rendered inaccessible, the utilities or satisfactions lost would be enormously great. In view of our highly protective policy, which virtually excludes all goods except those regarded as well-nigh indispensable, it is probably no exaggeration to say that no other equal volume of goods is of such great importance for our well-being as our merchandise imports.

As one surveys the range and variety of these commodities one is impressed with the vital significance of our imports for the manner of living to which we have become accustomed. We are a great agricultural country, yet we import a considerably larger volume of animal and vegetable products than we export. While we export a surplus of meat products, especially lard and pork, we bring from abroad an enormous quantity of hides and furs. We normally export grains, notably wheat, and canned, dried, and fresh fruits, but we import a much larger value of sugar, coffee, tea, cocoa, spices, and certain fruits not obtainable at home. Of inedible vegetable products we export tobacco, but we import a much larger value of rubber and vegetable oils. We export a vast quantity of raw cotton and we import an almost equal value of silk, wool, jute, hemp, flax, and other vegetable fibers. We export a considerable supply of saw-mill products, but we import a much larger value of paper and wood pulp. Of non-metallic minerals we have a large net export of petroleum products, and we import precious stones, pottery, glass products, and asbestos. Of metallic minerals we have a net export of copper, brass, and zinc, and we are dependent upon imports for tin, nickel, ferro-alloys, and a part of our lead. Even this very brief survey is sufficient to show that this vast interchange of animal, vegetable, and mineral products is vital to our economic life and the maintenance of our standard of living.

Our chemical exports and imports approximately balance, but we import very many coal-tar products, industrial chemicals, medicinal and pharmaceutical preparations, fertilizers, paints, soap, and toilet preparations, which we could not well afford to do without. Automobiles, electrical equipment, agricultural and industrial machinery we supply to all the world, and take very little of these products in return. For art works and certain types of clocks and watches, books, toys, musical instruments, and scientific apparatus we are heavily dependent upon foreign sources of supply.

In 1850 two-thirds of our exports consisted of raw materials and not much over one-tenth, of finished manufactures. In contrast, in 1930 about one-half of our exports were finished manufactures, while only one-quarter were raw materials. In 1850 over one-half of our imports consisted of finished manufactures and less than one-fifth, of raw materials. Conversely, in 1930 nearly one-half of the imports were raw materials, whereas less than one-fourth of them consisted of finished manufactures.

In 1850 our exports were mainly cotton, tobacco, and wheat. Other items were relatively insignificant. By 1930 the character of our exports had enormously changed. These three commodities were still leading exports, but with them at the top of the list now came also machinery, petroleum products, automobiles, and iron and steel products. This signifies the industrial advance of the United States and particularly the rise of the mass production industries. In 1850 the leading imports were cotton and wool manufactures, coffee, sugar, and hides and skins. By 1930 cotton and wool manufactures, while still among the first score of imports, stood far down the list; coffee, sugar, and hides and skins were, however, still near the top. But along with these products were now added silk, paper, and rubber, each in its way an index of modern standards of living.

Increasingly our exports are taking the form of mass production goods such as industrial machinery, agricultural machinery, electrical machinery and apparatus, automobiles, iron and steel manufactures, refined gasoline and lubricating oils, refined copper, automobile tires and casings. The bulk of the machinery exports go to South America, Canada, and Europe.

A half of the petroleum products go to Europe, but South America, Australia, and Canada are also large buyers. Automobiles are also sold chiefly in Europe and South America, with Canada and Australia next in rank. Iron and steel products go largely to Canada and South America. Cotton manufactures are sold chiefly in the Philippine Islands, Cuba, Canada, South America, and Central America. Rubber manufactures go largely to Canada, Europe, and South America.

The structure of our imports is likewise undergoing important changes. Increasingly our imports consist of raw materials needed for modern industry and for the maintenance of our present standard of living—commodities not obtainable, or not easily obtainable, in the United States. Raw silk, coffee, crude rubber, sugar, newsprint and wood pulp, undressed furs, hides and skins, vegetable oils and fats, fruits—these are the leading imports. Raw silk comes mainly from Japan; coffee from Brazil; crude rubber from Malaya; sugar from Cuba; newsprint and wood pulp from Canada; hides and skins from Canada, Argentina, and Australia; furs from China, Canada, and Russia; vegetable oils from the Philippine Islands, Netherland Indies, British Malaya; tin from Malaya; and fruits from Central America.

In a significant study of imports into the United States in 1927 (see *Vierteljahrshäfte zur Konjunkturforschung*, Sonderheft 25, 1932), Professor Alfred Rühl of the University of Berlin finds that some 35 per cent of our imports consist of products which it is either impossible or virtually impossible to produce at home; this includes such commodities as silk, rubber, coffee, cocoa, bananas, tea, jute, copra, hemp, vegetable fibers, and diamonds. About 15 per cent consist of special quality products such as works of art, Oriental rugs, Turkish tobacco, Egyptian cotton, fine woolen, fine cheeses, watches, and foreign books. About 35 per cent consist of products for which there is insufficient domestic production. Only 10 per cent of the imported goods, he finds, enter into direct competition with domestic products.

B. THE BALANCE OF TRADE

Of great significance are the changes in our balance of trade, and of payments, with foreign countries since 1920. For con-

venience we shall break up these fourteen years into three periods as follows: 1920-24; 1925-29; 1930-33.

The excess of merchandise exports was \$1,400,000,000 annually in 1920-24, an abnormally high figure, reflecting the continued shortage of goods in Europe, notably of agricultural products, for some years following the war. By 1925-29 the excess exports had fallen to \$724,000,000 per annum, and by 1930-33 to \$408,000,000.

Now while the United States sold an excess of merchandise abroad throughout this period, on the other hand, we purchased a large excess of services³³ over and above our sale of services abroad. This item has remained about constant over the post-war period. In 1920-24 the excess purchases of foreign services amounted to \$740,000,000 annually, in 1925-29 to \$968,000,000, and in 1930-33 to \$726,000,000 per annum.

From these two sets of figures some interesting conclusions are reached. While in 1920-24 we sold an excess of \$660,000,000 of goods and services abroad, in 1925-29 the account was against us by \$244,000,000, and in 1930-33 by \$318,000,000. Contrary to popular opinion, from 1925 to 1933 we purchased or "imported" more goods and services than we sold abroad. Properly speaking, we had in fact what is known as a "passive" balance of trade.

This growing excess of purchases was far more than balanced by a rapidly mounting (up to 1930) volume of net interest, dividends, and war-debt payments, owing to us from abroad. In 1920-24 these payments combined averaged \$329,000,000, in 1925-29, \$688,000,000, and in 1930-33, \$596,000,000.³⁴

The following table, Table I, gives the exports, imports, and balance of trade of the United States for the years 1919-33. The balance of trade in all years was favorable or active and

³³ In "services," as here used, are included shipping and freight services; tourist expenditures; immigrant and charitable remittances; government transactions, such as expenditures abroad by the various executive departments, canal tolls, and the like; and miscellaneous services, such as insurance, advertising, motion picture royalties, receipts and remittances of international communications companies, and purchases and sales of electric power across the border. It should be noted that as here used interest and dividend payments and debt receipts are not included among "services."

³⁴ The question has sometimes been raised whether the United States has, properly speaking, been a creditor country in the post-war period. The correct criterion by which to judge this is the net movement of interest, dividends, and war payments. On this test the United States has been a creditor nation throughout the post-war period. This would be true even without the war-debt payments.

is so indicated by the *plus* sign preceding the annual balances. The fourth column of figures—all indicated by a *minus* sign—represent the (net) amounts owed in each year for service accounts and may be regarded as charges or debits to the trade balance. The last column is the difference between the two immediately preceding columns. In the years directly following the war we had a “favorable” or active balance with respect to goods and services combined. In each of the years after 1924

TABLE I

EXPORTS, IMPORTS, BALANCE OF TRADE AND BALANCE OF SERVICE ITEMS, AND THE NET BALANCE OF TRADE AND SERVICES IN THE UNITED STATES, 1919-33

YEAR	EXPORTS	IMPORTS	BALANCE OF TRADE ITEMS	BALANCE OF SERVICE ITEMS *	NET BALANCE OF GOODS AND SERVICE ITEMS
1919	7,920	3,904	+4,016	-1,244	+2,772
1920	8,228	5,278	+2,950	- 849	+2,101
1921	4,485	2,509	+1,976	- 729	+1,247
1922	3,832	3,113	+ 719	- 651	+ 68
1923	4,167	3,792	+ 375	- 716	- 341
1924	4,591	3,610	+ 981	- 756	+ 225
1925	4,910	4,227	+ 683	- 839	- 156
1926	4,809	4,431	+ 378	- 884	- 506
1927	4,865	4,184	+ 681	- 899	- 218
1928	5,128	4,091	+1,037	-1,053	- 16
1929	5,241	4,400	+ 841	-1,166	- 325
1930	3,843	3,061	+ 782	-1,010	- 228
1931	2,424	2,090	+ 334	- 823	- 489
1932	1,612	1,323	+ 289	- 650	- 361
1933	1,675	1,449	+ 226	- 420	- 194

* Exclusive of interest and dividend payments.

our balance of trade and services was “unfavorable” or passive. The passive balance is the customary position of a creditor country. The excess of goods and services received can be paid for out of income from loans previously made. It should be pointed out that the table does not include any items in the capital accounts. It gives the balance of trade *and services* (excluding interest and dividends).

Trade may be said to be in equilibrium when the purchase and sale of goods and services (as here defined) strike an even balance. But if large interest and debt payments are due, such receipts must be used to buy an equivalent excess of goods and services abroad. This, however, was not done. In point of fact, these combined items were out of balance by around

\$1,000,000,000 annually in 1920-24, and by nearly \$500,000,000 in 1925-29. In 1930-33 the margin narrowed to less than \$400,000,000 annually but only through the painful process of defaults on interest and debt payments and a sharp decline in exports.

The unbalanced items were covered in 1920-24 partly by gold imports and partly by loans and investments abroad. On the average in 1925-29 and again in 1930-33 gold movements were about equal. The unbalanced items were, therefore, covered in these periods by making loans and investments in foreign countries. In the first half of 1934, however, about \$900,000,000 of gold was imported.

Up to the end of 1928 we were lending heavily abroad on long term, and at a diminished rate through 1930. Beginning with 1931 this movement was reversed, and we became in effect a net importer of long-term capital. But this net import of long-term capital was far more than offset with net short-term capital withdrawals, which beginning with 1928 became especially large after 1930 and particularly in 1931 and 1933. Thus when long-term capital exports declined, short-term capital withdrawals took their place. Total net capital "exports," taking short term and long term together, have remained roughly equal in each of the three periods under consideration. Thus since the war we have been continuously a large exporter of capital, if not on long term then on short term.³⁵

C. THE DECLINE IN EXPORT TRADE

The foreign trade of the United States constituted 13.8 per cent of the total world trade in 1929. By 1932 our share in the total declined to 10.9.

This decline is commonly pointed to as an indication that this country is definitely losing its former position in the world market. This conclusion is, I believe, unduly pessimistic. Account is often not taken of the fact that a very large part of the American exports are peculiarly sensitive to the business cycle. The exports of electrical, industrial, and agricultural machinery and of automobiles increase enormously in prosperous times, but fall off very seriously in periods of depression.

³⁵ These short-term capital "exports," since 1930, have taken the form mainly of withdrawals by foreigners of short-term balances held in the United States.

This is not necessarily indicative of a loss of foreign markets since the decline in the demand for this type of product also fluctuates violently in the domestic market. And it is just these products that are so important in the structure of our exports.

Thus while the value of the exports of machinery and vehicles was \$1,198,000,000 in 1929, by 1932 it had fallen to \$237,000,000. This furnishes an important explanation not only of the decline of American foreign trade in relation to world trade during the depression, but also of the great decline in the proportion of our total production that is exported. Durable, or capital, goods constitute a far greater percentage of our exports than of our domestic production. Therefore, since the durable goods industries are affected in a peculiarly adverse manner by depressions, our exports are bound to decline more than our total domestic production.³⁶

Moreover, in the case of important farm products, notably cotton, while the quantity exported has not declined—it has indeed increased—the price fell so drastically that the net value was seriously reduced. The value of the total agricultural exports fell from \$1,693,000,000 in 1929 to \$662,000,000 in 1932.

Thus while our capital goods exports have fallen off heavily in quantity, our agricultural exports have suffered exceptional price declines. The preponderance of these two groups among our export commodities goes far to explain the exceptional decline of the value exports of the United States in the depression.

That leading export products have for the most part suffered no greater reverses in the foreign than in the domestic market can be seen from the following table of industrial and agricultural exports. There are, however, notable exceptions. Automobiles, iron and steel products, refined oils, wheat, and lard have faced seriously declining foreign markets relative to the domestic market.³⁷

In the case of agricultural commodities, leading factors in the decline of exports are the restoration of agriculture in Europe immediately following the war and the intense drive to achieve greater self-sufficiency. Hog production in Germany

³⁶ While 10 per cent of the total production (in value terms) of durable goods was exported in 1929, probably not more than 6 per cent was exported in 1932, according to an estimate of the Department of Commerce.

³⁷ Excluding cotton, total agricultural exports declined from \$922,000,000 to \$317,000,000 in 1932.

and Denmark has increased from the low wartime figure of 3,000,000 head to about 28,000,000 head. Wheat production in Italy, Germany, and Czechoslovakia increased from an average of 333,000,000 bushels in 1921-25 to 514,000,000 bushels in 1932.

Not only have tariff rates been raised to fantastic heights—witness the German tariff of \$16.00 per hundred pounds on lard and \$1.62 per bushel on wheat; and the tariff of \$4.13 per hundred pounds of rice applicable to French imports from the United States. In addition to tariffs there are numerous quantitative restrictive devices such as import quotas. As illustrations one may cite England's limitation of imports of ham and bacon from the United States to 8 per cent of the total ham and bacon imports from non-Empire countries; and Denmark's limitation of wheat imports for 1934 to 35 per cent of 1933 imports. American exports in general are confronted with severely reduced import quotas in France, Switzerland, and other Continental countries.

Tariffs and import quotas are in turn supplemented by mixing requirements such as that of Germany, which requires flour mills to use 97 per cent of domestic wheat, and Sweden's effective mixing requirement of 90 per cent. In addition, quantitative restrictions by France have limited imports of American

RATIOS OF QUANTITY EXPORTS TO PRODUCTION

<i>Industrial Products</i>	<i>Ratio of Industrial Exports to Production</i>		<i>Agricultural Products</i>	<i>Ratio of Agricultural Exports to Production</i>	
	<i>1929</i>	<i>1933</i>		<i>1929</i>	<i>1933</i>
Refined copper.....	36.2	40.2	Cotton (year ending July 31).....	54.8	65.6
Agricultural machinery (in dollars).....	25.1	26.8 (1931)	Tobacco exports for fiscal years (production for preceding calendar year)....	41.2	39.1
Motor fuel, kerosene, gas oil, and fuel oil (in dollars).....	19.6	16.3 (1931)	Lard.....	33.3	25.2 (1931)
Industrial machinery (in dollars).....	13.3	15.9 (1931)	Wheat.....	17.7	5.5
Automobiles (in dollars).....	12.0	7.3	Fresh fruits exports for fiscal years (production for preceding calendar year)		
Rubber manufactures (in dollars).....	6.9	6.0 (1931)	Oranges.....	7.8	7.0 (1932)
Electrical equipment (in dollars).....	5.5	6.6 (1931)	Apples.....	14.7	13.2 (1932)
Iron and steel rolled products.....	5.7	3.3 (1932)	Pears.....	22.3	25.3 (1932)
			Dried fruits.....	46.0	46.4 (1931)
			Canned fruits.....	22.3	23.2 (1931)

apples, and England has imposed a sanitary embargo against fresh pork from the Continent.

Germany has created government import monopolies covering a wide range of commodities, including fats and oils, dairy products, corn, oil cakes and oil seeds, and fodder. Control boards have been established for wool, cotton, hides and skins, rubber, coffee, and non-ferrous metals. Moreover the foreign exchange allotments have been reduced to an insignificant fraction of that used by each importer in 1930-31.

Apart from all these restrictions special devices have been inaugurated to encourage the expansion of domestic production simultaneously with the restriction of foreign imports. England has introduced fixed contract prices for bacon hogs, France and Poland have given bounties for the exportation of wheat, and Germany, in order to minimize lard imports, has encouraged the production of hogs until her pork supply has actually become excessive.

The raw material producing countries throughout the world have suffered the most serious decline in foreign trade during the depression. Countries like Denmark and Holland, exporting quality products—bacon, butter, eggs, cheese, etc.—rank relatively high in the maintenance of export value. In general Scandinavia, Holland, Belgium, France, England, and Japan have experienced the least decline in foreign trade since 1928 (the average decline of value, exports and imports combined, being 56 per cent), while Chile, Peru, Uruguay, British Malaya, the United States, Argentina, Hungary, Poland, and Mexico have suffered the most seriously in the order named (the average decline being 71 per cent).

There has been much discussion in the public press and elsewhere of the effects of the Ottawa Agreements upon our trade with the United Kingdom and Canada. It is difficult to appraise these effects in view of other disturbing factors such as the abandonment of the gold standard by England in 1931 and by the United States in 1933. In general, it appears that the currency disturbances have been more potent than have the Ottawa Agreements themselves upon the currents of trade.

Imports from the United States were 19.8 per cent of all British imports in 1913, 16.6 per cent in 1929, and 11.2 per cent in 1933. In contrast British imports from Canada were 4.5 per

cent of her total imports in 1913, 3.9 per cent in 1929, and 6.8 per cent in 1933.

With respect to exports, 5.6 per cent of all British exports were shipped to the United States in 1913, 6.2 per cent in 1929, and 5.2 per cent in 1933. British exports to Canada were 4.5 per cent of all British imports in 1913, 4.8 per cent in 1929, and 4.8 per cent again in 1933.

Of all Canadian imports in the fiscal year ending March 31, 1926, 65.6 per cent came from the United States; in the fiscal year ending March 31, 1929, the proportion was 68.6 per cent; and for the fiscal year ending March 31, 1934, it was 54.7 per cent. In contrast, in the fiscal year ending March 31, 1926, 17.7 per cent of Canadian imports came from the United Kingdom; 15.3 per cent in the fiscal year ending March 31, 1929; and 24.2 per cent in the fiscal year ending March 31, 1934.

Of all Canadian exports (for fiscal years in each case ending March 31 of the year following that given) 36.1 per cent were shipped to the United States in 1926, 36.6 per cent in 1929, and 33.6 per cent in 1933. In contrast, the proportion of all Canadian exports shipped to the United Kingdom was 38.6 per cent in 1926, 31.5 in 1929, and 39.1 per cent in 1933.

D. THE CURRENT STATUS OF FOREIGN INVESTMENTS

Prior to the war American private investments abroad totaled around \$2,500,000,000. Much the largest amount, about \$1,200,000,000, was in Cuba, Mexico, and Central America. Next came Canada with \$750,000,000, and Europe with \$350,000,000.³⁸ Only negligible amounts were invested at that time in South America and the Orient.

All this has been changed by the events of the war and of the post-war period. At the end of 1932 our total foreign investments (after taking account of foreign securities repatriated to foreign countries) were about \$14,000,000,000. The largest investment (\$4,400,000,000) was now in Europe, Canada following close behind with \$4,000,000,000, South America with \$3,000,000,000, Central America (including Mexico, Cuba, and the West Indies) with \$2,000,000,000, and Asia with \$1,000,000,000. These are all round figures.³⁹

³⁸ *Commercial and Financial Chronicle*, January 13, 1934.

³⁹ The table on the next page (from Trade Information Bulletin No. 814) gives the data at the end of 1932.

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AMERICAN PRIVATE LONG-TERM INVESTMENTS IN FOREIGN COUNTRIES (In Millions of Dollars.)

<i>Region</i>	<i>Direct</i>	<i>Portfolio</i> *	<i>Total</i> *
Canada and Newfoundland.....	\$2,073	\$1,926	\$3,999
Europe	1,553	2,859	4,432
Central America	993	33	966
South America	1,645	1,337	2,982
West Indies	1,075	134	1,209
Africa	127	2	129
Asia	423	579	1,002
Oceania	163	260	423
Total	\$7,997	\$7,130	\$15,127
Plus the capital of banks and insurance companies			125
Grand total			\$15,252

* These figures are subject to a deduction of about \$1,300,000,000 (par value) for foreign securities repatriated to foreign countries.

The Institute of International Finance places the portfolio investments in Canada at \$2,717,000,000, and in Central America at \$344,000,000. Repatriated securities up to July 1, 1934, are estimated at \$2,000,000,000.

These totals, it should be noted, are based on the book values of the direct investments and on the par values of the security holdings. It is not possible to get accurate figures on the current market values, but some rough calculations have been made placing the current market value of all foreign investments at about eight billion dollars. It is estimated that 37 per cent of the portfolio investments are currently in default.⁴⁰

A part of the *direct* investments abroad has been made in the form of American branch factories in foreign countries. But only a relatively small part of the total—20 per cent—has assumed this form. The overwhelming bulk of the direct investments are in communication and transportation, public utilities, and various raw material resources, notably petroleum, mining, and agriculture. In Cuba, Mexico, Central America, South America, and Asia the investment in manufacturing establishments is negligible. Only in Japan is the bulk of our direct investment in manufacturing plants, but the total invested is relatively unimportant. In Canada, however, a little over 25 per cent of our direct investment is in manufacturing,

⁴⁰ The record of portfolio investments in different countries varies, of course, enormously. For example, if we omit from consideration the very large investments in Canada, the proportion of the remaining portfolio investments abroad in default would run about 60 per cent.

while in Europe the figure is nearly 50 per cent. It should be remembered, however, that only one-half the total investment in Canada is in the form of direct investments; in Europe, only one-third. Thus only one-eighth of the total investment in Canada is in manufacturing plants; in Europe only one-sixth is so invested.

From these statements it is clear that the overwhelming bulk of the direct investments abroad are not of a character which could possibly compete with American industry. This is a point that has been much misunderstood in this country.

What is the effect of the establishment of branch factories abroad on American industry? It has sometimes been charged that these foreign branch factories actually import products into the United States, and can do so because of lower labor cost abroad. The evidence appears to be, however, that while instances can be found of this practice it is of negligible importance and has thus far not been sufficiently serious to warrant any drastic action.⁴¹

The possible effect on American exports comes much more into question. But here again it is quite easy to exaggerate the adverse effect of these foreign branch factories. One cannot assume that the sales made abroad by foreign branches would have been supplied by American exports had there been no branches abroad. Foreign tariffs might have prevented these exports. Moreover, had American branch factories not been built abroad, in many cases foreign plants would have been erected in their places. Indeed, American branch factories have sometimes been established to forestall the erection of foreign plants in the various countries.

To a certain extent it can be argued that the establishment of branch factories abroad stimulates our exports. In some cases the establishment of American factories in foreign countries has stimulated their industrial development, increased their purchasing power, and thus led to larger purchases from the United States. Moreover, it must be recognized that the establishment of these factories abroad provides a market for American-made machinery, equipment, and repairs.

Consider the reasons why these branch factories have been established abroad. The foremost explanation is to be found in

⁴¹ See Senate Document 258, 71 Congress, 3 session.

the tariff walls erected by foreign countries against our products. And it must be recognized that these foreign tariffs have often been stimulated by our own high tariff policy. The American factories established in Canada have certainly been erected in large part because of the Canadian tariff against our products and partly to take advantage of the British Imperial Preference System. The lesson to be drawn is that the building of foreign branch factories is in large part a consequence of a highly protective policy. It is worth noting, in passing, that the extreme nationalist who favors high tariffs usually complains also about the erection of branch factories abroad, but fails to realize that his own nationalistic policy is in large measure to blame.

Other reasons for the building of branch factories abroad are as follows: Through foreign branch factories American products can be sold abroad without arousing the degree of nationalistic sentiment against foreign-made goods that is engendered by foreign importations. It is frequently the case that the products of these branch factories are sold under conditions such that foreigners are quite unaware that the goods are made in an American branch factory.

Transportation costs frequently explain the erection of branch factories abroad. Moreover, transportation costs explain, at times, why certain factories are located in a small country where the market is limited. For example, many American factories in Antwerp are located there because it is an economical transportation point for large parts of Europe.

Finally, branch factories are sometimes established in order to protect patent rights, particularly in countries whose patent laws, as is sometimes the case, require local manufacturing or licensing in order to protect patent rights. This factor has been of some importance in the establishment of branch factories in the United Kingdom and in Canada, but is not a factor in the case of Germany.

It is clear that the attitude of foreigners toward American branch factories was more favorable in the pre-war period than in the post-war period. This change in sentiment is partly due to the fact that the development has reached such large proportions in the post-war period, and partly because of the unfriendly attitude toward the United States growing out of numerous post-war problems, including war debts, the Ameri-

can tariffs of 1922 and 1930, immigration legislation, and the like. In part, doubtless, the resentment is due to jealousy of the rising financial and economic power of this country.

On the whole the Canadians have looked favorably upon the penetration of American capital; Latin America and Australia have shown a good deal of hostility; the Far East, with the exception of Japan, has perhaps on the whole taken a favorable attitude; in Europe the situation is decidedly mixed. In Germany certain groups favored American penetration while others violently opposed it. No clear pronouncement can be made with respect to the attitude of foreigners in any part of the world because there is nowhere any unanimity of public opinion.

In some countries obstacles have been imposed against American financial penetration; the voting stock, for example, of certain corporations in Switzerland and Sweden has been restricted to nationals of the country in question. On the whole it appears likely that the development of American branch factories abroad will meet more and more opposition in foreign countries.

It should be noted that the development of branch factories abroad is not a purely American phenomenon. Branch establishments of British, German, Dutch, Belgian, French, and Swedish industries can be found in various parts of the world.

E. THE ECONOMIC RELATIONS OF THE UNITED STATES WITH DIFFERENT REGIONS

The prodigious capital stake that the United States has acquired in Europe is surely an anomalous situation. The large political debts, amounting to about eleven billion dollars, were of course directly due to the war. Moreover the enormous private investments in Europe of about five billion dollars, direct and portfolio, are also in large measure traceable to the war and its aftermath. This is especially clear in the case of Germany, the country into which the largest funds were poured. The reparation payments drained the volume of capital funds, which might otherwise have flowed into the German capital market. The inflation denuded the country of working capital, which had to be restored in large part by borrowings from abroad. Moreover the inflation virtually wiped out the debts

of the German municipalities and placed them in a favorable position to undertake an expansion of public works on a large scale. The rationalization movement, stimulated by the intensified international competition following the war, absorbed funds from abroad. Thus a country formerly having large foreign investments became a capital deficit country.

The United States has acquired a capital stake in Europe of some sixteen billion dollars, public and private. These investments create a difficult problem since the industrial countries of Western Europe are in considerable measure competitive with, rather than complementary to, our own economy. The goods that these countries wish to present in payment for principal and interest are, as our high tariff wall attests, largely those that our producers wish to exclude. Similarly the goods that Germany wished to export into France and England in payment for reparations threatened established industries in those countries. An irreconcilable antagonism thus emerged between the political desire to receive payment and the economic desire to exclude competitive imports.

In contrast with this dilemma confronting the United States, England loaned capital in the nineteenth century mainly to backward countries from whom she gladly took raw materials in payment. Her manufacturing industries were not endangered by those imports. Her foreign investments were made largely in countries complementary to and not competitive with her own economy. Self-interest clearly dictated a policy of free trade.

It is this dilemma that makes the creditor position of the United States peculiarly difficult. Moreover the difficulty is enhanced by the special structure of our foreign trade with Europe. In 1928 our merchandise exports to Europe amounted to \$2,842,000,000, whereas our imports from Europe were \$1,249,000,000. Roughly our imports were only half as large as our exports.⁴² The net excess of merchandise exports to Europe of \$1,093,000,000 was, however, balanced partly by a net import of shipping services, tourist expenditures, and immigrant remittances of around \$700,000,000. On these items, therefore, Europe owed us about \$400,000,000. To this figure

⁴² American imports from Europe equaled 53 per cent of exports to Europe in 1928; in 1933, 54 per cent.

must be added the war-debt receipts of around \$200,000,000. In addition, account should be taken of the balance of interest and dividend payments between the United States and Europe. The data for these items are unreliable, but the net balance in our favor was probably not large. At all events it is clear that Europe's annual account with the United States was out of balance by not less than two-thirds of a billion dollars. This vast sum was covered by fresh loans to Europe and by triangular trade.

If we consider our trade relations with Europe in 1928 in terms of broad classifications of commodities we discover that the imports and exports of animal products were roughly in balance while the exports of vegetable products were more than twice as large as the imports. In the case of textiles (raw materials, chiefly cotton, and manufactures) the exports were nearly three times the imports. Exports of non-metallic minerals were more than twice the imports. The exports of metals and manufactures, machinery, and vehicles were four times the imports.⁴³ Whether we take agricultural commodities, mineral products, or manufactures, the results are, broadly speaking, the same, though varying in degree; in all these broad classes the exports heavily exceed imports. Nor have these general facts been materially changed by depression.

Such are our trade relations with Europe. They grow out of established conditions in the industrial set-up of this country and of Europe. These conditions are not easily changed without creating serious structural maladjustments. It is not a situation in which one economy is clearly the complement of the other, as was true of our relations with England in the early part of the nineteenth century. There is not here an exchange of raw materials against manufactured products.⁴⁴ Europe wants not only our agricultural products but also those mass

⁴³ Only in the case of chemicals, wood and paper, and miscellaneous were the imports combined larger than the exports.

⁴⁴ Strictly speaking, an exchange of certain types of manufactured goods against other types of manufactures, or of certain kinds of agricultural products against other kinds of agricultural products, may constitute a trade quite as "complementary" as that between agricultural and manufactured products.

Moreover it should be noted that the actual trade between two countries at any given moment is more or less complementary. It is all a matter of degree. Some international trade is in commodities in which the producing country has a very large comparative advantage, while some part of the trade is in commodities in which the comparative advantage is small. If the comparative advantage of all the

production goods in which we have had a large technical advantage. And we do not wish to take her manufactured goods. However, while Europe takes from us twice as much merchandise as we buy from her, we must not overlook the service items, of which our purchases greatly exceed Europe's purchases from us.

Under a reasonably free international price system there is of course no necessity for a balance of trade between any two countries or areas. To achieve such an even balance would indeed seriously disrupt normal international relations. Equilibrium in international payments has always been secured largely through triangular and multilateral trade, and this is as it should be. But the international economic structure is less flexible than formerly. The post-war world economy, far from being fluid, was, and is now still more, a "sticky mass." It is consequently more difficult now than formerly for a creditor country to achieve equilibrium in its international accounts. Too many obstructions in the form of trade barriers, exchange controls, currency depreciation, price and cost maladjustments, bar the way. Certainly triangular trade ought not to be minimized or deprecated; rather it should be encouraged. But if a creditor country cannot achieve a balance in its international payments via triangular trade, there is no escape from the conclusion that it must then assume the responsibility for a larger volume of direct imports of goods and services sufficient to achieve equilibrium. What is really wanted, however, is an expansion of imports in relation to exports. Emphatically, a bilateral balance between each pair of countries is not a goal to be sought for its own sake.

Such a system is likely to result in a very inefficient utilization of the world's resources. Imports are fostered from countries not the best adapted to produce the commodity in question. When a uniform tariff applies to all alike, it is at any rate true that as far as the outside world is concerned the law of comparative advantage applies and the most efficient nation supplies such imports as come in over the tariff wall. Bilateral

goods traded is large, the trade may be said to be "complementary"; if the comparative advantage is small, then the trade is competitive.

While our trade with Europe as constituted under our high tariff policy is not seriously competitive, any sharp lowering of the tariff would, of course, increase the part of the trade which was competitive in character.

balancing results in a foreign trade less in line with the principle of comparative advantage. But some loss on this score is less serious than the continuation of disequilibrium in our international accounts.⁴⁵

To minimize the necessity of a bilateral balance, it is incumbent upon the United States, as a creditor country, to play the international trade game fairly, particularly in triangular trade. The disequilibrium in our international accounts will only be made worse if we deprive our debtor countries of their legitimate and normal trade with third countries. Among competitive methods which might disturb the trade relations of our debtors the following may be mentioned: exchange depreciation; governmental sales promotion, amounting virtually to a subsidy to exporters; unduly low unit costs owing to failure of the adjustment of wage rates to the higher productivity. The first of the items enumerated is at the present moment a disturbing factor; and the last two served to intensify the international disequilibrium in the decade of the twenties.⁴⁶

These contradictions in our international economic relations with Europe suggest the possible desirability of liquidating as far as possible our unfortunate capital stake in that area. A complete cancellation of the war debts would be in line with this policy, but for political reasons this appears to be impossible. Complete cancellation could be amply defended on the ground of national self-interest. Our economy has suffered and is suffering enormously from the lack of international balance to which these intergovernmental debts greatly contribute. Moreover the structural changes which our internal economy is

⁴⁵ The extent to which bilateral agreements may tend to restrict the total volume of our trade with the outside world is indicated in Tables II and III following. Table II gives the exports to and imports from the United States in 1928 and 1933 for each of the thirty-three countries listed. The items on the left-hand side are in the case of some countries *imports* and in the case of other countries *exports*, depending upon which is the lower. The column headed "favorable and unfavorable" indicates whether the lower item is an export or an import. For example, in the case of Argentina, our trade with her being "favorable," the upper item is the export and the lower item is the import; on the other hand, in the case of Brazil, our trade being in this case unfavorable, the upper item is an import and the lower item an export.

Similar data by continents are presented in Table III. When large areas such as continents are considered, it is obvious that a large amount of triangular trade is concealed. Even so, the sum of the lower items in the trade balance was only 60 per cent as large as the sum of the higher items.

⁴⁶ Recent bills, as already indicated, aim, moreover, to take away arbitrarily from foreign countries the long-established "invisible" credits such as shipping services.

TABLE II
TRIANGULAR TRADE OF THE UNITED STATES WITH FOREIGN COUNTRIES
IN 1928 AND 1933
(In Millions of Dollars.)

COUNTRY	1928			1933		
	FAVOR- ABLE=F UNFAVOR- ABLE=U	TRADE: IMPORTS OR EXPORTS		FAVOR- ABLE=F UNFAVOR- ABLE=U	TRADE: IMPORTS OR EXPORTS	
		Lower Item	Upper Item		Lower Item	Upper Item
Argentina	F	\$ 84	\$ 187	F	\$ 34	\$ 37
Australia	F	43	170	F	8	26
Belgium	F	67	86	F	23	43
Brazil	F	118	216	U	30	83
Canada	U	500	868	F	185	211
Ceylon	U	6	26	U	1	7
Chile	U	45	81	U	5	12
China	F	90	146	F	43	63
Colombia	U	65	101	U	15	48
Cuba	U	127	209	U	25	59
Czechoslovakia	U	34	35	U	2	15
Denmark	F	3	61	F	2	12
Egypt	U	13	30	U	4	6
France	F	119	242	F	50	122
Germany	F	180	483	F	78	140
India, British	U	63	141	U	20	43
Italy	F	81	211	F	39	61
Japan	U	290	383	F	123	143
Malaya, British	U	17	199	U	2	60
Mexico	U	116	194	F	31	38
Netherland Indies	U	39	81	U	7	33
Netherlands	F	28	107	F	31	49
New Zealand	F	20	40	F	5	8
Norway	F	18	32	U	7	13
Peru	U	29	36	..	5	5
Philippines	U	84	116	U	80	93
Poland	F	2	52	F	3	15
Sweden	F	44	67	U	19	31
Switzerland	F	38	47	U	8	15
U. S. S. R. (Russia)	F	14	97	U	9	11
Union of South Africa	F	8	62	F	4	22
United Kingdom	F	227	917	F	111	312
Venezuela	F	33	46	..	13	13
Total		\$2,655	\$5,789		\$1,027	\$1,949
Less lower item			2,655			1,027
Triangular trade			\$3,114			\$ 922
Percentage of total trade			37%			31%

TABLE III

TRIANGULAR TRADE OF THE UNITED STATES WITH FOREIGN COUNTRIES IN THE SEVERAL CONTINENTAL DIVISIONS IN 1928 AND 1933

(In Millions of Dollars.)

CONTINENTAL DIVISION	1928			1933		
	FAVOR- ABLE=F	TRADE: IMPORTS OR EXPORTS		FAVOR- ABLE=F	TRADE: IMPORTS OR EXPORTS	
	UNFAVOR- ABLE=U	Lower Item	Upper Item	UNFAVOR- ABLE=U	Lower Item	Upper Item
Northern North America....	F	\$ 500	\$ 924	F	\$ 190	\$ 215
Southern North America....	U	397	461	..	126	126
South America	U	481	569	U	114	202
Europe	F	1,249	2,375	F	462	850
Asia	U	655	1,169	U	292	426
Oceania	F	53	180	F	13	35
Africa	F	90	117	F	28	43
Total		\$3,425	\$5,795		\$1,449	\$1,675
Less lower items.....			3,425			1,449
Triangular trade			\$2,370			\$ 226
Percentage of total trade			26%			7%

forced to undergo, particularly in agriculture, would be lessened by cancellation. While an individual stands to lose if debts owing to him are not paid, such is not necessarily the case with respect to a national economy. The indirect disturbances caused by debt collection may far outweigh the direct benefits.

Private investments in Europe stand on a different footing. To be sure, defaults on these obligations, while unfortunate for the individuals affected, also help to ease the international tension just as would the cancellation of intergovernmental debts. But political action can of course not be taken to bring about cancellation of private debts, since such action would clearly constitute confiscation of private property. The government can take steps to cancel the political debts; it can go no further. The private property rights of American investors abroad, the government has no right to disturb.

It is extremely doubtful, however, whether future private investments in the industrialized sections of Europe ought in general to be encouraged. It is true that it would be difficult, if not indeed futile, to seek to direct the channels into which capital investments abroad should flow. These are determined by psychological factors in the minds of investors as well as

by economic considerations. Private investors may prefer the bonds of the more stable European governments to the securities of countries in which social and political conditions are highly unstable. It is to be hoped, however, that American capital will be diverted in the future mainly to other areas, just as British capital after 1870 turned more and more to the New World. However, in the immediate period ahead when Europe will be engaged, as she has been in the last decade, in setting up duplicates of our mass production techniques, the erection of American branch factories abroad is, from the purely individualistic point of view, a logical development.

While it might be to our own national interest as well as to the interest of the world economy for American investors to turn to areas other than Europe, we should emphatically oppose all compulsory measures such as the imposition of arbitrary taxes on foreign branch factories, or the complete prohibition of the purchase or sale of the securities of foreign governments which, because of the enormously difficult transfer problems created by the depression and because of the breakdown of the reparation payments that began with the Hoover moratorium, have found it difficult, if not impossible, to continue the payments on the war debts.

We turn now to a consideration of other areas. In order to avoid the confusion of too great detail we shall center attention on Canada, Southern North America, South America, and the Orient.

The broad facts concerning our trade relations with Canada are easily recounted in round numbers. American merchandise exports exceeded imports from Canada by nearly \$400,000,000 in 1928. Offsetting this in part was a net tourist expenditure in Canada of nearly \$200,000,000.

The combined trade of farm, forest, and mineral products was nearly in balance, but the exports of metals and manufactures, machinery, vehicles, chemicals, and miscellaneous items exceeded imports in the ratio of nearly 5 to 1. Broadly considered our exchange of raw materials with Canada was in substantial balance; and, in a rough way, we may say that we sold her manufactured goods in exchange for tourist expenditures, with a balance of some \$200,000,000, however, on this item in our favor. There was in addition the interest and dividends due

us on \$4,000,000,000 of American investments in Canada. Normally this amounts to another \$200,000,000 in our favor.

Thus Canada, also, as in the case of Europe, has in the past had to balance her account with the United States through triangular trade. The American Tariff Act of 1930, by checking imports from Canada, tended to widen still more the gap in our bilateral accounts. The load on the triangular trade was thereby increased. But Canada closed in large part this gap by raising her tariff against our products and by establishing closer contacts with the British Empire under the terms of the Ottawa Agreements. Thus by 1933 our excess of exports to Canada had dwindled to a petty \$78,000,000 in contrast with \$373,000,000 in 1928.

Facing southward, quite a different situation confronts us in Cuba, Mexico, Central America, and the West Indies. The economic structure of these countries is complementary and not competitive with our own economy. We import from them largely raw materials and we export to them manufactured goods. Of animal and vegetable, forest and fibrous products, and non-metallic minerals, the net imports in 1928 were \$182,000,000, while the net exports of metals and manufactures, machinery, vehicles, chemicals, and miscellaneous were \$110,000,000. The net excess of imports as a whole was thus about \$70,000,000. This item substantially covered the interest and dividends due on American investments of approximately \$2,200,000,000 in this area.

We do not wish to imply that our economic relations with this area are or have been satisfactory. The current distress and disorder in Cuba happens, at the moment, to be the most disquieting proof that such is not the case. This applies not only to our semi-protectorates but also to our insular possessions. We have mistakenly pursued policies which first stimulated unduly the development of the sugar industry in the Philippines to a point that now calls for sharp curtailment, and we threaten an industry vital to her people's livelihood by imposing an excise tax on coconut oil. Such policies are not calculated to secure the peace and prosperity of backward regions, upon which favorable economic and trade relations depend.

Moving still farther south into the South American continent one encounters a situation broadly similar to that just

described. Again the trade is largely an exchange of manufactured goods for raw materials. It is important, however, to note that the economy of certain countries, notably Argentina, cannot be said to be complementary to our own. But regarding the whole continent, against a net import of \$282,000,000 of animal, vegetable, forest, fibrous, and mineral products (largely primary products) there was a net export in 1928 of \$190,000,000 of metals and manufactures, machinery, vehicles, chemicals, and miscellaneous.

In our trade with South America we have an excess of exports or active balance with Argentina, Uruguay, Peru, Bolivia, and Paraguay; the balance is passive with Brazil, Colombia, Chile, Venezuela, and Ecuador. The problem of our relations with South America is complicated by the strikingly different position of our trade with Argentina and Brazil, for example, as indicated by the following analysis of the classes of our trade in 1928 with these two countries.

TRADE OF THE UNITED STATES WITH ARGENTINA AND BRAZIL IN 1928, BY CLASSES
(In Millions of Dollars.)

Class of Products	Argentina		Brazil	
	Exports	Imports	Exports	Imports
Animal products, edible.....	\$ 2.5	\$ 7.3	\$ 0.2	\$ 0.1
Animal products, inedible.....	2.0	47.8	2.2	9.4
Vegetable products, edible.....	3.6	1.1	7.6	200.6
Vegetable products, inedible.....	7.2	32.0	3.9	7.3
Textiles	15.8	8.4	4.5	0.1
Wood and paper.....	14.2	0.0	0.7	0.1
Non-metallic minerals	19.0	0.1	19.9	1.6
Metals and manufactures.....	14.7	0.1	12.0	1.1
Machinery and vehicles.....	88.0	0.0	41.8	0.0
Chemicals	5.7	1.8	2.4	0.1
Miscellaneous	5.8	0.8	4.8	0.3
Total	\$178.5	\$99.4	\$100.0	\$220.7

Turning now to Asia (exclusive of the Philippine Islands) imports from this continent exceed exports by a wide margin. In 1928 the total imports were \$1,053,000,000, while exports amounted to only \$573,000,000. The commodities exchanged are largely animal, vegetable, forest, and fibrous products, the imports of which were \$961,000,000 in 1928, while the exports of these products amounted to only \$311,000,000. The trade in metals and metal manufactures, machinery, vehicles, chemicals, and miscellaneous was comparatively small. Here exports

far exceeded imports, the figures being, for 1928, \$188,000,000 and \$83,000,000 respectively.

The net balance of merchandise trade of \$480,000,000 exceeded by a wide margin the interest and dividend payments required to service the \$1,000,000,000 invested by the United States in this area. It thus appears that it is mainly through our trade with Asia that the lack of balance with other areas—notably Europe and Canada—was in large, but insufficient, measure rectified.

In consequence of the depression the excess imports from Asia have, however, been very seriously reduced. The figures for exports and imports for 1932 were \$290,000,000 and \$362,000,000 respectively, leaving a net import margin of only \$72,000,000. While the fallacious mercantile philosophy would welcome this shift as favorable, we must regard this development with apprehension, for we must always bear in mind that the fatal maladjustment in our international economic relations since the war has been the disequilibrium in our international accounts, expressing itself in the failure of "imports," broadly considered, to balance our creditor relation with the rest of the world.

The foreign trade of the United States in 1932 was less than one-third (in value) that of 1928. But the relative position of the different countries has changed during the depression. Exports to Asia in 1932 were, in relative figures, 45 (1928 = 100), while imports stood at 31. The figures for South America were 20 and 35 respectively; for Central America 37 and 57; for Mexico 28 and 30; for Canada 26 and 36; Europe, 33 for exports and 31 for imports.⁴⁷

The future of our agricultural exports to Europe depends largely upon political factors only partly under our own control. The prospects are none too encouraging. Moreover, with respect to mass production manufactured products, it is possible that our former technical advantage may be lessened. The European countries are increasingly adopting these techniques. In both these two major classes of exports we can scarcely anticipate a return to pre-depression export volume. But it is incumbent upon us to recover as large a proportion

⁴⁷ For Australia and Cuba the relative figures for our exports and imports were 19 and 15, and 23 and 29, respectively.

of that volume as possible, and thus cushion the secular decline in order to minimize the structural internal adjustments that these changes impose upon our domestic economy.

On the import side, American tourist expenditures in Europe are likely to play an increasing rôle, while on the other hand immigrant remittances must inevitably decline. If we choose, imports from Europe of specialty products and of the finer quality goods can be greatly increased. By and large it seems probable that a closer reciprocal balance of exchange of goods and services with Europe is in prospect.

Foreign trade in the nineteenth century consisted largely of an exchange of raw materials for manufactured products. The future trade of the world is likely to assume more and more an exchange of certain raw materials against other kinds of raw materials; and of specialty products against other types of specialty products. The full realization of this condition awaits, however, a fairly complete industrialization of all parts of the world.

IV. SOME CONSIDERATIONS WITH RESPECT TO NATIONAL POLICY

A. POLITICAL CONSIDERATIONS

In the consideration of economic policies due regard must be given to political considerations. Economic policies that take no cognizance of political sensibilities are likely to endanger world stability and world peace. In the adoption of a tariff policy, for example, account should be taken not only of the effect on the domestic economy but also upon possible serious international complications. Tariff acts at times have had not only unfortunate economic consequences but have served to strengthen the hands of the aggressive militaristic party in foreign countries. The intense economic nationalism of the current depression finding expression in numerous arbitrary trade restrictions, monetary depreciation, and the like, has given rise to an immense amount of resentment and international ill-will.

On the other hand no government can afford to take a strictly international viewpoint even though such a policy were, abstractly considered, wholly in the national interest; for, unless nationalistic sentiments or prejudices are mollified, dangerous consequences to the peace of the world may ensue. There is danger that a program of planned economic internationalism,

such as that foreshadowed by the League of Nations and the various international economic conferences of the post-war period, may, in a highly nationalistic world, attempt too much and thereby destroy the very stability it is sought to achieve.

Political and economic instability are intimately intertwined in a cause and effect relationship. Disarmament, regulation and control of the munitions industries, the World Court and other international institutions facilitating consultation and settlement of disputes—these are problems that concern international economic relations no less vitally than trade agreements, stable exchanges, and foreign lending.

The treaty recently concluded with Cuba abolishes the former contractual right to intervene in Cuba and to participate in the determination of domestic policies such as those relating to finance and sanitation. The consummation of this treaty constitutes a significant forward step. Moreover, the recent public declaration by the President "that the definite policy of the United States from now on is one opposed to armed intervention" should be vigorously supported.

Such a program does not imply that American traders and investors shall be accorded no protection abroad. Most of the difficulties that arise can be adjusted by friendly diplomatic exchange. Recourse may be had to the local courts and to international adjudication. There is an established body of international law which provides for protection to aliens carrying on their business abroad. Supplemental to this there is also a large body of treaty law. It might be desirable to have this law administered by an international tribunal. However, until agreement can be reached on an international court, the problems must be dealt with through diplomatic channels.

Moreover international organizations, preferably non-political and non-governmental, can and have been devised to insure fair treatment and protection. Examples can be cited of such semi-governmental organizations as the Foreign Bondholders of Great Britain and the newly formed Foreign Bondholders Protective Council in this country.

B. INTERNATIONAL COMPETITION

We are still standing in the stream of the swift centuries in which the world is being made over from a handicraft to a

mechanized economy. And until the whole world is brought into the industrial system, profound international disturbances are bound to occur. A thoroughly modernized textile industry suddenly grows up in Japan, a country where the general level of productivity makes a low wage level inevitable. The highly mechanized and efficient textile industry can however obtain labor at wages based on the low level of the backward industries. There results a cutthroat international competition which endangers high labor standards elsewhere.⁴⁸

In the face of such competition the older industrial nations may seek various forms of shelter. They may protect their home market by raising the tariff against Japanese products. They may refuse in future to supply Japan with capital for the development of her industries. They may seek to conclude with her an international cartel, assigning definite market areas or quotas to each country. And they may seek through international machinery to standardize labor conditions, bringing the wages in the low-standard countries up more nearly in line with productivity of labor in the more efficient industries.

This is one of the many economic conflicts growing out of the continued internationalization of modern technology. These conflicts have to be minimized and adjusted in one way or another in a day-to-day process of adaptation, but they are not likely to cease until the spread of industrialism has run its course, until the whole world is brought under the sway of the machine system, and until differential international advantages and standards have been largely removed by the equalizing effects of capital, trade, and population movements.

Moreover, under the stress of the depression, methods of international competition which are essentially unfair have been growing throughout the world. Currency depreciation and exchange dumping, arbitrary quota restrictions, arbitrary exclu-

⁴⁸ A warning needs to be registered, however, against the popular alarmist outcry against Japanese imports. The competition of certain special products has, no doubt, been serious, but the view that Japanese products as a whole constitute a serious menace is not supported by facts. While it is true that our imports from Japan, exclusive of raw silk, increased considerably — about 65 per cent — in relation to our total imports, the figures do not indicate any flood of competitive importation from Japan. Moreover, while Japanese exports may at times cause some injury to certain American industries it should not be forgotten that other parts of our economy — mainly raw cotton — profit from an expansion of Japanese trade. Thus our total exports to Japan increased 6.3 per cent in 1933 over 1932, while our total imports from Japan decreased 4.2 per cent in the same period.

sion of commodities under health regulations, unduly severe legislation requiring marks of origin, abnormally high administrative fees, arbitrary classification of commodities for the purpose of tariff discrimination, evasion of most-favored-nation treaties, are transforming international trade into uncivilized warfare. There is the greatest need to rebuild standards of fair competition in international trade. These are matters that must be dealt with either by negotiation with each separate country or by international conference. In the present state of world affairs separate negotiations are likely to prove more feasible. By means of reciprocal bilateral or multilateral trade agreements, a determined effort should be made to clear away the basic causes of these practices and, thereby, these disturbing trade conditions.

C. FOREIGN LOANS AND INVESTMENTS

1. *The War Debts.*—The release of international political tension requires a definitive settlement of intergovernmental war debts. A sympathetic consideration should be given to any proposals of settlement brought forward by the debtor nations. At an appropriate time the American government should actively promote a final settlement of the war-debt problem by accepting a nominal lump-sum payment, thereby wiping out once and for all this indebtedness. Such a payment would confirm the willingness of the debtor nations to pay, yet take account of the grave economic maladjustments involved in spreading large annual payments over a long period of time. More important by far than any particular form of settlement is the final removal of this dangerous irritant to international relations.

The recent American note addressed to the British government suggests payment in kind. Under certain conditions such an arrangement might facilitate the transfer, if for no other reason than that this procedure compels a realistic view of the problem. In the final analysis payments in kind are no whit different from additional imports brought in through the ordinary channels of trade, *provided the dollar exchange created by such additional imports is taken up for debt payment.* But this may not always be done. Indeed, a larger volume of imports might readily be balanced by an increase in exports,

leaving no greater volume of dollar exchange available for debt payment than before. The method of payments in kind does have the merit, first, that it stimulates a search for possible *new imports*,⁴⁹ and second, that it definitely earmarks and credits all receipts in kind to debt payment.

The lump-sum payment might be made partly in cash, partly in commodities, and partly by an issue of bonds to be sold to private investors in the capital markets, the proceeds going to the United States government in settlement of the debt. Of necessity, the choice of method, or combination of methods, to be used would vary with different debtors. The important thing is that the debts, as political entities, shall be wiped out once and for all at a single stroke.

2. *Long-Term Investments*.— From 1924 to 1930 inclusive the interest and dividends (net) due us on private foreign investments averaged \$480,000,000 per annum. If we add the payments made on the political debts—\$203,000,000 per annum—we get an average figure of \$683,000,000 per annum, which represented the creditor position of the United States in the world economy in the pre-depression period. The service on capital and the war-debt receipts were offset in part by a net import of goods and services⁵⁰ amounting on the average for this period to about \$175,000,000⁵¹ per annum. Thus our international accounts were out of balance by around \$500,000,000 per annum. This represents the measure of the disequilibrium in our balance of payments. This shortage of “imports” of goods and services of half a billion dollars was balanced by new annual foreign investments. Such a policy had, of necessity, to break down.

It is legitimate for a creditor country to reinvest abroad a part of the interest and dividends received annually. From 1850 to 1913 England reinvested about two-thirds of the sums so

⁴⁹ If the payments in kind merely replace existing imports, the strain on the exchanges would be just as great as though the payments were made in cash. This is true since under these conditions the “free” imports would be reduced, thereby restricting the volume of dollar exchange available in the open market.

⁵⁰ Included in goods and services, as here used, are: merchandise; shipping services; tourist expenditures; immigrant remittances; government transactions (other than war-debt receipts), such as expenditures abroad by the various executive departments, etc.; and miscellaneous current items, such as insurance, advertising, motion picture royalties, and the like.

⁵¹ Possibly some of the government items should be excluded, such as the payments by the Alien Property Custodian. This item ranged roughly from fifteen to twenty million dollars annually in this period.

received. In view of her liberal trade policy and the general structure of her international balance of payments, such a volume of reinvestment proved reasonably safe under the conditions of rapid economic growth of the nineteenth century. It would probably be too large a proportion, given English and world conditions, in the post-war economy.

Not until we can achieve a considerable increase in imports in relation to exports can we safely engage in foreign lending. A moderate volume of foreign lending undertaken in conjunction with a more liberal commercial policy could help to ease the transition toward a mature creditor position. The volume should, however, be very moderate until a strong passive balance of trade has been established. A very considerable increase (probably some \$400,000,000 to \$500,000,000) of imports in relation to our exports of goods and services is imperative in order to obtain the dollar balances needed to service our foreign investments.⁵² A larger increase (probably \$700,000,000 or \$800,000,000) would be needed to facilitate the foreign purchase of any considerable volume of our exportable surpluses.

In view of the recent deplorable experience with foreign lending, it is useful to lean over backwards against an unintelligent, alarmist view with respect to capital exports. One may foolishly drive an automobile into a ditch, but that does not prove that automobiles must forever after be abandoned as vehicles of transportation. We mismanaged our capital exports in the decade of the twenties but the solution does not lie in prohibiting capital export in the future. A larger net excess of imports (goods and services) over exports is indeed required, but some allowance for the growth of foreign investments is not only permissible but desirable in the present stage of world economic development. All issues, both domestic and foreign, should, however, be subjected to control, as is contemplated in the modified Securities Act.⁵³

A Division of Foreign Loans and Investments should be established under the Federal Reserve Board. This division should scrutinize carefully the flow of capital movements in and out

⁵² In 1933 net interest and dividends received amounted to \$367,000,000, a severe decline from the \$616,000,000 reached in 1930.

⁵³ The suggestion has been made that the Securities Act should be amended so that information given by foreign governments to American investment banking houses would be regarded as final, relieving the bankers of responsibility for such official information.

of the country. Full publicity should be given to the findings. I should not recommend *direct* supervision and control over capital movements; accurate information and full publicity would, I believe, introduce not only a more flexible, but also a safer, method of regulation.⁵⁴

Under proper safeguards it is advisable for some government institution to finance temporarily intermediate export credits. Short-term credit facilities appear to be amply provided for by existing institutions, but there seems to be a lack of adequate facilities for intermediate credit, particularly in the case of the heavy export products. Intermediate credit of this sort may, as an emergency measure, properly be provided through the instrumentality of the newly created Export-Import Banks. These banks might undertake to insure say 70 per cent of the credit risk involved. For such insurance the banks should charge a premium rate, varying according to risk, amount, and duration of the credit but sufficient to protect against loss. These insured credits might be discounted through existing channels.⁵⁵ Such export credit insurance plans have been successfully operated on a sound financial basis in many European countries for a full five-year period, and in several additional countries for shorter periods.

There is considerable evidence that the foreign exchange situation in some of the South American countries is gradually improving. If the progress made is deemed sufficiently encouraging to warrant the belief that the exchange control would be entirely lifted in a year or two, it would be desirable, under such conditions, for the Export-Import Banks to take over the balances of American exporters now blocked in countries having exchange control, thereby making dollar payments immediately available.

3. *Short-Term Capital Movements.*—I recommend the utmost freedom in short-term capital movements. There should be available, however, complete knowledge of the volume and character of these movements furnished by a statistical organization, such as the Division on Loans and Investments to which

⁵⁴ The new Securities Commission is an administrative body designed to safeguard security issues, both domestic and foreign. There would still be need for a Research Division, designed to collect and disseminate information, such as that here recommended.

⁵⁵ The suggestion has been made that it might be advisable to extend the power of the Federal Reserve Banks to take care of these credits.

reference has just been made. Whether arising from foreign trade acceptances, from loans to foreign banks or corporations, from foreign deposits, or otherwise, the total short-term balances should be known to each individual bank. This knowledge would tend to prevent undue extension of short-term foreign credit. This information should, however, be cleared among the leading central banks through the International Bank at Basel.⁵⁶

Beyond the restraint imposed by fuller knowledge I recommend no further regulation of short-term capital movements. In order to offset temporary strains occasioned by shifts in the more "permanent" trade and capital items in the balance of international payments, the more "temporary" or equilibrating items—gold movements and short-term capital movements—should be given the freest possible play. If sound banking practices are pursued so that banks even in times of stress remain both liquid and solvent, any sharp gap in the balance of payments may properly be closed by short-term international loans until, through the passage of time, the trade and long-term capital movements are adjusted to the changed conditions. Short-term capital movements, under sound banking conditions, serve as a stop gap and help to prevent a breakdown. Only when the solvency of banks or governments is questioned, or when political instability develops, or the value of the currency is endangered, are these short-term funds likely to become the football of speculators and thereby contribute to the collapse of currencies.

D. TARIFF POLICY AND THE BUSINESS CYCLE

Economic theory has stressed insufficiently the relation of tariff policy to business cycle policy. From much of the analysis that one finds in economic literature one draws the conclusion that a nation always benefits from tariff reduction regardless of the timing of such tariff revision in relation to the particular phase of the business cycle. This is a great mistake. Tariff policy needs to be articulated with the general business cycle policy.

⁵⁶ Confidential data on balances held by New York banks abroad and foreign balances in New York banks are now tabulated weekly by the New York Federal Reserve Bank. Also annual data covering the entire country are published by the Bureau of Foreign and Domestic Commerce.

The problem of timing tariff revision must be considered in relation to the manner in which purchasing power functions in the various phases of the cycle. One must hold firmly in mind that an essential characteristic of the business cycle is the fact that available purchasing power is not equally active in all phases. In the depression phase an immense volume of potential purchasing power remains quite inactive, resulting in reduced purchases of commodities and labor, in contraction of income, and increased unemployment. In the period of revival, dormant purchasing power becomes active, thereby raising the total income in the next succeeding period.

In general, I hold to the view that in the depression period, when much purchasing power is kept out of the market and when funds available for investment are timid and fearful of the future, a unilateral reduction of the tariff can only do harm. Under these conditions, an increase in imports is likely to add to the volume of unemployment. Admittedly the increased imports give foreigners added dollar purchasing power which normally would be used to buy American goods or securities. But if goods *are* purchased they might come from overstocked inventories and so fail to relieve unemployment or even to offset the unemployment created by the new imports. If securities are purchased, the funds so received by Americans might be used for debt extinction or simply be held idle. In this event the tariff reduction and larger importation could have no other effect than to add to the depression. Moreover, foreigners might allow their dollar exchange to accumulate, waiting for a further fall in commodity or security prices. There is, in addition, the possibility that under certain circumstances the added imports might be balanced by gold outflows. But the gold inflow into the foreign country is not likely, in a period of pronounced business pessimism, to lead to any expansion of credit or purchasing power; and in the gold-exporting country the effect can only be a deflationary one.

If bilateral reductions in tariffs are made in the depression phase, the case is not so clear. If the concessions made by both countries are equally beneficial, it would mean that each country would at the same moment increase both its imports and its exports. The unemployment caused by increased imports would be offset by increased employment in the export indus-

tries. But we would have to be very careful to be sure that the tariff reductions of the foreign country would stimulate American exports, and not merely exports from competing countries, that exports gained would be equal to the domestic production supplanted by imports, and that there would be no lag in the increase in exports in relation to the increase in imports. All these are serious risks, and ought not to be lightly undertaken in a period of extreme business depression when every unfavorable event tends to engender still more pessimism.

Consider now the situation in the period of revival and upswing of the cycle. In this phase even a unilateral tariff reduction may be undertaken with confidence. Purchasing power made available to foreigners is likely to be utilized quickly to buy either American goods or American securities. In the former case employment in the export trades is stimulated. In the latter case funds are made available to Americans who are likely to put them to active use either in the commodity or the investment market. Employment and production are thereby stimulated. Nor need one have serious fears, in this phase of the cycle, for lags in the stimulus to exports. In the upswing of the cycle slight disturbances are not serious since the general tendency is optimistic and favorable. And when the stimulus does finally come, the upward movement is carried forward by the increase in exports. If the tariff revision is bilateral in character the uncertainties and lags are minimized and the favorable aspects are more certain of realization. Business expansion is indeed likely to be definitely stimulated by such tariff reductions since they will tend to remove the worst surpluses dammed up by excessive tariff walls, thereby increasing the movement of goods, and stimulating purchasing power.

This analysis points to the conclusion that bilateral or multilateral tariff reduction is safer than unilateral reduction, that in the upswing phase of the cycle even unilateral tariff reduction may be undertaken without serious risk, and that bilateral and multilateral reductions are likely, in the revival phase, to add buoyancy to the upward movement.

E. TARIFF POLICY FOR THE UNITED STATES

Despite the European trend toward self-sufficiency in food-stuffs, the United States should, nevertheless, exert every effort

to break down the high tariff and other trade and quantitative restrictions erected against American agricultural products. If these foreign markets cannot be largely restored by a new national policy in international economic relations, agriculture may be forced to accept continued regimentation or voluntary curtailment involving the withdrawal of millions of acres of land from productive use and the wholesale resettlement of rural populations.⁵⁷

Obviously we can make no headway in this direction unless we offer something in return. These concessions will cost us some dislocation in certain inefficient industries now unduly protected; but as a nation we shall get not only a quid pro quo, but, what is enormously more important, a better equilibrium and balance in the international situation, under which each nation can obtain a more secure domestic prosperity. The general balance thus arrived at would be infinitely more important than the benefits derived from any special trading of concessions.

This raises at once the question of the recently enacted power granted to the President, with the advice of the various appropriate agencies of the government, to negotiate reciprocal trade agreements with foreign countries. The President should be given this power, not only in the temporary emergency, as in the act of June 12, 1934, but permanently. These powers should be used for the broad purpose of liberalizing commercial policy throughout the world.

In the negotiation of reciprocal trade agreements, the aim of special advantage should be subordinated to the larger purpose of broadening the channels of world trade. This is the position which has repeatedly been taken by Secretary Hull. One must remain apprehensive of the principle of bilateral trade agreements unless this larger end is constantly and firmly held in mind. Unless the concessions made are generalized to all countries, such agreements often tend to engender international friction, which is likely to lead to counter tariff reprisals. Preferential agreements are likely to disturb established currents of international trade. A market gained in one place may likely—in the case of standardized commodities traded on ex-

⁵⁷ While emphasis is here placed on agricultural products, it is not intended to overlook opportunities for the expansion of exports of industrial products.

changes, certainly—be lost elsewhere. Such agreements too often foster imports from countries not best adapted to the production of the commodity in question. Moreover, such arrangements frequently endanger the vast volume of triangular world trade. These objections can only be overcome when all concessions are freely generalized under the unconditional most-favored-nation treatment.

On the other hand, it must be admitted that bilateral tariff bargaining confronts serious difficulties and limitations when the concessions granted must be generalized to all countries.⁵⁸ Under these conditions, concessions must of necessity be limited to articles of which the country involved in the agreement is the chief supplier, otherwise bargaining opportunities with other countries are thrown away. It follows that when the full round of trade agreements has been made the tariff reductions will be limited largely to those commodities of which some one country is the leading source of supply. Articles imported from many countries and having no preponderant source of supply will not have been touched, even though on general principles the duty ought to have been lowered.

When a general program of tariff bargaining is undertaken with many countries, and when it is intended to go the rounds and make agreements with all countries, it might conceivably be possible to get each country to agree to waive most-favored-nation treatment with respect to concessions made to other countries until such time as a trade agreement was concluded with that particular country. The difficulty lies in the time element. If a considerable period—two or three years—intervened between the first trade agreement concluded and the last one, the discrimination involved would be serious. The preferential advantages gained in the meantime by the countries first favored might give them a foothold in the market from which they could not easily be dislodged after the preference was removed. These considerations must be borne in mind before one condemns too severely the generalization of concessions.

Under existing conditions it is plain that progress in com-

⁵⁸ Under the Trade Agreements Act the tariff concessions made to any one country must apply to all countries. The President may, however, suspend the application of the reduced rates to imports from any country because of discriminatory treatment of American commerce or because of other acts or policies which in his opinion tend to defeat the purposes of the act.

mercial policy can be made only through reciprocal trade arrangements. These agreements are now made generally under administrative or executive authority either permanently, without legislative approval, or temporarily, until legislative approval, more or less perfunctory, is secured. Under conditions now prevailing in the world it appears to be quite impossible for the United States to protect its legitimate interests in foreign trade and to improve its international economic relations without making, as rapidly as possible, trade agreements with foreign countries. These agreements should be carefully prepared with intimate knowledge of the trade position of each commodity involved, of the flow of commodities between the United States and the country in question, and also between each of these countries and all other important countries. Only in this way can all the ramifications and possible disturbing effects of the proposed agreements be adequately appraised, and pitfalls and dangers thereby avoided.

Since in general (in view of the creditor position of the United States, and in view of the collapse of the foreign market of our leading export industries) the imports of the United States, in relation to exports, are unduly low, it should be the special concern of the American authorities to hunt out things which can be imported and marketed without too serious disturbance to our established industries. The new trade agreements act affords an opportunity for the Tariff Commission to abandon altogether its studies of cost of production at home and abroad—a task based on a wholly fallacious theory of tariff making—and devote its attention to intensive studies of suitable imports into the United States.⁵⁹

It is, for example, quite possible through a seasonal adjustment of the tariff on perishable products to admit a considerable volume of imports from countries which at first thought appear to present insurmountable difficulties. Through seasonal tariff arrangements, our consumers may obtain products which in our off-season they would otherwise have to go without or for which they would have to pay exorbitant prices; yet the importation would injure domestic producers little if at all. If the imports threaten to be dangerously large, a limited quantity

⁵⁹ A strong effort might well be made to stimulate imports by merchandising methods such as an International Merchandising Mart, where foreign exporters could show their wares at minimum expense for the frank purpose of stimulating imports.

might be admitted free, or under a low tariff, while any importation above this amount might be made subject to an almost prohibitive duty. A careful study of commodities that might be admitted by the lowering or complete removal of the tariff in our off-season is merely an illustration of what might be accomplished if import possibilities were thoroughly explored through continuous and intensive research.⁶⁰

While recognizing the necessity and utility of bilateral trade agreements, under existing conditions, the possibility of multilateral agreements⁶¹ between three or more countries should

⁶⁰ As an illustration (in itself relatively insignificant) of trading possibilities, it might well be desirable to increase our stocks of minerals which we do not ourselves produce, notably manganese, chrome, tungsten, nickel, tin, and mica. The following table gives our importation of these minerals in 1928 and 1933, together with the sources of supply:

<i>Minerals</i>	<i>1928</i>		<i>1933</i>		<i>Source of Supply</i>
	<i>Quantity (in Mil- lions of Pounds)</i>	<i>Value (in Thou- sands of Dollars)</i>	<i>Quantity (in Mil- lions of Pounds)</i>	<i>Value (in Thou- sands of Dollars)</i>	
Manganese and alloys	952.0	\$ 10,202	424.0	\$ 4,085	Russia, British India, Gold Coast, and Brazil
Chrome and alloys	435.6	1,901	233.2	1,492	Rhodesia, Greece, and South Africa
Tungsten ore and combinations ..	2.7	573	1.2	169	China
Nickel	69.3	14,363	52.8	10,757	Canada
Tin	174.7	87,052	140.8	51,199	British Malaya, Bolivia, Netherland Indies, and Siam
Mica	3.7	1,188	4.4	393	
Total	1,638.0	\$115,279	856.4	\$68,094	

At the present time there is an international cartel of tin producers effectively controlling the supplies which come from British Malaya, Bolivia, Netherland Indies, and Siam.

⁶¹ A multilateral agreement might involve a uniform 10 per cent reduction of all rates. In view of the current 6 or 7 per cent depreciation of the dollar in terms of sterling, and the 41 per cent depreciation in terms of the gold currencies, such a reduction may be regarded as highly conservative. On general principles a flat uniform reduction in rates is however far from scientific. In the first place, there is no assurance that the relative level of present rates is at all reasonable, and there is, therefore, no good ground for keeping the existing structure intact. Moreover, uniform reductions weigh very unequally upon different commodities. In many cases a 10 per cent cut would not be noticed; in others such a reduction might be serious. In general, in view of our enormously high tariff schedules, such a reduction in rates would have but little actual effect on the degree of protection afforded on a very large number of commodities. Nevertheless, such a general lowering of many rates might well have a considerable psychological value throughout the world.

Another suggestion which might be considered would involve the reduction of rates only on commodities imported chiefly from countries adhering to the multilateral agreement.

be thoroughly explored. Such an agreement should leave the door open for the admission of other countries on equal terms.⁶²

Were a unilateral tariff reduction under consideration certain general formulas could appropriately be applied. A tariff-bargaining program involves, however, greater complexities. Yet even in this case it is useful to hold certain general formulas in mind. Included among these are the following: first, a reduction of rates on commodities the imports of which do not equal 5 per cent of the domestic production; and second, reduction of rates on all specialty manufactures and handicraft products, that is, dutiable articles more or less non-competitive and with respect to which foreign countries possess a marked advantage in production.⁶³

In the carefully prepared report of the Tariff Commission on "Economic Analysis of Foreign Trade in Relation to the Tariff" (Senate Document 180, 72 Congress, 2 session), 940 items, covering 112 pages, are listed of which the imports represent less than 5 per cent of domestic production; and 360 items are given listing commodities which are essentially non-competitive in character and in which foreign countries possess an advantage.

No industry would be threatened seriously by an importation equal to 5 per cent of domestic consumption. Indeed, consumers certainly, and producers quite probably, will gain thereby—the former in variety and quality of products available, and the latter by the stimulus to efficiency and alertness to the requirements of consumer demand which a measure of foreign competition affords. Moreover, a large increase in the importation of the articles of specialty manufacture and highly skilled labor benefits not only our consumers but also agricul-

⁶² The Montevideo Convention, now open for signature by all countries at the Pan American Union, is designed to facilitate such agreements by providing that most-favored-nation rights shall not be invoked against a multilateral agreement designed to liberalize commercial policy, and open to all nations on equal terms.

⁶³ Another suggestion looks toward the removal of all rates now in excess of a 75 per cent ad valorem equivalent, on goods subject to specific duties as well as those on an ad valorem basis, in so far as the powers given to the President (limited to a 50 per cent reduction) would permit. There are 333 such items listed in Senate Document 180, 72 Congress, 2 session. In certain cases this plan of tariff revision might, however, prove a serious hardship. For example, in the case of commodities the prices of which have fallen in the exporting country to abnormally low levels the ad valorem equivalent of specific rates might well be enormously high yet the tariff might, nevertheless, be ineffective. Some extreme cases of Japanese products have been cited in this connection. One way in which this objection might be partially obviated, however, would be to calculate the ad valorem equivalent on the basis of the average price for a five-year period, say 1928-30.

ture and our mass production industries, which need larger outlets in foreign markets.

In order to facilitate generous reductions in rates it may be necessary in some cases to impose a tariff quota in order to reassure the domestic industry against a flood of imports. Under such a quota a definite quantity (considerably in excess of recent importations) could be imported at a lower rate of duty. Once this volume of importations was reached, a higher rate of duty would be applied. Tariff quotas are more flexible than fixed import quotas in that they permit an excess of imports over the quota assigned if the importer is willing to pay the higher rate of duty.

In order to escape the administrative difficulties of allotment of quotas to foreign countries and especially in order to provide for a more flexible system and to prevent the arbitrary freezing of the share of each supplying country, based on conditions previously prevailing, it would appear desirable to fix a global quota applicable for short periods of time. This would give each country a fair opportunity to secure such share of the total quota as its current competitive position in the market justified. A general global quota offers a way of escape from the extreme rigidity of quota allotments based on conditions that no longer prevail.

Generous quotas designed to facilitate tariff reductions and to permit a considerable increase in imports should not be confused with quotas designed to restrict and reduce the volume of importations. While, in the abstract, quotas may be regarded as undesirable, they may nevertheless in some cases prove necessary devices without which any considerable tariff reduction may be quite impracticable.

It has been suggested that a system of bounties or subsidies might be substituted for the tariff. One great advantage of the subsidy system is that it definitely focuses attention upon the public contributions made. At a time when agriculture is demanding and obtaining subsidies, it is important to see clearly that subsidies and tariffs are, from the standpoint of the public burden imposed, essentially similar. There has been much loose talk by politicians of making the tariff effective for agriculture. At last the farmers have found the only device by which this can, in effect, be in some measure accomplished: that device is

the subsidy. If industrial tariffs are not lowered, there is the greatest danger that we shall be loaded with the double burden—industrial tariffs and agricultural subsidies.

Should the nation decide that certain inefficient⁶⁴ industries (for example, sugar) ought definitely to be liquidated, a progressively declining subsidy, terminating after a definite period, would be a useful device to minimize the effects of the necessary re-direction of capital. In a similar manner, the labor re-adjustment should be eased by a general program of unemployment insurance.

Looking to the future, it is of the utmost importance that nations come to a realization that the tariff can no longer be regarded as a purely national issue. The depression should by now have taught us that the world has become highly interdependent, that every country has become extremely sensitive to disturbing influences from abroad, and that the repercussions from the imposition of serious obstacles to international trade endanger world equilibrium and in turn the internal economic stability of the offending country itself.⁶⁵ From this it follows that there ought to be an international agreement to the effect that no nation may tamper with its tariff without international consultation and negotiation. Deliberately to disrupt established channels of trade ought to be made, by international agreement, an act of bad faith.

F. INTERNATIONAL MONETARY POLICY

The international monetary tangle offers a problem of extraordinary difficulty, especially for the United States. Unlike the raw material countries, on the one side, or the industrial countries like England, on the other, American economic interests are neither preponderantly agricultural nor preponderantly industrial in character. This makes a consistent and coherent monetary policy far more difficult for the United States.

In consequence of the Gold Reserve Act the dollar is probably undervalued in relation to the currencies of the leading

⁶⁴As here used the term "inefficient" means unable to meet international competition.

⁶⁵"The appalling repercussions of the 1930 Tariff Act upon our own domestic prosperity bring home the lesson that, in this day and age, the tariff is a gun that recoils upon ourselves. Time was when we could fix our tariff to suit ourselves, without serious injury to our own exports, then largely consisting of raw materials of which we were the chief source of supply. That day is gone."

countries, except Japan. This creates international disequilibrium. This strain can, however, easily be exaggerated. The structure of our foreign trade is rigorously determined by our tariff policy. Our imports consist largely of raw materials on the free list, and our exports are chiefly raw materials and mass production goods. A large part of our export trade is not sharply competitive with European industries. The menace to other countries of dollar undervaluation is therefore minimized. However, the artificial stimulus to exports can already (since the *de facto* stabilization) be noted, and some imports are certainly restricted by the virtual increase in the tariff incident to the devaluation of the dollar.⁶⁸

A moderate rise in commodity prices in the United States would tend to ease the current international strain caused by the undervaluation of the dollar. Any narrowing of the margin of dollar undervaluation will help to relieve the international tension, will render more nearly feasible a general liberating movement in world-wide commercial policy, and will facilitate a return to monetary stability.

The next steps toward monetary stability both here and abroad are extraordinarily difficult. No matter what path is chosen certain risks are encountered.

First to be considered is the definite and fixed devaluation of the dollar at the present *de facto* level (59.06 per cent of the former gold content). This is one possible road out of the difficult current monetary tangle. The adoption of the gold bullion standard with a free gold market offers definite advantages, but it also entails, in the absence of an international agreement, certain more or less serious risks.

Conditions change so rapidly—witness the current volatile situation with respect to the German mark—that the United States might run a considerable risk in a definite and final devaluation without a preliminary international agreement between the United States, England, France, Germany, and Japan. It is true that the French *rentier* psychology offers considerable assurance that France will resist to the utmost any devaluation of her currency. If forced to do so, however,

⁶⁸ While the process of depreciation is going on, imports are stimulated owing to the tendency to anticipate further depreciation; and exports are, for the same reason, checked. But once stabilization is reached on the new level, exports are artificially stimulated and imports checked.

French investment interests may very likely be relied upon to insure the minimum devaluation consistent with external stability. But severe industrial pressure might change the political complexion very quickly. And while the financial conservatism of Great Britain (notably demonstrated since her abandonment of the gold standard) and her great regard for the continued world confidence in the pound sterling suggest little cause for alarm, a prolonged relapse into a "stabilized semi-depression," owing to the unfavorable development of world trade, might create new exchange difficulties.

Perhaps a more serious risk, but one which can also easily be overstressed, is the danger that with definite revaluation would come such a large movement of capital to the United States as to draw an overwhelming flood of gold to this country, creating a very serious international monetary strain with renewed deflation abroad and its attendant fiscal difficulties. Such a development is suggested by the higher yield on high quality investments here than abroad. This discrepancy is likely to be narrowed rapidly, however, once a definitive stabilization is reached. It is to be noted, moreover, that on the Continent of Europe such a close regulation of the exchanges is maintained through import quotas and other restrictions on trade and the transfer of funds that any serious drain of gold is improbable. At all events, if hard pressed, the gold bloc countries could meet the strain by revaluation.

A second proposal looks toward the adoption of the movable gold content feature of the American Gold Reserve Act by an international agreement between the United States, Great Britain, France, and Japan. The aim would be to achieve a de facto stabilization in each country within definitely established de jure limits. Changes in the exchange rates might be made, but "only with the consent of the other parties and on grounds capable of scientific statement and justification. . . . A limited power to vary parities may, indeed, be a permanent feature of the new régime."⁶⁷

Definite devaluation should await an international agreement to re-establish the gold standard in all the leading commercial nations. Moreover, one may well question the wisdom

⁶⁷ See *The Economist*, March 31, 1934, and also the report by Professor Gregory appended to the memorandum of the International Chamber of Commerce.

of any hurried attempt at an international agreement until the maladjustments still present in the international structure have been substantially cleared away. Until commercial policies, intergovernmental debts, and international financial relations generally have been adjusted in such a manner as to warrant belief in the workability of a reconstructed gold standard, it is safer to retain a considerable degree of flexibility in the international monetary structure, particularly such as the current British monetary system provides.

Whichever program is adopted—definite devaluation or a continuation of the “movable” gold standard—it seems desirable to remove the current administrative control of the purchase and sale of gold on international account. Once American prices have risen to a point that re-establishes international equilibrium, any further rise in prices in the United States above world prices would tend to cause gold outflows. This movement should be welcomed partly as a corrective for the current maldistribution of gold but especially as a check upon extreme price inflation in this country.

The attempted nationalization of silver and the intent to modify our metallic reserve requirements by providing that 25 per cent shall be in silver and 75 per cent in gold does not meet with my approval. We are not in need of additional metallic reserves. On the contrary they are so dangerously large that if and when credit conditions again become normal, it will require adroit management of the reserve ratios to prevent a serious credit inflation. In consequence of the devaluation, our gold stock has been increased by about \$2,800,000,000. The recent gold drains, caused by the current undervaluation of the dollar, have added another \$900,000,000. The Treasury held on June 1, 1934 (not counting the gold deposited against the gold certificates issued to the Federal Reserve Banks), some \$3,000,000,000. The surplus reserves of the member banks stood on June 13, 1934, at the unprecedented figure of \$1,750,000,000. Any expenditure by the Treasury of the revaluation profits increases these balances by a corresponding amount. It is quite possible that the surplus reserves of the member banks might reach the fantastic figure of some \$2,500,000,000,⁶⁸ making possible a

⁶⁸ This statement is made on the assumption that the Exchange Stabilization Fund would be continued at approximately the present amount of \$2,000,000,000.

new credit expansion of \$40,000,000,000—an amount exceeding by nearly \$15,000,000,000, the total demand deposits of all commercial banks in 1928.

G. THE ADMINISTRATION OF INTERNATIONAL ECONOMIC RELATIONS

Finally, and of utmost importance, is the problem of administration. There is scarcely any agency of the government, or any piece of legislation, no matter how purely domestic it may superficially appear to be, which does not affect our relations with the outside world. Various governmental departments and agencies, working more or less in isolation, are in danger of pursuing conflicting policies with respect to tariffs, foreign loans, and monetary and fiscal matters affecting our international economic relations. The task of securing continuity, coherence, and consistency in our international economic policies is, under the present circumstances, a most difficult one.

At the present moment, many branches of the government are concerned with these matters. The State Department is responsible for the negotiation of commercial treaties and other arrangements or agreements with foreign nations. It maintains, moreover, a consular service in important foreign countries. The Bureau of Foreign and Domestic Commerce collects foreign trade information through its commercial attachés and trade commissioners. It maintains in Washington a staff of research workers and experts with special divisions on commodities, finance and investment, foreign tariffs, foreign trade statistics, and regional information. The Department of Agriculture has also some representatives abroad, and through the Bureau of Agricultural Economics has done much valuable research in foreign trade problems, a recent notable one being "World Trade Barriers in Relation to American Agriculture." There is, moreover, the Tariff Commission, which unfortunately has been forced to devote much of its attention to the making of numerous studies of so-called cost of production at home and abroad. These studies, as might be expected, have for the most part served no useful purpose, since they are based on a principle untenable on general grounds of reasoning and impossible of precise application in practice. Numerous valuable studies on tariff problems have, however, been made by

the Tariff Commission, the most notable being the admirable report on "Economic Analysis of the Foreign Trade of the United States in Relation to the Tariff."

In addition to all these long-established organizations, there has recently been added the Office of Special Adviser to the President on Foreign Trade. This new office is not established for the purpose of engaging in primary research. According to the executive order creating the office, it may call upon the regularly constituted research organizations and divisions of the government for such data and information as it may need. Its purpose is rather to formulate problems, to analyze data pertinent to current foreign trade proposals, and to initiate plans and procedure designed to facilitate foreign trade, and to make barter arrangements and provide foreign credit accommodations. For this latter purpose the Export-Import Banks have been established; the aim is to supply intermediate credit facilities to American exporters and importers and to facilitate trade with special countries such as Russia and Cuba. In addition to all these organizations, the Treasury Department, through the Reconstruction Finance Corporation, has made loans to certain foreign countries to facilitate the exports of agricultural products. Collecting as it does the customs duties, it is intimately concerned with foreign trade. Finally, the Federal Reserve Board is concerned with international banking relations, exchange controls, and other financial matters.

How to effect a coordination of all these numerous and varied activities—all more or less concerned with international economic relations—presents an extraordinarily difficult problem. The functional division of labor—the Department of Agriculture studying foreign trade problems relating to farm products, the Department of Commerce concerned chiefly with industrial problems, the Department of State specializing in legal aspects of international economic relations—has undoubtedly certain distinct advantages; but it also has serious disadvantages. A larger measure of coordination is needed. Some progress has, indeed, been made through the establishment of the Executive Committee on Commercial Policy, a committee composed of representatives of the various govern-

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mental departments concerned with foreign trade and commercial problems.⁶⁹

* Since the foregoing was written, a new interdepartmental committee, the Foreign Trade Agreements Committee, has been created and intrusted with the duty of carrying out the provisions of the Trade Agreements Act of June 12, 1934. Questions of broad policy are referred to the Executive Committee on Commercial Policy. Under this new committee there have been set up country committees and special commodity committees designed to prepare the basic data preparatory to negotiations with the foreign countries. In addition certain special committees dealing with more general problems, such as exchange control, quotas, branch factories, etc., have been created. All these committees are interdepartmental in membership. The Trade Agreement Act has thus served to bring about a closer coordination of the various divisions concerned with foreign trade and commercial policy than has hitherto been the case.

PART IV

SELECTED MEMORANDA

- A. STATEMENTS MADE BEFORE THE COMMISSION**
- B. MEMORANDA SUBMITTED TO THE COMMISSION**

PART IV A

THE POSITION OF AMERICAN COTTON IN THE WORLD MARKET

*Statement by WILLIAM L. CLAYTON, President, Anderson, Clayton
and Company, at the Houston Hearings, May 7, 1934*

I

According to government statistics, there are about two million cotton farm families in the South. Estimating five to the family, we have a total of ten million people, or about one-third of the Southern population, directly dependent for their main cash income upon cotton. They pay their taxes, educate their children, buy their clothing, agricultural implements, etc., with the proceeds of their cotton crop. In addition, picking, ginning, transporting, compressing, warehousing, merchandising, oil milling, etc., require the employment of probably a minimum of 750,000 people for three and a half to four months in each year. Obviously, there are also a great number of people in the South indirectly dependent upon cotton for their employment. It is, therefore, conservative to say that more than half the Southern population derives its chief cash income directly or indirectly from the raw cotton industry.

Southern investments in industries and facilities directly dependent upon cotton production, such as ginning, compressing, warehousing, oil milling, shipping, etc., probably exceed \$500,000,000 in value. (Nothing herein refers to the cotton textile industry unless so stated.)

Approximately 60 per cent of our cotton crop is exported, but this 60 per cent supplies only about 40 per cent of the raw cotton consumed abroad. Obviously, then, the price of cotton is fixed in the world markets by supply and demand, and cannot be fixed otherwise.

Raw cotton accounts for about one-fifth of the total exports of the United States. It has for a long time been the largest single item in our export trade. In some years the total value of our raw cotton exports has exceeded one billion dollars. Certainly no important group or community in the whole United States is so dependent upon the preservation of its export markets as is the cotton South.

II

That our protective tariff works a great hardship on the Southern cotton farmer in raising the prices of the goods and services which he requires and in adding enormously to the difficulties of payment by foreign buyers of his cotton, is so generally understood and admitted by all informed persons that it is deemed unnecessary to present any argument or proof in support of this proposition. The relative facts should, however, be briefly outlined.

Prior to the World War, not only were our tariff rates moderate, in comparison with the rates of the present Hawley-Smoot Tariff, but we were then a debtor nation, and the heavy annual remittances which we were required to send abroad as interest and amortization on our debts greatly simplified the problem of payment for the export of our agricultural surpluses, principally cotton.

Going into the war a debtor nation, we came out of it a creditor nation. Our heavy lending and investing abroad during the first post-war decade made us, by 1929, the world's greatest creditor nation. Under those circumstances, enlightened national self-interest should have pointed the way to an immediate reversal in our tariff policy and to a realistic treatment of the political debts, to the end that our agricultural surpluses might continue to find a market abroad, and that the solvency of our foreign debtors might be preserved.

Instead, as everybody knows, we chose the path of economic nationalism, raised the tariff materially, and conceded little on the war debts. Our debtors, for the most part, paid as long as they could, in gold. When their gold ran out, payments practically ceased. Meantime, so far as a market for our agricultural surpluses was concerned, the answer to our policy was to be found in 6 cent cotton and 40 cent wheat.

Nationally, our treatment of this whole problem indicates that we are still unwilling to face the facts. Our policy has placed an intolerable burden on our agricultural surplus-producing population. Cotton ranks first in this classification. The resort to governmental artificialities, palliatives, and nostrums has already added to the burden, and there is great danger, unless certain of these policies be soon discontinued, that irreparable injury will be done.

The record of more than a century shows the South to be the most efficient producer and distributor of raw cotton in the world. Given the same free market in which to buy her supplies that she must use in the sale of her cotton, with the added facility of payment in goods by the foreign buyers of her cotton, the South could, without fear or favor, more than hold her own against all competitors as the chief source of world supply of raw cotton.

Under a continuation of our present high tariff, forcing the South to buy in a protected market while selling in a free market, it appears almost certain that the Southern cotton farmer, without relief of some kind, must gradually lose ground in his struggle to hold his foreign markets. If relief is to be continued in the form of governmental payments conditioned upon restriction of production, as provided in the present program, then it is certain that a few years only will be required to complete the destruction, already set in, of our foreign markets for cotton.

III

Using an index figure of 100 as representing the average of prices received and paid by farmers for the years 1909 to 1914, inclusive, the Department of Agriculture is authority for the statement that the February, 1933, index for cotton was 44, whereas for the things which the farmer buys it was 104½, giving the cotton farmer's dollar a purchasing power at that time of about 42 per cent of its pre-war value; the corresponding figures for March 15, 1934, are 94 for cotton and 121 for the things which the farmer buys, giving the cotton farmer's dollar a purchasing power of about 77 cents at that time. (This formula is accurate only as to *price*. We should not overlook the fact that the cotton farmer destroyed four million bales of growing cotton; hence the 77 cent figure gave considerably less wealth-exchanging ability than the bare formula would indicate.)

These figures show that while there has been a very substantial improvement in the economic position of the cotton farmer as compared with a year ago, he is still in a position of great inequality as compared with his pre-war status.

IV

It is certain that the position of the cotton farmer a year ago, as outlined above, was intolerable; that not only was he reduced to a standard of living certainly no better than that of the peasants of Eastern Europe but he had lost the ability to pay his taxes and to pay the interest on his debt, and that the destruction of his buying power seriously threatened the disruption of the whole commercial fabric.

The Agricultural Adjustment Act was passed in the summer of 1933. Under that act the Department of Agriculture arranged with Southern cotton farmers, under a rental payment, to destroy about one-fourth of their growing crop, in consequence of which the number of acres of cotton harvested in the United States of the 1933 production was reduced from nearly thirty-six million acres to thirty million. The following tabulation shows comparative figures.

	<i>Acres</i>
Acres harvested in United States in 1933.....	30,036,000
Acres harvested in United States in 1932.....	36,939,000
Reduction in acreage in 1933 below 1932.....	6,903,000
Acreage planted in foreign countries in 1933.....	44,500,000
Acreage planted in foreign countries in 1932.....	40,500,000
Increase in 1933 over 1932.....	4,000,000
World cotton acreage in 1932.....	76,439,000
World acreage in 1933 (after destruction of ten million acres of growing cotton in United States).....	74,536,000
Reduction in world acreage in 1933 below 1932.....	1,903,000
Acreage in United States for 1934, including new land (estimated)	27,500,000

The estimated acreage for 1934 is the result of the lease by the Agricultural Adjustment Administration of about fifteen or sixteen million acres of land previously planted to cotton.

Advices already received from several important foreign cotton-growing countries indicate a substantial increase in acreage in those countries in 1934. This is particularly true of Egypt, Mexico, and South American countries. American manufacturers of gin machinery report the best export business in many years. One important manufacturer states that he sold more gin machinery for export in the first three months of this year than he sold in all of 1931, 1932, and 1933.

In a circular put out by them under date of March 27, 1934, Messrs. Geo. H. McFadden & Bro. of New York have the following to say:

In spite of the fact that the aggregate acreage of foreign growths is at its peak for all time, figures of the Department of Agriculture show that, while some countries have increased, others have decreased. If all cotton-growing countries should at the same time plant their top acreage which has been in cotton in previous years, next season's foreign growth acreage could increase approximately 6,000,000 acres. This, of course, does not allow for any new land going into cotton, of which there is an abundance in South America, and, given time, we believe also in Russia.

This season's foreign growth acreage was 44½ million against America's harvested acreage of 30 million, wherefore it is not beyond the realm of possibility that next year we may have 50 million foreign versus 25 million American.

In a press notice put out by the United States Department of Agriculture, dated March 8, 1934, concerning the foreign cotton situation, we find this:

In the period 1921-25, heavy boll weevil damage in this country caused cotton prices to rise greatly, reaching an extreme maximum in 1923 of 31 cents a pound. The estimated foreign cotton acreage, excluding that of Russia, greatly increased under this unusual stimulus from 28,000,000 acres to almost 41,000,000 or 46 per cent. . . . It is evident that foreign growers are able to make rapid increases in their acreage, in response to high prices.

It should be said here that experience has shown that prices do not necessarily have to be *actually* high in order to induce increases in cotton acreage abroad, or for that matter, in the United States. Acreage is increased when prices of cotton are high *relatively* to

those other crops which compete for the farmer's land and labor. (Witness 1933, when both foreign and American acreage in cotton were increased over 10 per cent in the face of cotton prices almost the lowest on record, but nevertheless offering better returns to the farmer than other available crops.)

If instead of the fifty million acres devoted to cotton abroad which Messrs. McFadden mention as a possibility in 1934, there should be only a 10 per cent increase in such acreage over the 1933 figures, the total would then be 48,950,000 acres. This, added to the 27,500,000 acres indicated above for the United States, would give us a total world acreage in cotton of 76,450,000 acres. This would put us right back to the world acreage of 1932, so that the efforts of the AAA to reduce acreage would have succeeded only in reducing the United States acreage by 8,439,000, and at the same time increasing foreign acreage by 8,450,000 acres.

It is true that the yield per acre in foreign countries is not on the average nearly so great as that in the United States, but it is probably fair to say that this difference would be balanced by a considerably greater yield in the United States on a small acreage than on a large acreage, as a result of land selection, greater fertilization, more intensive cultivation, etc. It is not unreasonable to expect, therefore, that the world production of cotton in 1934 will certainly be no smaller than the 1932 crop, and may even be larger.

If these probabilities are realized, any reduction in the world surplus of cotton, as of the season 1934-35, must come from increased consumption rather than decreased production. On this point there is reason to believe that there will be a moderate increase in world consumption of cotton during the present season over that of 1932-33, but all indications are that this increase will be confined to foreign-grown cotton, and that there will be an actual decrease in the consumption of American cotton.

Prices of American cotton are now higher in comparison with Indian, Brazilian, Peruvian, and some other growths than for some time, in consequence of which we find many spinners again switching from American to foreign growths. Large sales have recently been made in the Liverpool market of Brazilian cotton, at prices 1 cent to 1½ cents under equivalent American qualities.

V

While the reason given for the governmental program of restriction of cotton acreage is to bring about a reduction in the existing surplus of American cotton, it can hardly be denied that the real reason is to effect an advance in cotton prices. There would be no complaint of the surplus if the price were satisfactory. Everyone

will applaud the wish, and indeed, the necessity, of raising the cotton price level in order to restore the buying power of the cotton producer, but the hazards involved demand that any program adopted be a sound one, not one which would be likely to fail and leave the intended beneficiary in far worse condition than before.

If any evidence were needed of the price motive back of the acreage restriction program, it would be found, among other things, in the continued holding off the market of the two million bales of Farm Board cotton plus government lending of ten cents a pound on another two million bales without liability on the part of the borrower for any loss occasioned by a decline in the market.

It may be interesting to look into the origin of this unprecedented surplus of American cotton (13,250,000 bales July 31, 1932; 11,700,000 bales July 31, 1933).

Anything that artificially raises the world price of American cotton, or artificially prevents a decline in such price, has a similar effect on almost an equal quantity of foreign-grown cotton (production of foreign-grown cotton in 1933-34 was 12,150,000 bales; of cotton grown in the United States, 12,850,000 bales; all indications for the 1934-35 season point to a foreign production considerably larger than in the United States, due to the Bankhead Bill and the AAA program of restriction). In other words, we must raise the price on two bales in order to enjoy a higher price on one bale. Experience has demonstrated, however, that prices of foreign-grown cotton do not fully respond to our artificial stimulants.

Hence the effect of such stimulants is to destroy the normal price relationships between native-grown cotton and foreign-grown cotton, with the result that a substantial substitution of foreign- for American-grown cotton takes place, or else that any shrinkage in world consumption falls disproportionately upon American-grown cotton. Witness the following figures, which show, in thousands of bales, the world consumption and carry-over of cotton. American cotton is given in terms of running bales (round bales as half bales), and foreign cotton in terms of bales of 478 pounds net.

	1928-29	1929-30	1930-31	1931-32	1932-33
Consumption of American-grown...	15,244	13,046	11,141	12,568	14,435
Carry-over of American-grown.....	4,617	6,187	8,919	13,228	11,754
Consumption of foreign-grown.....	10,577	11,805	11,216	10,501	10,367
Carry-over of foreign-grown.....	4,850	4,926	5,027	4,184	4,493
Total consumption	25,821	24,851	22,357	23,069	24,802
Percentage ratio of consumption of American-grown to total con- sumption	59.03	52.49	49.83	54.48	58.20
Total carry-over.....	9,367	11,113	13,946	17,412	16,247
Average price, 10 official spot mar- kets in United States, August 1 to November 30 (in cents).....	18.40	17.60	10.30	6.02	6.72

To get the full significance of the above figures, it must be remembered that the Federal Farm Board commenced its "stabilization" operations in the latter part of October, 1929, having announced at that time that it was prepared to lend 16¼ cents on middling cotton at the ports and that it had available practically an unlimited amount of money for this purpose. Following the above announcement, the Federal Farm Board engineered a corner in the New York cotton market in the May and July, 1930, positions, causing the price of those months to advance to over 200 points above that of the new crop months and, at the same time, to a level considerably above the price of foreign-grown cotton. (The extent to which normal price relationships were distorted by this operation can perhaps be best understood when it is said that some eight thousand bales of American cotton were shipped back to the United States from Europe and Asia for delivery on New York futures May and July, 1930, the level to which those months were forced making them the best market in the world for the cotton.)

The recession in world commerce which commenced in 1929 caused a reduction in world consumption of all cotton by only 970,000 bales in 1929-30 compared with the previous season, but in consequence of the price-raising devices of the Federal Farm Board, the consumption of American-grown cotton *declined* by 2,198,000 bales, whereas the consumption of foreign-grown cotton *increased* by 1,228,000 bales. In the following season, 1930-31, the Federal Farm Board continued its stabilization operations, accumulating an additional two million bales of cotton, which was held off the market. This gave them a total impounded stock of about 3,250,000 bales.

As a result of the depression and a continuation of price-raising or price-supporting efforts on the part of the Farm Board, the consumption of American-grown cotton declined in the season of 1930-31 another 1,905,000 bales, whereas the consumption of foreign-grown cotton declined only about 589,000 bales.

The season of 1930-31 was the first, by the way, since the Civil War, when consumption of foreign-grown cotton exceeded American-grown cotton. Thus, in two years, United States cotton lost markets for 4,103,000 bales, whereas foreign growths gained markets for 639,000 bales.

The Farm Board's operation was described as an emergency operation, but let us see what it did to the cotton farmer. In the seasons 1931-32 and 1932-33 the Farm Board engaged in no stabilization operations in cotton. With a huge surplus, a large portion of which (3,250,000 bales) was held by the Farm Board, the price of cotton declined to almost the lowest levels in history and ruled at

5 or 6 cents per pound throughout practically the whole of the 1931-32 season. In 1932-33 the price was not much better. These low prices found American-grown cotton selling well below the world price, so that in two years' time we recovered, in 1932-33, about 3,300,000 bales of the business we had previously lost, and during the same period the consumption of foreign-grown cotton declined about 849,000 bales.

The lesson which the above figures teach is that governmental artificial price-raising or price-supporting devices can temporarily advance or support the market, but that the result is the loss of valuable foreign markets for our cotton, and that the only way in which we can get these markets back is a reversal of the process by which we lost them, that is, to drive the price of our cotton below the world price and thus starve foreign producers into the relinquishment of that which we had voluntarily surrendered to them. Incidentally, in recovering our markets by this method, in seasons 1931-32 and 1932-33, with prices at 5 to 6 cents per pound, over a period of two years we almost drove the South into bankruptcy and certainly reduced the standard of living of the Southern cotton farmer to a level no higher than that of the peasants of Eastern Europe.

We have not yet finished paying the bill for the so-called emergency program of the Farm Board. There are still two million bales of this Farm Board cotton on hand, and it must sooner or later come on the market.

Thus it will be seen that the unwieldy surplus which forms the basis of the AAA program is due largely to Farm Board operations, because in addition to the evidence given above of markets lost, Farm Board operations, by establishing artificial prices which prevented acreage reduction in the same degree in which it would have taken place had prices been left to the law of supply and demand, prevented normal readjustments in supply from taking place.

Further contributing to the building up of this surplus has been the liberal lending of many millions of government money for financing cotton production, and the policy of the government not to require such cotton to be sold for liquidating such loans. In many cases the cotton has been taken over and carried by the government in order to hold it off the market.

Is there any reason to believe that the consequences of the AAA program will differ substantially from those which followed the Farm Board operations, as described above? The aim of the two plans is the same—the raising of prices. It is true that the AAA goes a step further than the Farm Board in providing for acreage reduction, but of the 74,536,000 acres of cotton harvested in the

world in 1933, the AAA can exercise a restrictive influence over only the 30,036,000 acres in the United States, the remaining 44,500,000 acres being outside their jurisdiction. From past experience and present indications a price-raising or price-supporting program based on a restrictive influence applied to the 30,036,000 acres in the United States is certain to exert an influence for expansion on the 44,500,000 acres in foreign countries.

The success of any price-raising program for cotton based on artificial means of whatever kind will inevitably breed its own failure. Any temporary distortion of price relationship between cotton and other crops is certain to find its corrective in increased production, decreased consumption, or both, resulting in the eventual restoration of a normal supply and demand relationship.

VI

The statement is sometimes made that the present dollar price for cotton (about 11¾ cents, April 23, 1934), is equivalent to only about 7 cents in gold, which is too low to encourage expansion of foreign production. Such statements overlook the fact that all important cotton-producing countries are working on a depreciated money basis, all of them having preceded the United States in going off the old gold value. As will be seen from the following table, the currencies of most of these countries are depreciated even more than the dollar.

<i>Country</i>	<i>Old Par (Gold), 1924-26</i>	<i>Quotations, April 11, 1934 (Converted to Gold Dollars, Old Par)</i>	<i>Percentage Depreciation</i>
England *	\$4.866	\$3.049	37
India (rupee)	.365	.2291	37
Argentina (peso)	.4245	.1945	54
Brazil (milreis)	.3246	.0505	84
Peru (sol)	.4866	.1417	71
Mexico (silver peso)	.4985	.1636	67
China (Shanghai dollar)	.4985	.2056	59
United States	1.00	.5906	41

* The currencies of Egypt and South Africa are based on a fixed percentage of that of England; hence the percentage of depreciation is the same for these countries.

As a matter of fact, today's price of cotton (April 23, 1934), measured in gold, is unchanged from a year ago. Cotton has not advanced; the dollar has merely been devalued in terms of gold.

A year ago, on the basis of prices of 6½ to 7 cents in gold, both American and foreign cotton-growers increased their cotton acreage, or had made arrangements to do so, by 10 to 11 per cent over the previous year. This should be convincing evidence that, even at this low price, cotton was the most lucrative crop to which cotton

farmers in this country and abroad could apply their land and labor. Hence the increase in foreign countries can only partially be blamed on the destruction of one-fourth of the United States acreage. (Some of the foreign acreage is below the Equator, where planting takes place in September and October.)

The plow-up campaign was expected and intended to advance the price of cotton materially. It has not done so, for the price of cotton, in gold, has not advanced, but the Farm Board operations, the plow-up campaign, the Bankhead Bill, and the AAA reduction program have temporarily served to prevent normal supply and demand readjustments from taking place and have acted as an invitation to the foreign cotton-producing world to take up the acreage and markets which we are surrendering—an invitation which all the evidence indicates is being accepted with alacrity.

Today every nation is seeking to limit its imports and expand its exports. Raw cotton is a commodity which always finds a ready market for export, because so many of the principal cotton-importing nations cannot, for climatic reasons, produce cotton, regardless of the price. (A condition which, by the way, does not apply to wheat; hence cotton possesses more of the attributes of gold in settling international balances than perhaps any other commodity.) Spain, Greece, and Yugoslavia are making serious efforts to produce cotton for their home industries in order to reduce imports. Great Britain, Belgium, and Italy are doing their best to increase colonial cotton production in order to confine their trade, as much as possible, to their respective national families. Japan is doing likewise in Manchukuo and Korea.

In the past our foreign cotton-growing competitors have in most cases been handicapped by inadequate transportation facilities. This handicap is being overcome to some extent, not only through river and rail facilities, but by the construction of motor highways. Improvement in transportation in foreign cotton-growing countries serves the double purpose, for them, of facilitating the outward movement of cotton and the inbound movement of foodstuffs, thus releasing for cotton land formerly required for food. A striking example of this is to be found in the recent completion of a railroad from the wheat fields of Siberia to the cotton fields of Turkestan.

Our national cotton policy overlooks the fact that cotton is not exclusively an American commodity but is a world commodity. Unless all present signs fail, foreign production in the season of 1934-35 will considerably exceed that of the United States. If cotton were exclusively an American commodity, what would be said of a program of acreage restriction for influencing prices which took in only 40 per cent of the acreage, leaving the other 60 per cent

free to increase acreage at will? Yet this is exactly what we are attempting in the world cotton situation, the only difference being that any temporary benefits which may result from the present plan will go largely to foreigners.

It should not be overlooked that any action designed to raise prices by artificial means has the same harmful effect if it fails to raise prices but nevertheless prevents or delays a decline which would have come if the market had been left to follow the workings of natural law.

Nothing has been said here regarding the Bankhead Bill, which seeks by compulsion to limit the United States cotton crop to ten million bales. The principle of this bill is so destructive of our most cherished political and economic traditions that it is almost inconceivable that it will be in force longer than one year.

The AAA program, however, is of much more dangerous character, because, while voluntary, its immediate benefits are made so attractive that expedient self-interest causes about 95 per cent of the farmers to embrace it as the only available way out of their present difficulties.

VII

Will we ever get back the markets which we are now surrendering to our foreign cotton-growing competitors? If so, how?

Mr. Wallace, Secretary of Agriculture, has outlined the situation which faces us, in his excellent paper *America Must Choose*. He has clearly shown the national and international paths which we can travel and has pointed out the tremendous readjustments which must be made, whichever path is chosen. Secretary Wallace has also indicated a third choice — that of a planned middle course.

In my opinion there is, so far as cotton is concerned, no middle course, if by that is meant governmental limitation of production of cotton in order to secure for the cotton-producer a price for American cotton artificially maintained above the world price. Any device which we may adopt with the intent and effect of artificially supporting the price of American cotton in the world markets can have only one result, and that is the gradual abandonment, year by year, of a part of our world markets for cotton, until, in the end, we will have surrendered all such foreign outlets, leaving only the American market, using normally about six million bales annually.

Our foreign markets now take about 8,500,000 bales annually, valued at present prices at about five hundred million dollars. This trade certainly gives employment to more than 1,500,000 Southern families as farmers and as laborers in picking, ginning, compressing, storing, cottonseed oil milling, shipping, merchandising, etc. It is a

serious matter to experiment with a trade of this magnitude, furnishing as it does economic lifeblood to a great and populous section of our country. A casual regard for the teachings of economic history should be sufficient to convince us that, in the end, we can hold none of this trade except on the basis of price, quality, and service.

Those who argue that we had better surrender our foreign markets rather than hold them at prices obtainable on a competitive basis with other cotton-growing countries must point out some new occupation for the more than 1,500,000 families which its loss would deprive of their present livelihood, to say nothing of the destruction of hundreds of millions of dollars invested in cotton gins, cottonseed oil mills, cotton compresses and warehouses, and cotton docks in the Southern states, not to speak of the vast investments in railways and highways and equipment, all of which more or less depend upon the cotton crop.

VIII

Nothing has been said here regarding the possible development of substitute products for cotton. It is, of course, well known that there are already many products which may, under certain conditions, be substituted for cotton, such as rayon, silk, wool, linen, jute, paper, etc.

Unquestionably, substitution is taking place, but it is difficult to ascertain to what extent. The present processing tax on cotton, amounting to about 4½ cents a pound, is bound to be a factor in causing consumers to shift to some extent at least to these other commodities that pay no processing tax, particularly rayon.

IX

SUGGESTION FOR A NATIONAL COTTON POLICY

The only sound policy for relief of our agricultural surplus producing population is a drastic reduction in the tariff and recognition of the uncollectibility of the war debts, so that our surpluses may again find a market abroad at compensatory prices.

If this be politically impossible, then we must make the tariff principle protect our producers of agricultural surpluses. The only way of doing this in the case of cotton is to subsidize, in one form or another, our production of cotton for the domestic market, free absolutely of any condition of acreage reduction. It is admitted that this simply means the adoption of one artificiality in order to preserve another, a process which is due to go on and on until eventually the whole false structure collapses.

If the protected group persists in its refusal to give ground, the sooner it is forced to admit within its circle all producers, agricultural as well as industrial, whether for domestic or export, the sooner will the whole rotten fabric give way, enabling us to start building anew on a foundation of social justice and economic truth.

The so-called Domestic Allotment Plan is provided for in the present law and can be applied without requirement of acreage reduction. Under that plan, prices would be permitted to reach natural levels, but the producer would be compensated by the government, up to "parity" price, on the domestically consumed portion of his production. He should be left free to produce or not to produce for export at the world price.

Our present policy means the complete loss within a comparatively short time of our export markets for cotton. If we must become reconciled to that, then those who are responsible for such policy can hardly escape the further responsibility of redirecting the economic energies and resources of the South into other and more remunerative channels. If there are such channels, the experience of a century has failed to develop them. Possibly those responsible for charting our present course have in mind some other and more profitable activity to which Southern labor and capital can turn; if so, they have thus far failed to indicate it.

A PLANNED CURRENCY SYSTEM

Statement by HARRY D. GIDEONSE, *Department of Economics, University of Chicago, at the Chicago Hearings, April 2, 1934*

We are interested in the formulation of a *national policy* in international economic relations. What has hitherto passed under the name "national policy" is neither *national* nor *policy*.

IS OUR POLICY "NATIONAL"?

Discussion of tariffs, for instance, has usually been conducted as if there were a conflict between "nationalists" on the one hand and "internationalists" on the other. The protectionists defended a duty on straw hats with a realistic appeal to the employees in a straw hat factory in, say, Newark, New Jersey. The argument usually stressed the cheapness of the foreign hat imports, the inability to make American hats in open competition with these foreign interests, and it concluded with proper political intonations that the tariff on hats (or any other hundreds of commodities) was a national interest. The so-called "internationalists," however, asked questions about the exports that had formerly gone out of the country to pay for the imports, including the straw hats. If we gained some extra jobs in hat factories, didn't we lose out on automobile or lard exports? If you took a really *national* view, instead of a Newark, New Jersey, view, could you maintain that the tariff on hats was really in the national interest? Closer analysis, then, made it apparent that the usual distinction of national and international ways of looking at the problem was spurious and designed to mislead the public by an appeal to deep-seated emotional loyalties. In fact, the real distinction is only between those who hold local district views of national policy and those who succeed in taking a broader, a more genuinely *national* view. In a world that is capitalized for world trade it is not surprising that a genuinely *national* view of economic interest should coincide with a broad view of *international* interest.

IS OUR POLICY REALLY A "POLICY"?

The Oxford Dictionary defines "policy" as a course of action adopted and pursued as advantageous by a government. The Webster sees it as a settled or definite course or principle of procedure

or conduct. Have we a policy with regard to international economic relations in either sense? Is it not perfectly obvious that during the post-war decade almost every one of the elements of what might have been our "national policy" was in more or less direct conflict with some of the other measures that governed the same wide field of relationships? We strove to maintain domestic prices at a fairly fixed level while we adhered to the gold standard, which assumes easy price adjustments following gold movements. We aimed to achieve a favorable balance of trade and tried at the same time to collect money from foreign debtors, both public and private. We protected inefficient, low-wage industries at home, while some of our most efficient high-wage industries moved out to foreign branches under tariff pressure that was related to our own protectionist efforts. We subsidized a merchant marine when shipping was one of the services which foreigners could efficiently perform in payment of our excess exports or of their debts to us. The list could be lengthened freely if time were available.

At present under a new administration similar contradictions abound. We are inclined to frown upon those who fly from the dollar under the threat of devaluation, while the government itself spends public funds to depreciate the dollar in terms of foreign currencies. Shouldn't the citizens who helped to depreciate the dollar be rewarded for their contributions and assistance in achieving a new governmental policy? While we spend our public funds to depreciate our own currency, we are indignant at foreign unwillingness or inability to pay debts, although it should be clear that such debt payments would simply make it more expensive for the United States government to maintain the present low valuation of the American currency. We talk a great deal about the need for reducing trade barriers and restoring the "flow of world trade," and at the same time we follow a monetary policy that immeasurably increases our own protectionism.

In a world in which a considerable measure of freedom continued to exist, such inadequacies and contradictions in public policy or "planning" were ironed out ruthlessly through the open market. Generations of farmers, in a rich young country, saw their standards lowered and became a public "problem" because their efficient industry was sacrificed to the lobbyists of inefficient industrialists. Debtors defaulted and thus "settled" a balance sheet that could not be evened in the usual trade relationships. Countries went off the gold standard and thus achieved a temporary balance by selling their money more cheaply and promoting their exports in spite of existing control devices such as tariffs of creditor countries. In these and a score of other ways the inadequacies of public policy were

"corrected" by what remained of a free and untrammled market. The typical political reaction to these "corrections" is of course a denunciation of the devices or policies that gave way to pressure, rather than an examination of the contradictions and "policies" that caused the pressure. Thus the typical reaction to our monetary difficulties is a denunciation of our monetary institutions—the banks and the gold standard—rather than an examination of the policies that brought about the breakdown of these institutions. It is probably true that any other set of monetary institutions would have broken down also if similar policies and a similar quality of management had prevailed. The heart of the problem is, therefore, not the nature of the monetary institutions but the quality of management and the efficacy of the policies which are put into effect under a given set of monetary institutions.

It is to these monetary questions in their bearing upon international economic relations that I should like to direct the attention of your Commission. Ordinarily we discuss the monetary problem as if it were a matter of choice between a system that would give internal stability and a system that would give us external stability. Sometimes we phrase it differently and say it is a choice between a managed currency and the automatic gold standard.¹

Today it is perhaps more common to exaggerate the importance of the monetary factor than to overlook its significance. There is a natural tendency on the part of the public, as the Macmillan Committee pointed out:

to seek a scapegoat for any distress which may befall it and preferably to attribute that distress to any cause rather than its own shortcomings. In the search for a cause which should absolve itself from blame the public in the present instance has not been indisposed to find it in our financial system, none the less readily that refutations of the accusation are little likely to be appreciated. Accusation is always easy; defense even though well founded is often difficult. And what is least understood is apt to be most suspected.²

The Macmillan Committee was thinking of conditions in Great Britain, but its words are valid for the United States. The last decade was characterized by the financial aftermath of a reckless war, unwillingness to adjust commercial policy to creditor status, ever increasing trade barriers of various types, and efforts to stabilize price levels at a time of rapid technological change. Such circumstances, as I said earlier, would have imposed a huge handicap on any international monetary system. They finally broke the back of the international gold standard. To seek the remedy entirely in

¹ The following paragraphs are based upon a paper by the author, "The United States and the International Gold Standard," *Annals of the American Academy of Political and Social Sciences*, January, 1934.

² Report of the Committee on Finance and Industry, Cmd. 3897/1931, p. 4.

the monetary field without reference to the surrounding circumstances is likely to prove a disappointing quest. Still, the general public can hardly be blamed for its delusion when we find a distinguished economist like Gustav Cassel writing that "what we have to explain is essentially a monetary phenomenon, and the explanation must therefore essentially be of a monetary character."³

Clearly, the entire episode since 1929 would have been different had there not been a World War, reparations and war debts, intensified economic nationalism, growing rigidity in prices and wages, and a sharp increase in productivity. Money was effect as well as cause. After having introduced this note of caution, however, we may well agree that amongst the separate elements no single item can compare with money in strategic importance.

GOLD AS A MANAGED CURRENCY

The customary contrast of the automatic gold standard with a *managed* inconvertible currency is, of course, based upon a misconception. A gold currency instituted by governments and regulated by national and banking policies is in fact a managed currency, and it is to be distinguished from the various proposals for "managed currency" only as a matter of degree, not as a matter of principle.⁴ The use of foreign exchange "gold points" as a basis for central-bank management is no more or no less automatic than the use of index numbers.

It is true, of course, that the "rules of the game" had developed of themselves, rather than as the result of thought on the subject. They were taken for granted in the course of an almost haphazard historical evolution based on trial and error. They were occasionally explicitly stated in connection with proposals to establish or re-establish the gold standard in various countries, but there was not at any time explicit agreement by the countries on the international gold standard upon the conditions which alone would make its successful operation possible.

The monetary chaos brought about by the World War served gold standard means the fixing of the value of the currency unit in terms of gold; or, in other words, the fixing of the price of gold. Essentially, that means fixing the price of other gold standard currencies.⁵ But as Dr. Adolph C. Miller of the Federal Reserve Board phrased it in 1927:

³ Report of the Gold Delegation of the Financial Committee, League of Nations, 1932, II, A, 12, p. 74.

⁴ Report of the Committee on Finance and Industry, Cmd. 3897/1931, Section 40.

⁵ Cf. R. G. Hawtrey, *The Gold Standard*, Chapter 2, and *The Art of Central Banking*, p. 174.

The gold standard however means more than a legal undertaking to redeem the currency and credit of a nation in gold. . . . The gold standard, to my mind, means a device which acts as a kind of regulating and leveling influence, so as to keep the price level, credit conditions, and the currency situation in all countries that are of the group that have the gold standard in some sort of proper alignment to one another. To me, the gold standard means a set of practices, a system of procedure, never formulated, never consciously thought out, not invented by anybody, but the growth of experience of the great commercial countries of the world, rather than merely the employment of gold to redeem all forms of obligations in the gold dollar or sovereign or whatever monetary unit may be involved.⁶

CONDITIONS OF OPERATION OF THE INTERNATIONAL GOLD STANDARD

It might be well to recall once again what were the implied conditions under which the international gold standard was supposed to operate. They are essentially based upon the assumption of the free movement of gold, commodities, capital, and prices. Stated in specific terms, they might be formulated as follows:

1. Goods and capital movements must be sensitive to each other, requiring but little gold to induce equilibrium.

2. Banking systems should be fully loaned up to the limit of their reserves, so that gold movements might cause proportional variations in the volume of credit.

3. The demand for international products should preferably be elastic, so that a fall in prices might increase exports relative to imports.

4. Unit costs of production should be responsive to (money) price variations, so that trade would respond to price movements.⁷

Now, it is clear that these conditions were not fully realized before the war. It is also obvious that the entire post-war period has been characterized by the almost systematic destruction of the conditions without which the gold standard cannot continue to operate effectively. Everywhere we have seen increased trade barriers, including quota schemes, and eventually exchange controls. Frequently national banking authorities have striven for an autonomous domestic price system without consideration of the international implications of such action. Huge international political debts have helped to create a marked gap between the market and the natural rate of interest in long-term and short-term credit, thus redirecting the flow of international capital and leading ultimately to a complete breakdown of public and private debts and also to unwillingness on the part of the investor to invest at rates

⁶ Hearings before the Committee on Banking and Currency, House of Representatives, 69 Congress, 1 session (H. R. 7895), p. 693.

⁷ Following the excellent statement by Professor John H. Williams in his essay in the Harris Foundation Lectures for 1932. Cf. *Gold and Monetary Stabilization* (University of Chicago Press), p. 140.

that correspond more closely to the equilibrium rate, because of the investing public's habitual expectations since the war.⁸ Control schemes in raw material producing countries (usually governing commodities with relatively inelastic demand), widespread price maintenance schemes all over the world, and a growing rigidity in wages and public expenditures of various description, all have added to the difficulty of operating the gold standard according to the traditional rules of the game.

Until 1928 the huge capital exports of the United States, coupled with the smaller movements from countries like Great Britain and the Netherlands, filled in the gap in the various balances of payments. But in 1928 France's definite return to gold and the evolution of the stock exchange boom in the United States produced a strong movement of gold toward France and the United States, upsetting the balance between debtors and creditors even further, and ultimately leading to the crash in Central Europe in the summer of 1931. Then the "defensive" measures—more tariffs, quotas, exchange controls, and subsidies—increased even further, and eventually a long list of countries left the gold standard. In most cases the desertion of gold was involuntary and due to the disparity of debits and credits in the given country's balance of payments. In the United States it was voluntary and due to domestic political pressure.

Now that the full extent of the chaos is realized, we might wonder why the whole mechanism did not break down sooner, in view of the well-nigh universal refusal to observe the rules of the game. A world that was striving to maintain a currency system with a wider ambit than its banking system, its tariff system, and its wage system, witnessed the smash of them all—and blamed it on gold. To the social conservative (generally an advocate of the sacred gold tradition as well as of the equally sacred "national" system) it presented a terrific dilemma. Would he yield gold to the "national" forces? Or would he finally admit that national self-contained, watertight compartments are in conflict with the fact of interdependence and with the continued existence of an international monetary standard? How can we preserve a maximum of local autonomy and still have the undoubted advantages of the traditional standard?

EXPLICIT FORMULATION OF RULES

What are the conditions for the restoration of gold? Clearly, the rules of the game will have to become explicit. More than that: The

⁸ Harry D. Gideonse, "War Debts," *International Conciliation* (Carnegie Endowment for International Peace, New York, November, 1933).

explicit formulation of the rules will have to be accepted by national governments as well as monetary authorities. For it has become clear that a war-debt policy, a new tariff act, and capital exports, both long and short term, have a monetary significance that is quite as marked as, say, the movement of the discount rate or the activity of the "open market" operations.

Historically, these various "policies" (in so far as they are specifically formulated at all) are framed by entirely separate authorities or institutions which have no relations with one another. Congress enacts tariffs without considering their effects on outstanding indebtedness or exporters' interests; public and private debts are expressed in rigid treaties or contracts, with no allowance for private fluctuations which affect their economic significance; private bankers decide on long-term or short-term capital movements; and the Federal Reserve Board decides—under various types of political pressure—upon discount or open market policy. Clearly, the first step is *closer coordination of national powers*. Then the logical second step might be *a measure of international coordination of the separate national authorities*.

Explicit formulation of the rules of the game is therefore not a simple matter. It will involve many matters not heretofore politically recognized as involved in monetary policy. This will necessarily be a long-run, piecemeal process. It will involve the admission by multilateral treaty that tariff instability and the international gold standard are mutually incompatible. It will demand the revision of debts. It will require the concentration of gold in the central banks. It will lower reserve requirements and reserve gold for the essential function of settling international balances.⁹ It will involve some guarantee that gold movements will be allowed to affect prices.¹⁰ It will probably require a definite agreement on the ends for which the international gold standard is maintained. It might also provide for the transfer of certain statistical and administrative functions to an international agent of the national banking authorities, such as the Bank for International Settlements at Basel.¹¹

⁹ Cf. *The International Gold Problem* (Oxford University Press, 1931), pp. 155-57 (Brand), 157-60 (Hawtrey), 178-80 (Blackett), and 186-90 (Keynes).

¹⁰ Cf. Erik Lindahl, "Zur Frage eines internationalen Systems der Goldwährungen," *Weltwirtschaftliches Archiv*, April, 1933, pp. 460-72. Also the annual Reports of the Netherlands Bank.

¹¹ The "rules of the game" have recently been discussed quite frequently. Cf. Report of the Gold Delegation of the Financial Committee, League of Nations, 1932, II, A, 12, pp. 23-25 and 56-57. The Macmillan Committee devoted some attention to the matter. Cf. Cmd. 3897/1931, Sections 46-48. The President of the Netherlands Bank, Dr. L. J. A. Trip, has written some interesting paragraphs on the problem in his annual Reports for 1931-32 and 1932-33 (respectively pp. 20-24 and 18-24). Cf. also Dr. L. J. A. Trip's paper in Papers Submitted, Meeting of Representatives of Central Banks, Bank for International Settlements, May 10, 1932.

HANDLING OF SHORT-TERM CREDITS

The possible functions of the Bank for International Settlements are suggested first of all by the experience with short-term credits.¹² In a vital sense, the entire operation of the gold standard is based on the elasticity of short-term capital movements. The experience with the crash of the Credit Anstalt and the subsequent breakdown in Germany and Great Britain brought out the almost fantastic ignorance amongst bankers of one another's involvements in those countries. Estimates that were made within a few months of one another by two competent groups varied for long-term from 8 billion RM (Layton report) to 11.1 billion RM (Basel report), and for short-term from 9 billion RM (Layton) to 12 billion RM (Basel).

Even a purely fact-gathering and fact-publishing activity on the part of the Bank for International Settlements, based on similar activities in the leading centers, would have prevented such a catastrophe from growing to its 1931 proportions. If in addition it should be possible to agree that short-term credits should always be placed through the creditor country's central authority via the international center and the debtor country's central authority, one of the major items of unsettlement would be near control, because of the coordinated knowledge as to the credit risk. The Basel statistics would reveal unhealthy accumulations at an early state. Concentrating withdrawals through the Bank's machinery would be a guarantee against a "run" on a weak center. In 1931 it was clearly demonstrated that in such circumstances bankers themselves behave as their own depositors do in a run on a neighborhood institution. It is noteworthy that this would not involve yielding vital authority to the Bank at Basel. It would merely substitute one instrument for another, and coordinate the various national policies by the regular publication and examination of relevant statistical material.

If there is to be any salvaging of the gold exchange standard after the disastrous experience since 1931, it will almost certainly have to be based upon some such method of handling short-term

¹² For a description of the Bank for International Settlements, cf. Harry D. Gideonse, *The International Bank* (Rutgers University, 1930), and E. L. Dulles, *The Bank for International Settlements at Work* (Macmillan, New York, 1932). Official relations between the Federal Reserve and the Bank for International Settlements are still governed by the statement by Secretary Stimson on May 16, 1929, that the administration would "not permit any officials of the Federal Reserve system either to themselves serve or to select American representatives as members of the proposed International Bank." Cf. Gideonse, *ibid.*, pp. 45-46. The administration justified its position by the reference to the traditional policy of the United States "not to participate in the collection of German reparations." Since then the Lausanne agreements have practically removed the reparation functions of the Bank for International Settlements, but no new policy has been enunciated by the Department of State or the Federal Reserve authorities.

deposits in foreign centers. This would virtually make the Bank for International Settlements the administrator of the gold exchange standard. If ultimately an international effort to raise or steady prices is to be made effective, such machinery will be essential.

OTHER FUNCTIONS OF AN INTERNATIONAL BANK

There is still another function here for the Bank for International Settlements or a similar international institution. The President of the Netherlands Bank has drawn attention to the fact that countries that are on balance creditors in the international short-term market are, generally speaking, in a much better position to maintain the gold standard than nations which are on balance debtors in that market. In the creditor country the rate of interest will almost automatically correct a temporary difficulty by reducing lending, but the effects in the debtor country will not be comparable. Central banks in creditor countries therefore normally need smaller gold reserves than in debtor nations. In view of the existing distribution of gold amongst debtors and creditors, this difficulty would be considerably magnified. A careful short-term balance policy on the part of the debtors, supplemented by proper aid and guarantee from the international center, could do much to mitigate the severity of this burden on debtor nations, and hence to preserve assets for the creditors which might otherwise be lost.¹³

Ultimately it might also be possible to build up the present occasional trustee functions of the Bank for International Settlements in the case of international loans into more comprehensive powers. This clearly depends upon the development of policy within the various nations. There is a gross inconsistency in the present national policies, which control some aspects of national investment rigorously (through tariffs and taxation, for instance) and allow others to escape freely. The result is often comparable in principle, if not in scope, to our huge capital exports maintaining commodity markets abroad while our commercial policy prohibits the repayment of such loans. *If "planning" means the concentration of authority over policies that affect the same problem into one central hand, and the ironing out of contradictory policies affecting the same subject matter, it clearly should lead to control of long-term investment abroad.* Such domestic control in turn would seem to be

¹³ Cf. Dr. L. J. A. Trip's contribution to Papers Submitted, Meeting of Representatives of Central Banks, Bank for International Settlements, May 10, 1932. "While before the war nearly 75 per cent of the world's aggregate gold reserves were held in debtor countries as against only a little over 25 per cent in creditor countries, the position is now exactly the reverse. This state of affairs makes it all the more desirable, if not necessary, for the debtor countries to have recourse to a policy of exchange management" (p. 11).

an indispensable step in the international control of related problems.¹⁴

BETTER MANAGEMENT NECESSARY

We have outlined the essentials for a return to gold, but a return to a consciously managed gold with an explicit set of objectives and rules adjusted to current needs and experience. The old gold standard was a managed currency, but, as the record shows, it was poorly managed. It was, as the Macmillan Committee phrased it, machinery designed to work within a given range, and it jammed when politics interfered with the range.

It seems clear that if rational conclusions were drawn from experience, there is quite enough gold in the world to act as a reserve for the world's credit. It also seems clear that with the present shaken convictions in all ranges of social and political life, the confidence value of an established tradition might be of major significance. It is obvious, however, that with our anarchic economic nationalism, no form of gold standard can safely be maintained.

The record of gold during the past decade would seem to condemn an experiment with a purely managed currency from the very beginning. It might be admitted that a *perfectly* managed inconvertible currency offers better prospects than *imperfectly* managed gold. Experience with gold has made it abundantly clear, however, to all who do not indulge in wishful thinking, that "management" falls far from the standard of perfection. There is no guarantee that the *quality* of management will automatically improve with the extension of the *range* of its authority.

If we assume a higher quality of management in responsible positions both in the public and private aspects of our monetary institutions, then, clearly, experience with the managed gold standard will be more satisfactory. Ultimately, in a period of less stress and shaken confidence, gold may by management be reduced to innocuous desuetude. Now already "the tail wags the dog," and in many respects management of credit can be said to determine the value of gold. For the time being, gold is a barrier to safeguard us (inadequately to be sure) from even worse consequences of management

¹⁴ At the time of writing, the trend is toward intensified economic nationalism. In a sense — not intended by its proponents — this may be an essential step toward international control. But cf. C. S. Tippetts, *Autarchy*, Public Policy Pamphlet No. 5 (University of Chicago Press, 1933). Should the present trend continue, the breakdown of any international currency that might be restored can be safely predicted. Under such circumstances (since international trade will continue whatever the illusions or myths of our contemporaries may be) an international agency for clearing barter transactions might be more effective than efforts to restore an international money. This might also take the form of an international *Ausgleich* of national quota allotments.

without metallic requirements.¹⁵ The "barrier" may give way (it usually does in a crisis), but even its giving way serves as a warning which might not take place under another type of currency that received the same quality of management.

The grass in the other fellow's meadow always seems greener. That old proverb has its mite of truth and insight to contribute to the discussion of the so-called choice between "external" and "internal" stability. The implication currently carried by these terms is that gold gives external stability while a domestic managed currency would give internal stability.

Any student of the problem will, of course, recognize the fallacy of both implications. The gold standard gives stability of foreign exchange, and the significance of this achievement to exporters and importers is obvious. It is probably not an accident that the enormous expansion of world trade in the nineteenth century was paralleled by the spread of the gold standard. *Stable exchanges*, however, do not guarantee *external stability*.

The assumption that a domestic managed currency would lead to internal stability is even more seriously invalid. It is based on the notion that such a currency would give us stable prices, and the average convert to the propaganda thinks of this in terms of *particular* prices. It is meant as stability of the *price level*, of course. A stable average means continual adjustments. Every technological improvement leading to lower prices might require compensating doses of credit and therefore instability of *individual* prices to preserve the stability of the *price level*.

Closer analysis of the "stability" propaganda raises far more questions than it answers. Shall we correct *other* prices to compensate for *seasonal* influences (crops, for instance)? When crops turn out to be unexpectedly low (so that wheat is high), shall we then push the prices of, say, the metals, down? And what of the disparities this will create in succeeding years when the crop is of normal size, or unusually large? What shall we do about long-run factors

¹⁵ Cf. J. M. Keynes, *A Treatise on Money*, Vol. II, Chapter 38, p. 388. "Subject to certain safeguards and compromises for securing a reasonable measure of domestic autonomy, the ideal currency of the immediate future should probably conform to an international standard.

"If this be granted, then there are great and obvious advantages in retaining gold as our international standard, provided, as we have previously expressed it, that we can retain the metal as a constitutional monarch, wholly subject to the will of a cabinet of Central Banks who would hold the sovereign power. For by this means we shall — though at some expense, measured by the annual cost of mining monetary gold — give confidence to the timid and perhaps accelerate the adoption of scientific methods by several decades.

"The ultimate problem before us is, therefore, the evolution of a means of managing the value of gold itself through the agency of some kind of supernatural institution."

like changes in population? May they not increase the prices of certain raw materials relative to wages and finished products? Should other prices in this case be forced down?¹⁶ Is this *internal stability*? Should we not rather admit that our knowledge is utterly insufficient to enable us to speak with any degree of confidence about these matters?

We may conclude, then, that the contrast of external with internal stability is a misleading one. It is merely a question of one kind of instability and stability in the gold standard case, and another kind in the purely managed currency. Assuming a high quality of management and considerable freedom in the use of its powers, steadying influences could be exerted in either case.

Index numbers might prove to be a useful tool in the guidance of central-bank policy. Some of the questions suggested in previous paragraphs indicate that they will hardly be a substitute for flexible banking experience.¹⁷

It may be possible to utilize a series of national index numbers of some sort to guide monetary policy under an international central-bank agreement. Even then, however, latitude will have to be provided for the distinction of permanent and temporary movements, as well as of universal and local factors in the various balances of payments and price levels, lest the essential flexibility be lost.¹⁸

COORDINATION OF NATIONAL POWERS

I have proceeded in this paper on the assumption that we are interested in discovering the causes of the breakdown in our monetary system. Such an analysis leads us to a critical evaluation of our tariff policy, our policy toward our debtors, our banking system,

¹⁶ Cf. E. Lindahl, *op. cit.*

¹⁷ Cf. R. G. Hawtrey's paper, "Money and Index-Numbers," *Journal of the Royal Statistical Society*, Vol. XCIII, Part I (1930), pp. 64-103. Reprinted in *The Art of Central Banking*, Chapter 5.

¹⁸ Mention should be made of the growing criticism of the idea of a stable price level coming from such economists as F. A. Hayek, R. G. Hawtrey, and D. H. Robertson. The question then raised is: Should we not prefer a money that is "neutral" (that would not influence commodity prices either way) rather than a money with stable purchasing power? Is not a monetary policy which compensates all commodity influences on the price level by monetary influences definitely "inflationary" in its effects? Should we not allow commodity influences such as changes in production technique and fashion to have their full effect on the price level? Cf. F. A. Hayek, *Prices and Production and Monetary Theory and the Trade Cycle*; D. H. Robertson's chapter in *The International Gold Problem* (Oxford University Press, 1931); R. G. Hawtrey, *The Art of Central Banking*, Chapter 5. Theoretically this position is extremely attractive. In view of the rigidities that are developing everywhere in our price system and the extreme irregularity in the manner in which they give way under pressure, it may well be questioned whether the fundamental assumption of fluidity is not too far from reality. In any case, this suggestion gives little satisfaction to the advocates of internal stability, and statistical implementation is not likely to be available for several years.

and so on. I have endeavored to bring out the ideal conditions under which the gold standard would operate efficiently. They are clearly conditions that are well within the terms of reference of your Commission. They might also seem to be conditions which it would be impossible to achieve in the next decade in the United States. It is well to remember, however, that they are *ideal* conditions and that the gold standard has operated with a fair degree of efficiency under a good deal less than the ideal conditions. If the ideal conditions for an efficiently managed currency were spelled out with the same detail, it might be apparent that they would be even more difficult to achieve in contemporary America. Some of the things I have said about the notions of stabilizing the price level are only an introduction to such a discussion.

Sometimes it is urged that such complete coordination of national power and policies regarding international economic relations as I have suggested in this memorandum is not necessary under an inconvertible currency. All the corrections of maladjustments in the movements of goods, capital, and credit would become effective in the foreign exchange quotations, and it is sometimes held that such a fluctuating foreign exchange rate would make people see the real significance of their mercantilist policies. Thus a high tariff would create a so-called "favorable" balance of trade and, assuming that other factors would not be altered, the protectionist country's currency would become expensive while the other currencies would fall in exchange value. This would then, it is argued, automatically make the mistakes of the excessive protectionism evident to everyone with eyes to see and a mind to understand. It is not wise, however, to be too optimistic about the size of this group. It is probably true that a freely fluctuating exchange rate would make the meaning of the process a bit clearer to those who already understand it, but it is highly optimistic to assume that politics would draw the anticipated conclusions. It is more probable that the high value of the protectionist country's currency would be ascribed to some conspiracy of the wicked foreigners which should be met with appropriations with which to deliberately keep the currency at a valuation well below the figure arrived at by the forces in the open market. Doubters are referred to our present monetary policy, which when boiled down to the essential facts means that we insist upon giving the foreigners more and more of our goods in return for less and less of theirs.

In my judgment the constructive possibilities lie in the direction of clarification of the interdependence of the various policies affecting international economic relations. Ultimately international coordination might present attractive opportunities. Immediately a

coordination of national powers and policies is the first necessity. Resumption of the gold standard is utterly unsafe if present conditions continue, but it should be strongly urged that any other monetary system is equally precarious if the policies relating to international economic relations are not centrally formulated and administered. In a sense the monetary problem is not so much a question of the standard as a problem of coordination of all relevant powers. When economic freedom was the rule, the correction of errors took place automatically through the open market. When control devices multiply, the magnitude of ultimate adjustments increases and the need for coordination of objectives becomes crucial. Such a pulling together of all the significant controls would seem to be the next step.

AGRICULTURE AND THE TARIFF

Statement by CHARLES E. HEARST, President, Iowa Farm Bureau Federation, at the Des Moines Hearings, April 30, 1934

Undoubtedly there is at the present time more serious thinking regarding the relationship of the tariff to agriculture, both on the part of rural and urban residents, than ever before in our national history. It is well that it should be so. A re-examination and re-appraisal of long-established ideas and conditions is now overdue. The post-war plight of agriculture is so familiar a story that there is small need to recite many of its distressing details at this time.

The immediate effect of the great war was to bring a brief wave of abnormally great prosperity to agriculture. Shortly following the conflict, agriculture again found itself dependent upon pre-war markets, in the face of the fact that acreage and production were both still expanded to wartime levels. While the price of many farm products following the war were comparable to pre-war prices, there are other factors to be considered showing the disparity that existed. One of these is the level of farm prices in relation to the prices of goods and supplies which the farmer must purchase. The latter were so much higher in relation to the prices of farm products that the purchasing power of a unit of the farmer's produce was considerably less than before the war. Moreover, certain necessary cash outlays of the farmer were much greater than during the previous decade. Both taxes and interest charges were much higher and took more of the farmer's cash income. Higher transportation costs had occasioned a wider spread between farm and retail prices. Distribution costs failed to decline to the pre-war level. All these factors operated to place the farmer in a considerably less favorable position than he had occupied prior to 1920. If the ratio of prices of farm products to prices paid by the farmer for goods which he buys be taken as 100 during the five-year period 1909-14, this same ratio stood as follows in the period 1920-34:

1920	106	1928	91
1922	84	1930	81
1924	89	1932	53
1926	89	1934 (March).....	63

Stated in another way, this means that at no time since 1921 has the farmer's dollar been worth 100 cents in purchasing power, and

at the present time is only worth 63 cents in the terms of the products which he buys. This index, compiled by the Department of Agriculture, serves in a way to summarize the whole distressing story of the farmer's present plight.

What, then, are the factors that have contributed to this growing disparity between the prices received by the farmers and the costs of goods purchased by them? Most important of such factors, and the one with which we are primarily concerned at this time, is the collapse of the export demand for the products of American farmers. The most significant single factor in the loss of our export markets has been the tariff policy in the United States taken in conjunction with those of the rest of the world. European countries have closed their doors to American farm products as a result of two forces. First, the extreme nationalistic feeling which has permeated the social and economic thought and action of Europe since the World War, and second, their retaliatory tariffs imposed against American products after we had closed our markets to their goods. To be sure, protective tariffs have been extended to American agricultural products just as they have been extended to manufactured products. Between the two however there is a vast difference in their effectiveness. A tariff on manufactured products is operative because there is a possibility of importing competing foreign products, but of most agricultural items we produce an exportable surplus that makes a tariff on imports a mere legislative gesture.

The failure of the efforts to improve the position of agriculture by tariffs on agricultural products has become increasingly apparent since the enactment of the Hawley-Smoot Tariff of 1930. The tariff can have little effect on the prices of those goods of which we produce a surplus in the United States. The tariff works only in so far as it can restrict the supply of products in the domestic market. And if the supply in the domestic market is already excessive, the tariff can be of little effect. Duties on wool and sugar have benefited a few producers of these things because we produce less at home than we need to consume. It is interesting to note however that in order that a few thousand sugar beet growers may continue cultivation under conditions of economic inefficiency, one hundred and twenty-two million people, including the millions of other farmers, must pay tribute in the form of higher living costs.

The principle is quite clear. The tariff is of small help where an export surplus exists.

Farm products that are regularly found in this surplus class include corn, pork and lard, wheat, cotton, and tobacco. This group includes the majority of the most important cash crops of the American farmer. With respect to livestock and dairy products, the

United States has reached a position of approximate national self-sufficiency. Three agricultural products of importance— wool, sugar, and flaxseed—are substantially increased in price by the tariff, since domestic production of these items is much less than our national consumption. But it should be remembered that only a small fraction of American farmers are engaged in the production of these commodities.

The great bulk of American farmers have restricted their cultivation activities to such crop and livestock products as are well adapted to the existing conditions of soil, climate, and transportation facilities. Such relatively unimportant farm products as are now imported can be produced more economically and advantageously in other lands. What then would be the effect on the American farmer of a thoroughgoing policy of national economic self-sufficiency? Would he gain or lose if tariff duties were to be raised still higher, forcing land and capital and labor into the production of those products which are now brought in from abroad to supply a portion of the American demand? A convincing answer to this question may be found in a comparison of the American acreage devoted to the production of exportable surplus products prior to 1930 with the acreage that would be required to produce such agricultural products as were imported prior to 1930. These figures were, respectively, 65 million and 15 million acres—that is to say, over four times as many acres were normally devoted to the production of our exportable surplus products as would be needed to produce such items now imported as could possibly be produced in this country on any reasonable terms. Stated in another way, the acreage devoted to the production of export products is approximately 18 per cent of the total acreage of American agriculture, while the total acreage which would be used to replace our importation of agricultural products would be only 4 per cent of the total acreage. Thus it is apparent that if total acreage remains unchanged, American agriculture stands to lose far more than it can possibly gain in consequence of any policy of national self-sufficiency. Or, as a possible alternative policy, if America should go 100 per cent nationalistic it would be necessary, as Secretary Wallace has pointed out, to retire permanently from cultivation not less than 40 million acres of good land, or 100 million acres of our waste land. This acreage represents the difference between the land now used to supply our export trade and that which would be required to produce the products now imported. The retiring of this acreage from cultivation, together with the wholesale shifting of the farm population that would necessarily be an accompanying feature, would bring difficulties and suffering that are hard to estimate,

and certainly are not to be regarded lightly. The easier procedure would seem to be the opening up of foreign markets to American products by reducing our tariffs on the imports from foreign countries.

A careful study made by the American Farm Bureau Federation in 1923 resulted in the conclusion that the Tariff Act of 1922 was resulting in an additional net loss of \$300,000,000 to the farmers as a whole. Other investigations indicated that this figure may have been too low. We find no similar studies with respect to the Tariff Act of 1930, but in view of the sharp increases in rates brought about by that measure, together with the retaliatory tariffs on American products subsequently imposed by European nations, it seems reasonable to conclude that American farmers are today possible losers to the extent of over a billion dollars annually as a direct consequence of the world-wide tariff situation. To take a concrete example, let us investigate the effect on the American people of sugar tariff. During the period 1922 to 1929 the extra cost of sugar to the country as a whole was over \$225,000,000 annually. In 1929 alone it amounted to nearly \$246,000,000 and in 1930 it reached a total of over \$268,000,000. Yet under the Tariff Act of 1922, which contained the highest duty ever levied on sugar up to that time, the production of cane sugar in this country actually decreased, while the production of beet sugar increased only slightly. The sugar duty gives very real aid to only 2.3 per cent of our farmers, but it taxes the entire farm population far more than the amount of the benefit to that small group. It results in a net loss to farmers as a class, and therefore as a farm relief measure its value is questioned.

On the one hand, we may say that the farmer is certainly justified in attempting to get whatever benefits he is able from tariffs so long as the nation is definitely proceeding along the road to economic nationalism. As long as protection is the national policy, the farmer cannot hope to benefit in consequence of leaving farm products on the free list. But, on the other hand, it is altogether apparent that any such policy is in opposition to the interest of agriculture generally. American agriculture has suffered severely during the past, and never more so than at the present time, from a policy of wholesale protection. Any further extension of such a policy in the future is likely to result only in making the farmer's problem a more difficult one.

Any complete understanding and appraisal of the final effects of many economic policies is rendered the more difficult because of the practical impossibility of seeing all parts of the picture at once. This is particularly true of the tariff question. It is necessary to distinguish between the interests of particular individuals or groups and

those of the nation as a whole. Since each one of us is a part of the whole, it might be argued that what is good for any one class must benefit the entire nation, but this is by no means necessarily true. A great fire may result in considerable short-run gain to the distributors of building materials and laborers in the building trades, yet anyone who might suggest wholesale arson as a remedy for a depression could not fail to be regarded as a lunatic. Practically the same principle is applicable to the question of protective tariffs, but it is only very recently that the farmer has begun to appreciate this fact. Foreign trade extends over so wide an area, and its final results may be so far removed from the immediate obvious consequences, that misunderstanding and confusion are multiplied. The prosperity that has come to a relatively small group of manufacturers by virtue of the shelter that they have found behind tariff walls is evident and undeniable, but it is far less obvious that the prosperity of these manufacturers has been obtained at the expense of all domestic consumers who must lose in the form of higher costs of living.

Regarded in retrospect, it is clear that American tariff history has been made, in the main, by the legislative representatives of Eastern manufacturing interests. Every industry that has been able to organize and maintain an effective lobby, or which has been located in a politically strategic section of the country, has been able to obtain as many tariff favors as it desires. And in the past the cost of our tariffs has fallen most heavily upon American agriculture. This tariff policy has always operated to raise the general money cost of living and the money costs of production of the farmers, and increasingly it has operated to reduce the sale price of his products by progressively restricting his export markets. For more than a century the farmers of America have been involuntarily subsidizing the manufacturing industries by selling basic farm products at or below costs.

Let us consider briefly the relation of the tariff to certain products in which we are vitally interested in the Middle West. The chief income-producers of the Iowa farmers are hogs, which contribute 40 per cent of his income; cattle and calves, which constitute 16 per cent; dairy products, 12 per cent; poultry, 10 per cent; and corn, 8 per cent. In 1929, 33 per cent of the lard produced in the United States was exported, but in 1932 the percentage had fallen to 24 per cent. Four per cent of all pork products, excluding lard, was exported in 1929, but in 1932 the figure had declined to 1.8 per cent. The conclusion seems unavoidable that the decline in the price of hogs from 1929 to 1932 was intimately bound up with the collapse of the export market for lard and pork products, which in turn was due in no small part to the retaliatory duties imposed by

foreign countries. The next items in order of importance—beef, dairy products, and poultry—are, as was stated previously, produced almost entirely for the domestic market, and in sufficient amount to meet the requirements of that market without the necessity for importations. Therefore these products may be said to be in a comparatively neutral position with respect to the tariff at the present time. Less than one per cent of our total corn crop is ordinarily exported in its original form, but instead it is sent abroad in the form of lard and pork products. The remaining minor products, such as oats, potatoes, hay, and rye, which contribute only 12 per cent of the gross income of Iowa farms, are sold almost exclusively in domestic markets. To summarize, then, the Iowa farmer produces no significant product which is in competition with foreign crops. His one most important cash product—hogs—is an outstanding example of a commodity which is on an export basis, and can in *no* way be benefited by a protective tariff. On the other hand, the Iowa farmer stands to lose heavily from any and all increases in the costs of living and costs of production which are the direct consequence of a protective tariff policy.

The following statement by Professor Schultz of Iowa State College is worthy of very deep consideration.

When foreign markets for cotton, wheat, lard, and tobacco disappear, it is only a matter of time until the prices of butter, beef, mutton, and eggs are dragged down. American farming is still dominated by the export group. They set the tempo of our agricultural well-being. Nor is the city outside the pale of its influence. Witness the consequences of the lack of purchasing power among farm people; it has seriously affected the rest of our business community. The fact that farmers are unable to buy is being keenly felt in our industrial centers. Factories are forced to close, and the ranks of the unemployed are increasing because of the inability of farmers to buy their products. The loss of the foreign markets has destroyed the fundamental balance of our national economic life.

The present crisis in international trade has brought widespread disaster to the export farmer. The American farmers, especially those of the Mississippi Valley, are inescapably dependent upon foreign buying. The home market, in spite of the phenomenal growth of our cities, cannot absorb anywhere near all the food and raw materials of our farms. Moreover, there is not even a remote probability that any possible increase in our industrial population will provide, during the next decade or two, a home market sufficiently large. Facts force us to accept the conclusion, whether we wish it or not, that farmers must continue to sell abroad or face wholesale liquidation.

THE AMERICAN FARMER AND THE EXPORT MARKET

Statement by OSCAR B. JESNESS, Chief of the Division of Agricultural Economics, University of Minnesota, at the Chicago Hearings, April 2, 1934

The members of this Commission presumably are interested first of all in knowing something of the basis of the interest in the problem under discussion of each participant in these hearings. My rural origin, upbringing, and family connections naturally have developed a deep-seated interest in and concern with farm problems. My training and experience as an agricultural economist have served to intensify that interest, particularly in the economic aspect of farm problems. Whatever bias I have, therefore, leans toward the farm side. I try to believe, however, that I have sufficient of the student and scientific mind to view the interests of the farmer from a broad rather than a narrow base.

The field of inquiry with which your Commission is dealing is one of special concern to the farm industry. Some of you are particularly aware of this interest because of your own training and experience. Others who have appeared or will appear before you have and will call attention to this. It is not necessary for me to spend time in any detailed reference to it but I want to give voice to the opinion that if you could get a cross section of the views of our thinking farmers, you might be surprised at their intelligent interest in this matter.

The reason why agriculture is concerned with international economic relations is patent. In spite of the extensive industrialization and urbanization of this country, foreign outlets still occupy an important place as a market for our farm products. Approximately one out of every six of our crop acres cultivated during 1920 to 1930 was dependent upon foreign markets. Farming really is a group of industries rather than a single one. The foreign market occupies a much larger place for some products than for others. Cotton is the premier agricultural export; fully half of that crop normally goes abroad. Wheat, lard, tobacco, and pork are among other farm products that have an important stake in foreign outlets.

Some people attempt to minimize the importance of foreign markets by grouping all products of every kind together and comparing in sum total the foreign with the domestic outlet. Such a compari-

son certainly has a large element of unreality as far as the cotton-grower, the lard-producer, and the wheat-grower are concerned.

We are in the midst of a situation in which grave question has arisen with respect to the continuance of outlets abroad. Many in fact are apparently willing to accept export outlets as bygones and to believe that "bygones are gone" forever. Frankly, this is a conclusion which I am unwilling to accept as final until we have at least tried to do something about it. Nor do I think our farmers who really grasp what such a conclusion involves are ready to accept it as final.

Henry A. Wallace, Secretary of Agriculture, has pointed out very clearly the alternatives with which we are confronted. A complete removal from world trade would involve the necessity of reducing crop land fifty to sixty million acres below the average in use in 1920-30. Because of the emphasis which has been placed in some quarters upon the removal of submarginal land from production, let me call attention to the fact that this means fifty million acres of representative crop land — not submarginal acres. If it consisted of land of the latter class, the amount removed from farm use would have to be very much greater.

No serious-minded student of the problem believes that we are likely to become afflicted with so severe a case of economic nationalism that we will not do any business with other countries. The extreme situation of complete loss of foreign markets, therefore, is not a realistic picture. However, the loss we are suffering through the diminution of foreign markets is real and unless corrected it will call for a drastic permanent curtailment of our farming industry.

Time forbids any extended discussion of certain features of farming which differentiate it from most lines of manufacturing. I merely want to remind you of some of these in passing because you will not have a complete picture of the problem in mind without them. Agriculture expands relatively easily; but contraction is another matter. Upon occasion I have likened its elasticity to that of taffy rather than of rubber. It stretches readily enough but does not spring back into its former shape easily. It must be worked back slowly and painstakingly.

The relatively fixed elements of costs represent a high proportion of the total costs in case of the farm. The comparatively small producing unit has been retained in agriculture because in this industry that unit has advantages. The farmer and his family provide all or most of the labor, so that costs cannot be cut by laying off labor. Raw materials needed in production, such as feed and forage, frequently are produced rather than purchased. Taxes and interest, which are relatively fixed, constitute a large share of the total cash

outlay of the average farmer. On the market side, the individual farmer lacks incentive to curtail output in order to maintain prices because his supply is only an infinitesimal part of the total. How unlike the situation commonly found in manufacturing! In the latter case, a fall in price is cushioned by shutdowns and curtailed output. In farming, output is maintained, and in many instances increased in a period of low prices. This fact is important. It means that a retrenchment in agriculture is a slow and painful process. Of course, if other industries were going full blast and employment at high tide, the attraction of urban employment would simplify the problem of adjustment; but such of course is not the case and the common view seems to be that those days may be far removed.

Nor does population growth with its decided slowing down in rate of increase bear any promise of a rapid expansion of the home market. While it is interesting to calculate how much more of agricultural output could be employed if everyone in the country were on a liberal diet, it still remains that the per capita intake of food is not likely to increase, and may shift still further toward products which make intensive rather than extensive use of the land. Undoubtedly, if we were to return to the use of animal power in place of mechanical power on farms, added outlets for farm products at home would result. However, the dreams of the horse enthusiast must be qualified by the hard, cold fact that the horse population is now of such age composition and in such a situation that a rapid extensive shift of this kind is out of the question. It takes years to produce the breeding stock and raise a sufficient crop of colts to the work stage to add greatly to the present horse population. Moreover, adaptations of mechanical power to agricultural requirements will undoubtedly improve and continue.

Sometimes it is suggested that because the United States imports considerable quantities of agricultural products the solution may be found in shifting from the production of export products to those imported. Such shifts are decidedly limited. We lack suitable conditions for the production of such important imports as coffee, tea, rubber, and silk. Possible shifts are so limited that they would replace only a minor proportion of the exports. Moreover, such shifts would involve substituting products in which we are at a disadvantage for products in the production of which we have advantages. This of course is poor economy.

If we insist that foreign markets are gone we must face frankly the price which this will entail in readjusting very extensively the output of farms. The real problem is one of weighing advantages and costs on both sides and then working out from such an analysis the line of action that will yield the greatest returns.

With the attention of the administration centered so intensively upon domestic price recovery, it is probably inescapable that much of the administrative leaning should be toward nationalistic policies. Under such circumstances I think we should count ourselves especially fortunate in the fact that we have a Secretary of Agriculture who is not overlooking the importance of foreign markets to the farmer. I only wish that more of his associates in the administration saw the situation as clearly as he does. Unfortunately, on the part of others one may frequently note acceptance without question of the view that foreign markets are gone. This may be true if we do nothing about it, but I am not ready to admit that this is something about which nothing can be done. The Secretary is right in describing the situation in terms of choices. If we choose the path of isolation, it will not be because it is the only way open to us.

Barriers against the inflow of commerce in other countries are pointed to by some as the reason why the loss of foreign markets is something beyond our control. May I call attention to a parallel? We have set up an adjustment administration which is striving to raise prices through the process of curtailing agricultural output. The talk is in terms of "surplus" and "overproduction." The parallel is this: Tariffs and trade restrictions are man-made fully as much as are surpluses. The abundance of nature at times may have a part in creating an agricultural surplus. Nature (except of the human variety) cannot be blamed for trade restrictions. If we can attack one, the other is not beyond reach.

Our people apparently fail to appreciate that we have done our share of restricting the international trade of the world. They fail to appreciate the incompatibility of expecting to collect interest and debt payments and at the same time continue to export more than we import. They miss the point that if our imports are restricted our exports must be. This is no mere hypothesis; it is an inescapable fact. We witness the case of resolutions which embody a demand for protection for home industries alongside one calling for an expansion in foreign outlets. In the midst of preparation of these notes the incoming mail brought the suggestion from a farmer that I aid him in a program of securing embargoes on importations as a help to the farmer. My reply to him was that the loss of exports was hurting him more than imports and that asking for an embargo was hardly consistent with seeking the more important solution of expanding outlets. Supposedly we learned at our mother's knee that we can't eat our cake and have it too, but apparently the truth of that lesson has never been carried over into our everyday thinking about foreign trade. I suspect that one explanation for this is that

we refuse to reduce our concept of trade to its elemental form, namely, that it consists of exchanging goods and services.

We apparently see no reason why another country should object if we subsidize exports of wheat in order to make possible its sale abroad at prices below our own, but we are stirred up over the report that Polish rye is coming into this country under a similar arrangement. In short, to say that trade restrictions are beyond our reach is to be blind to the fact that restrictions beget restrictions and that we have our own policies to blame for at least an important part of the barriers erected by other countries. To the extent that this is true, it does lie within our power to do something about it. We do have a choice and should recognize that fact. Nor are we being realistic if we assume that we are going to continue along the road of isolation for a time and then by some miracle reverse our direction at some time in the future. There may be "a destiny which shapes our ends, rough hew them though we may," but it is up to us to be our own destiny in reshaping our trade possibilities.

Ardent protectionists have a favorite trick of centering attention upon the specific item, thereby drawing attention away from the general principle. That happens constantly in the adoption of tariff rates. The protection of a given rate is visualized; the effects of the whole mass of rates become so diffused that they are not readily comprehended. Similarly, those who are ready to accept as final the idea that agricultural exports are a thing of the past frequently seek to justify their position by referring to specific cases. They point hopelessly to Germany's duty of over 16 cents a pound on lard. They talk of Italy's "battle of grain" as representing a permanent and irrevocable policy for that country. They shudder at a vast array of trade restrictions, bounties, and the like, of other countries. But what is the answer? These restrictions are man-made; man can and will change them when he realizes the advantage of so doing. Does anyone believe that it is in the long-run interest of Germany to become independent of other sources for animal fats if it takes a 16 cent duty on lard to bring this about? Does anyone believe that Italy has an economic advantage in becoming self-sufficient in wheat? Of course I am willing to concede that our economic policies are influenced by fear of possible conflict among nations. But we have managed to carry on trade fairly satisfactorily for a good many years in spite of war, actual and potential. The World War certainly has stirred up more objection to armed conflict than ever existed before. In spite of this, are we to conclude that the world has become so pugnacious that each nation has to do its best to become self-contained? When we are talking international policies, we presumably are planning for a longer period than merely today and

tomorrow. Can we not visualize better prospects than this for a period of time in the future?

One thing is perfectly clear. If export sale of farm products is to be re-established upon a broader base than the present, we either have to expand enormously our purchases of goods now on the free list or else change our policies so as to let in some goods now kept out of the tariff. The latter presumably is the objective of the administration's present program of seeking authority for the executive to enter into trade arrangements. In view of the importance of this step to agriculture, I regret that there has been some suggestion of opposition to the program from some agricultural groups. I believe this arises from a failure to face the facts frankly.

My information is that Secretary Wallace suggested to this Commission that you put advocates of re-establishment of international trade "on the spot" by insisting that they specify what particular goods this country should accept more freely in furthering a program of expanding exports. While the Secretary belongs in this classification himself, I do not believe he supplied a definite list of this kind. I not only am not going to supply such a list but I am going further and express doubt with respect to the desirability of attempting to follow any such procedure in your hearings. I am not denying that this must be done by someone. I am questioning whether this is the time, place, and manner of doing it. That conclusion may demand an explanation. This can best be given by inviting attention to what happens when a tariff revision is before Congress. It becomes a mad scramble of industry after industry demanding protection without consideration of what sort of an industrial structure or program we are trying to build. You cannot make a policy by starting out with a mass of specific material presented in uncoordinated form. If you started weighing in public hearings the pros and cons of lowering or removing protection from specific items or lines, you would be in continuous session for months to come listening to all sorts of ill-considered and biased argument by groups trying to defend positions no matter how untenable.

I heard Mr. Wallace upon another occasion tell a large body of economists of the opportunity they have of serving the country by doing the job of deciding upon the desirable status of different lines under protection. That is not an assignment which a large unwieldy body can undertake. I believe we need a most thorough study of this matter, but it must be done in a calm, scientific way by a small group of well-trained, highly competent, unbiased men. I see no reason why such a commission could not be set up under administrative authority. If the administration does not see fit to do so, why is not this suitable for support by one of our private foundations?

Perhaps I am too optimistic, but it does not seem impossible to work out a fairly reasonable classification which would group products according to their status under protection. If this is done, I believe considerable opportunity would be found for expanding imports to the advantage of the country as a whole.

Anyone possessed with any sense of realism at all knows that a proposal to remove or reduce protection from given lines will evoke a storm of protest. If the readjustment proceeds blindly, the opposition will be so general that even though it actually might be a minority element it probably would wreck the whole program. A program carefully thought out and developed with the interest of the many clearly in the foreground would be more likely to meet with acceptance.

It would not appear unreasonable for certain interests to be given governmental assistance where tariff revision would necessitate their curtailment or withdrawal. Public policy as represented by the tariff of the past has invited capital to go into certain fields and labor to become dependent upon those fields. The public must accept its share of the responsibility for this by sharing in the burden of adjustment which is made in its interest.

This Commission is concerned not only with what our policy in international economic relations should be, but also with ways and means of securing the adoption of the correct policy after it has been formulated. In this, public opinion will play the leading rôle. It has been said of various tariff acts in the past, as for example of that of 1930, that in finished form it was unsatisfactory to everyone. If this is correct, how can it be maintained that public opinion plays any part? Evidently, however, adoption of the act, no matter how unsatisfactory its form, was self-evident proof that the measure was regarded as better than none at all.

When I say that public opinion determines our trade policy, I am not so naïve as to imagine that the public generally has thought through the intricacies of international trade. The situation is quite the contrary. The understanding is very incomplete and insufficient. Part of public opinion is vociferous in making demands for protection. The tacit acceptance of their viewpoint by the mass of people makes that sector appear representative of the mass.

By and large, I think it not unfair to say that those who have seen, or believe they have seen, opportunities for gain to themselves or their line by a protective duty have been the ones who have determined policy. In reality there are three groups who should participate in determining trade policy. The beneficiaries of protection constitute one group, consumers another, and those producing for export a third.

By consumers I mean not only the ultimate consumer as such, but the industrial consumer as well. Those seeking protection have received the greatest attention. An examination of tariff hearings will demonstrate this clearly. Some objections have been raised by industrial consumers in the case of specific rates which threatened their business. Consumers generally, however, have not participated. Of course it is maintained that the term "consumer" is all-embracing and that those who seek protection are themselves consumers. This is obvious, but it is equally obvious that they appear in tariff hearings in their rôle as producers, not as consumers. They have their minds fixed on benefits anticipated from certain rates. Seldom do they think in terms of increased cost to them resulting from the mass or rates for other products.

As far as the producers of exports are concerned, the popular notion has been that because duties are levied only on imports, exporters are not concerned in this matter. We fail to appreciate that our efforts to restrict imports limit our export possibilities.

As long as trade policies are to be determined by a process of political trading, all the various interests involved should participate actively. Only by so doing will we have a result in which consideration is given to all interested parties.

Such a program requires mass education. We need education not only to create a better understanding of the true facts but also to help rid ourselves of quite an array of fallacies which masquerade as fact. While difficult, such a program is not impossible. Commissions such as this will help immeasurably in its accomplishment.

While it is well-nigh impossible to wander through the maze of import duties—effective, partially effective, and totally ineffective—and determine with any degree of assured accuracy the relative gains and losses of different economic groups, I think there is justification for the view that by and large the farmer is the one who has lost his shirt most generally in tariff deals. It is popular belief in some quarters that all industry hides behind a wall of protection and that the farmer has no protection because of his export surplus. The facts are of course that both in industry and in agriculture are found some lines which benefit from protection and some which do not. This country started as an agricultural nation, producing quite largely for export. Under these circumstances, agricultural support for a tariff was gained quite largely through the "home market" argument that industrialization would improve the outlets of the farm.

In recent times a larger number of agricultural products have been in a shape to obtain some protection. It still remains, however, that we are definitely on an export basis for some of our more

important agricultural staples and consequently receive little or no benefit from the tariff directly in the case of these and indirectly suffer materially from a loss of exports. Cotton can hope for no general benefit, and even in the case of certain long-staple cotton it is questionable whether duties collected on imports are particularly effective in view of the fact that we also export some long-staple cotton. The tariff on wheat normally may be effective on some grades and classes, but is not generally effective. Lard and pork are not in a situation to benefit from protective duties because of export surplus. Tobacco is an important export crop and duties provide protection only for minor groups. The duty on butter of 14 cents is only partially effective most of the time, and the same is true of wool. Certain products such as sugar beets and flaxseed are definitely protected, but they are produced by such a minor proportion of the total that the tariff on them does not benefit farmers generally.

When it comes to reducing protection, it may be found that there are some agricultural rates which can be lowered along with the removal of protection on those industrial goods where such protection is the least justified. Agriculture has an important concern in your program and I am sure the farmer will be keenly interested in your conclusions and will look to them as an aid in improving upon the present difficult situation. I feel sure you are going to help all of us come to better grips with one of the most vital issues of our time.

WOMEN'S INTEREST IN INTERNATIONAL ECONOMIC POLICY

*Statement by MRS. WILLIAM P. LUCAS, League of Women Voters,
San Francisco, California, at the San Francisco
Hearings, May 3, 1934*

In speaking before the Commission, I shall follow the three points stressed in the brief memorandum your secretary submitted, and attempt in the time given me to clarify, to dilate upon some of the brief dogmatic statements made, and to add further comments upon the matters under discussion which a little more time in preparation has made possible.¹

The women's organizations represented informally in this statement include the League of Women Voters, the American Association of University Women, women of various church affiliations, Protestant, Jewish, and Catholic, and principals and teachers of the elementary public schools in San Francisco County and San Mateo County. Also included are women who have organized themselves into groups numbering from one hundred and fifty to two hundred and fifty for the purpose of studying and discussing national and international problems, and women attending occasional large meetings in cities up and down the coast, in Oakland, Carmel, San Jose, Santa Barbara, Fresno, Stockton, Sacramento, Los Angeles, Pasadena, San Diego, and Riverside. An informal poll has been attempted in various groups in near-by cities upon the three main matters under discussion: questions relating to international trade and tariffs, to international monetary policy, and to international borrowing and lending.

VIEWS OF WOMEN ON COMMERCIAL POLICY WITH RESPECT TO INTERNATIONAL TRADE, TARIFFS, AND RECIPROCAL TRADE AGREEMENTS

In this first matter I found the most definite opinions formed in relation to the question of tariff and trade agreements.

1. As a whole, the women feel that high protective tariffs have

¹In attempting to present the opinions of the women in the groups I contact, I would like to make it clear that I may in no way be reflecting their opinion because of the difficulty in deciding where my influence ends and their independent thinking begins. Doubtless there are many, many women in these groups who differ among themselves and with me in some of these basic matters.

failed to protect! That is, the history of tariffs has not brought *security* to our economic life, and women are interested in that as the immediate reaction upon the home and family budgets, for these problems are theirs to adjust and solve, if possible.

Women have grown slowly but surely to relate our domestic insecurity to the insecurity throughout the world, and since the close of the war they have watched tariffs destroy markets at home and abroad, and draw deep and bitter economic lines between other-wise friendly nations.

I have found in the informal discussions of the subject that party lines no longer interest women when considering tariff problems. They see in our tariffs today just government subsidies in favor of industries that have long ago outgrown the need of protection. They see also that protection of the *rugged* individuals in our industrial life has too often resulted in *ruthless* individuals when it comes to sharing with *labor* the profits made possible by these protective tariffs.

2. The women feel that our economic code cannot be separated, from a new ethical code.

In Will Rogers' comment on the airmail contracts, "I hope they don't stop every industry where they find crookedness at the top," many women in these groups find not only humor but a very uncomfortable amount of truth. They feel that tariff matters should be taken out of the hands of political parties, that is, Congress, where tariff favors are too often sold for campaign contributions, and placed in the hands of the President or a Tariff Commission.

3. They feel that we need some national policy in regard to foreign trade that will develop, through intelligent planning, a long-term commercial policy. The large women's organizations such as the General Federation, the Council of Jewish Women, the League of Women Voters, and the Association of University Women have for the past fifteen or twenty years been interested in the trade relations of our country with Latin America and our neighbors in the Caribbean Sea. Many study groups throughout the country have been watching and evaluating our national policies in this field. The Pan American Union has hundreds of intelligent constructive critics among the women. They know that the whole history of "intervention," armed or peaceful, to the south of us, political control, and economic penetration, could not have been the policy of the Pan American Union if that Union had been an *organization of equals*.

Equality is not possible with the present make-up—headquarters always Washington, Director General always an American, Chairman of the Governing Board always the Secretary of State

of the United States government, and the board made up of ambassadors and ministers of Latin America acceptable to Washington! Our studies reveal the necessity of cleaning up the Pan American Union. Beautiful insincere gestures fail to create commercial policies that are fair and honest. Secretary Hull did much at Montevideo, but the present policy in Cuba is enough to undo much of his accomplishments. Women are not in favor of the old personal, intriguing, domineering policy in matters of foreign trade.

VIEWS OF WOMEN ON INTERNATIONAL MONETARY POLICY

The international monetary policy is the second problem of the Commission, including questions of the commodity dollar, gold bullion, standard credit dollar statistically controlled, etc. On this the women were not ready to vote, saying quite frankly that they did not feel qualified to express definite opinions—that they “were full of fears,” “of questions,” “of criticism of the status quo,” “of resentment that those whose business it was to find the right way out were thinking politically instead of economically,” and that “the interests of the masses of the people were ignored by the controlling power of the fewer great interests.”

It might be fair to say at this point that women seem to be thinking along lines of greater reality. The amount of gold France or the United States had stored away seemed to indicate just a bad dislocation of gold which was related to the whole problem of maldistribution of everything else. Women are essentially *consumers* as yet in our economic life and therefore their interest in the distribution of wealth, commodities, and what not is very marked. In discussing finance with women, I find a very great suspicion of our banking system. When women tried to convert their bank balances into money and bank after bank failed, they became conscious of the fact that there was but four billions of gold with which to pay forty billions of deposits; they are interested in where the gold is and what is the relation of that to their economic security.

VIEWS OF WOMEN ON POLICY WITH RESPECT TO INTERNATIONAL LENDING AND BORROWING

As to the policy with respect to international lending and borrowing, including the alternative policies toward the collecting of both private and public foreign debts, the opinion seemed to be intimately related to the whole problem of a planned economy—and war.

The majority opinion was that the collecting of both private and public foreign loans must be solved *before* the loans are made. In

other words, there must be regulation and control that will result in greater security for the borrower and the lender.

Professor Warren's article in *Foreign Affairs* for April on the question of neutrality was studied thoughtfully, and the majority agreed that the economic suggestions were sound. "No loans *private* or *public* to belligerents, no sale of munitions to belligerents, and the manufacture and sale of munitions to be in the hands of the government." Even though foreign trade suffered a loss, that loss would cost the people less than would war.

SUMMARY OF TRENDS IN WOMEN'S VIEWS

In conclusion may I speak briefly of the trend in the thinking of women as I am contacting it in large groups, and in small groups of twenty to thirty doing actual study. My observations cover the post-war period.

1. Women have accepted the oft-repeated statement that the World War was caused by economic factors that produced the great rival competitive economic systems upon which were built the national political structures, the antagonisms of trade and markets, etc.

2. Women are meeting that challenge by a real determination to *know* how such a war can be avoided in the future by a complete and revolutionary change, if necessary, in the economic structure.

3. With the coming of the major depression, women now are relating the actual sufferings in their own homes, towns, and states to this wider field of foreign trade, the question of how big the price of peace in the world may be, and of whether American recovery can be unrelated to the major economic problems of other countries. Is the boasted standard of living of the American people secured at the cost of low levels of existence for millions of other people in other lands, etc.?

4. Economically the *age of acceptance* has passed. These women are entering the *age of challenge*. They want to know. The general attitude seems to be that if the economic system under which the world has functioned results in such economic disaster to millions of people, the time has come to alter it, and to pay the price individually and nationally for an economic system that *will work*, that will maintain the greatest amount of social welfare for the greatest number of people.

5. Women know they will carry much of the price of whatever becomes the national policy in international economics. I find little desire among these women to avoid the price. This depression has seemed to teach new values.

If California, for instance, is to maintain an anti-Japanese senti-

ment, there is no logic, convincing or honest, in the economic fact that ships loaded with ammunition manufactured and sold by private ammunition concerns leave our harbors for Japan! Women of these various groups are questioning such procedure and the economic implications of our foreign policy with a steadily increasing willingness to pay the price, in their own economic lives, of reconstruction of that economic policy.

**GENERAL CONSIDERATIONS ON INTERNATIONAL TRADE,
MONETARY POLICY, AND LENDING AND BORROWING**

My own point of view in regard to these three topics can only be stated briefly here. Before giving it, however, I would like to make a general statement which is the basic approach to what I may at the moment think the best method of procedure for the United States in any of these matters.

I believe that we cannot reach a solution of any of these economic problems from the basis of the old dogma of "free competition" and the principle that government should keep its hands off the economic and industrial life of our country.

I believe that we as a people have turned our backs upon the idea that the *life of trade* is dependent upon the old idea of great mass production or the overconcentration of wealth. I believe this is true because we have seen trade practically die out from such methods.

We have seen the effects of overproduction, of maldistribution. We know the misery of unemployment and poverty and starvation for fifteen millions of people and we are seeking not recovery but reconstruction of our national economic life.

I believe that the leaders of the great capitalistic system under which we have as a nation developed must recognize this and must not only *consent* to reforms from within the system, but must be in the mood of honest and complete experimentation, in trying new ways that mean personal sacrifice, even personal economic disaster, for the sake of constructing an economic system that will no longer accept "recurring business cycles of prosperity and depression," entirely unregulated and uncontrolled forces of production, unregulated private profits among captains of industry, uncontrolled credit systems which have led to the saddling of our people with billions of dollars of debt, and many other evils.

As usual, in troublous times, we waste our energy in calling names, rousing fear of this "ism" and that, blurring the main issues of the problem, clinging to outworn theories because we lack the courage and the creative power to live up to our heritage as "a nation of pioneers" and conquer the new economic frontiers. No

individual knows the way, but I am convinced that by intelligent cooperation, intelligent revaluation of the things that make our economic life worth while, intelligent re-thinking of economic relationships with the rest of the world, this task, of far greater complexity than has faced any other generation, and of greater moment not only to our one hundred and twenty-five million people, but to the whole world, will be accomplished.

Now as to the three main divisions of this Commission's specific inquiry.

1. First, regarding a desirable commercial policy with respect to international trade, tariffs, reciprocal trade agreements, and bulk trade agreements, I believe that a commercial policy must be worked out by the executive branch of the government through a Trade and Tariff Commission *removed by its construction and make-up as far as possible from the political pressure of the legislative branch, the Congress of the United States.*

The present Tariff Commission established by President Wilson gave to the executive the power to make changes in the tariffs, but neither the Tariff Commission nor the three succeeding presidents seemed to be free enough from the congressional pressure, the pressure of the heavily protected industries, to act along a line of direct, vigorous, and generous policy. The present Tariff Commission has undoubtedly a great deal of information that will be of great value in future action.

If you follow the story of our trade agreements and tariff policies in the Caribbean, the inadequacy of the Latin American division of the State Department in meeting the suspicion, distrust, and fear of our South American countries, you realize the full importance of the Montevideo Conference.

The pressure of the sugar interests in Cuba financed from the mainland of the United States has prevented up to this time the negotiation of a reciprocal agreement which would give certain preferential arrangements in sugar quotas and duties.

I believe the plan submitted by the Executive Commercial Policy Committee under the chairmanship of Francis B. Sayre to be a possible next step if we are to cling to tariffs. I, for one, believe the world would benefit enormously by heavy tariff reductions and very far-reaching reciprocal agreements in trade. The plan of Sayre's committee has much to recommend it. In so far as it requires the classification of all the industries in the United States into six grades, "in accordance with their economic suitability to the country, their value for national defense, their general social utility, the number of their employees, and the amount of capital involved, their geographical distribution, the alternative sources of

foreign goods for the goods they create," and finally "the mutual dependence, for proper operation, of each industry on others," the plan at least shows intelligent thinking and an honest attempt to regulate production and eliminate from our production commodities which this country is totally unsuited to produce. It would at least make us as a country take a longer look at our commercial policies, and make the effort to relate our foreign relations and foreign trade to a given policy and to necessary domestic readjustments instead of the present hodge-podge of dislocation of foreign markets and foreign trade, due largely to the initiative and energy of the unregulated, uncontrolled economic system!

As the World Economic Conference said, "Tariffs, though within the sovereign jurisdiction of the separate states, are not a matter of purely domestic interest." As Sir Arthur Salter says, "So long as small countries lacking resources within their frontiers to support their population in reasonable comfort, are blockaded by surrounding tariffs, so long as over-production of particular commodities is stimulated by protection and by tariff; so long as the framework to which economic enterprise has to adapt itself is subject to violent and sudden change, the world cannot hope for any steady progress in prosperity."

I think the worst feature of the present tariff system in our country is that it has too little relationship to general policy, national or international. Our tariff system is a mass of concessions to *sectional pressure* and does not seem to be influenced by the fundamental fact that we as a creditor country can only be paid by those who owe us in goods and services. We increase or reduce our tariffs without consultation with other countries, generally without warning, and yet every import thus shut out is a foreigner's export.

I believe we must act as a world community in trade relations. The wheat agreement of the London Economic Conference is sound. The pact proposes that the nations decide the part each shall occupy in the wheat industry of the world in the interest of both consumer and producer. The whole plan of quotas in shipments into the international market—the limitation of exports of the combined group of the four chief exporters, the curtailment of acreage, the promise of importing nations to reduce their tariffs on wheat as soon as the price remains at the average of 63.02 cents gold for four months, and the steps toward the preventing an increase in their domestic wheat productions—all this is indicative of a method that is, I repeat, sound. The International Wheat Marketing Committee to study market conditions and the fall of wheat prices and the committee to investigate methods of increas-

ing the consumption of wheat are indications of sound mutual agreements if *they deal* with realities and not artificialities.

Our whole South American policy must run true to our promises at Montevideo. This calls for lower tariffs, elimination of duties which restrict the importation of particular commodities to negligible quantities, the early negotiation of reciprocal trade agreements, continuation of the most-favored-nation clause, and, best of all, the establishment of a permanent international agency for the purpose of carrying out these obligations—there is danger in letting our domestic emergencies delay the general reduction in tariffs.

2. With respect to the second problem of the Commission, concerning international policy and including the question of money standards, commodity dollar, gold bullion, etc., I stand more or less with the majority of women with whom I come in contact. I find my thinking along these lines shadowed by the economic teaching of my period in college life—the old economic terminology that seemed to represent immovable dogmas—the law of supply and demand perhaps the most secure of all. I have lived to see most of the dogmas crash. I saw artificially stimulated supply meeting artificially created demand. I saw prices not the result of basic economic factors, but artificially manipulated; I saw an enormous credit structure erected by the banking system based upon paper securities and pools, and when 1929 came, I saw the deplorable and devastating credit deflation begin, a wild scramble for liquidation that ended on March 5, 1933, with every bank in the country closed.

I learned that life goes on whether we are on the gold standard or not. I saw that under a dead weight of debt and distorted price structures there was no possibility of new investment, and no recovery could get under way unless new investments could be made.

As far as I see the President's policy, going off the gold standard was a definite part of his plan to follow a policy of ordered inflation or reflation rather than the policy of deflation. Then there was the policy of raising internal prices to assist in the debt liquidation so as to stimulate new investment. There was an immediate interaction with the external value of the dollar. He has to restore enterprise without the writing down of debt, so the commodity dollar has been his main solution.

That dollar is now a good deal less than the old gold dollar. It would seem perfectly logical to weaken the dollar if the strength of the dollar is *too great* because the United States is a creditor country. This could be done only by the deliberate control of the exchange rate on gold and by the continued persistent inflation

behind the undervalued dollar. This is being done by the Public Works program, the refinancing of debt on better lines, and the expansion of bank reserves through the establishment of the exchange equalization fund.

But this inflation has to be continually active. Although I cannot argue all of these various ramifications, the main picture seems to me convincing. In my study of the foreign press I find among economists, like Cassell of Sweden, who is interested in a controlled capitalism including regulation of private profits, only praise that in cheapening the currency of the world's greatest creditor and stimulating internal prosperity in every way, the President is acting constructively and having a constructive influence upon other nations.

If we are to continue to operate under the present capitalistic system, I believe we have to meet first perhaps the economic conditions—we must abolish the abnormal impediments to international commerce and international movements of capital, and it would seem as though we must all renounce the unreasonable demands for transfers of capital in connection with war debts.

As I look at the whole picture of world conditions, it seems to me as though money was after all a matter of convenience and not a matter of real value. If war breaks in Europe this year, it will be a war based upon the economic bitternesses created and nourished by the treaties since the World War—treaties that ignored economic frontiers and geographical values in rearranging Europe to satisfy political necessities and intrigues, instead of the economic actualities.

3. On the question of policies with respect to international lending and borrowing, I again relate my first remark to the question of war or peace. I believe that (1) no public or private loans of money should be made to belligerents; (2) the present war debts of governments should be ignored as uncollectible; (3) past private war debts cannot be collected by government, nor should private individuals or corporations be allowed to force the hands of governments to move for collection; (4) international lending and borrowing must be regulated and controlled by affiliated national and international boards that will investigate the nature of the loans, the security for loans, the financial stability of the country asking for loans, and the character of the loan—whether it be for constructive or destructive purposes, i. e., to build a railroad actually demanded by economic necessity or population trends, or to fight a war, or to add to the military burdens of the people.

In other words, an international securities act is as necessary as a national securities act under the present capitalistic system. The

more public such procedures, the more the people can know and understand the status and needs of other countries in regard to the loaning and borrowing of money, the finer will be the whole structure of international relations.

At first there was no attempt in our recognition of Soviet Russia to settle old debts and war claims but now the Johnson Bill just signed forbids any extension of credit until debts are paid.

I believe war debts and old claims of debt cannot be collected from other nations. France, Belgium, Poland, and Estonia defaulted on their regular interest payments in December last. Great Britain, Italy, Czechoslovakia, Latvia, and Lithuania offered "token" payments. Finland alone paid. I believe the European nations expect, and will demand, that we wipe out the debts they owe us as they at Lausanne wiped out Germany's debt to the Allies.

As to the problem of general international indebtedness, that is the only piece of international debt that governments can deal with directly. Foreign loans made to governments and public authorities must be more controlled from the angle of security.

I believe we need a reorganization of our two great public trade-promoting institutions, the Department of State and the Department of Commerce. I believe in more public control and regulation of our private trade-promoting institutions such as our chambers of commerce, Foreign Trade Council, and the banks. At present we are trying a policy of controlled internal inflation in order to meet our own internal overindebtedness and we may double the dollar price of commodities—thereby lessening the international debt problem.

I do not know whether currency management is enough.

I do not see the value of more foreign lending. It seems a dubious method. It would increase the volume of international trade for a time but we cannot decrease our debtors' indebtedness to us by lending them more money. We tried that from 1923 until 1928, when we not only lent money to pay interest and repayments, but more also to square the trade balance. We cannot get our debts paid to us and also have the trade balance in our favor. Foreign debts can only be paid by trade balances. If we are going to get our American dollars, we have got to allow other nations to sell us more than we sell them. That is the basis of my belief that the tariff barriers to foreign trade must come down. Our debt policy for the past fourteen years has been to demand that our debtors pay their debts, buy our goods, but do not sell us anything.

Because of our pressure upon them, the other nations have attempted to make adjustments to our conditions. Dumping, tariff barriers, and direct stimulation of their own industries have been

the result. Our pressure has forced them to become as nearly self-supporting as possible. I believe this has been the major factor in our agricultural depression.

Our whole tariff policy has been and is in direct opposition to our debt collection policy.

In closing I come back to the underlying motive back of all such inquiries as this—to find the better way in policy for the United States, a way that cannot be found unless it be sought in honest cooperation with the rest of the world. All countries grow poor together, all countries grow rich together. A lightening of burdens and a greater freedom of trade enriching one country will enrich them all. International stupidity in these fundamental economic matters is tremendously costly. The equilibrium of international trade is, as Keynes says, based on a complicated balance between agriculture and the industries of the different countries of the world and on a specialization by each in the employment of its labor and its capital. Flooding here, dumping there, means disaster. A planned economy that results in the public welfare of all peoples is the only safe system of economic life. If leadership fails, if peaceful cooperative evolution of a better system fails, if wars here and there blur for a time these fundamental economic problems crying for solution, if production and distribution of wealth continue to bear a grotesquely cruel and unfair relation to each other, I believe we shall walk the road of destructive revolution.

If in my place today you might hear the answers to your inquiries from the thousands of men and women in this city who are on relief, the answers to all three of these divisions would be in very simple real words. "We do not know what to do—we only know the old way has brought us to disaster. We must eat and we must work or we cease to be human beings fit to play our part in the life of the country we love. There must be a way—find it before it is too late for us."

I believe the women of this coast feel the deeper significances of these questions we are discussing, feel them in terms of a new spiritual evaluation of economic life. Poverty, misery, frustration, bitter need, have moved right into the very center of our lives and with that has come a compelling conviction that the questions this Commission is asking must be answered from the standpoint of the millions the world over who are losing the chance to reach even the bare subsistence level of life.

A DESIRABLE MONETARY POLICY

*Statement by MELCHIOR PALYI, Department of Economics,
University of Chicago, at the Chicago Hearings, April 2, 1934*

Both England and the United States have left the gold standard in order to overcome—or at least on the pretext of overcoming—a run on their banking structures. Both the reason and the pretext are obsolete by this time. No run is pending, and the banking system in this country, disregarding minor “weak spots,” is substantially more liquid, and enjoys much more confidence, than at almost any time during the depression. There is no need to discuss here the consequences of America’s going off the gold standard. At present, at any rate, no reasons could be advanced for further devaluation. The reduction of the gold content of the dollar diminished the volume of debts in terms of gold and raised the gold cover of the circulating currency. In addition, gold inflow, just as in England, added to the gold reserves. The budgetary disequilibrium is serious, but does not by any means involve the necessity of further monetary manipulation.

Under these conditions, the United States, as well as England, could take at any moment the necessary measures for stabilization of its currency. British public opinion is prepared for this step as soon as America is ready to start it; and it is superfluous to say that the French would more than welcome it. Ending definitely the instability of exchange rates would have the significance of ending the continuous pressure from this source on world market prices. Of course, for a while, even after a definitive stabilization, prices in the gold countries are likely to fall somewhat further, so as to restore equilibrium with the slowly rising or stable paper money prices in the countries which have depreciated their currencies. But within a short time, this major source of depressive forces being eliminated, the commodity markets of the world would be freed from the pressure of monetary “dumping,” and could return to normal conditions. International trade would gain, and capital movements would be somewhat normalized, because of the elimination of the risk involved in major foreign exchange fluctuations. And last but not least, the reassurance to the investor that no more depreciation will occur in the Anglo-Saxon countries, and that the gold bloc consequently will not be driven off gold, will necessarily

quiet down nervous excitements and open up channels for the return into circulation of hoarded gold.

As to the "techniques" of monetary stabilization, the American case does not need elaboration. Stabilization is temporarily achieved already, and all that is needed is to consolidate the situation into a permanent one. There is no danger of a gold outflow, which would undermine the position, and it would be easy to assure the cooperation in case of emergency of both the Bank of England and the Banque de France. However, such emergency is not likely to occur. A definite stabilization is likely to draw back American capital which has fled the country looking for safety, and to attract foreign capital into American bonds and possibly also other investments. On the commercial side, the American balance of trade is likely to be more favorable rather than less in the near future. The devaluation of the dollar has created a temporary price differential to the advantage of American exports, which is by no means overcome as yet by the combination of rising dollar prices in the United States and falling gold prices outside.

The British and especially the French are keenly interested in American stabilization. They are also interested in settling the question of the interallied debts. On the other hand, the new American commercial policy of treaty negotiations for the sake of overcoming unreasonable trade barriers could be greatly strengthened if both the dollar stabilization and the rearrangement of the interallied debts were used as weapons for bargaining purposes. Indeed, the bargaining position of the United States could be tremendously increased and the new policy of the administration might stand some chance of real success by use of these additional weapons. The question of including interallied debts is, however, a minor consideration.

The major point is the close interconnection between monetary stabilization and a reconsidered commercial policy. The real significance of the first could only be brought out if connected with a move toward "normalization" of international trade relations, at least between the United States, the British Empire, and the gold bloc. Agreement between these groups, especially between the three leading countries, in the sense of mutual stabilization and of a return to "normal" protective methods of commercial policy, might start both the restoration of confidence for investment purposes and the restoration of trade. Without currency stabilization no sensible system of commercial treaties could be carried out. A "sensible" system of commercial policy is one which does not strangle foreign trade by excessive tariffs, import licenses, embargoes, quotas, direct and indirect export premiums, etc. No country, perhaps, has

a more vital interest in such a return to normal than the United States, and in the United States it is especially important to the farmer. His choice is ultimately between reduced crops and more markets; and no inventiveness of farm experts or of monetary experimenters can get around this dilemma.

Stabilization is the first and most important step of a constructive monetary policy; it is also the easiest. Once re-established, what should the gold standard be like? It certainly ought to be put on a more stable basis than it was in the post-war period; indeed, the re-establishment itself would be futile if not coupled with a reorganization which could avert for a long time the danger of a new breakdown. To begin with, no international collaboration is needed beyond the re-establishment of stable exchanges and commercial treaty arrangements. In the purely monetary field, cooperation of central banks, except for technical matters and for occasional minor policies, is likely to give more trouble than advantage. In the long run, central-bank policies ought to be shaped in each country (and on the basis of a gold standard), according to the country's position and institutions, and not in any sort of club of central bankers. Central banks have a tendency toward secrecy; a club of central banks withdraws their policy entirely from public criticism and public control. A club of central banks in which creditor and debtor nations, rich and poor ones, etc., "cooperate" is likely to turn out to be a device for using the gold reserves of the rich ones to supplement those of the poor, and to join in the credit expansion policies of the inflationist nations at the expense of the others. Indeed, the experiences during the post-war period, leading to the breakdown in the crisis of 1929-31, ought to have taught a thorough lesson in this respect.

The most dangerous form of international cooperation of central banks is the one which, in spite of all experience, is still propagandized by the League of Nations and by many economists of the English-speaking world. I mean the so-called gold exchange standard. It uses the same gold reserves as the basis for note issue and deposit expansion in several countries at the same time. It is the most dangerous device, because it is the least transparent, in creating a credit inflation and fostering a boom on commodity and stock markets by additional cheap credit. The pre-depression boom was due to a substantial extent to this device, which was only possible thanks to the cooperation of central banks. This turned out to be a most doubtful gift to mankind. Governor Montague Norman and Governor Strong, who planned and built up this device subsequent to 1925, had certainly the best intentions and hoped to overcome the difficulties of an unstable world by trying to combine the ap-

parent safety of the gold standard and the obvious happiness of cheap credit at the same time. However, plentiful and cheap credit to doubtful debtors turned out again, as so many times before, to be irreconcilable with a sound monetary system. Without the cooperation of the central banks, the whole method could not have been carried out, and would not have led to a disaster of such dimensions.

Indeed, international management of the monetary system is almost necessarily bound to be inflationist in tendency. It is even doubtful whether and how far such a tendency of national managements can be overcome. In case of international cooperation for a longer time and in matters of general policy—beyond the temporary act of stabilization and choice of mint pars—a tendency toward credit expansion is practically implied. Independence of the central bank from foreign influence and foreign entanglement is therefore a fundamental maxim of sound policy. Independence from political influence within the country is, however, just as important. Of course, monetary problems are closely interconnected with all other aspects of international and national economic policy. In economic life all functions are closely interrelated and mutually influence each other. But this by no means implies that monetary policy should be under one and the same management as the commercial and other economic policies of the country. On the contrary, from the point of view of public opinion and its influence in democratic government, as well as from the point of view of actual management, a dogmatic attitude on this issue might lead to very dangerous consequences.

In the first place, too much emphasis on the correlation between monetary management and commercial or other policies is likely to cause more political harm than good. True, a 100 per cent gold standard in the classical sense, strictly adapting interest rates and volume of currency to changes in gold flow, is not, as a matter of principle, consistent with a protective commercial policy. In other words, those who believe in the superiority of a good gold standard and its efficiency in correcting ups and downs by quick adaptation and high sensitivity of the monetary system ought to argue for free trade. But it does not by any means follow that those who believe in protection ought to argue against the gold standard. Tariff policy with the gold standard is not an ideal arrangement, but it is far better than tariff policy without the gold standard. Insisting on the correlation of free trade and gold standard involves the strategic danger of pushing the tariff advocates into the inflationist camp. This is not only a matter of political strategy; the correlation between one type of commercial and a corresponding type of mone-

tary policy is not so close, as a matter of practical approach, as it might look from the purely theoretical angle.

Secondly, the concentration of management of all aspects of economic policy involves the danger that one authority may overpower the others. It can hardly be doubted that it will be the treasury or a similar governmental department which gets away with its policy rather than the central bank. Past experience has shown that treasuries have more power in case of cooperation with central banks than do the banks. It is difficult to say why this is so. Perhaps the mere fact that political power is behind the governmental office, as compared with the purely financial power of the central bank, is a decisive element in this strategic situation. At any rate, the highly important independence of the note bank from political influence is bound to be undermined in case of a permanent and close coordination of its management with that of governmental policies.

There is, on the other hand, no reason for handing over the country's economic policy to the management of the central bank. Central bankers have quite a job in handling their own problems. Not many of them prove to be up to reasonable standards. Still fewer of them are experts in such fields as commercial policy, industrial and social problems, etc. Indeed, every institution has its own interests and tendencies, which are, at best, well enough managed to serve the interests of the nation. Would it not mean presupposing superhuman intelligence and detachment to assume that the leadership of a note bank is able to disregard money market interests in favor, say, of commercial policy points of view?

Lastly, a certain departmentalization of government is economically and socially important, so as to avoid errors by overemphasizing one-sided actions. Indeed, most of the great mistakes of economic policy arise out of the fact that a wrong direction is taken on all lines, rather than on one or two single lines of administration. From the point of view of the "planning" ideas so popular nowadays all over the world, it sounds rather unsystematic that one administrative body should balance the errors of the other. Those who do not believe in the absolute wisdom of bureaucracies or politicians, and who are inclined to think that human beings—even in governmental positions—are capable of making mistakes, might agree that, in view of the moral and intellectual weakness of humanity, the tremendous power invested in administrations ought rather to be restrained by mutually independent institutions than expanded by combining them all under one single will.

Curiously enough, while all over the world, after periods of inflation, central banks were reorganized in such a way as to make them

as independent as possible of governmental interference, the opposite tendency prevails in the depression. No doubt, sooner or later, when people have experimented sufficiently with governmental management of central banking, the trend will be reversed again. In the meantime, after the return to the gold standard, the monetary management, in whatever hands it is concentrated, will have to face the problems of foreign exchange fluctuations and of cyclical changes.

Ultimately both problems are resolved into one—the maintenance of the gold standard against external drains and internal runs. The Bank of England and other European central banks developed, in the second half of the nineteenth century and later, a high tradition of management techniques to protect the gold reserves of the note institute. Unfortunately, inflations and credit expansions after the war were not favorable to the application of these traditions. They have been almost forgotten, or, at any rate, very much less keenly applied than in the previous two or three generations, with consequences most disastrous to the credit structure of the entire civilized world. However, as the example of the Banque de France during the last year or two shows, a central bank with adequate gold reserves is still able to defend the gold standard by courageous use of the discount mechanism. Technically speaking, the central bank must be in a sufficiently strong position to meet a run from inside or outside, and it must be in a mental condition to be able to use the discount rate and other “weapons” at its disposal. In both respects, half a century’s experience in a number of countries provides the central bankers with sufficient knowledge and insight, provided that they are ready to take advantage of such experience.

This country had no central banking before the war, and therefore its experience in the field is rather new, while in Europe a highly developed technique existed which was a sort of common knowledge among intelligent young men who had worked a few years in a central bank, to say nothing of central-bank governors and presidents. There is no need to state here the so-called “rules of the game” of the gold standard, which were of course not of a purely automatic or mechanical type. They meant that in the case of actual or threatening gold loss the central bank had to raise the discount rate, embark on open market operations, etc., so as to counteract the drain. The opposite policy had to be followed in the case of a gold flow into the bank. This implied a close watch over the markets and their development, so as to act in due time and to a due extent. The choice of time and of the extent to which the expansive or restrictive methods of policy are applied has to be a

matter of discretion; but, on the whole, the rules are simple enough and easily intelligible. Their efficiency depends, of course, on a number of factors, such as the cooperation of the leading money market institutions, the greater or lesser resistance of the economic structure to price changes, etc. Among these, the cooperation of the commercial banks with the central bank is the one element of policy within the immediate reach of the latter. But no specific problem is here involved which would not have been already largely settled by means of pre-depression experience and development, while the recent practice, in both England and the United States, of a *Devisenpolitik*, i.e., of a manipulation of foreign exchanges with the aid of a special fund, is worth retaining as a method which for short-run gold movements might be successfully substituted for discount changes or used to supplement them. The Belgian central bank, among others, used similar devices even before the war.

Of course, major changes in the balance of payments of the country call for more drastic interference and adaptation; sooner or later, therefore, a discount change is inevitable. The same thing is true from the point of view of a monetary policy which aims at the reduction of major cyclical swings. This "internal" problem, however, is far more complicated than the "external" one. The theory underlying British monetary policy in the nineteenth century was based on an assumption which could hardly be applied now. The assumption was that a rise of the home price level beyond the equilibrium with international prices necessarily distorts, within a short time, the trade balance of the country and creates a self-correcting mechanism of gold outflow, with consequent credit restriction and consequent return of home prices to "normal." There is no need to say that the concentration of monetary gold in central banks, the comparative growth of items of the balance of payments other than commodity movements, the diminished sensitivity of certain controlled price elements, etc., have made the concept of a self-adjusting mechanism almost obsolete. In other words, boom situations might develop and persist fairly long, leading ultimately to a general breakdown, without offering a quasi-mechanical symptom such as gold outflow by which to recognize them in due time. It would be more than incautious to rely upon the genius of central bankers or of statesmen and economists for the sole guidance of policy. The crucial question of the gold standard is whether or not it is able to develop a "technique" less mechanical than the mere accommodation to gold in- and outflows and more efficient than the discount policy, with its limitations to short-run influences.

The ratio of centralized monetary gold to the total deposit volume of the entire banking system seems to offer at first sight a

more useful index. Indeed, credit expansion under modern conditions usually takes the form of growth in the volume of deposits in commercial and saving banks, without necessarily creating a corresponding rise in the volume of circulating cash. But on the other hand, a diagnosis based on this symptom and its changes is likely to be unsatisfactory and even misleading. It would imply either fostering credit expansion corresponding to gold inflows without regard to its merits, or attempting a policy of stabilization of the volume of deposits without regard to its merits, or attempting a policy of stabilization of the volume of deposits without regard to changing demand and other natural growth of the economic organism. Whatever rules as to the ratio of gold cover for deposits (in the banking system as a whole) might be introduced, they are likely to be a matter of choice and to be changed in a voluntary manner. At any rate, they would not involve standards any more likely to control cyclical exaggerations than are the gold movements. On the contrary, they might even create the impression in a boom period that dangers were being taken care of by keeping the expansion within the limits of some legal ratio, or below them, while in reality the financial community might have already lost its balance by financing unsound ventures.

Instead of insisting on a statistical and quasi-mechanical symptomatology of the business cycle, we shall have in my opinion to return to somewhat old-fashioned standards of control of the banking structure. It has been almost forgotten that the "classical" theory and practice of discount policy—according to gold movements—was based on the hypothesis of an entirely *liquid* banking structure. The earning assets of banks were supposed to be devoted exclusively to short-term commercial finance, especially to trade bills representing the actual turnover of marketable commodities. No commercial bank was supposed to hold major amounts of long-term securities or of speculative "finance paper" for any length of time. Actual practice and even the ideals of practice have traveled far away from this old standard of bank liquidity. The reasons are manifold, but by no means such as to compel the world to abandon entirely and permanently sound practices in exchange for others which are beyond the reach of reasonable and successful control. As a matter of fact, the British big five's policy is closer to these old ideals than that of the Central European or the American banking community as a whole, while banking in most of the gold bloc countries still adheres to them.

It is no mere coincidence that France and Holland are the countries with highest standards of liquidity in deposit banks, and the ones, at the same time, in which the gold standard is able to resist

the pressure of depression, in spite of the watchfulness of a highly nervous depositor army. The reason is indeed obvious. Liquid investment of bank deposits means a restrictive credit policy, limiting the possibilities of growth in the industrial structure. All the booms of the nineteenth and the twentieth centuries have been financed by the use of short-term credit for long-run plans and enterprises. Excluding the use of commercial deposits for such purposes would restrict the satisfaction of speculative credit demand to the amount of "voluntary" savings available. Booms would be substantially curtailed; but so would depressions. In addition, the danger of mal-allocation of productive resources, involved in the overexpansion of fixed capital goods and of heavy industries—the typical characteristics of the *hausse*—would be accordingly reduced. Both the quantity of credit and the quality of investment can, to a major extent, be controlled by a proper control of the banking structure's investment policies.

The old assumption, however, that such control is not "naturally" exercised by the banker himself, thanks to his insight into his own interests, is too obsolete to be worthy of serious discussion. The gold standard could not be maintained in many countries, because the banks have not resisted the buoyant credit demand, public and private, of a "prosperity" era, and the entire fabric has consequently been overexpanded. If the gold standard of the future is to be reasonably safe in fulfilling its main function, namely, to serve as the basis of a permanently sound credit structure, it has to be supplemented by sound rules of control with reference to the investment policy of banks.

The fundamental principle of such a control ought to be the liquidity of *new* investments of banks, compelling the banks to direct the *new* flow of deposits into the financing of the short-term commodity circulation. This does not imply by any means the naïve idea that liquid investments can be actually liquidated at any moment and to full extent. But they may be liquidated to a larger extent than long-term investments. And the very fact of the liquid character of investments may be sufficient to keep investors from causing runs on banks.

But this is a minor consideration. The decisive problem is a reasonable control of the credit volume in accordance with the legitimate demand for credit. No other standard of discrimination between legitimate and illegitimate credit exists except the one in terms of liquidity. This one has also the advantage of not implying a mechanical standard but of being capable of adaptation to given situations and yet involving rules sufficiently definable and objective to be capable of supervision and control. No bank ever

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failed for having expanded credit on good collaterals to a major extent; but many have failed for lesser expansion on bad collaterals. No banking system is destined to failure for credit expansion as such, provided this takes place in accordance with the growth of demand and not in accordance with speculative forecasts of a future growth which might or might not be realized.

PROBLEMS OF FOREIGN TRADE POLICY

*Statement by GEORGE E. PUTNAM, Economist, Swift and Company,
at the Chicago Hearings, April 2, 1934*

I presume you have asked me to appear here as a representative of the meat industry. I should like to make it clear at the outset that I am in no position to make a statement for the meat industry as a whole nor even for the company with which I am associated. Meat packers have widely varying views on tariff and monetary matters. Some of them are high-tariff Republicans; others are low-tariff Democrats. So far as I know, the industry has never gone on record in favor of any particular trade or monetary policy.

Inasmuch as I am unable to tell you what the industry thinks about tariff matters, I am appearing here simply as an economist to give you my personal views on tariff and monetary policy. The views I shall express are almost entirely unrelated to meat. I like to think of economic problems of this kind from the point of view of the nation as a whole and not from the point of view of a single industry.

SELF-SUFFICIENCY VERSUS FREER INTERNATIONAL TRADE

In considering the question whether it would be in the national interest to expand our foreign trade or to make ourselves self-contained, I think it must be admitted that we could come nearer than almost any other country in the world to attaining self-sufficiency. We are an enormous country. We have such rich and varied natural resources that we could reach a position of national self-sufficiency more easily than could any other world power. This point is generally admitted by all students, foreign as well as domestic.

Yet in spite of the strength of our natural position, I am strongly opposed to the notion that we should strive for national self-sufficiency. In the first place, it is a pretty generally accepted fact that self-sufficiency does not make for prosperity. Prosperity comes from specialization on the part of the various producing units in society, followed by the exchange of the goods and services of these specialists with one another. Prosperity is a state of balance, free from artificial barriers, where goods and services are readily exchanged for one another. It is impossible to imagine a prosperous

nation producing everything it needs, or a prosperous hermit enjoying a high standard of living. Assuming that something akin to prosperity could be gained by adhering to a self-sufficiency program, how much more prosperous and how much higher the standard of living would be if a healthy trade with the outside world were a recognized part of our program.

The second reason why I am opposed to any scheme which has national self-sufficiency for its goal is that I do not believe self-sufficiency in the modern world is possible. Mankind has a deep-rooted instinct for trade. Tariff barriers can be so high as greatly to curtail a nation's trade but I do not believe they can be so high as to prevent trade. When all else fails, goods have a way of scaling tariff walls, in spite of prohibitive legislation. It is only a question of time.

It seems to me to be a self-evident truth that we need a freer international trade. The policy of self-sufficiency is not only impossible of attainment but it would be prejudicial to the maintenance of a wholesome standard of living. The problem is to get freer international trade with a minimum of disturbance to our industrial organization. This is an extremely difficult problem to deal with because of the tariff policy we have been following and the readjustments that freer trade would entail. Let us consider for a moment how our problem originated.

POST-WAR TARIFF POLICY

We emerged from the war a great creditor country, destined to receive large payments of interest from the outside. If we had only let the tariff alone and shown some disposition to take our payments in the ordinary commercial way, we should be confronted with an entirely different situation today.

Notwithstanding the shift in our position from a debtor to a creditor status during the war years, we continued to be governed by a set of rules we had evolved in earlier days when we were still a debtor nation. We were afraid to import foreign products. We thought we were going to be flooded with foreign goods. We had a strong feeling—and it may have been justified, in part—that European countries would make a supreme effort to recover market outlets which had been lost while the war was on. Our feelings were aggravated by at least three important considerations. In the first place, there lay in the back of our minds the fact that European countries owed the American government billions of dollars on account of our war and post-war advances which according to the pronouncements of the economists could be repaid only in the form

of goods or services. Secondly, it was realized that Germany, in particular, had need of a large external market where she could sell her products and build up cash balances with which to pay her reparations obligations. And what more accessible or coveted market was there than ours? Finally, our leaders made much of the argument, though it contained only a modicum of truth, that nations having depreciated currencies enjoyed special manufacturing and selling advantages not possessed by nations whose currencies were on the gold basis.

Confronted with an international trade situation which seemed ominous, at a time when our own industry was languishing as the result of post-war deflation, we promptly convinced ourselves that drastic action was needed to meet the trade emergency. In order to safeguard our industries against the alleged dangers of European competition and to insure the maintenance of our high standard of living, we put through special tariff legislation in 1921 in the form of an emergency tariff act. In the following year we reaffirmed our belief in the efficacy of goods exclusion principles by passing the Fordney Tariff Act. Surely, we argued, there was some way to beat the doctrine of the economists.

Our return to a high tariff policy did not inflict great hardship in European countries at the moment. Although heavily indebted to us on open account as a result of the war, they could not immediately pay off these obligations by sending us goods. Their productive efficiency was too far below pre-war standards; their trade was still disorganized. It is impossible to believe that they could have become dangerous competitors in our markets forthwith, even if our tariff had been left unchanged. Be that as it may, the effect of the very substantial increase in our tariff duties was to make their case more hopeless than it would have been otherwise. It not only operated to retard the revival of their internal trade, but it put off still further the day when they could pay their external debts in the ordinary commercial way. Deprived of the power to send us goods, they had no alternative but to send us gold. Here was a product which could be sent in duty free.

Throughout the three and a half year period ending January, 1924, we had a veritable flood of gold imports. Our gold holdings piled up at an average rate of more than one million dollars a day. We became the possessors of one-half of the world's supply of monetary gold. Never before had a single country amassed so large a proportion of the world's standard money; such a persistent and one-sided movement of the metal had never been considered within the bounds of possibility. It was as if one-half of the contents of the Atlantic Ocean suddenly moved over into the Pacific and re-

mained there, notwithstanding an old-fashioned doctrine about water seeking its own level.

Our tariff legislation of 1921 and 1922 was not, of course, the only factor which caused foreign gold to pile up in this country. There were other contributing causes. But there is no escaping the fact that our goods exclusion policy as expressed in post-war tariff legislation forced us to take vast quantities of gold which need never have come and which has been a trouble maker ever since.

CONSEQUENCES OF OUR TARIFF POLICY

The inconsistency of our policy of excluding goods at a time when we were a creditor country, both on private and government account, was recognized at the outset by most European observers and by a few American students. It was inevitable that the consequences would be severe, though no one could say just what form they would take. Still less could one say at the time that our policy would work almost as much havoc on European debtors as it has worked on ourselves. It stands to reason that when a great creditor country refuses to recognize the responsibilities that go with a creditorship position, when it insists on selling to the outside a greater amount than it buys, and when it puts every barrier in the way of outside debtors who are trying to make payments, there will be consequences of a world-wide nature which will be felt by debtor and creditor countries alike.

Let me now enumerate some of the direct consequences of our gold accumulation and goods exclusion policies.

1. One of the first things the Federal Reserve Banks did after the flow of gold imports began was to announce that reserve ratios would not be their guide to credit policy; and that as trustees for the enormous gold supply in their vaults, which would one day have to be redistributed, the Reserve Banks would endeavor to conserve the gold so that its loss at a later date would cause the least possible disturbance to our trade and industry.

The policy of gold conservation under a managed currency system was carried on almost continuously until 1927. Control of rediscount rates and market rates of interest through open market operations was relied upon to prevent the mass of gold from being used as a basis for credit. But this policy tended to defeat its own purpose. The maintenance of market interest rates at a level higher than the gold reserves warranted tended to attract to this country more and more gold. In spite of anything the Reserve Banks could do about it, the mounting tide of gold slowly but surely became a basis for credit. What credit lacked in cheapness was compensated for by the quantity available.

Credit in almost unlimited quantity made its way into three important channels—into the construction industry, where we suffered from a shortage as a result of the stoppage of building during the war days; into installment buying, where sales managers were quick to see the opportunity afforded for increasing their sales; and into foreign loans, where the rate of return was so much higher than domestic rates that a ready market was soon created.

Our foreign loans were a tremendous factor in the promptness of our industrial recovery after 1921 and in the general prosperity that followed. When we made loans to foreign countries for reconstruction or other purposes, we exported our products. Prosperity in the export industries was promptly reflected in the industries catering to the domestic market. We wasted no time over the question as to how we were going to get interest and amortization payments on these loans. We did not want foreign products; it was the responsibility of foreign debtors to find some other way of paying us. We were content to sell our goods, to take the promissory notes of our foreign customers in payment, and to take more promissory notes in payment of the interest due us. Under these conditions all that was needed to check our prosperity was an impairment of the credit of foreign borrowers which would cause their external bonds to decline in value and make new loans in this country unmarketable. This happened in due course and we have not yet recovered.

2. According to the generally accepted theory of the relationship between gold and prices, the policy of drawing gold to our vaults from other parts of the world should have caused a fall in world prices. And for once, at least, the accepted theory proved to be a good theory. Between January, 1925, and July, 1927, there was a general decline in wholesale prices in all gold standard countries, ranging from 10 per cent in the United States to 17 per cent in England. The countries from which we drew gold could not make sufficient economies in the use of gold to offset the effects of a declining supply and restricted credit. A fall in the level of prices was the natural result.

So pronounced an appreciation in the purchasing power of gold was bound to have an adverse effect upon foreign debtors. Their loans had been contracted when the dollar was cheap; now they had to meet interest charges on cheap loans when the dollar was more valuable. It may safely be said that in creating a condition of gold shortage throughout the world we imposed an additional burden upon our foreign debtors of approximately 10 per cent. That was down to 1927.

3. By 1927 our policy of gold conservation, even though only partly successful, had begun to affect the foreign exchanges. On

account of our refusal to buy liberally on the outside it had become more and more difficult for foreign debtors to obtain dollar exchange. This condition was reflected in the tendency of foreign gold currencies to decline to the point where additional quantities of gold would be exported.

We knew that our interests would not be served by further gold importations. We knew also that the general abandonment of the gold standard abroad, especially in those countries which had just returned to gold, would be prejudicial to the interests of our agricultural and industrial exporters. In order, therefore, to bolster up foreign currencies and to maintain a foreign market for our products we abandoned our policy of gold conservation and cheapened our credit. The immediate effect was to improve the status of foreign currencies and to maintain our foreign markets. Our foreign loans expanded, our export industries prospered, and American business entered a new era.

4. I shall not go into the sickening details of the recent collapse of monetary systems. As we look back upon the many currency debacles of the past five years and the general abandonment of the gold standard, it seems perfectly obvious that our trade and credit policies were directly and largely responsible. Had it not been for the 1927 credit policy, the collapse would have come sooner than it did—just as soon, in fact, as it became impossible for us to continue to take vast quantities of foreign promissory notes. We created a dollar exchange situation—i. e., a transfer problem—which was inimical to the maintenance of the gold standard.

5. Our gold-accumulating policy had the direct effect of forcing foreign countries to erect tariff barriers as a means of affording what protection they could to their own currencies. Some have contended that these barriers were erected primarily for retaliatory purposes. There is also the point that some of our European debtors, about to receive payments from other countries on account of war debts or reparations, feared the consequences of taking payments in the ordinary commercial way and, following our example, took measures to protect their home industries. There is undoubtedly some truth in each of these explanations. But whatever the real motive, it is difficult to get away from the conclusion that when a great creditor country like the United States refuses to take its interest payments in the ordinary commercial way, it automatically forces other countries to erect tariff barriers whether they are debtors or creditors.

6. With tariffs and trade restrictions everywhere, world trade has been more or less stagnant for some time. Each country has been drawing more and more into its shell in search of self-sufficiency.

As previously indicated, this does not make for prosperity. While there is still present that element of specialization which makes for large production, the specialists are unable to exchange their products with one another. The advantages of exchange are not being realized and everyone suffers.

To take one concrete illustration from my own field: It was not many years ago that the American hog-producer enjoyed a large foreign outlet for his pork and lard. In 1923, about 19 per cent of the American hog production was sold abroad in the form of pork and lard. This percentage has declined steadily and in 1932 only a little over 6 per cent of the hog farmer's production went overseas.

The three great markets for these products, England, Germany, and Cuba, have been slowly but surely closing their doors through either exchange quotas, import quotas, or tariff duties. The gradual closing of these foreign outlets has injured the American producer just as the closing of our market has injured the producers of England, Germany, and Cuba. In the field of trade, whether world trade or domestic trade, you cannot injure one of your customers without being injured yourself. The American people are not yet fully aware of the truth of this fundamental principle.

7. The immediate result of the general stagnation of world trade growing out of the imposition of tariff barriers may be seen in the low level of prices. It matters not whether we analyze prices in terms of gold or in terms of goods, the conclusion is the same. From the goods point of view, it is perfectly obvious that when every country is forced to live more and more within its own shell so that it cannot exchange its products for the products of foreign countries, prices must fall. In our own case, for example, we no longer have a large foreign outlet for pork products. We must therefore consume a larger and larger proportion of our production in the home market, and it is a commonplace that our per capita consumption of these products can be increased only as prices fall.

Other countries are in the same general situation. Their products pile up in the markets of origin because the traditional foreign outlets have been closed. Consumption can be induced only as prices are made attractive to consumers.

8. Our refusal to take goods in payment of the obligations due us as a creditor country is the fundamental reason for the aggravated character of the present depression. Not all economists would agree with me in this position. Some would attribute the cause to cheap money, to excessive speculation, to overinvestment in capital goods, etc. My point is that practically all the theories that have been advanced to account for the aggravated nature of this depression have a common base, and that base rests upon the national

policy above outlined which gave us excessive gold, excessive credit, excessive spending, and excessive investment. So long as we have a credit system we shall probably continue to have depressions of the ordinary sort, but we cannot descend from a world trade position to the one we now occupy without having to go through a readjustment period of a most extraordinary nature. We are now going through one of those extraordinary periods of readjustment because we did not play the game. We violated every fundamental law of international trade relations. We tried to have our cake and eat it too.

If I were to summarize the consequences of our post-war tariff policy, I should say that our refusal to take goods in payment of the obligations due us upset the monetary systems of almost the entire world, gave rise to prohibitive trade barriers, reduced world trade to a fraction of its former proportions, depressed world prices, and was directly responsible for the aggravated character of the present depression. We were not the only offenders, of course, but we were the most conspicuous violators of sound principles.

THE PRESENT TARIFF PROBLEM

American industry has been protected by excessive trade barriers of one kind or another for the last twenty years. From 1914 to 1921 the war itself was the principal barrier to a healthy import trade—the circumstances were such that our own industry had little competition from the outside. Since 1920 the protection afforded during the war years has been maintained by tariff acts of 1921, 1922, and 1930, not to mention the adjustments that were made in certain schedules from time to time under the flexible provisions of the tariff law.

Throughout these two decades industry was being built up to an export basis. The exports during the war years were made possible by the loans our government extended to foreign governments; here was the origin of the war-debt questions. Exports during the post-war period were financed and stimulated through the purchase of foreign bonds by American investors. During both of these periods industry and agriculture were being organized to produce a surplus for sale in foreign markets.

We now have the equipment and facilities for tremendous production but we can no longer export a large portion of our output for the reason that we will no longer take promissory notes in payment. We are all dressed up with no place to go. In these circumstances, what are we going to do with our surplus facilities? Must they be scrapped, or should we try to restore their utility by re-opening the channels of international trade?

The problem is clearly one of reopening our markets and the markets of other countries so that trade can be restored. This is an exceedingly difficult problem to deal with. A method of solving it in the twinkling of an eye can hardly be found. Almost any method of dealing effectively with the problem should be permitted to extend over a long period of years, far longer than the four-year term of one administration. Furthermore, there is some question in my mind as to whether the American people are ready to recognize the consequences of our past tariff policy, in view of the decades of education they have had in goods exclusion principles.

I make no pretense of being an expert on how best to reduce the tariff. It is far easier to put the tariff up than to put it down. It seems to me, however, that the problem might be attacked in one of the following ways:

1. We may do nothing. If we would solemnly resolve not to put our tariff any higher during the next half century, we should be taking an encouraging and constructive step. This method would not provide a quick solution. It would, in fact, be one of the slowest remedial methods. As human beings are now constituted, I am convinced that international trade cannot be wholly destroyed by tariffs; on the contrary, that trade will adjust itself in time to almost any set of prohibitions if they are not being constantly tampered with.

The least we should do is to keep tariff rates from being increased, and with that goal in mind we should free our tariff legislation from the unsound and pernicious doctrine that tariff duties should approximate the difference in the cost of production at home and abroad. This doctrine, if it could be applied consistently, would virtually destroy all international trade in industrial products.

2. We may drastically reduce tariffs. This is an extreme policy and one to be avoided. Our tariff policy has brought into existence not only a great many high-cost industries which we do not need, but also many high-cost units in industries in which we have a natural advantage. It would be grossly unfair suddenly to reverse our policy and deliberately destroy the industries of our own creation. Any adjustments that we require our industries to make should be made slowly. Drastic reduction in tariff rates would create more problems than it would solve.

3. We may reduce tariffs moderately. There would be less serious objection to a flat reduction of 10 per cent in all tariff duties. I can see there would be difficulties. For one thing, I doubt whether a policy of this kind would be consistent with the policy of NRA. A flat 10 per cent reduction would undoubtedly interfere in many cases with the established rates of wages. Even so, in the interests

of a freer international trade and better times for the nation as a whole, a reduction of 10 per cent in tariff duties at this time would be better than nothing, and the disturbance to our industrial organization would not be serious.

4. We may institute selective reduction. Probably the most equitable and effective scheme of tariff reduction would be to empower the President, on the recommendation of the Tariff Commission, to make reduction in tariff schedules wherever such reduction would increase our import trade in noncompeting products. There are many handmade products, for example, which we do not now make and which are only indirectly competitive with our capitalistic industry. We should be importing more of these products. As a practical matter, it might be provided that no duty should be reduced by more than 25 or 50 per cent at this time.

Where reductions of this kind could be effected, we should go ahead and make them whether or not we secure similar treatment at the hands of foreign countries. If we can bargain and arrange for reciprocal treatment, so much the better. I wish to make it clear, however, that I am not suggesting a general policy of reciprocal trade arrangements. I am a little fearful of the effects upon our own industry if we insist on getting something for every concession we give. We should be likely to go too far in many instances for the sake of effecting a trade and thereby require some of our industries to make readjustments of too drastic a nature. Our policy should be essentially a policy of selective reduction so as to cause a minimum of hardship to capital and labor. Moreover, care should be taken to see that any industry about to be subjected to lower duties is given ample time to adjust itself to the new conditions.

MONETARY POLICY

Monetary policy is related to tariff policy, partly because we have tried to make it so. During the decade from 1920 to 1930 we went out of our way to confuse the two policies. Not recognizing that our tariff policy was at fault, we tried to adopt a monetary policy that would solve our trade problems. It should be distinctly understood that monetary policy will not solve a trade problem. I am sure that we have not yet learned that lesson.

Our recent monetary policy leaves much to be desired. While it is true that devaluation of the dollar raised the prices of our export products to some extent, it should be noted that the policy stimulated our export trade without making any provision for imports. In a sense, dollar devaluation was a continuation of the large export and small import policy of previous administrations. It was in effect the equivalent of higher import duties.

We have already acquired millions of dollars of imported gold as a result of devaluation—the same way in which France acquired her gold stock after 1927—and we have created a new gold problem to be dealt with. How is our new gold accumulation going to be redistributed? What benefit can we possibly derive from drawing down the gold reserves of our foreign customers? Here we are face to face with the same problem that confronted us ten years ago, but we now have it in aggravated form.

It has been suggested again and again during the past five years that the gold standard has proved a failure and that we should find a more workable and equitable yardstick for the measurement of values; that is, we should have a managed currency.

Let me say as emphatically as I know how that if the gold standard has proved a failure, it is only because of our failure in managing it. I know of no stronger argument against a managed currency system than the experience we have just gone through in trying to manage gold. We did not give the gold standard an opportunity to function. We stripped it of all power, making it impossible for gold to do its work intelligently and automatically as in pre-war days. As “managers” of a managed monetary system we were a dismal failure.

I do not believe any man or group of men has or can have the intelligence to manage a currency so that the level of prices will remain approximately stationary. The Federal Reserve Banks succeeded for a time during the past decade in maintaining a fairly stable price level but only at the cost of a complete collapse in prices later on. My position is that no human intelligence is half so competent a guide to credit policy as the central-bank reserve ratio, and I earnestly hope that the time will soon come when the reserve ratio will again be recognized as the safest guide to credit policy.

Another objection to a managed currency is based on political considerations. Assuming it were possible to vary the weight of the gold dollar to counteract the rise or fall in the price level—and this is an exceedingly vulnerable assumption—what assurance have business men and investors that the rules of the game would not be changed? Suppose prices rose above the prescribed level, say, the level of 1926. Could we be sure that the content of the gold dollar would then be increased in order to pull prices down? Apart from the fact that a variable gold content would constitute an element of uncertainty in foreign trade transactions, the greatest uncertainty of all would lie in the danger that Congress might at any time suspend the rules of currency management for political reasons. It is not natural for entrepreneurs or wage-earners to protest

against rising prices, profits, and higher wage rates. Everyone wants bigger and better business to go on. Why should public authority stand in the way of "prosperity" by deliberately trying to depress prices? I should be unwilling to see vested in the hands of any group of men the power to regulate the purchasing power of the dollar even if I felt satisfied that such regulation was a practical possibility. The political possibilities are too ominous.

I know of no sound reason why we should not return to the gold standard immediately, and establish as our yardstick a gold dollar of fixed content. If we can induce other countries to return with us, so much the better; if we cannot, we need not wait. We injure no one by declaring ourselves. On the contrary, we should be making a distinct contribution to the restoration of confidence in our monetary system.

THE HUMAN ELEMENT IN INTERNATIONAL RELATIONS

*Statement by CHESTER H. ROWELL, Editor, San Francisco
Chronicle, at the San Francisco Hearings, May 3, 1934*

Unlike the careful and conclusive statement presented by Mrs. Lucas, my remarks will have to be rather casual. I find myself not only in the position of Mr. Scharrenberg, with many things that have to be done now, but I just landed from the upper skies and have had no chance to write out what one really owes to you, a prepared statement.

Moreover, I do not conceive that I could contribute anything to you by a lecture on economics, on which you are all probably better prepared than I am. A large share of these questions are on freshman economics, upon which all informed opinion is unanimous, or else they are disputed questions upon which the opinion of economists is so overwhelmingly one way that they themselves dispute the intelligence and information of the few dissenters.

If I can contribute anything, and I doubt if that is worth very much, it will be out of a long experience, both in the newspaper business and in practical politics, with the psychological difficulties of doing in a democracy the things which, to the intellectual, seem so simple.

I once worked out from my own experience, and afterwards discovered that it had been worked out exhaustively and statistically in England and was quite superfluous, the doctrine that there is an average lag of thirty years, a whole generation, between the time when informed opinion becomes practically unanimous on a subject and it becomes democratically possible to do anything about it. I had hoped that the progress of organization and education could diminish that lag, because, unlike some of you, I have waited through that thirty years' experience on a good many things and found that they finally arrived, but I do not anticipate a like privilege for myself as to the next thirty years.

We have to reckon with the fact that in a democracy we must count not merely upon the clear logic of trained and scientific men but much more upon the unclear slogans and traditions and prejudices of common men, and even more perniciously upon the deliberate mis-education of those common men by persons who have the

responsibility of leading them in politics and in journalism, but who prefer rather to ride to success by flattering prejudice, pretending that it is wisdom. No one who has been in politics and journalism as long as I have, or who has observed it as long as most of you have, can have failed to make that observation.

Now, taking up your questionnaire as a basis, suppose we go into some of the questions that you have raised in connection with the obvious, transparent, elemental economics, and the exceeding turbid psychology of these economics, which is your chief obstacle.

You begin with the question of a policy of economic isolation and national self-sufficiency versus a policy of the establishment of a freer international flow of goods and services.

So far as I know, there is just one eminent economist who takes the nationalist side of that. There may be two or three, but I have not heard of the other two. In other words, substantially all the informed and thoughtful opinion of the world is one way on that. Yet, if you undertake to do it, you discover the feelings, the prejudices, the slogans, and the traditions of the people, not merely of the United States, but of the entire world, nearly all the other way, and that politicians and journalists find it very much to their advantage to ride the current even if they know that that current is headed for the abyss.

We are at this moment in an emotional nationalistic reaction all over the world, which may have its emotional and moral justification. At least it is a part of the emotional ebb and flow which is the law of emotions.

We have to reckon with the double law of human nature, the law of the fixation of intellectual opinion and the law of the fluctuation of emotional attitudes.

An intellectual conviction once formed tends to remain as formed long after it has ceased to be true. Certain intellectual convictions that were held by George Washington and Thomas Jefferson and embodied by them in slogans which were then justified and probably then true, certainly then intelligent, have no particular application today under present conditions, although it is denounced as unpatriotic and wicked to question them. On the contrary, when it is an emotional attitude we go by the sheer law of action and reaction.

We went into the war, for instance, under great emotional exaltation and great imaginative expansion — most of it abnormal to our temperament. President Wilson called on us to stretch our imagination until it reckoned with things beyond our frontiers and with the peoples who could not speak English. He called on us, as people are called on in all wars, to rise to an emotional exaltation that re-

gards some causes as more important to ourselves than life itself. At the close of the war, in the light of that expanded imagination and of that exalted emotionalism, we took an international attitude toward the great questions that followed the war. That international attitude happened also to be an intelligent attitude. It was intellectually sound, but intellectually it never went very far down into the strata of our society and in due time it disappeared emotionally by virtue of no intellectual process whatever, and of no emotional process except that of sheer weariness.

We elected Harding upon the platform of normalcy, not because anybody knew what normalcy meant, or has ever found out since; not because any such thing was possible; but because we were tired.

We are now in another of those reactions. We got tired of what little constructive work we were trying to do in the reconstruction period after the war. The same phenomenon has happened all over the world, and so we are now emotional nationalists. Since we think with our emotions, obviously we must be economic nationalists. The mere fact that the thing cannot be thought through and cannot practically be acted through in any actual policy has nothing to do with the fact that we feel that way, and therefore we undertake it.

So the perfectly obvious economic arguments in favor of the necessity of expanding our foreign trade fall largely on deaf ears because they seem unpatriotic. We have to appeal instead, as Secretary Wallace is doing, to definite and special self-interests. He is pointing out that the price of this economic nationalism, if we carry it out, is that our cotton-growers will have to quit growing cotton; our wheat-growers will have to quit growing wheat, and they will have to come into town and compete with us in our jobs, in which we do not want any competition.

These motives we can understand. If we can be reached by that avenue it becomes possible to carry out ultimately in a democracy that which, if it were a world of reason, would be promptly and unambiguously accepted.

In the matter of the related questions of the tariff, we still are working on the tariff in the light of inherited slogans and traditions, and also on the line of separate self-interests. These inherited slogans and traditions were based largely upon experience. We were a debtor nation; therefore what the mercantilists called a favorable balance of trade was the sort we ought to have. Since we had to send abroad every year in money or credit the interest and the installments upon the principal of our debts, obviously we must sell abroad every year more than we bought, and the difference would pay these debts. So the policy of promoting exports and

restricting imports not only fitted our many organized self-interests, but it was to the general interest.

It was right and it was true because it did restore that balance of trade which, as a matter of fact, is always exactly equal. There is no such thing as an unequal balance of trade. If you include exports and imports, visible and invisible, money and credits, the exports and the imports always exactly balance. The only question is which one will be the excess one. And since it was necessary for us to export money to pay our debts, it was also necessary to import less goods than we exported in order to establish a balance, by the sale of which goods abroad, for foreign money, we could pay those foreign debts in that foreign money.

We have become accustomed to that, as a matter of experience, and it justified itself by experience. Therefore we assumed it to be an eternal verity. That, also, is the commonest sociological phenomenon of conservatism.

A conservative is not one who looks back to ancient times. A conservative in religion is not one who goes back to the apostolic era. He is one who goes back to the era of his grandfather, or of the oldest man he ever knew. So a conservative in politics is not one who goes back to the foundation of the republic, still less one who goes back to the foundation of Anglo-Saxon liberty in British institutions. He is one who goes back to what was true when he was young or when his father was young. And it was true then that this mercantile favorable balance did work and was right. The conservative assumes therefore that it must be eternally true.

In addition, we have the formal support of what many still suppose to be sound economic theory. As far as I can find out the mercantilist theory of economics went out of respectable intellectual consideration in economic circles about the time of the adoption of the American Constitution. But it is still the only one known either in chambers of commerce or in Congress, and we base our whole policy, theoretically, upon those long-outworn theories. Then we balance it against all these various self-interests, which in a democracy are the only organized interests.

We have all watched the trend of events. For instance, you take the question of the general interests of the United States. There may be professors who know what it is, or who debate what it is, or who can tell us what it is, but the general interest is the only one that has no representative in Congress. The special interests are all represented.

Once again and obviously we see that it is not true that the whole is equal to the sum of all its parts in anything but mathematics — and modern mathematicians are not sure whether it is

true even there. So we have the sum of all the parts, and the parts in each case are the special interests, those who want to make more profits on the things that they produce and sell. Each one of these separately is right.

I can do more business and get more profit in my business, if that were the only problem, on the highest sort of a protective tariff. That is true for each of the other businesses. So we jump at the conclusion that it is true for all of them taken together, which does not by any means follow.

The same thing was pointed out by Mr. Scharrenberg in connection with the question of higher and lower wages. If I can sell my goods at a higher price and put my wages down I can make more profit, provided nobody else does. But if everybody does, it destroys the profit of all of us, and has already done so.

We find that to be true, or will soon find it so right here in California, upon this question of how we shall readjust our tariff to the patent necessities arising out of our being now a creditor instead of a debtor nation. Obviously there must be a lowering of tariffs; but obviously you cannot get a logrolling Congress to put through a general lowering of the tariff, and obviously you will never delegate to the President the general lowering of tariffs. Therefore the only way out is to delegate to the President, either absolutely or in a limited way, as various proposals work out, the bargaining for limited lowerings of the tariff. The argument for that is, just abstractly, beyond dispute. So far as I know, nobody who considers it in terms of an abstract doctrine disputes that this is the way to do it. But in terms of separate interests we in California are going to be a striking example of what that means if we undertake reciprocal bargains with foreign countries.

Of course, what we want to do is arrange that we may exchange with them the lowering of our tariff against those of their products that do not compete with us in return for their lowering of their tariffs on the things that we want to export to them. That, as a mathematical formula, is simple enough. But it has to be a concrete fact on definite products. When you look for these products on which you can make these ideal arrangements, you find that they are of two sorts: tropical products and semitropical products.

Tropical products are already on the free list. Therefore it is proposed that we put a high tariff on coffee for the purpose of making a bargain to take it off—an obvious bluff which will bluff nobody, and it cannot be done. Coffee is already on the free list and nobody is going to pay us for keeping it on the free list.

The next step is semitropical products—and that means California and Florida. We have four senators out of 96 and our pro-

portion in the House of Representatives. We are the only ones that care whether there is a tariff on oranges, lemons, almonds, olives, olive oil, and avocados — which we are now producing — and raisins and wine. California is the only state in the United States in which the wine grape is grown in anything but hothouses. Therefore it is the only state that cares whether there is a tariff on wine or not.

So the only place in which a great deal of this reciprocity arrangement can be made without hurting anybody else is precisely the place where it will hurt California first and Florida second, more than any other change in the tariff could possibly do. It is possible, in a democracy, by aligning all the other states against California and Florida, to logroll this. But it is not possible, by virtue of any abstract formula, or any other logic, to get California and Florida to agree to it.

Now, if you extend this to the next step, to things in which there is some competition but in which the competition is not so great but that the general interest would be promoted by injuring some of our minor industries but not destroying them, you will never get such action with the consent of those minor industries nor with the consent of those who represent them in Congress.

The general interest of consumers is not represented in Congress, and still less is the interest of the unborn industries and their unborn proprietors which a change in tariff policy would promote. The change is always on a vested interest. We have to reckon with that as one of the obstacles to accomplishing these things. We have to reckon, too, with both self-interest and emotions and slogans on the other half of the same question, because these are all the same questions.

On the question of foreign debts, this is the common argument: We once owed a vast foreign debt and we paid it. We paid our interest and our installments every year. Therefore we were an honest and virtuous people. Now the outside world owes us a vast foreign debt and it doesn't pay it. Therefore the outside world is composed of wicked, dishonest welchers. Why? Because the question is moral.

All questions are assumed to be moral, especially questions of mathematics and abstract economics, which are neither moral nor immoral. The journalist and the politician — my professions — assume that it is not worth while talking about the intellectual, impersonal, economic aspects, just because the people have no curiosity on intellectual questions and no confidence in their own ability to form an intellectual adjustment. But the people have a vast confidence in their ability to form moral judgments. They know who

is wrong—it is the other fellow. They know why—because he is wicked. They know the remedy—to punish him.

And so you have seen the law that Mrs. Lucas referred to passed at the instigation of the most eminent of California senators, and one of the ablest and most brilliant men in the United States Senate; able and brilliant—able in the sense that he has a very high IQ, and brilliant in the sense that he utilizes that IQ with great expertness; brilliant also, perhaps, in the accuracy of his diagnosis of how to be popular in the use of those qualities with the people.

So we are now undertaking to settle this foreign debt question and have passed a law to do it by punishing the wicked who have not paid these debts to us.

That is as transparently absurd, in fact, as the cynical way in which I have described it, and as you have received it. Nevertheless, I suppose scarcely 20 per cent of the members of Congress at this moment would dare come home and say, "I voted to let these people welch on a debt that they honestly owe and to dump that debt on you and make you pay who do not owe it." That is an immoral thing, and the question is moral. Our side of it is right. Who—except the rare man who thinks with his brains—would dare question the sufficiency of these platitudes?

President Coolidge correctly analyzed 100 per cent of the question as it is understood by probably 90 per cent of the American people. "They hired the money, didn't they?" They owe it and they ought to pay it. If they do not, they are chisellers and welchers and cheats and the thing for us to do is to retaliate; shut off their trade, refuse them credit, and do all the things which, incidentally, hurt us vastly more than they do them, and will not collect a penny of the debt. But, nevertheless, these slogans and acts will collect votes for whoever preaches that doctrine and subscribers for whoever prints it on the front page. To change over that primitive sort of thinking in a democracy is one of the most difficult of all of our tasks.

So the problem, after all, is one either of education or of undemocracy. We have given up both solutions here. We are scarcely trying to educate our people.

Mrs. Lucas is trying it and she has several thousand women she is educating. Mr. Hearst is trying it, and he has several million persons whom he is mis-educating.

I suspect that Mrs. Lucas and Mr. Hearst are not equal competitors in a democracy.

So the educational method thus far is a failure and the whole world has so recognized it. Practically the entire world, except the United States, has solved it by abolishing democracy, and we have

solved it by temporarily suspending democracy, and are now proposing to solve it by turning authority over to the President — who would not necessarily be any more intelligent than the best members of Congress, but who would act more intelligently just because he was President. Sometimes we elect a member of Congress to the presidency. He is no more an intelligent individual after he is in the presidency than before, but he always acts vastly more intelligent. Even Harding did that. He actually vetoed some bills as President which he had voted for as a senator. So we propose to turn over authority to the President, knowing that he is usually an intelligent man, and at any rate will use whatever intelligence he has in the presidency, and knowing that though Congress, which contains all sorts of persons, has more intelligent men in it than popular reputation indicates, its members think they dare not use their intelligence whether little or great. So that we, too, are to a very considerable extent solving the problem in this time of emergency by suspending the institution of democracy — when practically all the rest of the world has already suspended it.

Last Saturday I heard an Oxford don predict that within two years Britain would be a dictatorship with His Majesty, King George, as a personal dictator.

We in the newspaper business wonder each day whether tomorrow's news will be the destruction of the French Republic.

So there is left only America that clings to the idea of attempting to make democracy work by education and our most eminent educational authorities, measured by our quantitative standards, are precisely mis-educators.

I have spoken about Mr. Hearst, and now may I speak of a competing columnist, the greatest economic authority on earth, measured by the number of persons who read him, and that is Mr. Brisbane.

Mr. Brisbane has, I suppose, more readers every day than Plato and Aristotle combined have had from the day they first spoke to the present time. He certainly has many more readers of his economics every day than Adam Smith has had from the time he first wrote until now. Measured quantitatively, therefore, Mr. Brisbane is the most efficient economics educator in the world. He reaches more people every day, beyond all possible comparison, than any other person who now lives or ever did live. I have heard one of his most intimate colleagues describe him with affection as "the world's worst economist," a diagnosis to which I suspect you would agree.

Now, if that is our method of solving it by education, and the other method of solving it by surrendering democracy has been

adopted by practically all the world as a permanent régime, and the rest has suspended democracy, we seem to have a choice of impossibilities, and the result would be a confession of total and hopeless failure. I do not care to make that confession, but wish merely to point out the extremity of the problem.

As a matter of fact, when it comes to solving the problem, I think we could pick out of this room, by lot, any six persons in it, and if any one considered himself incapable leave it to him to pick his substitute, and nearly every one of the problems on which the world is now going to ruin would be within the intellectual capacity of that committee of six. The trouble is getting the consent of the governments and the peoples to do what obviously should be done. That is infinitely more difficult than solving the problem intellectually.

I am not hopeless of a solution because I have some confidence, not merely in the intelligence of the American people and the actual collective exercise of it, but also in the effectiveness of their stubborn stupidity. I have that degree of pessimism which most people have who have lived a long time. And I believe, even with all the stupidities and prejudices of the American people, and in the face of this insoluble problem, that they, by refusing to face either alternative, by refusing to know these are the alternatives, by refusing to know that it is impossible, by refusing to do either of the things, one or the other of which must be done, somehow we will muddle through as our ancestors have done before us.

Many years ago, while in a philosophic mood, standing by a pond and seeing a turtle crawl out—he had been in seclusion in the mud all winter and now it was warm and he crawled out—I thought to myself: Here is a race of beings that began on earth unlimited millions of years before the human race came. Nobody has accused the turtle or the frog of any wisdom, and yet somehow they have succeeded in surviving longer than we have and they seem destined to survive longer than we will. If they have intelligence enough by their methods to solve their problem, even at the cost of the extermination in each generation of most of them, I suspect that by a slight improvement upon that, we shall succeed in solving ours also.

I firmly believe that somehow, illogically, through ignorance, prejudice, or what not, we will muddle out a solution of our problem, or let it muddle itself out for us. And that somehow we in America, at least long before we succeed in educating ourselves, and long after democracy has demonstrated that it cannot meet these problems, will have met them well enough so we will stand for the failure and endure it and still will retain all the external and some

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of the internal mechanisms of the democratic system out of which our successors may later build a better democracy.

I think I have contributed to the economics and to the wisdom of this situation considerably less than nothing, but I have given you some reminder of the fact that this is the medium through which intelligence must filter if it is to arrive anywhere. That is the only thing I have tried to do.

TRADE AND TARIFF PROBLEMS AS RELATED TO AGRICULTURE

Statement by T. W. SCHULTZ, Department of Agriculture, Iowa State College, at the Des Moines Hearings, April 30, 1934

Both in its research and adult educational programs, Iowa State College has recognized the importance of a sound national policy in international relations. The bearing that our foreign trade policy has upon the well-being of the Iowa farmer has received considerable study.

About a year ago a committee of the Agricultural faculty prepared a statement of objectives for agriculture. This committee considered the problem of international trade of major importance to American agriculture. In formulating the objectives necessary to obtain a favorable economic environment the committee recommended, among other things: "The encouragement of international trade by the modification or elimination of such artificial barriers as either directly or indirectly affect agriculture disadvantageously."

Back of this recommendation are the following considerations:

1. Broadly speaking, the economic well-being of American agriculture is dominated chiefly by crop and animal products produced in excess of domestic requirements. Because of this fact, farming is clearly dependent upon foreign markets.

2. International trade barriers, both here and abroad, have placed a tremendous burden upon the American farmer. These barriers have been instrumental in greatly reducing the foreign demand for our farm produce.

3. It appears that the American farmer still has a comparative advantage in production of such basic products as cotton, tobacco, certain fruits, and lard, and perhaps to a less extent in the production of wheat and pork. It is therefore to the advantage of the United States to exchange the excess of these farm products for goods made in other countries in which domestic producers do not excel.

4. The World War and subsequent events changed the United States from the world's greatest debtor country to the world's second greatest creditor country. This change in the financial position of the United States had had an important bearing upon foreign trade of this and other countries. Inasmuch as the United

States now appears to be a mature creditor country, it would seem that the imports of merchandise and services must within the near future exceed exports. The United States must, therefore, change from an exporting to an importing country. There are essentially two alternatives. The United States may either decrease its exports or increase its imports. Increasing imports involves lowering tariffs.

5. The economic consequences of decreasing exports are of paramount importance. Shrinking the domestic industries that heretofore sold a part of their production in foreign markets means, under the present pricing system, continued low prices for these commodities; low enough, at least, to liquidate some of the industry. This is essentially what has been happening at a terrific pace in cotton, wheat, and pork products. Farmers producing these commodities have been and are definitely dependent upon foreign buying; moreover, the pressure upon the American exporter has been accumulating for some years. This has caused, among other things: (1) widespread migration of American industry to foreign countries; (2) a piling up of carry-overs in the major farm crops; and (3) glutted domestic markets. For example, in the case of lard, with our Cuban and German markets greatly reduced, we have forced the American consumer to eat more lard per capita last year than ever before. But to get domestic consumers to increase their lard consumption has meant ruinously low prices for this agricultural staple.

The time and social cost of shrinking American agriculture, assuming it is done through the pressure of low prices to more nearly a domestic basis, demands very careful consideration. This phase of our national economic problem should be very carefully analyzed by your committee since it depends largely upon the kind of commercial policy that we follow as a nation with reference to other countries.

It is generally held that over a period of years, the effect on the standard of living of a country is lowered by forcefully shrinking the export industries, agriculture and nonagriculture, that presumably have the greatest comparative advantage.

6. Since the United States is now a matured creditor country, it would seem reasonable that we should consider carefully the economic and social consequences of adjusting our foreign trade policy to fit our new international financial condition. It would appear that such an adjustment would involve, among other things, making it possible for these foreign individuals, municipalities, corporations, and governments that have borrowed American capital to repay both interest and principal when due as well as buying commodities and services from us in the production of which we excel. Such a policy, however, means shifting certain prohibitive trade

restrictions on imports. The industrial dislocations and adjustments that a gradual modification and removal of trade barriers would entail must not be overlooked. As has been expressed by men who are leading thought in this field, either alternative is painful. In one case, we will continue to shrink our efficient export-producing industries. In the other, we will shift productive resources, both capital and labor, now employed in protected industries, which by that very token are less efficient and effective in using our resources, to fields in which they can employ American resources to better advantage.

The promotive influence which lower trade barriers in all probability would have in re-establishing foreign market for those crops and animal products formerly sold for a satisfactory price abroad must not be overlooked.

In the several studies that have been prepared by the Agricultural Experiment Station of Iowa State College, attention has been called to several aspects of our national policy as it bears upon our international relationships and upon the economic status of Corn Belt agriculture. I refer specifically to three publications which have appeared in the last two years: Circular 146, *The Agricultural Emergency in Iowa*, Part VIII, "How Tariffs Affect Farm Prices"; Circular 148, *The Agricultural Emergency in Iowa*, Part X, "Shrink Agriculture or Shift Tariff Protected Industries"; and Bulletin 314, *Prospects for Agricultural Recovery*, Part V, "Is Our National Farm Plant Too Large?"

Of each of these studies fifteen thousand copies were printed. The editions are virtually exhausted. They have been widely commented upon by the press and by interested public citizens of the state. Smith-Hughes and adult evening schools throughout Iowa have used them as textbook material in their studies.

Recently another study, more strictly research in character, has been published, Research Bulletin 171, *The Competitive Position of Lard in the Market of Animal and Vegetable Fats and Oils*. This study deals with one specific commodity, concerning which it takes up both the domestic and foreign price situation.

In general, our studies point to the conclusion that it is possible by altering our commercial foreign trade policy to relieve considerably the undue economic pressure that is in evidence today on domestic agriculture. To bring this about involves, among other things, a gradual yet definite scaling down of our tariff wall. It is true that a downward adjustment of tariffs would tend to throw some of the burden of re-establishing foreign trade upon protected industries. Some business dislocations would result. Manufacturing at present supported by high and often prohibitive tariffs would

have to meet foreign competition or shift into fields better suited to the economy of the United States.

From a long-trend national viewpoint, this, in our opinion, would be a desirable adjustment. Lowering tariffs to permit enough of an increase of imports to diversified manufacturers and raw materials to make it possible for our farmers and export manufacturers to hold their foreign markets would do two things: (1) maintain those industries that have in their production the greatest comparative advantage; (2) reduce those less efficient in using American workers and resources.

Prompt reduction of tariffs and the moderation of other trade barriers is from the economic point of view of the Corn Belt highly desirable. It seems almost equally desirable for the nation as a whole. This action is fundamental to the re-establishment of our export trade, which in turn is basic to the restoration of the fundamental balance of our national economic life. The balance between industry and agriculture has been greatly disturbed by recent dislocation of the price structure, in which the prices of those commodities tied into world commerce have suffered much more maladjustment and dislocation than those on a domestic basis.

But, desirable as it is to lower tariffs, it should be realized that this cannot be done in one or two years. Even under the most favorable circumstances, it will probably take from five to ten years to effect a substantial reduction of the prevailing domestic and foreign trade barriers. The longer time consideration is important and must be kept in mind, because if adjustment is made too rapidly, the serious dislocation that would result if tariffs were suddenly removed or sharply reduced would place a tremendous depressing influence upon those areas and communities whose industries are today operating behind the protection of the tariff. There are many reasons why the process should be carried out gradually, the chief one being that it would give the export industries an opportunity to shift to more protected prices.

But if this adjustment in our foreign trade policy is initiated slowly, what will happen meanwhile to the American producers, especially our farmers who have lost their foreign markets? It is this phase of the problem that the AAA is essentially aiming at. Temporarily, at least, phases of the Agricultural Adjustment Administration program are attempting to assist producers in making an orderly retreat in their cotton, wheat, hog, and tobacco products. But it appears reasonable that the program of the triple A is, at best, only a temporary stop-gap, back of which we should be getting our national foreign trade policies so adjusted as to fit our creditor position. We should not lose sight of the fact that the

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American farmer is carrying a very large share of the burden of the foreign trade adjustments that are now taking place, in which imports are being greatly restricted and exports are being reduced accordingly.

If your committee desires, I should be glad to discuss briefly the response Iowa farmers have shown to a study of this question. During the past two years, members of the Iowa State College staff have led open forum discussions among our people at perhaps fifty or more meetings. It is my belief that the character of the response we have had at these meetings is indicative of what the more aggressive and intelligent farmers are thinking.

SELF-SUFFICIENCY VERSUS FREER INTERNATIONAL TRADE

Statement by SILAS H. STRAWN, Chairman, Executive Committee, Montgomery Ward and Company, at the Chicago Hearings, April 2, 1934

I have been invited by your Commission to express my views on the general subject of self-sufficiency versus freer international trade, or the general advisability and probable effects of (1) a policy of economic isolation and national self-sufficiency; and (2) a policy aiming at the re-establishment of a freer international flow of goods and services.

By way of qualification I may say that for some twelve years I have been a member of and interested in the activities of the International Chamber of Commerce, and that for three years ending in June, 1933, I was Chairman of the American Committee of the International Chamber and its American Vice-President. In the year 1931-32 I was President of the Chamber of Commerce of the United States and am now a member of the senior council of that chamber.

I am convinced that the economic well-being of the United States is dependent upon the continuance and expansion of its foreign trade and that the policy of our government should be to encourage and stimulate friendly economic relations with other countries.

At various times I have stated my reasons for this belief. In an address which I made before the American Trade Association Executives on September 12, 1933, copy of which I attach hereto, I endeavored to state a few facts regarding our position in world commerce.

The advocates of a policy of isolation for the United States insist that our export trade in comparison with our domestic commerce is relatively unimportant; that compared with our whole production the share devoted to exports is small; and that readjustment to a practically self-contained basis would cause less economic and social disorder than would result from continued efforts to maintain or increase our foreign trade. With this conclusion I thoroughly disagree. On the contrary, I assert:

1. That foreign trade is of direct and vital concern not only to

the 10 per cent of our people engaged in the production of exports but indirectly to the country as a whole. Its abandonment or reduction would prolong the present depression, lower the living standards of our people, and precipitate inestimable social changes;

2. that the total of our international transactions is so large and involves so many factors that necessary adjustments made from time to time involve no drastic changes in our industrial or financial structure;

3. that our competition in world markets with other industrial countries is not of such a character, nor so severe, as to justify abandonment of our export trade in undeveloped areas;

4. that our foreign investments present no serious problem, nor, as I have attempted to show, have they an important bearing upon our foreign trade.

IMPORTANCE OF FOREIGN TRADE

The Department of Commerce estimates our total production in 1929 at \$47,000,000,000 and our exports for that year at \$5,157,000,000. Adding to the total production the cost of transportation, about \$4,000,000,000, we find that the portion of our total production which went into export trade amounted, roughly, to about 10 per cent.

Estimates by the Bureau of Census give the total number of people gainfully occupied in producing goods in 1930 as about twenty-five million. Of this number it is fair to assume that two and a half million were directly engaged in producing goods for our export trade.

The following table shows the principal agricultural, manufacturing, and raw-material industries producing goods for our export trade with the percentage of their total production exported for 1929 (except where noted).

The acreage required for the net exports of eight crops (cotton, wheat, rye, barley, corn, oats, rice, and tobacco), together with pork products, amounted on the average in the years from 1922 to 1928 to about fifty million acres. Even in 1930-31, when the acreage for the export trade in these commodities dropped to about thirty-seven million acres, these export crops required about 12 per cent of the improved crop lands of the whole United States.

Complete figures for 1932-33 are not as yet available. From such data as I can obtain it appears that the percentage of the movable goods produced in the United States going into export trade has been reduced to about 7 per cent. The striking thing about this fact is, however, that even with this reduced percentage more than half our cotton is shipped abroad, and more than one-fourth of our

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CERTAIN PRINCIPAL EXPORTS AND PERCENTAGE OF TOTAL PRODUCTION EXPORTED *

Product	Year	United States Production	Amount Exported	Percentage Exported
Agricultural products				
Cotton (bales)	1929	15,760,000	8,637,000	55
Tobacco (millions of pounds)..	1929	1,375	566	41
Wheat (millions of bushels)...	1929	915	164	18
Lard (millions of pounds).....	1929	2,598	866	33
Pork (millions of pounds)	1929	9,223	379	4.1
Manufactures				
Automobiles	1929	5,558,000	536,000	10.0
Motorcycles	1927	35,000	19,000	54.0
	1929	32,000	16,000	50.0
Typewriters	1929	57,000,000	22,800,000	40.0
Printing machinery	1929	65,300,000	19,000,000	29.0
Sewing machines, etc.....	1929	43,600,000	10,900,000	28.0
Agricultural machinery	1929	603,000,000	141,000,000	23.0
Locomotives, steam	1929	995	207	21.0
Cash registers	1927	40,200,000	6,800,000	17.0
Sardines (pounds)	1929	239,000,000	124,000,000	52.0
Canned salmon (pounds)	1929	336,000,000	41,000,000	12.2
Rosin (barrels)	1930	2,000,000	1,160,000	58.0
Turpentine (gallons)	1930	31,500,000	15,700,000	50.0
Rubber boots and shoes (pairs)	1929	100,000,000	12,400,000	12.4
Cigarettes (billions)	1929	119	8.5	7.1
Iron and steel (tons).....	1929	2,000,000	260,000	13.2
Structural shapes (tons).....	1929	4,780,000	400,000	8.4
Wrought pipe and boiler tubes (tons)	1929	3,000,000	291,000	9.6
Minerals and forest products				
Coal (short tons)				
Anthracite	1929	76,640,000	3,406,000	4.4
Bituminous	1929	525,358,000	17,429,000	3.3
Petroleum (crude barrels).....	1929	1,005,000,000	26,394,000	2.6
Kerosene (barrels)	1930	49,200,000	16,700,000	34.0
Lubricating oil (barrels).....	1930	34,200,000	9,750,000	28.5
Gasoline and naphtha (barrels)	1930	436,000,000	69,000,000	14.5
Gas and fuel oil (barrels).....	1930	373,000,000	32,400,000	8.7
Copper (tons)	1930	1,100,000	380,000	34.0
Lumber (feet)	1929	36,400,000,000	3,000,000,000	8.5

* Figures obtained from publications of the Department of Commerce.

tobacco and pork products are exported. In other words, of the principal agricultural commodities, at least, the percentage of exports is still of outstanding significance.

Other economic activities vitally concerned with foreign trade include:

1. Shipping and allied interests, with a capital investment of more than a half billion dollars and gross earnings in 1929 from freight carried alone of nearly \$300,000,000;

2. our harbors and twenty-six port cities upon which our government has spent about \$425,000,000 for improvements and \$150,000,000 in maintenance;

3. our rail and truck transportation facilities, of which reliable estimates show dependence upon export trade for about 13.5 per cent of its traffic;

4. banking, communications, and other services of which the income is materially affected by our foreign trade interests.

The American economic structure is highly interdependent, and the abandonment of from 5 to 10 per cent of our total productivity would, I believe, depress more than half of all our producers and, in turn, the whole industrial and agricultural fabric of the country. Distress to our domestic market would unquestionably result from the abandonment and loss of substantially 10 per cent of our production, together with a similar loss in our imports.

Increased consumption in the United States of the cotton, wheat, tobacco, lard, pork, automobiles, machinery, and other export articles sent abroad, in the event we cut off our exports, is highly improbable, and it is equally unlikely that domestic producers of those commodities could shift to the production of products such as sugar, silk, rubber, tin, coffee, and the like, which we have heretofore imported. A shift of labor from one industry to another, or from agriculture to industry, or vice versa, of the sort contemplated in any such program would be incredible.

Generally speaking, specialized machinery now used in American industry cannot be devoted to other uses. A large part of the lands devoted to export crops would have to be abandoned or diverted to other crops less suited to the soil and surrounding conditions. Thus a readjustment means long idleness for great numbers of plants and the abandonment of much invested capital. Certain of our export industries, such as automobiles and rubber, are highly localized, and the surplus labor would have to move to other localities as well as learn new trades. This condition would be accentuated by the fact that the highly finished manufactures now imported from Europe and the Orient, which we propose to exclude, are made by specialized labor, and the finding and training of such labor would be slow and difficult. Therefore, I submit that the conclusion is inescapable that the abandonment of part of that production and the finding of equally productive work for men displaced from industries would be quite impossible.

To meet the necessary demand caused by the World War, almost every important industry in the country increased its capacity from 20 to 40 per cent in excess of maximum demands. A 10 per cent loss of output in those industries would be disastrous. Wage cuts and reductions of overhead staff would necessarily follow. In many industries it would not be a case of taking off 10 per cent but of losing up to 50 per cent of their normal business because many

companies are engaged in manufacturing export trade largely or exclusively.

The interdependence of products and by-products creates a serious difficulty for important industries in obtaining a domestic balance without imports or exports. For example, by reason of the market abroad for kerosene the price of gasoline has been reduced to domestic consumers.

The total acreage devoted to exports of the eight principal crops to which I have referred amounted in the period 1922-28 to about fifty million acres. Government subsidies to take care of curtailment of this character would run into well over half a billion dollars a year and would bankrupt even this country.

The release of labor and capital involved in the abandonment of our export trade would necessarily result in the devotion of that labor and capital to industrial and agricultural production already in a depressed state in the United States. It is impossible to estimate what the effect of such a competitive situation would be, but the impact of capital losses and further unemployment on our economic structure would unquestionably prolong the present depression for a long time to come.

In the light of the facts above referred to, continuance and growth of our foreign trade appear to me to be indispensable if we are to maintain and improve the living standards of the people of this country. How this expansion can be brought about without the social and economic reorganization asserted to be necessary raises important questions of governmental policy, both in the United States and in other nations. The International Chamber of Commerce, at its meeting in June of last year at Vienna, made certain recommendations for action by the World Economic Conference, which subsequently met in London. With those recommendations, generally speaking, I am in accord. For the information of the Commission I attach a copy of the Chamber's report. Briefly the Chamber suggested: (1) the return as promptly as possible to international monetary stability; (2) the removal of quantitative restrictions upon trade; and (3) a progressive reduction in tariff levels.

It seems to me that agriculture and industry in the United States should be protected from destructive competition from abroad where the products of agriculture or industry are essential to a well-rounded economic structure and the maintenance of high living standards for our people. We are in no position so to lower our tariffs as to permit foreign competition to a degree which would increase unemployment or compel abandonment of essential industries.

On the other hand, if our export trade is to grow, we must in one way or another enable the countries which buy those exports to pay for them. It cannot be denied that over the past twelve years foreign countries have had increasing difficulty in making such payments. Granted, therefore, that a change must be made which will permit of payments for goods which we sell abroad, what will be the character and extent of that change?

The statement that the United States wishes only to sell abroad and not to buy has, of course, no support in foreign trade statistics. In the past twelve years this country has purchased from other parts of the world more than forty billion dollars worth of goods. With the sole exception of Great Britain, no other country has purchased anything like so much. Our purchases of services, so-called, such as expenditures for tourists, shipping and freights, immigrant remittances, and the like, have been on a similar scale. From 1922 to 1932, inclusive, Americans traveling abroad expended an estimated average of \$492,000,000 a year. Our immigrant remittances over that period averaged about \$283,000,000 a year—far beyond any similar expenditure on the part of any other country.

It is nevertheless true that, largely because our commodity exports and our receipts from investments abroad in the way of dividends and interest likewise came to large amounts, we have had on balance year after year an average of about four hundred million dollars due us from other countries. Until 1929 our growing investments abroad took care of the greater part of this obligation. In other words, we loaned abroad the money due the United States for the excess on all accounts. After 1930 foreign loans on our part, and on the part of others, largely ceased, and one country after another found it increasingly difficult to pay what it owed.

I am not of the opinion that the United States must necessarily adopt a permanent policy which will enable other countries to ship to us each year sufficient goods to make up the balance due us. As budgets are balanced, currencies are stabilized, and increased order is brought about in the international commercial and financial mechanism, foreign lending will eventually be resumed.

In the light of our international commercial and financial transactions over the past twelve years, however, as indicated in the international balance of payments, it seems apparent that a policy on the part of our government which would permit a larger proportion of imports than heretofore is desirable, and it is my judgment that such an increase in our imports, necessarily involving a reduction in the favorable balance of merchandise trade heretofore accruing to us year by year, can be achieved without any serious disturbance to our industrial and agricultural activity.

There have appeared from time to time in recent months statements to the effect that the United States is faced with the alternatives of either cutting off its foreign trade completely, with all the attendant adverse economic and social effects which would ensue, including curtailment of our agricultural production of some fifty million acres, or accepting a billion dollars more annually in the form of imports and maintaining our present agricultural and industrial productive structure. A middle course has been suggested of wiping out some twenty-five million acres of our present agricultural production and increasing our imports by five hundred million dollars a year. The primary method by which our imports are to be increased, it is assumed, requires the lowering of our present tariffs on agricultural and industrial commodities.

I have seen no analysis of such proposals, nor any support in the statistics of our commercial and financial dealings with other countries, which justify such drastic steps as these. Certainly the average annual balance due the United States over a period of twelve years has been under four hundred million dollars—less than half of the billion additional imports suggested. In other words, if we had received on the average over the past twelve years about four hundred million dollars a year more in imports than actually entered the United States, we should have had such a balance with other countries that it would have been unnecessary for us to make foreign loans and unnecessary for those countries to ship us gold. Four hundred million dollars is just about 10 per cent of the average annual imports we have received over the past twelve years.

For the year 1933 the total due us on balance amounted to \$193,000,000, substantially less than one-half the world production of gold during the year outside the United States.

Obviously the complex nature of the transactions involved in our international dealings requires that careful analysis be made of all available statistics before determination of policies which demand taking out of production twenty-five million acres of agricultural production, or the scrapping of important industries.

INDUSTRIAL RELATION OF UNDEVELOPED AREAS

It has been suggested that the export of machine tools and producers' equipment by the United States enables undeveloped countries to develop their own industrial organizations and to become potential competitors with us and other nations in the world markets.

In my address of September 12, to which I again refer, I dealt with this subject and stated that the contention was completely

refuted by the statistics regarding the foreign trade of the United States, Great Britain, and Germany in the post-war period.

FOREIGN INVESTMENTS

I attempted in my address of September 12 to show that our foreign investments present no serious problem, nor have they an important bearing upon our foreign trade. Although there has been much publicity on the subject, the fact is that, except in the Latin American countries, defaults on our investments are not great and the excess of our imports over our exports in Latin America makes it likely that payments in due course will be resumed.

Finally, I respectfully submit that instead of pursuing the policy of despair advocated by the isolationists, we must deal energetically with our international problems, in the confidence that the intelligence and inherent fairness of the American people will result in a correct solution.

SOME POLITICAL CONSIDERATIONS IN FORMULATING AN INTERNATIONAL ECONOMIC POLICY FOR THE UNITED STATES

*Statement by QUINCY WRIGHT, Department of Political Science,
University of Chicago, at the Chicago Hearings, April 2, 1934*

The primary problem of national policy in international economic relations must always be the maintenance of world stability and peace. While war and war scares may temporarily stimulate certain industries, such stimulation produces an abnormal condition in the production and price situation of industrialized states which tends toward serious economic crises and depressions later. The depression in the United States during the past years has been in part an adjustment of agriculture and heavy industry to peacetime demands after their extraordinary wartime expansion. The economic life of the United States cannot be healthy and steadily progressive unless the political order of the world is stable and calculable, and the prospects of war and revolution in any of the major countries are at a minimum.

This predominant importance of maintaining peace has been recognized by the government in ratifying the Pact of Paris and in the repeated assertions of presidents and secretaries of state that the maintenance of the principles of this treaty constitutes the major foreign policy of the United States. Economic policies, if successful in increasing national prosperity, may increase general prosperity and thereby indirectly contribute to world political stability, but in an atmosphere of political tension such policies are not likely to be successful. In such an atmosphere economic legislation provokes retaliation and economic agreements cannot be negotiated. Economic policies should therefore be subordinated to measures directly contributing to political stability. The United States has been actively participating in discussions concerning disarmament, consultation, pacific settlement, and international organization. Policies with an objective primarily economic should not be allowed to interfere with the active pursuit of these major problems of foreign policy.

The common assumption that the United States should develop and protect its economic relations with Europe while isolating itself from political contacts with Europe places the cart before the horse.

From the standpoint of foreign policy, the first question to be asked in studying any economic policy should be, What will be its effect on world stability and world peace? Even though such a policy promises an immediate economic benefit to the country, it should be adopted with the greatest hesitation if it tends to create distress and resentment abroad or a shock to the world political equilibrium.

There have been many instances in recent years where a sudden change in the tariff, monetary, or other economic policy of a state made sometimes solely with domestic effects in mind has led to serious international complications. For example, it seems probable that the passage of the Hawley-Smoot Tariff in the United States, ignoring the representation made during its discussion by Japanese merchants, was a contributing influence in causing the recent military aggressions of that country in Manchuria. For years the policies of the pacific group in Japan associated with the name of Foreign Minister Shidehara had sought to meet the serious economic problems of the country by further industrialization and the expansion of exports of manufactured goods, especially to the United States and China. This group was opposed by the military group, which continuously insisted that the economic problem could only be met by military conquest on the continent of Asia. The promoters of this aggressive policy were able to interpret the Hawley-Smoot Tariff, which increased the duties on most Japanese manufactured exports to the United States, as evidence that the Shidehara policy had failed, thus fatally weakening its prestige in Japan.

It therefore seems important to emphasize certain principles which should be observed in framing national economic policy so as to avoid political consequences dangerous to world stability.

Economic policies can be classified according as they tend toward (1) economic nationalism or self-sufficiency of the national economy permitting of national planning; (2) economic imperialism or special advantages for national economic enterprises in particular foreign or colonial territories; (3) *laissez faire* or freedom of private initiative in trade and investment across national frontiers; or (4) economic internationalism or regulation of world economic life by world institutions permitting of world planning. From the national economic point of view, each of these tendencies has advantages and disadvantages. These I will not discuss except incidentally, emphasizing rather the danger to world stability inherent in any one of these tendencies if *pushed too far*. World stability depends upon a just balance among all of them.

1. Economic nationalism, widely advocated since the recent depression, if pursued to the limit would, under existing conditions of economic interdependence, lead to a serious general decline in world

production and prosperity and to the disorders inherent in times of prolonged depression. It would require more intensive political controls of economic life as the only means for preventing individuals from engaging in profitable external trades, and this in turn would probably require rigorous suppressions of free speech and discussion. Dangerous resentments would certainly develop in the economically more dependent states because of the devastating effects upon their economic lives of the regulations of the more self-sufficient states. In spite of all these difficulties some restraints upon the expansion of international economic relations may be expedient in the interests of greater economic self-sufficiency but such restraints should seek (1) to avoid national discriminations, (2) to avoid sudden shocks to established economic interests of foreigners, (3) to avoid the establishment of nonreciprocal economic relations with other countries, and (4) to avoid the involvement of national prestige in the economic activities of American citizens abroad.

Discriminations are always resented and frequently give rise to retaliation. Economic policy can usually be devised so as to avoid them. Reciprocity treaties can be made without impairing the unconditional most-favored-nation treatment as pointed out in Secretary Hull's resolution at Montevideo. Tariffs can continue to be general in application. Elimination of the discriminatory feature in immigration and naturalization policy is also desirable. Under the quota laws, few if any more Chinese and Japanese would enter the country than under the present Oriental exclusion laws.

Sudden changes in tariffs and currencies are usually more injurious to foreign economic interests than is any stable policy. Trade will accommodate itself to a high tariff if the tariff remains fixed. Foreign industries developed in anticipation of a continuous market in the United States may be swept out of existence by a sudden upward shift in our tariff schedules, with ruinous effect upon the inhabitants of the foreign area where they have been established and upon the political attitude of their government. Arbitrary imposition of quotas, police or administrative regulation, and sudden changes in monetary policy may similarly frustrate reasonable economic expectations. Such changes should be avoided and in no case should policies leading to them be adopted without due consideration of their effects abroad.

International economic relations can be stable only if on a reciprocal basis. Consequently foreign markets for American goods and capital should not be sought except in so far as the United States is prepared to open its markets for an equivalent of imports. The policy of the 1920's, of government aid and abundant foreign loans to develop exports and to collect war debts, coupled with increasing

tariffs to keep out imports, resulted in an unbalanced situation leading to disaster. That mistake should not be made again.

Writers of the laissez faire tradition, such as Lord Bryce (*International Relations*, New York, 1922, p. 109) and Sir Arthur Salter (Williamstown Address, 1925), have continually drawn attention to the danger of linking political and economic interests in the international field, not only because this is likely to produce corruption of officials, the press, and public opinion in domestic politics but also because economic controversies, certain to arise, become more difficult to settle when linked with questions of national honor and prestige. The line between politics and economics, however, is not easy to draw. Even if government does not direct the course of economic life, it must regulate the legal and institutional conditions under which it is carried on.

There is no objection to the Department of Commerce publishing information of a general character as to trading conditions abroad or to the Department of State concluding agreements assuring most-favored-nation treatment and fair conditions of competition for American citizens abroad. But direct aid to special firms by any of the government services and particularly by the military and naval services, direct government pressure upon bankers or industrialists to make loans or engage in business in particular foreign areas in the interests of an imperial policy, or direct pressure upon foreign governments to grant special concessions or opportunities for American economic interests, seldom promotes the general economic interests of the country, and usually develops international political difficulties. Governments invite trouble when they look upon the development of the economic interests of their nations abroad as a public interest. If governments maintain world stability, world order, and fair standards of international law, economic life will develop by its own energies.

The evil results of the linkage of national political interest with international economic contact have been especially notable in the case of the war debts. The political connotation of these debts assures that they will be a continuing source of international friction as long as they exist. It would be fortunate if they could be liquidated by an agreement with the debtor states fixing a sum to be paid no larger than they could raise by bond issues sold to the general public and could transfer to the United States within a year or two.

2. Economic imperialism, widely practiced by the industrialized states during the last half century, leads under present conditions of world communication, nationalistic sentiment, and naval rivalries, to attachments to distant areas difficult to defend, to resentments

in backward areas and aggressive self-determination movements, and to political rivalries among the industrialized states, all dangerous to world stability. American economic imperialism has been manifested especially in the possession of the Philippines, the possession of Porto Rico and several quasi-protectorates in the Caribbean, the effort to maintain a position of equality or even of advantage in China through the régime of extraterritoriality and the maintenance of naval and military forces in Chinese territory.

The Philippines, once considered a base for maintaining an advantageous economic position in the Far East, have become a competitor in the American market resented by certain industries, a hostage in the hands of Far Eastern rivals, and the source of bitter controversies on the question of self-determination both in the United States and in the Islands. From the standpoint of American security, of Philippine aspirations, and of Far Eastern stability, there is every reason for fulfilling our promise of Philippine independence without unnecessary delay. A treaty might be negotiated immediately with the Philippine government recognizing its independence and providing a period of, say, ten years in which its economic relations with the United States would be gradually liquidated. The four-power Pacific Pact of 1922 might be extended to protect the status of the Islands after independence as it has heretofore.

The great majority of the Philippine people appear to want independence, and the people of Cuba, Haiti, Santo Domingo, Panama, and Nicaragua resent the American quasi-protectorate treaties. China resents extraterritoriality. It seems likely that all these resentments will increase as the political self-consciousness of these peoples develops with improved education. The effort to maintain such relations of dominance against the will of the local population becomes increasingly expensive with the spread of nationalistic sentiment and modern arms among local patriots in these areas. In very backward areas economic advantages may be gained by military coercion. But economic relations generally flourish best in an atmosphere of reciprocal interest. The government is committed to a program of liquidating these imperial responsibilities, and sound economic policy counsels a minimum of delay.

The effort to maintain sufficient military and naval strength to defend distant interests against formidable rivals in the vicinity is exceedingly expensive. It is one thing to maintain a navy sufficiently strong to protect an outlying economic advantage against rivals whose headquarters are also distant from that area. It is a very different thing under modern conditions of naval strategy to attempt to maintain such advantages distant from our home bases

but near to those of another state of similar naval potentiality. Liquidation of distant imperial responsibilities and claims would tremendously reduce the need for a large navy and the prospect of becoming involved in an unwanted war. The economic gain would certainly be far in excess of the economic sacrifice.

3. *Laissez faire* in international economic relations tends to the most efficient geographical division of labor and maximum production. It was the ideal of the classical economists, and the depressing effect of radical departures from its precepts has been demonstrated in the past few years of shrinking world trade and shrinking prosperity. If unrestrained, however, *laissez faire* is likely to produce sentiments of national economic dependence in most states, attempts to enforce rules of fair competition with national military and naval forces, and the development of private interests in the war trades flourishing on world instability, all of which endanger world peace.

Extreme economic interdependence in a world of nationalistic psychologies may be a source of international friction and may well be avoided where the price is not too great. There are such tremendous economic advantages in international trade and investment that, in the present age of communication and private enterprise, individuals, if not prevented, will build up important international economic relations. These relations, while increasing wealth, make the economic life of each nation to some extent dependent upon the economic policies of others. In times of political tension, nations, affected by the psychology of nationalism and fearful of the economic coercions which rivals have within their hands, seek to relieve themselves of this dependence, thus injuring their own economic well-being and that of others and augmenting the international tension. In spite of this it is probable that economic interdependence will grow and it will perhaps in time lead to the creation of an adequate system of international control and a reduction of intense nationalistic psychology. Until such a system exists, however, governments may well avoid stimulating international economic contacts, and may even place certain barriers in the path of international trade in the interest of a balanced national economy, always subject to the qualifications previously discussed.

National efforts to enforce rules of fair economic competition abroad have often caused friction, especially in economically backward areas. Economic relations based on private initiative imply the maintenance of open markets and the rules of the game. In the international field, in the absence of a world government operating directly upon individuals, the industrial states have sought to incorporate into international law rules for the protection of the

economic interests of their nationals abroad. In the relations between such states themselves these rules of international law have in the main been adequate, but in the effort to enforce them in backward areas, often of different civilization, states have frequently resorted to the use of military and naval force. Such activities lead to hostility with the native population, to dangerous rivalries among the industrialized states, and frequently to the setting up of imperial pretensions and demands not merely for conditions of fair competition but for special economic advantages.

The right of American citizens abroad, whether arising from trade, from investments, or from loans, should be protected according to the standards of international law; but the use of the navy or landing forces for this purpose seldom results in an impartial application of law and is of questionable legality under international law. The Pact of Paris, President Roosevelt's recent proposal urging that any invasion of territory be regarded as aggression, and Secretary Hull's statement at Montevideo against intervention seem to confine the use of the army and navy to territorial defense. All intention of using armed force for the protection of American shipping in distant waters, American citizens abroad, or American interests in foreign territory might be explicitly renounced. This does not mean that American citizens pursuing economic interests abroad would be without protection. They would be entitled to the protection of the local courts and of international law applied by diplomacy and international adjudication. Private associations, such as the Foreign Bondholders of Great Britain and the recently organized Foreign Bondholders Protective Council of the United States can be of great assistance. Furthermore, the United States might well take the initiative in establishing certain international institutions for the impartial supervision of international trade and investment. Standards of fair competition and protection could perhaps best be developed through the experience of such institutions.

International trade in arms and war materials creates interests capable of gaining positive advantages by creating international friction, war scares, and war, yet a policy of strict laissez faire would leave such trades unregulated. International relations are greatly affected by propaganda activities, and world stability will suffer if private economic interests are permitted to prosper by the direct stimulus of international mistrust. A program of regulation, however, presents difficulties. The arms industries are located in only a few countries; consequently a complete elimination of the trade in arms would render certain countries practically defenseless or require them to develop arms industries of their own. Furthermore,

the arms trade is not easy to isolate. Many materials and articles essential to war also have peace uses; in fact, attempts to prevent all trade in war materials would come near to stopping all international trade.

The United States might well ratify the Geneva Arms Trade Convention of 1925, now pending in the Senate. This convention permits shipments of war materials as there defined only if accompanied by official certificates from the governments of both importing and exporting countries. The arms embargo measure, authorizing the President immediately to impose an impartial embargo on exports of arms to countries where such shipments might stimulate war, has been recently approved by Congress. In addition, in accordance with the spirit of the Pact of Paris, Congress might authorize the President to raise such an embargo in favor of a country found after due international consultation to be the victim of aggression. These measures, together with legislation prohibiting the holding of public office or interest in any newspaper or other organ of publicity by individuals interested in war industries, might contribute toward limiting the dangerous influence of these trades upon world stability.

4. Economic internationalism has been the program of the League of Nations and of economic conferences since the war as a remedy for the ills of economic nationalism, imperialism, and laissez faire. From an economic point of view it is the only remedy, but in a world steeped in national psychology it may prove inapplicable for a long time. General international economic agreements have proved exceedingly difficult to conclude. Even if concluded, they might encourage so rapid an extension of international economic relations that violent reactions and political resentments would follow when, in times of tension, electorates with exaggerated nationalistic sentiments became alarmed at the development of "economic dependence."

Economic internationalism and world planning can hardly flourish in an atmosphere of intense nationalistic sentiment. They can only grow along with the development of world institutions for maintaining international political equilibrium and peace. For the time it would seem that international economic conferences must be modest in attempting programs of world planning and economic rehabilitation. They might, however, codify some of the principles heretofore mentioned setting limits to national economic policies and to national sovereignty in the economic field. Thus it might be possible for states to agree upon certain standards of fair competition in international trade, defining and generalizing the rule of unconditional most-favored-nation treatment. Arbitrary or sudden

exercises of national power in changing tariffs, instituting quotas, modifying currencies, etc., might be defined as a basis for claims of compensation by foreign industries able to show that such measures caused them material damage. It is also possible that certain international procedures and institutions could be set up for supervising the execution of such conventions and adjudicating conflicts concerning them as they arise. The possibility of dissociating the economic interests of nationals abroad from national political implications by creating an international court of claims before which individuals could seek relief against foreign governments without the intervention of their own governments would also merit consideration.

SUMMARY

It is important that in striving for immediate prosperity the effect of economic policies upon foreign interests and world stability be given due consideration. The assurance of world stability is the best economic policy. Measures aimed directly at economic improvement should be subordinate to a foreign policy devoted to world political stabilization.

Neither economic self-sufficiency, economic imperialism, *laissez faire*, nor economic internationalism can be taken as a sovereign guide for a national economic policy founded on this principle. Extreme economic nationalism if generally practiced destroys the economic advantages of geographic division of labor and reduces the prosperity of even the most self-sufficient nations, while to the less self-sufficient it means extreme depression and tendencies toward imperialistic adventure. Aggressive economic imperialism, under present conditions of rising national self-consciousness, imposes military and naval expenses in excess of any probable economic advantages and a chronic condition of political rivalry and instability. While *laissez faire* in a world without intense nationalistic sentiments has great economic advantages, it tends, if followed to the logical extreme under actual political conditions, to create conditions of economic interdependence likely to develop fears of coercion and dangerous reactions among peoples whose thinking is nationalistic. Similar reactions may be anticipated from efforts to develop international controls too rapidly, although such controls are essential, under present conditions, to assure fair competition and a free market for international trade as well as to regulate trades such as slavery, narcotics, and arms with obviously anti-social potentialities.

More concretely, the United States should take care that its national economic legislation and agreements avoid departures from

the unconditional most-favored-nation principle, avoid sudden shocks to established economic interests of foreigners, avoid the building up of nonreciprocal economic relations with foreign countries, and avoid the entanglement of national prestige in the economic interests of Americans abroad. It would seem both economically and politically wise, and in accord with national pledges and traditions, to liquidate existing imperial responsibilities, especially possession of the Philippines, as soon as reasonable terms can be negotiated.

Recent steps toward regulating the trade in war materials should be followed by ratification of the pending arms trade convention. In the spirit of the Pact of Paris and recent executive declarations, the use of military or naval force in the service of economic interests abroad should be explicitly renounced. At the same time attention might well be given to the development of international standards of fair competition and international institutions to apply them. The international economic conference provides a suitable opportunity for negotiating agreements with this end in view. It is important that legal limits be set to the competence of states to enact economic legislation injurious to the established economic interests of foreigners whether at home or abroad, and the United States might well support a reassembling of the economic conference to explore this field thoroughly.

-PART IV B

RESPONSIBILITY FOR PEACE AND WAR IN
THE PACIFIC

By HENRY F. ANGUS, *University of British Columbia*

THE INSTITUTE OF PACIFIC RELATIONS AND ITS METHODS

One of the aims of those who founded the Institute of Pacific Relations eight years ago was to promote mutual knowledge and mutual understanding between the citizens of the nations in the Pacific Area in such a way that any circumstances likely to lead to violent conflicts between them might be subjected, at the earliest possible stage, to friendly discussion of a franker and more scientific character than discussions in which governments participate. It was hoped that the use of this novel method of international intercourse would be effective in preventing the occurrence in the Pacific Area of those bitter conflicts between nation and nation which have been the despair of those who have at heart the moral and material welfare of mankind.

The Institute has held meetings every two years and the new technique which its founders had in mind has been patiently and steadily developed. Among those who have attended the meetings the last remnants of suspicion have been dissipated and the most friendly relations have been established. The constant reliance on scientific research for facts, and on recognized experts for opinions, has tended to dissociate from the discussion of international questions any element of bargaining. And those who have attended conferences have done their utmost to spread throughout the communities from which they come the knowledge which they have acquired and the spirit which animates the Institute. But it is unhappily not now a mere question of avoiding dangers—positive action is needed if safety is to be attained.

GENERAL IDEAS ABOUT PEACE AND WAR

No people wants war as such. Wars are not arranged like football matches in America or student duels in Germany. But no people wants peace so much as to be prepared to sacrifice all other considerations in order to maintain it. A people that did would be

generally despised. This fact is widely recognized. The phrase "too proud to fight" has never been a success. Covenants to renounce war contain an implicit exception for the case of self-defense. This exception can be widened so as to make the covenant meaningless if we go on to say that self-defense means the defense of any interest which we choose to consider vital. Even without this cynical display of logic we must in mere fairness make self-defense include self-preservation. It is possible, of course, to believe that no nation will ever be obliged to fight in self-defense unless some other nation has been unduly aggressive; and to believe that no nation will ever be obliged to fight for self-preservation. But even if these beliefs are justified (which is doubtful) it would be foolish to derive much comfort from them. To prove that war is unlikely one would have to hold much more daring beliefs—one would have to think that no nation can ever be persuaded that its safety is endangered by the act of another, that no nation can ever be persuaded that some act is necessary for its welfare which will appear unduly aggressive to another, that no nation can be led to think that its self-preservation requires the use of force. There are many who do not hold these beliefs but who do think that discussion can do a great deal to prevent misunderstandings. They would not be prepared to back discussion as a winner in a short-distance event against the massive emotional propaganda with which at times it is forced to compete.

There is a second sort of optimism which must be repudiated. It is usual to point to the fact that private warfare—of which duelling is taken as the example—has been eliminated, and to argue that it is not difficult to apply the same methods of elimination to warfare between nations, so that resort to the courts will replace resort to the battle field. This reasoning is fallacious. The fallacy lies in generalizing from a single example. Duelling is private warfare for a matter of honor. It has disappeared. So perhaps may international warfare for matters of honor, though I am not sure that many people were not happier to think that they were fighting for a scrap of paper than to think that they were fighting for material objectives. To kill for gain seems sordid!

But there is such a thing as private warfare for material interests, and where it has been suppressed, the suppression has not been entirely through the use of the courts. What happens when, within the limits of a single state, some group or class has felt itself oppressed? (The reason may be, for instance, that some other group controls the bulk of the land or the bulk of the capital and makes an unreasonable charge for its use.) More and more urgently the aggrieved group presents its demands. It does not take them to the courts, for the courts would invariably protect the recognized legal

rights of the possessing groups. The demands are presented not to courts but to legislatures. What is demanded is not the enforcement of existing rights but the creation of new rights. These new rights will benefit one group by curtailing the existing rights of other groups. If the legislative process works with reasonable efficiency there is no question of resort to private warfare. If the legislature is unresponsive there may be minor outbreaks which are repressed. If it never acts there may be revolution. It is not duelling but revolt or revolution within a country which is the counterpart of war. Civil war is the counterpart of international war. But it is less frequent because there is the possibility of meeting new situations by peaceful legislative changes. This method has no international counterpart. The method which has minimized—though it has not eliminated—civil warfare, has not yet been applied to international warfare. It could be applied only by the creation of an international legislature which could speak the language of command to states hitherto obedient to no command. In geological time the establishment of such a super-state may be “just round the corner.” In historical time it is probably several centuries away. These are conjectures. The certainty is that a super-state is not an immediate possibility.

THE CRITICAL POSITION OF JAPAN

It is with these general ideas before us that we should consider the central fact of the Pacific Area: the economic situation of Japan.

In the last fifty years Japan has westernized her economic life and has profoundly altered her cultural life as well. Westernization has brought a great advance in material well-being. The advance has taken place with a speed that is almost incredible. And Japan has appeared to be on the threshold of prosperity, in the Western sense of that word. In a peaceful and (we must add) a reasonable world, there lies a most promising economic future before Japan.

But even if we were to assume that the world is peaceful, the most rashly optimistic would hardly venture to call it reasonable. And Japan's economic future is beset with dangers which must be a source of incessant anxiety to her leaders. The population of Japan, which had been practically stationary for the two centuries of the Tokugawa Shogunate, began to increase rapidly as Japan “westernized.” There was nothing surprising in this phenomenon. It had occurred in all countries which had passed through the process of industrialization. The birth-rate in Japan, for instance, never rose so high as the English birth rate of the middle of the nineteenth

century. And the fertility of Japanese marriages has begun to recede, exactly as has happened in other countries. If, for the time being, the rate of increase has remained high, it is because the rapid expansion of the population has left the proportion of women of childbearing age much higher than in countries with a stationary population. In time this condition will correct itself and it can be predicted with reasonable certainty that the population of Japan will eventually become stationary. This sober calculation is one of the contributions of research to the discussions of the Institute of Pacific Relations.

But the sober calculation which banishes exaggerated fears nevertheless discloses a dangerous situation. The present population of sixty-five million may be expected to approach ninety million. As numbers become stationary the proportion of children will decrease and the proportion of the population for whom work must be found will increase. The employment problem will become more difficult than it has ever been before.

What is to happen to this growing population? The increasing numbers who will have to enter economic life during the next fifteen years are already born. There is nothing problematical about their existence. Birth control clinics cannot reduce their numbers. Only disease or famine or murder could do so.

It does not seem likely that greater numbers can derive their living from agriculture and allied occupations. Indeed, it is probable that the numbers already on the land are excessive, and that their per capita income would be higher if the numbers were smaller. The average area per laborer is from our Western standpoint incredibly low, and the production per acre almost incredibly high. There is little or no room for expansion. New methods may make new areas cultivable, but these areas are not likely to support a large population.

It seems probable that the agricultural classes would already have met with disaster but for the rapid progress of silk-raising as a subsidiary industry. The profits from this occupation, with its immense labor requirements, have offset the uneconomical subdivision of the land. Of the importance of silk in Japan's foreign trade I shall speak in a few minutes. So far as foreign trade is concerned it might conceivably be replaced by rayon. But as an item in the farmer's budget it is harder to replace. The future of the silk industry depends on American women continuing to prefer silk to other textiles, including rayon. Should a cautious Japanese economist say with the experienced Frenchman, *Souvent femme varie, fol est qui s'y fie?* For on the future of the silk industry depends the future of the Japanese farmer. Almost literally he is hanging by a

thread—a silken thread. An expansion of this industry seems very improbable. Rayon competition has already been mentioned. There is also the possibility of Chinese competition in silk production; the possibility of changes of taste among consumers.

If, then, occupations are to be found for the increasing population, it is to industry that Japan must turn. A hundred years ago England was able to meet her population problem by emigration (which is out of the question for Japan) and by industrialization. England did not have to press the cultivation of her land beyond the point of diminishing returns. In a peaceful and reasonable world industrialization would be very easy. Japan would be a large buyer of raw materials, particularly of iron and coal, and an exporter of highly finished manufactured goods. She would become rich, and so would the landlord countries which sold her raw materials and foodstuffs. There are many countries ready and willing to supply these things: Canada, Australia, India, Russia, and many others. There is no danger of a shortage. Physically the increase in Japanese population need not be an economic danger either to Japan or to other countries.

There are difficulties, however, which are not physical. The countries that are ready to sell meat and milk, wheat and wool, iron and coal, want to be paid and they think in terms of money payment. But Japan is not a great producer of gold. If Japan is to pay in money she must obtain the money by selling her exports. It is the old story of goods and services with which war-debt discussions have made us familiar. What goods and services does Japan sell? Her principal export is raw silk to the United States. This constitutes 40 per cent of her export trade. It is not likely to expand. It is at the mercy of the American tariff, at the mercy of the caprice of American women, and for that matter at the mercy of a pacifist boycott.

The next export in order of importance is a manufacture—cotton. The chief market is China. This export therefore is vulnerable to a Chinese boycott, or to a Chinese protective tariff. Other markets, Malaya, India, Africa, are equally vulnerable. Countries wishing to take the first step in industrialization usually begin with a tariff on cotton yarn and coarse cotton. Within the British Empire a preferential tariff for the benefit of Great Britain is common.

Other manufactures might develop—as, for instance, rayon has developed. They are exposed to similar dangers. Japan's economic peril is that she may be compelled by her growing population to become industrial and to rely on foreign countries for food and raw materials while at the same time the protective policies of these countries prevent Japan from acquiring the money with which to

pay for the food and raw materials. Quite simply the same sort of policy which has made it impossible for the United States to collect war debts might cause the economic destruction of Japan. A tariff blockade might strangle Japan as a naval blockade strangled Germany fifteen years ago.

We must remember that a nation's tariff has hitherto been thought of as its own business. To raise a tariff is not a hostile act. Japan could not appeal to an international court for redress. She would be told that other nations were only doing what they were perfectly entitled to do. Courts, we have seen, protect established rights. There is no international legislature to which she can appeal. Her only appeal is to bargaining. She can say to Australia, "I can buy your wool but only if you will buy my silk or my pottery." This method has been used in negotiation with India. But for bargaining Japan is less well placed than England, who buys more than she sells. Or Japan can cut her prices either directly or by depreciating her currency, as indeed she has already done. But in this case tariff retaliation is the probable outcome.

It is worth emphasizing that this need of Japan for markets if she is to obtain the money—or the foreign exchange—with which to pay for essential imports is quite different in character from the desire of capitalist countries in general for markets that will enable them to dispose of a surplus production, for which consumers cannot be found at home, and so to enlarge the scale of their productive industries. Japan's need for iron and coal is a basic need which exists independently of whether the economic system of Japan is capitalistic or communistic. It follows that Japan's need for foreign markets in which she can obtain the means of paying for her imports is also a basic need independent of her economic system. Indeed, we find the same need of selling something in order to obtain the wherewithal to pay for essential imports in the case of the U.S.S.R. as Canadians realize to their sorrow when Russia sells timber or wheat. Japan too is forced to sell on disadvantageous terms, but the goods she offers on the markets of the world are silk and manufactured products. The manufactured products are things that other countries can make for themselves if they choose.

Now let us put ourselves in imagination in the position of Japanese statesmen. What are we going to do to insure the economic future of our country? How are we going to "blast our way into the markets of the world"? Other countries have acquired political control of the land they need, and of the sources of raw material essential to their well-being. But they were at liberty to use methods which are now forbidden. Is it worth asking whether they feel under any obligation to share the spoils with the newcomer, now that they

have forbidden the newcomer to help himself? For Japan to ask the question would be to court a humiliating reply and a reputation for aggressiveness. Is it safe to rely on some countries at least being willing to trade on reasonable terms? If not Australia, then Canada or India or Russia? Or is the safest course to make the most of the rights acquired before the closed season was introduced — the rights in Manchuria. At least if these rights are in danger is it not a matter of self-preservation to maintain them?

Manchuria can be mentioned very briefly, for the situation there is well known. Given security and economic freedom, political control is in no way necessary for Japan. And the good will of China is important to Japan because of trade with China. The solution proposed in the Lytton report is to recognize and in a measure guarantee what are considered Japan's legitimate interests, and to insist on measures tending toward the economic restoration of China. China is prepared to accept these terms. Why should not Japan do so too?

The answer seems to be that Japan has committed herself to the recognition of the new state and, roughly speaking, to a policy of self-help. As regards her obligations as a member of the League of Nations she has no doubt acted quite wrongly.

But too much should not be made of Japan's having repudiated a treaty obligation, or at least insisted on interpreting her obligations in her own way. In effect Japan has introduced into the covenant renouncing war an exception for an act of self-preservation, and has made herself sole judge of whether a case of self-preservation exists. We live at a time when governments are being constantly urged to repudiate their agreements in the supposed interests of expediency. Governments are urged, for instance, to repudiate their bonded debts, to devalue their currency, to reduce the rate of interest on their debt by a unilateral act, or to give priority to other expenditures, e. g., "babies before bonds," in the phrase of the Australian politician. These acts, indefensible from the standpoint of rigid standards of honesty, find their alleged justification not in self-preservation but in expediency. Only those of you who have never listened with sympathy to such arguments are entitled to condemn Japan for acting illegally.

It is, however, quite possible to hold that Japan acted not only illegally but also unwisely. This is the view of many foreign critics and probably of many Japanese liberals. An important reservation must be made. The reservation is this: What Japan did may have been politically inevitable. For instance, it is possible to believe that the American NRA is a most unwise measure and yet to say that the federal government was wise in choosing it as the least of the

possible evils, given the state of public opinion and the temper of Congress. That is, to believe that while America as a whole was foolish, the government was wise. The same sort of reasoning may be applied to Japan. We may hold that the Japanese nation has been foolish and yet think the government wise.

It was very natural for a party of action to arise in Japan, for liberal statesmen to be thrust into the background, and for the army rather than the politician to command the support of the rural population. All this does not amount to more or less than saying that Japan's action was politically unavoidable in the sense in which the refusal of the United States to enter the League of Nations or to accept a settlement of war debts is politically unavoidable. Many Americans who deplore these things are quick to explain their political necessity.

THE DILEMMA OF OTHER NATIONS

The result of all this is to create a situation of a most deplorable character. Any attempt to coerce Japan, as, for example, by an international boycott which would cut off her markets for silk and cotton and rapidly impoverish the country, would be quite likely to provoke a blind, passionate war of self-preservation which would lead actually to self-destruction; a war which the West would win, no doubt, but to what purpose? The West would have vindicated its right to refuse to trade with Japan — a right of nonintercourse, which, ironically enough, the West has in the past fought to prevent Japan or China from exercising. With what heart would you be ready to fight in such a war or send your sons to fight? Even if, with all the power of mass psychology, it were represented as a war to preserve the League of Nations and the peace treaties, as a war to end war. In the West it might, honestly enough, be thought of as a war for these purposes. And yet it would be bad, because it would be a bad way of accomplishing these purposes. For there is a better way and a safer way, *if it is politically possible in Western countries.*

A war with Japan would be bad for another reason as well. It would be condemned in advance to utter futility. No doubt the Western countries would win the war and would be free not to trade with Japan. But there is enough humane or philanthropic sentiment in the Western countries to make it impossible for them to leave a beaten people condemned by a tariff blockade to live on the verge of starvation. The Western countries would find that victory had simply transferred Japan's problem to their shoulders. They would have to try to build up in their own markets a place

for Japanese exports, not in order to collect an indemnity or to collect war debts but to save Japanese civilization from extinction. One may give up hope of collecting an indemnity, one may create conditions which make defaults inevitable, and give vent to one's dissatisfaction by abusing one's debtors, but one cannot refuse an appeal to mere humanity which is reinforced by the wish of important sections of one's own people to sell cotton, foodstuffs, or iron. Victory would thus create in an abominable way—through warfare—almost precisely the situation which common sense, as we shall see, might create tomorrow.

But the course which unfortunately the West is most likely to follow is to let China suffer heavily for the fear that the economic policy of the Western countries has aroused in Japan, and at the same time to abuse Japan as the villain of the piece. Only the excuse of ignorance can save such a course from the reproach of cynical hypocrisy. This excuse of ignorance is open to peoples—it is not open to statesmen.

There is, however, another course which is theoretically possible, which is sound and honorable, which is full of promise and hope for the future, but which as has been indicated may be beyond the bounds of political possibility. Let us examine it briefly.

The nations of the world might agree to "economic disarmament" and might voluntarily recognize some mutual duties in the matter of tariffs. They might recognize that their insistence on the control of immigration carries with it the obligation to allow, and even facilitate, the trade necessary for the existence in their homeland of the populations which are excluded. This recognition might be coupled with a condition that the goods exported in payment should be produced under living conditions and at rates of wages which should steadily approach those of the Western countries. Measures of this character would create a new world order based on the voluntary cooperation for mutual advantage of sovereign states, with the understanding that the claims of the states poor in natural resources would receive appropriate consideration. What is being suggested is nothing less than philosophical anarchy or "mutual aid" in international relations; and, men and women being what they are, the idea may be as hopelessly utopian as philosophical anarchy in civic affairs.

But so long as we, in the West, leave this policy unattempted and this offer unmade, we are not in a position to condemn Japan for the invasion of China without in some measure condemning ourselves as well. Yet we must face the fact that such an offer, while in no degree unreasonable, would be politically very difficult to make. To carry it out would quite definitely injure a number of

protected interests in the countries which undertook it, for some of their industries would be received and replaced by Japanese industries. It is true that, nationally speaking, this loss might be more than offset by expansion in some of their export industries. But the loss of employment would be more visible than the gain of employment. And the loss to invested capital would be more conspicuous than the gain to other industries. Nor would it be easy to arrange for compensation. Politically speaking, opposition to a proposal is much more likely to succeed than a novel proposal, however reasonable in itself.

Let me illustrate this point from two Canadian examples. To give the vote in British Columbia to the small number of men and women of Oriental race born in Canada would be a courteous and conciliatory act toward great neighbors across the Pacific. From a domestic standpoint it would be a mere act of sanity. An unenfranchised population is bound to become discontented and embittered. Canadians must aim at making their country one in which the descendants of the present population can live in peace and friendship. To terminate the abuse of taxation without representation might rank as a liberal principle, and to champion the cause of interracial and international friendship can hardly be at variance with the policy of the C. C. F. But no statement was made in the recent provincial action advocating this reform, which would do no more than bring Canada in this matter to the same level as the United States.

The other example concerns a matter of federal competence. Canadians continue to maintain a separate immigration act for one single race and to impose peculiar disabilities on the Chinese alone. To put Chinese in the same position as the Japanese and to bring them under the general immigration act without insulting discrimination would involve nothing or little more than admitting merchants and tourists and allowing seventy-five wives and children of Chinese men resident in Canada to enter the country each year. But this action is "politically impossible."

I have preferred to take examples from a small nation and to select examples not directly related to the mentality of a capitalistic system. My thesis is that the responsibility for the maintenance of peace and the avoidance of war is not satisfied by signing treaties of arbitration and of renunciation of war but that it requires a persistent will to peace whose symptoms lie in a steady avoidance of acts or policies either offensive in form or wantonly injurious in content. But this is anticipating. We must next turn to a contemporary development of very great significance.

NATIONAL ECONOMIC POLICIES

Within each nation there are conflicts of economic interest as real, as severe, and often as bitter as any international economic conflict. But each nation is politically organized for the settlement of these conflicts. It has its constitution, its government, its legislature. It is able to make adjustments, and only on rare occasions do conflicts of economic interest lead to civil war or to revolution. Usually they are settled peacefully, although they may be settled unjustly or even cruelly.

Thus the Australian sheep-raiser has been forced by a tariff to subsidize the industrial community; French industries have been forced to subsidize the cultivation of wheat; the urban population of New Zealand has been forced by deliberate exchange depreciation to pay what amounts to a bounty on exports of butter and mutton; the South African negro has to submit to a color bar; the Australian sugar-grower receives an enormous bounty. This list is interminable. A recent example of an internal adjustment undertaken on a large scale with little regard for its international repercussions is the American NRA.

Indeed, the settlement of these internal differences frequently produces or intensifies the international rivalries which appear at times as a menace to peaceful international relations. Thus the Japanese buyer of Australian wool cannot pay with Japanese manufactures; Canada cannot pay for French wine with Canadian wheat; Denmark had to depreciate her currency in order to compete with New Zealand butter; and so on. When international economic conflicts develop there is no legislature to which they can be taken for adjustment. Nations whose vital interests are imperiled can obtain no relief which involves any interference with the sovereign rights of other nations. The strain which is thus placed on international good will may be intolerable. And if a crash occurs, there is a sense in which those nations whose domestic policies have led to the tension are *responsible* for the wars that may ensue, even though they themselves may not be directly involved.

The reason for conduct which appears inconsiderate and on occasion brutally reckless is not hard to find. We have taken examples from many countries. We might have taken them from almost any country. For in democratic countries governments are chosen, in undemocratic countries governments are tolerated, precisely because of their ability to deal with internal economic conflicts. Access to office and tenure of office depend on this test. It matters little enough whether the economic conflicts have been settled by making the international situation worse. There is no use in complaining

about this state of affairs. There is no chance of its being otherwise. What political leader can one think of who would not consider it a perfect answer to a demand for conciliatory international action if he could say: "What you ask is reasonable. I, personally, should like to do what you ask. A few people like yourself want it very strongly. Perhaps more than half of the electorate would approve though it is not important to them. But there is a well-organized minority which is strongly opposed, and the plain fact is that I could not expect to remain in office if I did what you ask." He would hardly think it necessary to add, "And therefore I refuse." A man who spoke in this way would be classed as frank and straightforward rather than as cowardly and venal.

It is by such paths as this that we come to the fatal doctrine that each nation should import only those things which it cannot make for itself except at an outrageous cost. For such a doctrine, expensive as its application may be, does seem to make for internal harmony. But it is none the less a fatal doctrine. Consider the position of a country which must import things which it cannot produce itself and which can offer in payment only things which its neighbors can produce if they wish. If its neighbors refuse to buy what they themselves can produce, such a country is blockaded. It may be able to drive a bargain with countries anxious to sell, but its bargaining power is not great. The example of England is misleading, for England as a creditor nation can buy far more than she sells and can refuse to buy from countries which exclude her exports. Japan has not this favorable position. And an attempt to bargain may appear like an attempt to intimidate.

THE STONE WALL

Now if enlightened and conscientious national governments are improbable for the reasons which I have explained, and international government is impossible, the future (the immediate future) holds nothing better in store for us than a series of makeshifts and palliatives. And it may hold far worse things in store. This unpleasant conclusion was in our minds at the close of the Banff Conference. Some delegates were—I thought rather naïvely—annoyed that they had reached so negative a result. They complained that "no constructive suggestions had been made," that "we were brought up against a stone wall," that "we had not got anywhere."

Why anyone imbued with a scientific spirit should wish to "get anywhere," I do not know. He should wish to get knowledge, or, failing that, a probability. This had been done. Besides, to have come up against a stone wall is to have got somewhere, albeit to a

bad spot. If one is in such a spot, there are four courses open: (1) One can stay there and bemoan one's fate; (2) one can try to climb over the wall; (3) one can try to get round the end; or (4) one can try to blow the wall up. Metaphorically speaking, all these courses were open to the conference, just as they are open to us. To try to climb the wall is to try to improve the quality of national governments until international cooperation is practicable. There is no harm in trying to do this. To go round corresponds to trying to constitute an international government. We can try if we like. To blow up the wall is revolutionary—to succeed you must have the explosives, and there is some danger of being hurt in the process. To wait for something to happen is a confession of powerlessness. But if one is powerless why not admit it as we do when in the natural sciences we reach the limit of our powers?

CONCLUSION

We have dealt with basic situations, and basic causes of war. It is at this point that action must be taken if it is to be effective. Of course, a great deal has been written about the danger of armaments and the dangers of war psychology. But armaments and war psychology do not arise of themselves, nor are they entirely the creations of business men who want a market for munitions. Men who see a danger and little hope of avoiding it are impelled by the most conscientious of motives to vote for armaments. Soldiers who are responsible for the action to be taken if an emergency occurs would be doing less than their duty if they did not make their plans for every contingency and press for adequate personnel and equipment. And when these claims have to be brought home to taxpayers, far more strenuous propaganda is required than is needed when the demand is for schools or old age pensions. The taxpayers have to be frightened. It is as bad as if no money could be had for a university without representing it as a bulwark against revolution and then representing that revolution was imminent. The atmosphere of alarm needed to get money, or the boasting needed to maintain morale, is of course in itself a great danger, and from it may well arise the incident which is the immediate cause of conflict. Americans from Hawaii, Japanese, and Chinese tell us of the war psychology. Something of it we can see from the Hearst papers. But to concentrate on this war psychology or on armaments as a basic cause of war is sensible only if they have continued to exist when no real justification for them remains.

Famine and poverty are tolerable things so long as their causes are seen to be inevitable, to lie in drought or flood or want of capi-

tal. They become intolerable things when it is seen — or believed — that they could be avoided if men and women could organize their lives in a cooperative way. To say that we have not yet succeeded in creating an organization of this sort and that under present conditions it is psychologically impossible to create one is true, but it is a truth which infuriates the sufferers, who instinctively, if uncritically, refuse to believe it.

It is much the same with war. War is bearable if it appears as a struggle for self-preservation. It may even give an inspiring feeling of cooperation for a common objective which makes whole-hearted cooperation psychologically possible. But war is intolerable if it is seen (or believed) to be avoidable, and if the same or better results can be reached by agreement. Now, supposing the answer is the one which has been indicated — that sensible agreements can readily be imagined but they are politically impossible — what effect will that answer have? The majority will refuse to believe it. They will insist that their governments come to agreement. But they will not relieve their governments of the political pressure which makes agreement impossible. The result is seen in make-believe agreements, in formal agreements to refrain from war without the steady mutual aid necessary to maintain peace, and as in the past we shall have the appearance of safety with no real diminution of the danger.

No "constructive suggestions" are offered. We are trying to explain a situation, to analyze a situation, to show how the very economic progress of the world has imposed tasks on human organization which cannot, at the moment, be performed. The result is to make the danger relentlessly clear. If the danger can be made clear enough to the peoples of the world they may take the necessary precautions. Psychologically one may doubt the very possibility of making the danger so clear as to drive people to either of the two safe courses: the creation of enlightened governments, which can disregard political pressures and place world interest before national interest, or the creation of a world government. We may realize too clearly how easy it is to shut one's eyes to disagreeable facts to think that peoples will never go to war again. And to put my conclusion bluntly, the Pacific may be the scene of a war for which no one nation will be entitled to disclaim its share of responsibility.

THE PROBABLE FUTURE SUCCESS OF AN INTERNATIONAL GOLD STANDARD

By WILLIAM ADAMS BROWN, JR., Brown University

I am asked to express my opinion on the probable future success of an international gold standard with fixed exchange rates. As a result of the consideration which I have given to gold standard problems, I should answer the question by saying:

1. If we are to have a gold standard of any sort, it should be an international gold standard with fixed exchange rates.

2. The chances of successfully operating such a standard over a period of years appear to me to be sufficiently good to justify the most painstaking efforts to create the conditions under which such a standard can be re-established.

3. The disadvantages of the alternatives are sufficiently great to justify taking the risks of failure in operating an international gold standard with fixed exchange rates many times over.

These answers are the result of weighing a large number of considerations on both sides of the question, and of estimating the costs as well as the gains incurred by committing the nation to such a policy.

GENERAL CONSIDERATIONS

In giving my reasons for this answer I wish to emphasize certain general considerations which are not primarily economic in character, but which are more important for the economic welfare of the nation in the long run than many purely technical aspects of an international gold standard system.

The primary condition of any form of the international gold standard is that there shall be peace. The adoption of an international gold standard system obviously does not guarantee or even promote international peace. But the adoption of the alternative system of national economics, pursuing wholly national objectives, in my opinion leads to two consequences which greatly aggravate the chances of war.

1. It is natural to the temper of a people and a government pursuing such a policy to regard exchange rates as part of the weapons in its armory to promote national interests.

2. It is natural to the temper of a nation pursuing such a policy

to regulate its international trade in such a way as to secure precisely those imports which that national policy requires and to force upon the world such exports as are necessary to pay for them. If all nations pursue such a policy the points of friction in the world of commerce become multiplied, and it is technically impossible for every country successfully to pursue such a policy. I have in mind the case of Germany in particular, whose industrial life depends upon certain imports, and who must pay for them with exports which do not occupy the same essential position in the economies of other countries.

I think that economists fall into an error if they neglect the tremendous social and political repercussions upon other countries of policies which are technically suited to the needs of their country at the moment, and, therefore, neglect the reflex influences which in the course of time, by a course often very indirect, raise new difficulties in an already sorely aggravated world situation.

Another general consideration leading to my answers above is that the world has been proceeding since September, 1931, to the present moment upon the assumption of a return to the gold standard. The entire business of trading in gold as a part of exchange equalization or stabilization operations, and the hoarding demand for gold, has rested upon the assumption, whether formulated or not, that the possession of gold is an option upon that currency which will be the most valuable when the international gold standard is re-established. The self-interest of the British Treasury and of the United States Treasury are both engaged in seeing to it that the price of gold shall not fall to such a point that they will suffer losses on their purchases. The interests of the central banks of all countries are engaged in seeing to it that the stocks of the metal in their possession shall not lose their value. This self-interest on the part of those who have the power to determine the price of gold in terms of national currencies is the justification under modern conditions for the faith in gold displayed by individuals, although individuals may never properly formulate the basis of their belief in the qualities of gold as the ultimate source or measure of value.

These general considerations lead to the conclusion that there should be some form of international monetary standard, and that it should be a gold standard, but they do not necessarily lead to the conclusion that it should be a standard with fixed exchange rates. I believe that no international standard can be successful unless it is recognized that the fixing of exchange rates upon which it is to operate is not an attribute of sovereignty, and cannot be achieved by unilateral action on the part of any nation without restricting the corresponding right of other nations. Therefore the

re-establishment of an international gold standard implies that the rates established as the basis shall be the product of agreement.

The alternative of trying to set up a stable internal economy and to let the exchange rates freely adjust themselves to the general relationships between the different national economies, which result from their different national policies, does not theoretically imply that any nation will force a certain exchange rate upon other nations. But with the exchange rate freely adjusting itself under this system, my conviction is that because of the many short-term influences which act in the exchange markets, and because of the relative ease of moving exchange rates under those circumstances, of which we have had many examples recently, exchange rates will not properly reflect the underlying relationships of various currencies. Unless their fluctuations are kept within relatively narrow bounds, they will be constantly over- and under-correcting changes in the cost- and price-level relationships of various countries, and the interpretation of such under- and over-corrections will give rise to many points of international conflict. To avoid this it will be necessary to establish exchange equalization funds and to carry out de facto pegging either by agreement or by conflict. The advantages of such an arrangement over the machinery of the international gold standard with fixed exchange rates are, I think, less than they appear at first sight. They consist chiefly in the impermanence of the rates chosen for such de facto stabilization operations. That impermanence is a doubtful advantage when all interests, including all long-term international contracts, are considered.

I think that the advantages of temporary pegging by exchange equalization funds would be very slight if that pegging did not continue for substantial periods of time, at least sufficient to justify the resumption of foreign lending. I believe that it would be better to attempt the fixing of exchange rates through the gold standard machinery with the definite possibility in mind that in the event of long-continued strain on certain exchange rates, the ratios at which the various countries adhered to the gold standard might be changed. I think this might be accomplished, as it should be, by international agreement, but if that is impossible, I think it would be better to have one country break off from the total gold standard group, and return to it again on a different basis, as has been the practice before, than to run the constant risk of alterations in the pegging arrangements made for inadequate reasons. I think that there would be very great political temptations under the system of fluctuating exchange rates, modified by exchange equalization fund operations, to try to shift the burden of internal read-

justment to others through the exchange rates. I think it should be made difficult but not impossible to alter exchange rates.

I should like to set down briefly both the advantages and the disadvantages under present conditions of an international gold standard system with fixed exchange rates, and also some of the obstacles to setting such a system going.

1. The obvious advantages in international trade of a system of fixed rates I suppose may be taken for granted.

2. I am convinced that the present trend of bringing forward as a solution of the problem of international trade a series of bilateral trade agreements is going to encounter a multitude of difficulties. It is going to be, and has already been, found that these bilateral trade agreements produce the necessity of providing for triangular trade, because they are the reproduction upon an international scale of the elementary difficulties of barter. Furthermore, a whole series of bilateral trade agreements covering any large segment of the world's trade is a technical impossibility because of the mutual conflicts with which the bilateral trade agreements will unavoidably meet. The negotiators who have planned international trade will find the principle of the balance of bargains inadequate, and will desire to extend the scope of these agreements to include regional agreements. The advantage of the international gold standard with fixed exchange rates is that it is the most stable instrument for providing that volume of unnegotiated trade which can fill in the gaps without which international barter must break down if it is attempted upon the grand scale.

3. From a strictly American point of view I believe that an international gold standard system with a fixed set of exchange rates will prove to be not only desirable but necessary. Professor Kilgough, in a letter to you on another subject, referred to the pressure of savings in nineteenth-century England, and suggested a probable development on similar lines in our own country. Because the enormous accumulation of savings in this country, together with a more equal distribution of wealth, will probably reduce the rate of return to capital, there is a strong prospect that there will be pressure on some of these savings to find an outlet through exports of capital. This will be the stronger because of the capacity of American industry to provide the world with certain specialized products which we can make far in excess of the demands of our own market. I believe that an international gold standard system with fixed exchange rates is the system best calculated to provide this outlet for American savings. I believe that this pressure will exist whether we adopt consciously a self-containment policy or not, and that if we try to curtail rather than expand the volume of our

imports, or rigidly define *their character*, we shall find ourselves continually in the sort of embarrassment with regard to our exports that was characteristic of the last decade.

4. I believe that a system of fixed exchange rates is necessary if gold is to be distributed throughout the world.

a. To meet the seasonal requirements of international trade and of various banking systems in countries in which economic life has a strong seasonal flow.

b. To build up gradually the reserves of the banking systems of the world in accordance with the requirements of the various countries which are developing economically at unequal rates.

c. To facilitate the task of central bank management in the various countries in influencing the other flexible adjustments in the international balance of payments, chiefly the movement on international account of privately owned securities, and the distribution of the ownership of the short-term instruments financing the world's trade and the volume of balances deposited abroad.

5. A gold standard with fixed exchange rates will permit us to take advantage of such flexibility of prices as still remains in the internal economies of the various countries trading with each other, after all due allowance is made for the rigidity introduced by the new wages and price-control systems of the New Deal, Fascism, Autarkie, etc. I believe that it would be wise to underestimate the importance of those sections of economic life in all countries which are still free to respond by fluctuations in prices to the usual supply and demand situations.

6. A system of fixed exchange rates eliminates from among the problems of individual business, of the bankers, and of governments a type of purely financial uncertainty from which the free movement of the foreign exchanges can never be dissociated. I have in mind such effects as these. If there should be, for example, an active bull market in New York, attracting both lenders and investors from abroad at a period of seasonally slack exports from America, there might be a very strong sterling-dollar rate, however stable the internal economies of Great Britain and the United States might be. This strong rate for the dollar, as long as it was rising, would hold back purchases of imports into America in the expectation that they would be cheaper and stimulate exports in the fear that they would be dearer. This would accentuate the rise of the dollar, but when the stock market situation came to an end, the opposite effects would take place, and the corresponding reaction would be intensified. I think that this sort of influence, continuing as a regular feature, would greatly add to the already sufficiently complex forces operating upon the prices of all goods traded in inter-

nationally, and therefore upon the domestic economies of countries producing such goods, especially countries largely dependent upon such goods. We would soon have pegging operations to prevent this, which once more would be directed to achieving the basis of the fixed exchange rate principle of the gold standard.

7. Finally, the long-run objectives of both policies, namely, the internal monetary management with fluctuating exchanges and the fixed rate international gold standard, are really identical—namely, to achieve the maximum stability both externally and internally. If all countries are so managed that their internal price levels are relatively stable, exchange rates must be relatively stable. I believe that we are not faced with a choice of abandoning one of these objectives in order to gain the other. We do not escape from the strains involved if different countries pursue different policies of inflation or deflation merely by letting the exchange rates fluctuate, for the reason which I have stated above. I do not believe that there is any escape from the problem of finding some way of coordinating the economic policies of the various countries short of abandoning international trade. But no country contemplates such a policy.

OBSTACLES

The obstacles to be overcome if we are to commit ourselves to a gold standard system with fixed exchange rates are of two kinds:

1. Those which stand in the way of setting such a system going.
2. Those which stand in the way of keeping such a system going.

The first set of obstacles are primarily those connected with finding the proper exchange rates for final stabilization. I have already mentioned that the chief of these is the conception that the determination of exchange rates is a matter of national sovereignty, whereas it is a matter of international relations. I believe that this lesson has finally been learned now that the circle of competitive undervaluation of currencies has made the full round, and almost all countries have had the experience of being on both sides of the conflict. I think the principle that stabilization by international agreement is the only possible principle has, as an abstract idea, replaced the principle of the post-war period that every nation is the sole judge of its own rate of stabilization.

The primary practical obstacle to establishing a fixed rate gold standard system is at the present moment the question of how to distribute the burdens created by the present undervaluation of the dollar. At present this burden is being shared with the gold countries by the sterling bloc, but the situation is fundamentally unstable. No one can predict whether the undervaluation of the

dollar will continue or whether it will be eliminated by an inflationary rise of prices in the United States, or whether, if there should be such an inflationary rise of prices in the United States, it will stop at the point where the rate of exchange at present prevailing between Paris and New York will be approximately justified or go beyond it. No one can predict whether the gold standard countries will decide upon counter-devaluation to remove these strains or will wait for sufficient inflation in America to reduce them. No one can predict whether Great Britain will find it desirable on balance to continue for a long period to lighten the burden of the gold countries, in waiting for these developments in America, by sharing the pressure upon the rest of the world of an undervalued dollar. I am personally of the opinion that permanent stabilization has been greatly delayed by the American Gold Act of 1934, because it is difficult for America to retreat from the stand taken and difficult for France and Germany and the other gold countries to adjust themselves to it, in view of their past experience and of their professed principles, and because sterling countries will not define their policy permanently until America and the gold countries define theirs. This problem will take time to solve, but I feel that it is an obstacle in the way not only of setting up a fixed exchange gold standard system but also of setting in motion the alternatives of domestically controlled price systems with the exchange rate moving to correct changes in the relative position of the different currencies. It seems to me to delay the whole question of establishing any permanent basis for the future rather than to bear upon the question of the choice of a long-run policy.

A third obstacle to finding the basis for setting up a fixed exchange rate gold standard system is the lack of homogeneity in both the gold and sterling groups of countries. I mention only the relations of Argentina and Australia to sterling, and in the gold group, the devaluation of the Czech crown and the use of blocked marks to finance German export trade. My opinion on this point is that these are subsidiary problems, however important, and that the sooner the primary problem of the sterling-franc-dollar exchange triangle is settled, the sooner can these other questions be dealt with. I see only chaos ahead in the foreign exchanges if we follow the advice of the Committee of the Nation and try to put ourselves on the same basis with regard to sterling as Australia and the Argentine.

A fourth obstacle is the still unsettled juridical position of the war debts. This I regard as having at present the same status as German reparations before The Hague Conference, and headed for the same solution.

A fifth obstacle to setting up a fixed exchange rate gold standard system is the question of "unfaithful money" and the mobility of private investment in internationally traded-in securities. I believe that in this matter certain risks will have to be taken. I do not believe "unfaithful money" and rapidly moving private investments in international trade can ever be dealt with satisfactorily before the setting up of a fixed exchange rate system. I do not see how this problem can ever be solved under a system of fluctuating exchange rates, no matter how successful the broad, general economic controls in the various nationalist economies may prove to be. I believe the permanent solution of this problem to be:

- a. In the type of mutual exchange of information among central banks now being carried out through Basel on this subject.
- b. In the gradual absorption of these funds into employment with the return of good times.
- c. The resumption of long-term capital lending of the net balances of creditor countries.
- d. In the establishment of a fixed rate gold standard system.

I think that the breakdown of the remarkable international clearing system provided by London before the war, and the strong creditor position of the United States, have permanently brought this problem into the picture on a scale not known before the war, and that its solution will require, under any system, very intimate cooperation between New York and London. If this is not forthcoming, there will be enduring large and disturbing movements of gold.

6. The fundamental obstacle to the re-establishment of a fixed exchange rate system is the incompleting process of changing the merchandise balance of payments, particularly of the United States, to suit the new creditor-debtor relationships internationally. I do not think that this problem is insoluble, but I think a moderate resumption of capital exports is necessary if we are to avoid the type of strain upon the world's economy produced by the Baring crisis in London in 1890 and by the stopping of capital exports from America in 1929. Under whatever permanent system we are to proceed the question of the balance of payments has to be solved. I think it cannot be solved without some capital exports, and I think capital exports under a system of moving exchanges will be extremely difficult both to make and to repay.

The obstacles to the operation of the gold standard with fixed exchange rates, once it is set up, are chiefly, I think, the following:

1. The rigidity of the internal economic structure of countries now attempting some sort of approach to a planned economy, or regulating international trade for the sole purpose of protecting

vested domestic interests, whether industrial or agricultural. I think this means that under a fixed exchange gold standard system we must regard the movements of gold merely as indications that some sort of corrective action is necessary, and that we can no longer rely upon any so-called corrective influence of these gold movements upon price levels. This does not unduly alarm me with regard to the chances of successfully operating such a system, because I think that the corrective influence of gold movements on price levels in the gold standard, as we have known it, has been very generally overestimated. I believe that price levels were held together more largely by the fact that they contained very large common elements in the prices of internationally traded-in commodities than by corrections arising from the contraction or the expansion of the credit base. Nevertheless, we must face the fact that the assistance rendered in the management of a gold standard system by changes in the reserve ratios of central banks will not be in the future a very great positive force in controlling the relations of individual economies with the group of other countries associated under the gold standard. Under the alternative system of domestic currency management with fluctuating exchange rates, the problem of achieving stability will, I think, be equally great. It is a case of management in the one case, and in the other. It has always been so to a very large degree.

2. The quota system of trade restrictions, and the frequent changes by administrative action of tariff rates, is a definite obstacle to working a gold standard system with fixed exchange rates. I believe, however, that this system arises in part, as the French have contended, from the fluctuating exchange rates themselves, and that in part it can be solved when these exchange rates have ceased to fluctuate. On the other hand, I definitely think that an international gold standard with fixed exchange rates cannot operate successfully for a long period of years unless there is in the world some tariff *system*. I think it can operate under a high tariff system combined with bilateral trade agreements, but frequent changes in rates and the absence of any system of trade relations will, I believe, be a force which will undermine the basis of a fixed rate gold standard system. I think it will undermine the basis for any mutually profitable international relations.

In closing this memorandum I should like to repeat that on balance I think the advantages of trying to establish and operate a fixed rate gold standard system greatly outweigh the disadvantages. I think so primarily because the things which have to be done to make it successful are the things which, in my judgment, will promote a higher standard of living and diminish the chances of war.

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And, finally, I believe sincerely that if our aim is economic stability we need to have restraints placed upon the exercise of absolute sovereignty in all domestic economic matters, and I think that the only such restraint which is endurable is for a country to find itself in a fixed relationship with a large group of other countries, so that it cannot greatly expand or contract its price level without moving the great inertia of a world system of prices or suffering definite national disadvantages.

SUMMARY REPORT ON IMPORT QUOTAS

By ETHEL B. DIETRICH, *Mt. Holyoke College*

Though there has been a sporadic use of quotas outside of Europe, the principal countries making an extensive use of import quotas are the European countries and Great Britain. These include the older industrial countries as well as the newly developing countries of the eastern border. Begun as emergency measures, there is a tendency to recognize an import quota system as an accepted form of trade control and to evaluate it in comparison with a tariff policy. The following outline is drawn up as a basis for an extensive study of such a policy, which should be made in the United States for two reasons:

1. The possible adoption of an import quota system as a form of trade control technique both in its relation to domestic economy as well as to a foreign trade policy.
2. The effect of the import quota systems of other countries on our foreign trade and treaty relations.

For the purpose of this study an import quota system may be defined as the limitation by quantity, weight, or value of imports of a commodity for a specified period of time by legislative enactment or executive decree. It is to be differentiated from a license system, which is usually administered by an individual or designated group without definite commitment as to time, amount, or country, each purchase being a separate or individual contract.

OUTLINE FOR STUDY

- I. Purposes for which an import quota system can be used
 1. To regulate the balance of payments or the trade balance (France, Netherlands)¹
 2. To protect specific industries or to assist specific industries (Great Britain, Italy)
 3. To maintain internal price level (German-Czechoslovakian agreement)
 4. To make international export agreements (Wheat agreement)
 5. To bargain (France, Netherlands, Great Britain)

¹ Countries mentioned in parenthesis are examples.

6. To barter or to exchange specific quotas
(Java-Italy, India-Japan, Germany-Switzerland)
7. To lower tariffs
(Switzerland, Italy)
8. To retaliate
(Germany, Italy)
9. To control industrial expansion
(Brazil)
10. To raise revenue
(France)
11. To check trade temporarily pending legislation

II. Technique

1. *Source of authority.*— Usually authority is delegated to executive branch, though several countries require a legislative check for ratification.
 - a. Industrial quotas are customarily announced by the Minister of Commerce and Industry and the agricultural quotas set by the Minister of Agriculture.
 - b. When a quota system is connected with a system of foreign exchange control, the central bank or exchange control committee may have the authority.
 - c. For certain commodities special "crisis" committees have been set up.
 - d. Announcement is made in the official journal.
2. *Unit.*— Quantity, weight, value. Some systems combine all three. The choice depends on the purpose of the quota and the measurability of the commodity, i. e., value is good where the balance of payments or the internal price levels are the objects while it is the least good for protective purposes.
3. *Quota period.*— Year, quarter, month, week. The length of the period varies with type of commodity, purpose of quota, and need for flexibility. The most customary periods are a year or three months, divided into monthly or weekly allotments when necessary for perishable commodities. Though an annual quota offers greater certainty to both importers and domestic producers, the quarterly quotas offer greater opportunity to adjust the quotas to the changing economic needs and to control the flow of imports.
4. *Base period.*— For quotas not intended for bargaining, it is customary to choose a base period, either a year or an average of two or three years or a designated period of a single year or group of years, i. e., in the original Dutch law an average of two years during the same period as the quota

was required. There has been no uniformity with regard to the year or years chosen either for the different quotas of the same country or different countries.

- a. Purposes. (1) A possible gauge of consumption needs or (2) a means for the distribution of quota allotments among the importing countries, i. e., each country is given the same percentage of the quota allotment as it had of the total trade during the base period.
 - b. An unnecessary complication as the use of the base period may obscure favoritism, i. e., the former French radio quotas, and it is not a reliable index of future consumption or changing trade requirements.
 - c. A base period is not generally used for bargaining quotas.
5. *Allocations*.—Quotas vary as to allocations. (1) In some there is no provision for specified countries, simply a total quota for which all countries can compete. (2) In others, as stated above, each country is allotted the same percentage of the total quota as its trade in that commodity was of the total trade of the base year. (3) In bargaining an amount is allotted either as a percentage of total imports or a definite amount or a combination of the two.
6. *Entry regulations*.—The Netherlands has two types, one allocated according to base year and the other a definite quota set aside to be bargained for. France, on the other hand, sets aside a certain percentage and then grants only a percentage of that amount unless reciprocal favors are given.
- a. Mark of origin. This is essential in a quota system.
 - b. Port of entry. For special products which are difficult to regulate, especially the perishable ones, certain ports of entry are designated.
 - c. Licenses. These are used especially to regulate the entrance of perishable commodities or commodities not allocated. In some countries they are required for all commodities.
 - (1) France does not permit traffic in licenses, while the Netherlands permits the exchange of licenses through a special bureau set up for that purpose.
 - (2) There are varied practices in connection with the issuance of the licenses. Where there are no allocations it is necessary to have the importing country issue the licenses. Frequently the issuing body distributes them to former importers according to

the percentage their former imports were of total imports of the designated commodity. Where there are allocations, the distribution of the licenses is frequently left to the exporting country, either in the control of the government as in the case of the agricultural quotas in the British agreements with the Scandinavian countries or in the control of a designated trade association or cartel as in some of the French arrangements. While this latter frees the importing country from the onus of favoritism, it has been criticized as giving to the foreigner the power to choose the specific imports.

7. *Rulings on excess.*—Some excess shipments are credited to the next quota when they have been shipped prior to the quota announcement. Switzerland permits excess shipments to enter upon payment of a higher tariff, while the Netherlands requires special permits.

8. *Quality restrictions.*—This question does not arise when licenses are distributed among established importers. On the other hand, it is an important consideration when the exporting country distributes the licenses or when a definite quota is allotted in a bargaining agreement. In some instances it has been possible to define the quality, while in the case of the British coal quotas guarantees were given by the Central Council of Colliery Owners and the British Coal Exporters' Federation.

III. Appraisal

1. *Effect of the import quota systems on the most-favored-nation clause*

a. If an import quota system is imposed in order to secure stability in trade relations, it cannot admit of most-favored-nation application unless a base year is accepted and all countries are satisfied to accept percentages of their trade in that year as most-favored-nation treatment. Except within very narrow limits, when trade in a given commodity is highly concentrated, it is impossible to generalize a percentage allotment, i. e., 20 per cent of lard imports among more than five countries. If quantity quotas are generalized, it means that they have to be too small to be of bargaining advantage in order not to imperil the trade balance.

- b. In several instances France has used the type of assurance she gave to the United States, namely, that no quota of an American commodity would be reduced to an amount "less than 10 per cent of the total importation of that commodity during the year 1931, when the importation from the United States during the same year 1931 had been equal to or greater than 10 per cent," and that where it had been inferior to 10 per cent of the total importation the quota would be fixed at the 1931 level. In the Spanish decree of December 29, 1933, authorizing the setting up of a quota system, it is definitely stated that it is aimed to benefit those countries "which by commercial treatment and quantities of purchases benefit Spain," and authorizes the denunciation of any commercial treaty which may impede the operation of the quota system.
 - c. In general the scheme seems to be to make most-favored-nation treaties affecting tariffs only and to make special arrangements for the interchange of quotas.
2. *Effect on exporting countries.*— Whether or not a country adopts an import quota system, it is affected by the systems of other countries.
- a. Control of exports. For example, the Netherlands has put under government control exports of commodities to countries which have put those commodities under import quotas in order to distribute the trade to those countries equitably among her exporters. Great Britain has placed the control of the agricultural and dairy quotas granted to the Scandinavian countries in her new commercial treaties under their control.
 - b. The use of trade associations or cartels in the exporting countries to distribute the licenses as designated in some of the French quotas.
 - c. Problem of consultation. The question has been raised especially in France, where exporters of certain countries have been consulted prior to the setting of the import quotas. Such a system requires at least the development of organization among the exporters of a country with power.
 - d. The setting up of a joint committee to administer an agreement between two countries. An example is the new agreement between Denmark and Germany.

3. *Arguments for and against an import quota system*

a. Arguments in favor of system

- (1) Superiority to tariffs as protective and defensive devices.
- (2) When effect on quantity imports is the same, quotas do not have a tendency to raise internal prices as high as tariffs.
- (3) Quotas are immediate and flexible.
- (4) It is possible by means of them to hold imports to the point of absorption.
- (5) They are a superior bargaining instrument because they are definite and concrete.

b. Arguments against system

- (1) Technically it is complicated.
- (2) Necessitates government intervention into business affairs.
- (3) Diminishes competition in the import trade.
- (4) Evasion of most-favored-nation treaties.
- (5) Usually involves usurpation of legislative functions by the executive.
- (6) Danger of favoritism (between countries, between producers and consumers, between industries).
- (7) Artificial control of trade channels.
- (8) Usually based on past experience and does not allow for natural changes in trade channels.

SUMMARY

In the evaluation of an import quota system, several points stand out. In the first place, it is essential for such a system to have centralized executive control with authority to set the quotas and to administer them. This involves delicate and complicated decisions with respect to (1) the relation of the quotas to internal needs both from the point of view of producers and consumers, (2) the relation of the quotas to the total foreign trade set up, and (3) the effect of the quotas on treaty relationships. It should not be undertaken without careful statistical analysis in relation to a definite economic policy.

Although import quotas have frequently been used as a means to restrict trade, the extension of the use of quotas for bargaining and for compensatory trade agreements can well be considered as a means for increasing world trade. In the face of the new nationalism, they offer a method according to which foreign trade can be stabilized and at the same time increased within known limits. On a declining market with trade balances threatened, it was natural

that emphasis should be put on restriction of imports, while on a rising market there is reason to believe that countries with this form of trade control will tend to use it as a bargaining instrument to secure whatever gains are available. This has already been shown by the activities of the British and Dutch as well as by the countries of Eastern Europe in compensatory trade agreements. Such a system, however, should not be adopted without being integrated into a commercial policy, since otherwise it will only add to instability and to disappointment at home and exasperation abroad. Further, emphasis should be placed upon the fact that whether or not a given country adopts an import quota system, it is necessary to equip itself to meet the use of this form of trade control by others, as it will inevitably be affected by it.

THE COTTON PROBLEM

By W. M. GARRARD, General Manager, Staple Cotton Cooperative Association, Greenwood, Mississippi

I assume you desire that I write frankly, and my comments are made without bias and are intended to give the viewpoint of a producer and his experience in selling several million bales of cotton for the actual grower or producer of cotton.

In the first place, the report should bring out the fact that the restriction in American acreage seemed absolutely necessary, as it was impossible for the grower to produce cotton commercially at the five to six cent level to which it had sunk, as a result not so much of overproduction as of underconsumption in a period of economic depression which the grower could not control nor the government correct.

No intelligent American citizen desires that our exports be restricted, but we were powerless when the foreign countries were unable to secure funds with which to make payment for exports. It therefore became apparent that if the cotton-growers were not to pass entirely out of the picture, something had to be done by the government to reduce production. In our own section of the country fully 90 per cent of the farms were mortgaged for more than their selling value. With the exception of a few isolated cases, growers were unable to obtain production credit, which is essential to the continuation of cotton production. Not even the government was inclined to furnish the credit necessary to produce a crop, unless a price could be secured that reasonably well guaranteed the cost of production. Banks, in the majority of instances, were unwilling to furnish production credit on any basis.

In addition, growers were, and had been for a period of from one to three years, unable to meet their tax payments. Taxes and damages had multiplied and in many instances the land had reverted to the state for nonpayment of taxes.

There seemed but one way out of this impossible situation and that was for the government to sponsor a plan that would guarantee to the grower the cost of production, even though it meant further limiting the amount of cotton exported from this country. I, personally, should dislike to see America lose its world market for cotton, but I think this is preferable to losing my land and my

property, which would certainly occur if prices remained low year after year and my losses multiplied so that eventually they were greater than the value of the property.

I agree that once an export market is lost, it is difficult to recover. At the same time, the quality of American cotton is superior to the quality of cotton grown in any other country, except Egypt, and the Egyptian production amounts to less than two million bales annually. I believe it would be easier for America to regain its export markets for cotton than it would be for possibly any other commodity. American wheat is not so superior to the wheat grown in other countries, but American cotton is superior to all but two million bales grown outside the States. This fact would necessarily make it less difficult for America to regain its export markets for cotton than would be the case if the cotton grown in this country were of an inferior quality.

It is not a difficult undertaking to change the machinery in a mill in making adjustments necessary for the substitution of one variety of cotton for another. That is, relatively, a simple matter. The real difficulty lies in the fact that once a certain quality of goods is established for export, it is difficult to change the quality with the importer, as his distributive channels have built up a business on a particular standard that has been used in the past. It is always less difficult to establish a new brand that is superior to the old than it is to establish a similar quality or a quality that is less desirable. As stated before, goods made from American cotton are superior to those produced from Indian, Brazilian, Chinese, or any other cotton, with the exception of Egyptian. Therefore, with a long-established quality record for goods made from American cotton, the loss of export markets for a time would not, in my opinion, be an insurmountable barrier to the re-establishing of export markets for American cotton.

The loss of the world market would be of little interest to the Eastern tenant farmer if he could not secure more than five to six cents for his cotton, for it is a well-established fact that it costs more to produce cotton in the Atlantic States than it does in the Western States. The shifting of production from the East to the West is an economic change over which the Eastern grower has no control. Production costs are less in the West and, this being true, naturally there will be a shifting of production to the West from the East, regardless of price.

In my opinion, the great increase in foreign production came during a period when we had exceedingly high prices for American cotton. In 1920-21 foreign production was six and a half million bales. From 1920-21 to 1929-30 foreign production practically

doubled, and it was in that period that we had an average price of 20.45 cents a pound for cotton, Middling spots, in New Orleans.

The estimated world yield for 1934-35 is not quite a million and a half bales more than the production in 1929-30, and the estimated increase is brought about in a large measure by the favorable weather conditions for the growing crop throughout the world. As you very properly stated, once a large acreage is planted to cotton, it will probably be continued in the cultivation of that crop, as all overhead costs in connection with putting the land into cultivation for that crop have been paid. Consequently, until the annual costs are on a definitely unprofitable basis, inertia will carry the production on in the same crop.

I have never believed that foreign countries could produce cotton on a commercial basis cheaper than America can produce it. I refer you to a recent article, "Cotton Production in the Anglo-Egyptian Sudan," by Mr. P. K. Norris, Senior Marketing Specialist in the Bureau of Agricultural Economics, Foreign Agricultural Service. Mr. Norris makes the statement that the selling price of Sudan cotton must be the equivalent of 20 to 30 cents a pound on an estimated yield of 300 to 400 pounds per acre to justify the expenditure in connection with the dam necessary to supply water for the production of cotton in the Sudan. That price is practically double the present selling value of cotton.

I believe that production costs in Egypt, as well as in India, hold true, relatively, in the same degree as the cost in the Sudan. We all know that the price of other commodities, primarily feed and food crops, has a great bearing on the production of cotton both at home and abroad.

The 10 cent loan last year and the 12 cent loan this year have come in for a great deal of economic discussion. In my opinion, their respective economic soundness will be justified or not justified, as the case may be, by climatic conditions which will regulate to a large degree the production in 1935-36 and 1936-37. Unquestionably acreage is the controlling factor over a long period of years. It is equally true that it is not the controlling factor over a period of a few years. Weather conditions are far more important than acreage for a specific or particular year.

In conclusion let me make my position clear, which is that I think it more important to regulate the domestic price and protect the Southern cotton farmer through such regulation than it is to attempt to protect the world market for cotton, if by doing so we bankrupt the Southern producer.

BULK TRADES WITH RUSSIA ¹

By CALVIN B. HOOVER, *Duke University*

THE MECHANISM INVOLVED IN BULK TRADES BETWEEN THE UNITED STATES AND RUSSIA

The whole economic and political organization in Soviet Russia and particularly the existence of the Soviet foreign trading monopoly are such as to facilitate bulk trades between the Soviet Union and other countries. On the other hand, the economic organization of the United States and the absence of any foreign trade monopoly render difficult the carrying out of bulk trades or direct barter between the United States and other countries.

It is true that some bulk trades have been carried out in spite of this difficulty. Possibly the most outstanding example is that of the exchange of American wheat for Brazilian coffee carried out by the Farm Board. In this case, however, the commodity to be exchanged was owned by a federal corporation and the commodity obtained in exchange was a staple which could be marketed with relative ease. There have been several instances also of loans made by government bodies in the United States to foreign governments for the specific purpose of purchasing agricultural commodities. These last, however, can hardly be considered in the light of bulk trades because the transaction was a combination of a purchase and a loan and not a two-sided exchange of commodities. It is difficult to imagine how American importers could be induced to take increased amounts of Russian commodities except by some such device as a lowered tariff or a special rebate on import duties to cover a particular exchange of commodities. This might, indeed, facilitate trade between the United States and Russia, but it could hardly be considered part of bulk trading in commodities. It seems probable that special rebates of duties on Soviet products imported into the United States in connection with specific bulk trades would be legally impossible.

About the only other possibility would seem to be a federal corporation which could accept delivery of and make payment for

¹The data upon which this paper is based can be found in Budish and Shipman, *Soviet Foreign Trade* (New York, 1931); Statistical Abstract of the United States, 1933; Reports of the Bureau of Foreign and Domestic Commerce; and Reports of the Bureau of Mines.

Soviet commodities. Even such a device has obvious difficulties and disadvantages. Suppose, for example, attempts were made to exchange American machinery for Soviet furs. One can imagine the representative of the Soviet government dealing with a representative of the American government and trying to work out an agreement to import increased quantities of American machinery in return for an agreement that the American government would guarantee an increased import of Soviet furs. It is obvious in the first instance that it would be almost impossible to agree on an exchange in terms of physical quantities between furs and machinery. We then are compelled to try to arrange the transaction in terms of dollars or some other currency unit. It would then be necessary, however, to decide whether the agreement would be to buy so many dollars worth of American machinery during a given month or year in return for the purchase of a given amount of Soviet furs during a given month or year. The Soviet trade representatives might thereafter purchase on specifications from time to time until such time as they had purchased the value of machinery agreed upon.

In the case of the furs, however, it would be difficult for the American trading representative to agree that an increased value of Soviet furs would be taken. He could hardly bind private American firms to do this. It is true that the value of furs imported might be increased by giving a preferential tariff rate to Soviet furs, but this would be problematical in its effect and it would be almost impossible to predict the exact amount of furs which would be taken. Consequently it would be difficult to guarantee the acceptance of any definite value aggregate. A special import corporation operating as an organ of the federal government could, of course, purchase increased quantities of furs and dispose of them on the market, as was done in the case of the Farm Board with Brazilian coffee. The obvious difference between furs and coffee would render this much more difficult.

THE POSSIBILITY OF BULK TRADES IN TERMS OF PARTICULAR COMMODITIES

In 1929 the principal imports in the United States from Russia in the order of their importance were manganese ore, furs, sausage casings, fish and caviar, lumber, pulp wood, rags, licorice root, anthracite coal, candy, and safety matches.

The total importation of manganese ore in the United States from Soviet Russia in 1929 amounted to 329,336 long tons. This was 49.6 per cent of the total imports of manganese ore in the United States in that year. The total value of all imports of man-

ganese ore in the United States was \$8,451,000. The total domestic production of manganese ore in the United States in 1929 was 60,379 tons, which was 8.3 per cent of the total consumption of manganese ore in the United States. The value of domestic production was \$1,612,000. Importations of manganese ore fell off sharply during the depression, as did, of course, the domestic consumption of manganese ore. (Total imports in 1933 amounted to 157,000 tons, the value of which was \$1,378,222.) It can be seen that even if we imported all our manganese ore from Soviet Russia and produced none domestically, the amount of purchasing power for American products which would be created, even if importations from Russia equaled the entire amount used in the United States in 1929, would not be very great.

The value of undressed furs imported into the United States in 1929 was \$108,049,000. Of this amount, \$4,963,265 worth was imported from the U.S.S.R. The value of total imports declined in 1932 to only a little more than \$25,000,000. The great expansion in imports of furs which took place from pre-war times to the end of prosperity in 1929 indicates that with a return of prosperity it would be possible to increase imports materially over the present figures. If the mechanism could be worked out, there are obviously considerable possibilities for the substitution of Soviet furs for furs imported from other countries.² In this as in every other case, however, the effect upon our trade relations with other countries of a transfer of our purchases from other countries to the Soviet Union would have to be considered.

The United States in 1929 imported \$15,400,000 worth of sausage casings. Of that amount, \$2,800,000 worth was imported from the Soviet Union. (The total imports had declined in 1932 to \$4,123,000.) Here again the possibility of shifting American purchases from other countries to the Soviet Union is rather limited.

Imports of fish and caviar into the United States in 1929 amounted to \$39,800,000; in 1932, to \$21,400,000. Of that amount, \$1,100,000 worth was imported from the Soviet Union. Obviously, some expansion is possible in the proportion of imports obtained from the Soviet Union, although by no means all the types of fish imported could be obtained from the Soviet Union.

Imports of lumber into the United States in 1929 amounted to about \$72,000,000. By 1932, however, they had shrunk to only \$14,700,000. The value of lumber imports from the Soviet Union

² It should be noted, however, that some dressed furs imported from other countries originate in the Soviet Union. A diversion of these furs directly to the United States would not constitute a net addition to imports. Nevertheless the value of undressed furs is so much greater than that of dressed furs that this point is not of great importance.

in 1929 amounted to only \$819,000, but there were special reasons why imports were so low. Regulations against the use of forced labor in the production of imports assisted in keeping the value of lumber imports down. Imports from Russia have been largely spruce, of which the domestic production in the United States is less than domestic demand. Consequently there is some possibility of the expansion of Soviet sales of spruce in the United States. Such sales would be largely at the expense of Canada.

Total importations of pulpwood in the United States in 1930 amounted to 1,582,000 cords, which was about one-half the total domestic consumption. Importations were slightly higher in 1930 than in 1929. Importations from the Soviet Union in 1929 amounted to 230,400 cords. Total importations of pulp wood in 1930 had a value of slightly over \$17,000,000 but wood pulp imported had a value of about \$81,000,000. (These figures had shrunk by 1932 to \$5,600,000 and \$46,900,000, respectively.) Since it would be possible to import pulpwood and to manufacture it into wood pulp in the United States, the latter figure has considerable significance. It should be noted that there is considerable possibility of expanding Soviet exports in this field. This would be largely at the expense of our trade with Canada.

The other imported products mentioned above are relatively unimportant and the possibility of their expansion is so small as to be hardly worth discussing. Even in the case of those which have been discussed, it must be remembered that Russia does not have unlimited supplies of these commodities readily available. The entire supply of most of them is now needed for export to pay for goods which the Soviet government has already bought or is currently purchasing. Since, however, the total obligations of the Soviet government are being materially reduced by the present active export-import balance, larger quantities of these commodities for export would be available in a year or two—if we were in a position to accept them for our domestic market. Furthermore, if purchases for Soviet account were shifted from other countries to the United States, Soviet exports could of course be shifted to the United States to a proportionate degree.

The principal commodities which the Soviet government might be expected to take from the United States if increased quantities of Soviet commodities could be sold in the United States through some bulk trading arrangement are (1) machinery of a great many different kinds, (2) copper, (3) some cotton perhaps, and (4) a little sugar. In the case of sugar, however, since we do not produce enough for our own domestic consumption, only some form of three-cornered barter would be possible. Furthermore, the general policy

of the Soviet government has been to hold the importation of consumption goods to an absolute minimum.

It might be noted in this connection that there is almost no possibility for the expansion of trade with Russia which would enable us to dispose of our surplus stocks of farm foodstuffs. In the case of cotton, while the Soviet Union for a number of years imported considerable amounts of American cotton, since 1930 these exports have almost disappeared. This was due primarily to development of the production of cotton in the Soviet Union, primarily in Turkestan. Since that time the Soviet Union has even exported some cotton, although this was due to financial exigencies and was counteracted, at least in part, by imports of cotton of staple varieties which the Soviet Union could not produce in sufficient quantities to meet its needs. The future expansion of cotton production in the Soviet Union depends largely upon irrigation. Large irrigation projects are under way and a great program has been planned. Costs of production naturally are high, but these would not have the same significance as in a capitalistic country. If, however, an advantageous exchange of, say, lumber and wood pulp or American cotton could be depended upon over a long period of years, it is possible that the Soviet Union might be regularly counted upon to take a certain quantity of American cotton.

The Soviet Union is particularly poor in copper. Although great efforts have been made to exploit available supplies of copper ore, they have not been very successful. Consequently there is some possibility of increasing our exports of copper. However, the value of exports from the United States of refined copper, copper wire, and other nonferrous metals amounted in 1929 to only about three and a half million dollars.

While the machine-building industry of the Soviet Union is expanding at a great rate, and while we have had the experience of seeing our market for certain kinds of machinery, such as tractors, combines, and automobiles, dwindle away when new Soviet industries came into production, still the Soviet Union is so far from having completed the process of industrialization that if its government were in a position to purchase, large quantities of machinery could doubtless be sold for a long time.

It will be seen that the possibilities of bulk trades with the Soviet Union are rather circumscribed. In particular, there seems to be little hope for disposing of our surpluses of raw materials in this way, except to a limited extent in the case of copper.

THE INTERNATIONAL ECONOMIC RELATIONS OF THE UNITED STATES IN THE FAR EAST

By CHARLES F. REMER, *University of Michigan*

It is proposed to take for granted at the outset two generalizations, one in the field of fact and the other in the field of policy. This will provide a common starting point and will enable me to deal briefly with important matters which require emphasis rather than extended exposition.

The first concerns the new place in world trade which came to the regions under consideration as the result of the World War and the whole series of events of world importance between 1914 and 1919. The statisticians of the League of Nations estimated for the International Economic Conference of 1927 that what they call the "quantum" of trade had increased between 1913 and 1925 by a larger percentage in North America and Asia than in any other of the regions of the world. This increase was very largely in the trade of the United States and of Japan. From the standpoint of the rest of the world, the rise of Japan and of the United States have been the outstanding developments; from the standpoint of either the United States or Japan the increased importance of the other is a matter which cannot be neglected. It is not my present purpose to point out that the trade of Japan declined less rapidly during the depression than did the trade of the United States. This is true, but it must be seen as of less general importance than the rise of both the United States and Japan since 1919.

The second generalization concerns the place of political considerations in the economic scene in the Far East. It is, I believe, generally true that economics and politics have been closely related everywhere and at all times. The problems of political economy, if I may use a phrase which we ought not to permit to die, have been of fundamental importance since the rise of national states in the West. Mercantilism, laissez faire, and our economic nationalism of the present day have all been policies pursued for the purpose of advancing the power and prosperity of the various states. Economics and politics have never been separated in the West. There has been and there is today even less separation in the Far East. The national policy of Western powers has usually taken an economic or financial form. The Far East is the outstanding region

of economic imperialism — however difficult it may be to define that term exactly. The political and economic organization of Japan makes a separation of economic and political considerations almost unthinkable where she is concerned. Extraterritoriality in China strengthens the connection between politics and economics there. Siberia is a part of Soviet Russia and under communism there is no possibility of a separation. Finally, the Far East is the location of a number of colonial possessions. The rising economic nationalism of colonial peoples under political organizations which they do not dominate adds further evidence that economics and politics can hardly be separated. This is important, for American policy in the Far East has frequently proceeded upon the assumption that economic problems could be separated from the political and dealt with, as it were, on their own merits. It may be that, in the opinion of the Commission, there is no other way forward; it may be that we must do our best to separate the economic and to deal with it on its own merits. In any case, it seems to me obvious that the task is not an easy one and that it offers special difficulties in the Far East.

If my generalizations are important, it follows that American policy must be worked out with full recognition of the rising economic importance of Japan (and of America and Japan together) and with the full recognition also of the intimate relation throughout the Far East between economic and political considerations.

SIBERIA

The Russians in Siberia face the task of developing the country in the same way that Canada faces the task of developing her west. In this development agriculture, fishing, and mining are all of first-rate importance. From this one may proceed to certain conclusions. The obtaining of capital equipment is a necessity for Siberia. In the absence of capital movements from the Western world, the capital equipment must come from European Russia. But European Russia, in turn, has borrowed abroad on a considerable scale by purchases on credit. How far, we may ask, is it possible for the United States to participate in the development of Siberia by methods similar to those which have enabled Great Britain, Germany, and the United States to provide capital for European Russia? Some study might well be given to this. Siberia is not unlike the American Northwest, and the Commission may well wish to consider that efforts in this direction be made or that a commission be sent to Siberia to study this matter further. Such a commission ought to be composed of those whose technical competence is beyond question in the fields of agriculture, mining, and transportation.

The development of Siberia calls for the maintenance of trade with the Pacific Area lying to the south. It seems fundamental, under present political conditions in the Far East, that Russia must continue to have possession of a seaport as far south as Vladivostok. With this is associated in the minds of the Russians the necessity of retaining their control over the maritime province of Siberia. Some Russians go further and maintain that the Chinese Eastern Railway is a necessary link in the chain of development. I had occasion in the summer of 1931 to discuss this matter with Soviet officials in Moscow, and I found them insistent upon the importance of the right to continue to use the Chinese Eastern Railway. It is obvious that the nature of the development of Siberia depends upon the relations between Russia and Japan.

I will not take your time to go into this whole matter. It is to be observed that extremes meet in Manchuria today. Russia regards Japan as the world's outstanding example of capitalism supported by imperial authority based upon divine right. Japan regards Russia as the most dangerous threat against her political, economic, and social organization. Each regards protection against the other as obviously necessary self-defense.

How far the United States may or ought to play a part in the relations between Russia and Japan may well be considered by the Commission. The history of the American military venture in Siberia during the years immediately after the World War no doubt leads to the consideration of Japan's place in Siberia in connection with the Washington Conference of 1921. I leave it to the Commission to consider, if it chooses to do so, whether the events of 1918 to 1921 carry with them any obligation on our part. American trade with Siberia is likely to be of minor importance. The possibility of providing capital for Siberian development ought to be considered in any program of American economic policy.

JAPAN

The economic problem which Japan faces is usually presented as a population problem. It is of course possible to present the difficulties of any mature country as a problem of population. Certainly this is true for China, Java, and parts of India. One may even put Great Britain's post-war difficulties into these terms. I suppose we ought to mean, when we say a country faces a population problem, that policy must include doing something directly in the field of population, that birth control or migration or a redistribution of population is essential in getting forward. My own opinion is that Japan faces this necessity, especially during the next twenty years. I believe it to be true also for China and Java as

well. At the same time, the population question must not be permitted to obscure the further fact that much may be done toward solving the economic problem in each of these countries by other means than those which touch directly the field of population. It has been one of the unfortunate consequences of emphasis upon population that it seems to prevent attention to anything else.

The economic problem which any country faces may be stated as that of securing for its people the highest standard of living which may be secured from the resources at its disposal and by means of the best international economic relations which it can work out. The Japanese economic problem seems in the light of this statement (leaving aside the population question) to be very largely a problem of foreign trade. Japan has relatively few resources. She must secure raw materials and food products abroad. Japan must in turn export her products to pay for her imports. Exports and imports are bound together, and one may state the causal relation as one pleases.

The raw materials which Japan requires come from a wide variety of countries. The Malay States are an important source of iron ore; India is an important source of pig iron; the Netherland Indies, of sugar; Australia, of wool. Manchuria provides Japan with beans and bean products and Manchuria usually produces beans on such a scale that Japan buys no more than about two-thirds of the total export. China has provided certain raw materials, such as iron ore and raw cotton, but she has not been a source of any great part of Japan's total imports. And the United States shares with India the great market in Japan for raw cotton.

The important markets for Japanese goods are the United States and the continent of Asia (chiefly China and India). That America is a market for raw silk is a matter of common knowledge, but its importance is sometimes overlooked when markets for manufactures are under consideration. The Asian market has been chiefly for the products of the cotton textile industry. The export of textile products, especially to China, has always been marked by fluctuations. In the case of Japan, boycotting has been added to the other causes for fluctuation. The Chinese market has disappointed many. The chief reason why it is not more important is the poverty of the great mass of the Chinese people, to which I shall refer again. I am tempted to write at some length about Japanese trade. The depreciation of the yen and the depression have fixed the attention of the world upon the rising industrialism of Japan. The whole matter deserves more study than it has received. We ought to know how far Japanese success has been real, how far it has been based upon an unusual combination of circumstances, and how far

it represents a development based on a healthy economic and industrial organization. Japan faces the possibility of discrimination, since she is exporting to a world which seems to be going in for quotas and bilateral agreements.

Japan's greatest trade is with the United States. Raw silk and raw cotton have been mentioned. This trade and her trade with Europe, which is less important, urge upon Japan a policy of liberalism and international cooperation. By means of such a policy she may hope to secure continued and freer trade. Japan's trade with China comes next in importance to that with the United States. The growing strength of Japan and the continued disorganization of China have brought about a shift in her policy. She is urged by her immediate interest toward exclusiveness and noncooperation with others. But China has long been the scene of international rivalry and is for that very reason a territory in which numerous measures have been taken to avoid and to check a policy of exclusiveness on the part of any one power. The United States has played a part of no small importance in bringing about these liberal and nonexclusive measures. To say this is, of course, no more than to repeat what is well known. Yet a review may help to explain the conflicts and inconsistencies which appear in Japanese policy when the whole period since 1900 is reviewed.

Manchuria has been raised to an importance beyond that which it deserves on economic grounds by the emotion which Japan has invested in Manchuria since the beginning of the Russo-Japanese war. The chief importance of Manchuria is that it has served as a stage upon which the drama of Japanese policy has been enacted in the plain view of the whole world.

American policy toward Japanese trade ought, it seems to me, to be liberal, and it ought not to have even the appearance of discrimination. If we enter upon the use of quotas it ought not to be done without giving due consideration to Japan's lateness in arriving upon the scene. But there is no more ground for a liberal policy toward Japanese trade than toward the trade of others. The problem here merges with the general problem of American commercial policy.

CHINA

The key to China's position—leaving aside any statement in terms of population—seems to me to lie in the field of the international movement of capital. This involves trade, of course, but my desire is to direct attention to the field of greatest importance from the standpoint of policy.

The Chinese are a poor people. Their traditions and their social

organization have brought the distribution over their broad country of thousands of rural villages with a standard of living which is almost unbelievably low. I have ventured the opinion elsewhere "that the most important economic problem of the world at the present time lies in the poverty of the mass of the Chinese people." For a poor people to advance toward a higher standard of living is difficult. They are likely to lack the necessary surplus and the political and economic organization which will enable them to secure that surplus from others on terms which they are willing to accept.

China offers abundant illustrations of this generalization. The political problems associated with the movement of capital to China in the past are known to everyone. They have filled the volumes of publicists and the reports of foreign offices. Neither the Western nations nor the Japanese have been able (or willing) to work out methods of getting capital to China without political difficulties. If I had time I think I could show that these political difficulties are not the same when the purpose is the safeguarding of investment and when it is territorial acquisition. These two kinds of "safety" have frequently been confused.

But my sole purpose now is to make it clear that China does not have any large surplus, that such a surplus is necessary for the solution of her economic problem, and that it must come from other countries.

This has an important bearing upon the domestic troubles of China. The problem here is the creation of a government which will enable China to borrow abroad and at the same time give her independent political existence under a government which her people respect. I do not suppose that Chinese political organization is to be dominated by capital movements. It is merely that I am leaving aside many problems which cannot be adequately dealt with.

If China must borrow, where are the funds to come from? If Russia could provide the capital equipment for Chinese development, communism might well be the solution for China, strange as it may seem to regard the provision of capital as of fundamental importance in the spread of communism. It seems to me impossible that Russia should be the source of capital for China, and I believe that this is an important factor in the Chinese communist movement.

It seems to me also that capital is not only to come from Japan. It is most unlikely that Japan will be able to provide the capital for the development of Manchuria alone, to say nothing of China.

If the capital must come from the West and chiefly from the

United States, then we face a whole set of possibilities and problems in the field of policy. But before I consider the American side, let me point out that the provision of American capital for the development of China raises new problems for Japan. Japan must consider once more the problem of international cooperation. Japanese policy in this field is likely to be of fundamental importance to her and there is reason to believe that attention is being given to the matter in Japan.

Let me turn to the American aspect. One may approach it from a number of angles. It is, for example, an interesting fact that the movement of capital from the United States during the period following the World War, while it greatly altered our economic position in the world, was hardly reflected in our relations with China. Americans were lending but China did not borrow. The increase in Chinese government obligations during these years is hardly to be regarded as an investment in any ordinary sense of the word. The increase in the direct investment of foreigners was very largely confined to Shanghai and Manchuria. It seems fairly easy to explain the fact that American capital went to Europe and South America during the war and post-war years. It seems likely, however, that any revival of foreign investment will include China.

One may approach the matter by going over the history of the "old" and the "new" Consortium. The new Consortium was very largely the result of American initiative and energy. The plan seemed on the surface good. And yet the Consortium has not brought about any investment in China. It was opposed in China and the Japanese have never been friendly toward it.

The first point in any American policy toward capital for China is no doubt that the possibility of such investment must be conserved. This may be called the policy of an open door for investment. The open door for trade has its importance but an open door for investment is a necessary foundation.

The second and the chief matter is that the United States must work out a policy toward capital movements which will work in the world of today. It is, no doubt, fully appreciated that there is no more important general problem before the Commission than this. If American capital movements during the next generation can be directed in such a way as to combine economic and political wisdom, we shall have taken a great step forward in our international economic relations.

The third point is the working out of such a policy in cooperation with an organization which has every reason for being disinterested. This requires examination of the problem of capital for China with the League of Nations and with those represented in

the League of Nations. What was desirable in the new Consortium may well come by cooperation with the League or by adequate consultation with the League.

The fourth point is an understanding with Japan or such efforts toward an understanding as will tend to make clear the Japanese position.

The final point, and in many ways the most important, is a serious effort to reach and to convince the Chinese people that it is the economic development and not the exploitation of China which is desired, and that political ambition in any imperialistic sense is entirely absent. What we want is a reasonable, peaceful, and successful way of providing China with the necessary capital for her development. This cannot be done in any spirit of concession-hunting and land-grabbing. It requires the broadest sort of economic statesmanship. With an open door for investment, with an accepted policy toward capital movements in the United States, in cooperation with the League, after an understanding with Japan, and with an honest and friendly appeal to the Chinese people, there is some chance of success.

I may seem to have been moved to write in a manner not entirely consistent with an objective view of the Far East. But I do not think I have overstated the case. The importance which I attach to a reasonable and honest effort to provide the capital for the development of China seems to me to rest upon a cool analysis of the situation and upon a hope for general peaceful prosperity.

THE REGIONS SOUTH OF CHINA AND JAPAN

The prosperity of this whole region, including the Philippines, is a part of the prosperity of those regions which provide foodstuffs and raw materials. These regions have suffered much during the depression, in part, I believe, because of the unusual flow of capital to such regions during the period of prosperity which ended in 1929. This has been pointed out by a number of economists. In general, it may be said that any efforts to bring about greater economic stability in the world will be to the benefit of this region which the Chinese and Japanese call the South Seas.

The case of the Philippines is one in which American responsibility is direct and unescapable. The sugar industry is a field which illustrates the difficulties of the whole region and which brings into question the policy which the United States has pursued. The United States gave much attention to the building up of the sugar industry in Cuba during the nineteenth century. More recently we have by our policy brought about such development in Hawaii and

the Philippines. How we shall deal with the Philippines it may not be within the province of the Commission to consider, and the matter may be taken out of the realm of possible change by the time the Commission is ready to report.

The one general remark upon the Far East south of China and Japan touches a broad problem, which is, nevertheless, brought home to the Americans by the proposed independence of the Philippines. The case of the Philippines differs from that of, say, the Netherland Indies in one important respect and is similar in another. The difference lies in the comparative unimportance from the economic point of view of the Philippines to the United States and the relatively great importance of the Netherland Indies to the Netherlands. The similarity lies in the responsibility to the peoples of the Philippines and of the Netherland Indies which the peoples of both the United States and the Netherlands feel. The result is that the United States may more easily establish an independent government in the Philippines. We cannot, of course, do this and at the same time divest ourselves of responsibility. But we can afford the economic separation and may take our chances with the political responsibility. The Netherlands, on the other hand, cannot afford the economic separation. Any political development must therefore wait upon such assurance in the economic field as will satisfy Holland.

This is no more than to say that political independence in South-eastern Asia or even experiments with political independence could be more easily made if there were in existence an international organization of growing power. Such an international organization could assure the power granting independence that the independence would not result in the colony's falling into the hands of another power. We have another case of the interrelation of political and economic stability. In the absence of effective international organization the political development of the Far Eastern colonial peoples will probably mark time.

In giving the Philippines independence in a world which does not have a League of Nations of growing power, the United States is taking a great risk, but the risk is political rather than economic. Philippine independence will encourage the nationalism of other colonies. Independence is not likely to be general because the risk is more definitely economic for other colonial powers.

CONCLUSION

The problems to which attention has been directed in the foregoing pages are the following:

1. The possibility of American participation in the provision of capital for the development of Siberia.

2. The necessity of giving Japan full share in any liberalizing of American trade policy, and the desirability of a liberal policy in general in so far as general policy is based upon Japanese relations.

3. The great importance of American participation — and leadership — in the provision of capital for the development of China.

The general problem of capital movements will, I hope, receive the fullest treatment at the hands of the Commission. Here are great opportunities not only for prosperity but for advance in a field which will, I believe, play a great part in American economic relations during the rest of the present century.

THE POSITION OF AMERICAN COTTON IN THE WORLD MARKET

*By CLINTON T. REVERE, of Munds, Winslow, and Potter,
New York City*

It should be possible to place the major factors affecting the position of American cotton in the world markets in two categories. One is the development of substitute products, and the other is the competition of foreign growths.

The menace of substitutes makes its appearance periodically, or one might say sporadically, with the exception of the growing use of rayon. It might be stated at the outset that rayon in most respects is not fundamentally so much a competitor of cotton as it is of silk. Over a period of years it has displaced cotton in undergarments and stockings for women, and in certain seasons it makes a strong appeal in outer wearing apparel. Its use in linings also has been important. Its chief form of substitution comes in its mixture with certain cloth constructions. The growing vogue of rayon is graphically illustrated by the following table, which portrays the increase in world production even in the depression period:

<i>Year</i>	<i>Pounds</i>
1929	440,470,000
1930	410,225,000
1931	470,790,000
1932	518,575,000
1933	625,470,000

Obviously such a vast amount of fiber as is represented by this poundage hardly can fail to work to the disadvantage of cotton.

Cotton ordinarily suffers from substitution of other products in periods of high prices. This phase might be illustrated by pointing out the manner in which cotton, when it was very cheap, entered new industrial fields. Along in the nineties, when cotton hovered around five to six cents a pound, new uses were discovered for it. Cement barrels were displaced by cotton bags. Cotton duck, as well as lighter constructions, displaced leather in the form of artificial leather. Cotton duck with rubber coating displaced leather belting. The substitutions were endless, largely because industrial research discovered new fields for cotton textile products.

The reverse is the case when cotton prices are high. Jute and

hemp in those cases find a widening field of use. Strong paper bags are substituted for cotton bags. In the high-price period from 1922 to 1924, inclusive, paper bag manufacturers developed their field enormously to the detriment of the use of cotton bags.

With the exception of the intrusion of rayon, it might be broadly stated that cotton suffers no serious competition from substitutes except on the basis of adverse price relativity. There is, of course, the danger that substitutes once fairly entrenched in an industrial field may be hard to displace by cotton when price equilibrium is restored. Always it should be borne in mind that scientific research is capable of developing new products that may be satisfactorily employed.

In considering the competition of other sources of supply, it should be kept clearly in mind that American cotton is the most important of our export products. With United States crops ranging in normal times from 12,500,000 bales to more than 17,000,000 bales, it should be pretty clear that a domestic consumption of 6,000,000 to 6,500,000 bales leaves a great surplus that must be sold abroad. In the last five-year period, from 1928-29 to 1932-33, exports have taken an average of 54.3 per cent of the South's output. This will be confirmed by examination of the following table. The figures for crops and exports are expressed in thousands of bales:

<i>Season</i>	<i>Crop</i>	<i>Exports</i>	<i>Percentage of Crop Exported</i>
1928-29	14,297	8,053	57.0
1929-30	14,548	6,697	46.0
1930-31	13,756	6,320	49.3
1931-32	16,629	8,754	52.8
1932-33	12,710	8,426	66.3

The foreign campaign for increasing the production of "outside growths" had its inception partially in the fear that the spread of the boll weevil might seriously threaten cotton production in the Southern part of the United States. Later on, the movement for increased production abroad was accentuated by the clamor on the part of the cotton-growers of America for higher prices, and the fear, subsequently realized, that governmental aid would be enlisted to bring about a higher price level.

The American producer unquestionably has rested his case too much on the belief that it would be impossible to increase greatly cotton production abroad. It was contended that the area of Egypt suitable for cotton growing was limited, that the extension of the cotton districts in British India would be a slow process, and that Russia would find it a most expensive project to irrigate lands in a climate suited to the growing of the staple.

Statistical and historical evidence shows this to be a mistaken view. In the season of 1910-11 the world production of cotton amounted to about 19,700,000 bales. The United States contributed 12,200,000 bales to this aggregate. In the season of 1932-33 the world crop was 24,000,000 bales, and the American production was 12,900,000 bales. It might be pointed out, however, that in 1931-32 world production reached its maximum with 27,500,000 bales, and the contribution of America was 17,100,000 bales. In this period of little more than two decades, the production of British India rose from 3,200,000 bales (figured in 500-pound bales) to 3,900,000 in the season of 1932-33. Egyptian production had dropped a little more than half a million bales, but this was due to the fact that in the season of 1932-33 the government had instituted a rigorous campaign of acreage reduction.

On this showing it might appear American cotton production had not been seriously threatened. This complacent view, however, must be abandoned when we take a glance at the production of minor foreign cotton-producing districts. In 1910-11 the output of these areas amounted to approximately 2,800,000 bales. In 1932-33 the yield was placed at 6,250,000 bales.

The following table gives world cotton production in millions of bales from 1910-11 to 1932-33, inclusive:

<i>Season</i>	<i>Total</i>	<i>United States</i>	<i>British India</i>	<i>Egypt</i>	<i>Others</i>
1910-11	19.7	12.2	3.2	1.5	2.8
1913-14	22.7	13.9	4.3	1.5	2.9
1920-21	20.2	13.7	3.3	1.2	2.1
1921-22	15.2	8.3	3.7	1.1	2.2
1929-30	26.6	14.7	4.9	1.7	5.2
1930-31	25.2	13.9	4.6	1.7	5.0
1931-32	27.5	17.1	3.4	1.3	5.7
1932-33	24	12.9	3.9	0.95	6.25

It is doubtful if we have even yet begun to witness the extent to which the outside world will be able to produce cotton in competition with the United States. Cotton culture can be greatly extended in Nigeria, Upper Rhodesia, Uganda, and the French Sudan. The largest area that could be employed for the development of cotton growing lies in Brazil. In this vast territory soil and climatic conditions are ideally suited to the growth of this staple. All that is needed to stimulate the enterprise is a price that will attract capital and thus lead to a systematic extension of the work. Brazilian varieties of cotton are well known to the cotton trade of Europe. These can be greatly improved by seed selection, modern cultural methods, and improved ginning and compressing equipment.

Already, according to semi-official reports, Japan has her eye on the rich cotton-growing territory of Brazil. Even some of our con-

sular officials state that Japan is considering an imposing colonization scheme with the view to obtaining great concessions for the production of cotton. It is within the limits of reasonable expectation to look forward to the time in the next quarter of a century at least when Brazil may produce a yield exceeding five million bales of excellent cotton.

All that is required for such an eventuality is a continuance of agrarian discontent in the Southern United States, adherence to the one-crop method, and making a fetish of the money price.

In conclusion, it may be pertinent to suggest methods by which the Southern cotton-grower may obtain a fair return on his efforts and maintain dominance of the world cotton markets. Two courses are open. One would be the production of cotton as a cash crop, with more attention paid to home subsistence by the raising of food crops, domestic livestock, chickens, etc. The other would be the adoption of intensive cultural methods resulting in a greatly increased yield per acre and lower production costs. Either method, aided by the superior soil and climatic advantages of the South and expert knowledge of cotton growing gained from nearly a century and a half of experience, should enable the South to land its chief staple in the markets of the world at a price which less advanced countries could not meet, and still leave a reasonable profit.

CURRENCY SYSTEMS AND COMMERCIAL POLICY

By HENRY C. SIMONS, *University of Chicago*

It is commonly held that the maintenance of different national currencies on the basis of a common (gold) standard is essential to satisfactory commercial relations among nations; and, conversely, that permanent departure from this system would represent a decisive step in the direction of extreme economic nationalism.

There is an obvious convenience, for purposes of trade, in a system which yields stability in the rates of foreign exchange. Such a system would surely be conducive to fuller realization of the advantages of international commerce, under the following conditions:

1. If the circulating media of the individual gold standard countries were not enormously diluted with paper money and bank credit;

2. if national price structures and income structures were highly flexible and sensitive to changes in underlying conditions;

3. if the maintenance of stable exchange rates were everywhere accepted as the primary objective of banking and fiscal policy (and if other considerations were consistently subordinated to that objective);

4. if the international exchange of commodities were not restricted by tariff barriers and quota limitations (or, at least, if such restrictions were not subject to continuous manipulation).

In a world where none of these conditions is realized, on the other hand, the gold standard system provides a most unsatisfactory set of rules for the management of particular national currencies; and, indirectly, it probably leads to greater restrictions upon trade (and thus to more unfortunate conditions in the whole field of international relations) than would obtain under a system of independent national currencies.

The position of the individual gold standard country is essentially similar to that of the individual bank within a banking system. For short periods, what anyone can do, within the rules of the game, depends on what the others are doing; and there are no adequate checks upon simultaneous movements in the same direction. The system, like the system of commercial banks, has a bias toward going wherever it happens to have started, and toward keep-

ing on just because it has started. Thus it imposes on its members not sound policies, but merely conformity. It invites participation by each member in the credit expansion of a general boom. In depression it forces each member to participate in the general struggle for gold — where none can get enough, and where each one's success aggravates the position of the others.

In our country and elsewhere a stupendous quantity of bank money is pyramided upon a narrow base of government currency and central-bank obligations. The paper currency and central-bank credit, in turn, is itself pyramided, in the important countries, upon a narrow base of gold; and the system contemplates complete convertibility all along the line. In all these countries, moreover, there exists an enormous volume of fixed money obligations, payable impliedly in gold. Finally, what is perhaps most important, large sections of internal price structure and income structure have become, in the leading countries, highly rigid and inflexible. Thus any substantial change in the quantity (or velocity) of effective money produces acute human suffering — which imposes upon the government a serious financial burden of providing relief.

Consequently, in the fact of an acute world depression, governments are placed in a position where it is politically impossible, and perhaps technically impossible, to pursue fiscal policies consistent with adherence to the rules of the currency game. (One may argue that, given strict adherence to the rules, the critical rigidities in price structures might, with an adequate dose of starvation, be overcome; but this argument appears to imply that political structures and political order could live through such an ordeal.) Violation of the rules is therefore unavoidable. Moreover, those governments that violate the rules most promptly will mitigate their own internal troubles and injure those who are most hesitant or scrupulous.

There are different methods whereby a country may alter the rules to its own competitive advantage. In a cutthroat struggle for gold, the obvious weapon is devaluation or debasement. This, to be sure, is an age-old practice; but deliberate resort to it under modern conditions implies commitment to an aggressive, offensive strategy in the economic conflict, and an effort not merely to escape from the rules of the game but also to exploit other countries' adherence to those rules. Once nations cease to scruple about resorting to this weapon, the gold standard loses its last shred of usefulness and becomes positively an affliction.

The standard method for altering the rules, however, is that of raising tariff and quota barriers to trade; and it is the purpose of this memorandum to stress the view that the gold standard system

is one which peculiarly invites abuse and manipulation through commercial policy.

The normal procedure for drawing gold from any country is that of buying gold with goods; and movements of gold may effectively be altered by restrictions upon the import of commodities. This device for evading the rules of the gold standard game is attractive and most widely practiced, perhaps because it is not commonly regarded as outright violation at all. It carries all the advantages, and none of the stigma, of devaluation or debasement; and, being practiced continuously at other times, it can be invoked during periods of crisis without political difficulty and without upsetting confidence internally. Thus one may argue that the gold standard, so far as it discourages other forms of currency manipulation, actually promotes the one form of manipulation which is most unfortunate for international trade and international relations generally and for internal political morality.

The maintenance of common currency standards among nations is conducive in depressions to policies of extreme protectionism and economic isolation. Moreover, the barriers to trade which arise during a bitter struggle for gold do not disappear when the conditions occasioning their erection have passed. By virtue of the intrenchment of new vested interests, every depression is likely to leave the world with permanently higher tariff walls, so long as depressions precipitate international struggles for gold. Extreme protectionism is unlikely to disappear, or be mitigated, so long as the world's currency systems are of such character that commercial policy cannot be separated from monetary policy.

A system which stabilizes exchange rates is also conducive to protectionism because it renders obscure the adverse effects of higher tariff duties. The immediately beneficial effect on newly protected industries is evident; but the burden on other industries is not evident at all. From the point of view of one interested in greater freedom of trade, there are serious disadvantages in a monetary system under which adjustments to disturbance of the balance of payments must work themselves out through a slow and elaborate change in the whole structure of domestic prices and wages—through a process which, by virtue of the fixity of exchange rates, is too elaborate to be understood except by special students. The same may be said regarding a system which gives plausibility, and occasionally a little sense, to arguments about "keeping money at home." There are also distinct economic disadvantages, of course, in the slower and more cumbersome mechanism of adjustment.

Under a system of independent national currencies adjustments

to disturbances of trade would involve an initial change in the exchange rates. One would require no special knowledge to see that an increase in tariff duties would serve to lower exchange rates; or to see that the change would directly injure other producers of internationally traded goods, exporters especially. Exporters would then have something more definite to complain about than the danger of foreign retaliation.

It is perhaps unlikely that the interests of consumers (i. e., of the whole community) will ever count heavily in the political contest of organized minorities for special favors. The gold standard system, however, does contribute to the wholesale dispensing of protection subsidies, by deceiving and rendering impotent those minorities whose opposition to import restrictions might be, under a different currency system, both vigorous and effective.

Permanent departure from a system of narrowly stabilized exchange rates is unlikely to involve substantial difficulties for commodity trade, although it might introduce some additional complications. Given orderly internal management of independent currencies according to specified rules, adequate future markets for foreign exchange would surely develop. Thus the risks of exchange fluctuations would be assumed by specialists—and probably at no real cost to the community except for what the specialists might have produced in other employments. Moreover, changes of exchange rates beyond the range of present gold points would probably be rare, within periods significant for commercial transactions.

But what would happen with respect to international capital movements? This question is difficult and complicated; but the following propositions may be submitted tentatively by way of answer:

1. It is likely that there would be considerably smaller *movement* ("turnover") of short-term funds.
2. It is somewhat likely that funds would be invested abroad more largely in equities (stocks) and to a lesser extent in fixed money obligations (bonds).
3. It is doubtful whether the uncertainties with respect to long-term investment would be of a less unwelcome (or less desired) sort than they have been heretofore.
4. It is unlikely that there would be much effect on the secular trend with respect to investment across national boundaries.
5. In any event, freer exchange of commodities among nations is now vastly more important and desirable than freer movement of capital.
6. In a bank-ridden, tariff-ridden, and tariff-manipulating world,

large back and forth movements of short-term funds and large movements of long-term investment are dangerous indeed, both to economic and to political stability.

7. A stronger case can be made in the United States for restriction upon capital export than for any other kind of interference with international commercial relations, on both economic (income distribution) and political grounds.

No program which promises greater freedom in the international exchange of commodities can easily be condemned because it might serve to lessen the freedom of capital movements, for the latter freedom is without advantage and even very dangerous in the absence of the former. In general, moreover, the freedom with which investment crosses national boundaries depends more intimately upon other factors than upon the mere form of existing currency arrangements.

An international system involving narrowly fixed exchange rates would be attractive indeed, (1) if national price structures could be rendered highly flexible, and (2) if all nations would, through drastic devaluation, establish and maintain internal circulating media composed exclusively of gold (or real gold certificates). Given the existing dilution of internal currencies, the existing rigidities of internal price structures, and the existing volumes of fixed money obligations, however, the gold standard system introduces merely another and further aggravating rigidity. Both its observance and its inevitable violations contribute to economic instability.

There remains the question of what internal currency policies would be like in the absence of a common metallic standard—which suggests two questions especially:

1. Is it politically possible, in the important countries, to secure the adoption of explicit rules which would define sound currency systems?

2. Granting that sound rules would be adopted, is it likely that the rules would be adhered to consistently over long periods?

The first of these questions is certainly the less disturbing one. It is likely that most countries, departing from gold permanently, would seek to stabilize something—a price index, a quantity of effective money, or a rate of change; and it is improbable that anything would be chosen for stabilization which could less usefully be stabilized than the rates of foreign exchange.

Considering the second question, one must recognize that the gold standard system, in spite of everything, has contributed some little stability in the rules of the economic game, and has imposed some checks upon political forces working toward dangerous fiscal policies. However, the symbol of gold, while retaining much of its

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potency, apparently has lost irreparably its capacity for performing useful political miracles; the gold religion has become technically unsuited to its institutional environment. On the other hand, the persisting faith in "sound money" (the notion that the rules of the currency game should be stable) is likely to carry over to new systems of currency, especially if those systems provide simple symbols for a new money religion.

PART V

SUMMARY OF HEARINGS

The New York Hearings, March 5-6, 1934

At the New York hearings an impressive statement was made by Secretary Wallace, who had just issued his ringing challenge, "America Must Choose." The remaining speakers represented in one way or another various economic groups in the New York area. Included were importers and traders, export manufacturers, domestic manufacturers, representatives of labor, and of international banking and finance.¹

SECRETARY OF AGRICULTURE HENRY A. WALLACE placed before the Commission four choices which the country might pursue with respect to international economic relations: (1) a very definite international approach; (2) a very definite national approach; (3) a combination of the two; (4) a return toward simpler ways of doing things—a variation of the nationalistic approach.

The Secretary believes that the international approach involves importation into this country of some 700 million dollars more goods than we have been importing. This much is necessary to service the debts owed us from abroad and to provide effective foreign purchasing power for a modest surplus of our export industries. Somewhat more would be necessary to really dispose of our exportable surplus.

While favoring the international approach, Mr. Wallace does not regard the nationalistic policy as impossible. If we really wish to follow the path of self-containment it can be done. We could produce our rubber in this country at a price of perhaps thirty cents a pound. We could pursue a policy with respect to rubber similar to that pursued with respect to sugar beets. Domestically grown rubber might sell at a price relatively no higher above foreign-produced rubber than domestically produced sugar sells above foreign sugar. The thing could be done. We could produce our own silk if we wanted to, though at a greater cost; or we could substitute a perfected rayon. If we had the national will we could do without coffee, or we could produce the necessary coffee in some of our tropical

¹A vigorous effort was made to secure speakers from the strongly protectionist chemical industry and from the Committee for America Self-Contained. While eager to cooperate, it unfortunately developed that the leading men who could adequately represent these groups were away from the city at the time of the hearings.

possessions. We could produce tea in this country. We could do all these things if we had the will to do it. We have a continent that makes that possible. We could plan the whole thing because it could all be done under our control.

But this policy would mean a high degree of governmental centralization and power employed in the retirement of cotton land. It would mean the retirement of land formerly used to produce 150 million bushels of wheat sold abroad. It would mean the retirement of tobacco acreage; it would mean the retirement of corn acreage because we normally sell one-half of our packing-house lard abroad, and in the old days about 10 per cent of our pork. It would mean a shift in agriculture which would profoundly affect the populations involved.

These results would come swiftly if we passed rapidly into a nationalistic economy. But the same results would come gradually with a more slowly developed process. Once you have plunged into the nationalistic direction there is a tendency for the thing to breed on itself and the result might well be a completely regimented society. We may have to come to that some day. Who knows? But if we do it we should have our eyes fully opened to the perils involved.

The eventual common sense solution is, however, likely to be a combination of the international and the national approach. This would involve an importation of say 400 or 500 million dollars more goods than we normally import and would involve the retirement from cultivation of perhaps twenty-five million acres of land. We may have to do a little of each of the first two programs described.

The fourth approach, a return to the simple life of our grandfathers, has a certain appeal. Secretary Wallace recognizes merit in certain phases of the program but thinks that in its larger aspects it is a type of infantilism which lacks the courage to go forward with the implications of modern science. He thinks that the most courageous course would be to put emphasis on internationalism, on the expansion of trade and production, and the greatest possible use of modern machinery.

Mr. Wallace emphasized the serious political difficulties in the international approach. Protected industries have developed a type of political pressure that is quite unique. Internationally minded people often do not realize the extent to which the inefficient American industries have made themselves powerful with Congress. It is quite impossible, for example, at the present time to retire the sugar beet industry. The most we can hope for is to keep it from further expansion.

This country ought eventually to develop a definite national objective which would place a definite limitation upon special local

interests. There ought to be developed in the different localities a feeling that no inefficient industry should be allowed to expand at the expense of a well-rounded national economy.

Mr. Wallace presented some roughly calculated figures on the number of people working in protected and in unprotected industries. He found between four and seven million people employed in industries helped by protection. Some seven to eight million are employed in export industries directly injured by the tariff. The vast bulk of our gainfully employed people—some twenty-nine million—are engaged in industries not directly affected by tariff protection. This includes transportation and communication, wholesale and retail trade, banking, insurance, the professions, domestic and personal service, public service, the building industry, and certain types of agriculture. Some two and a half million are engaged in industries where the benefits and the burdens of the tariff about balance.

Secretary Wallace believes that the device of a higher price for gold, while essential, merely provides a breathing spell during which we may work out a sensible plan with respect to our relationship to the rest of the world. During this period of temporary advantage which our exports, notably cotton, enjoy under the depreciated exchange, it is of extraordinary importance to make a decision with regard to our economic position in the world family of nations. The danger of this monetary policy (and incidentally also that of huge foreign loans) is that it distorts the judgment of individual producers of export goods as to the true eventual market. We are living at the moment in an illusion, but we shall ultimately have to face basic facts in the world market. Hence the necessity of a wise choice in our international economic relations.

MR. BENJAMIN M. ANDERSON, JR.,² proposed the restoration of equilibrium between industry and agriculture. This he believes can best be accomplished through the expansion of foreign trade by means of an adequate reduction of our tariffs. He does not wish to proceed with tariff reduction cautiously. Indeed, he would regard a cautious and piecemeal reduction of the tariff as dangerous to particular manufacturers. Reduce a thousand tariffs adequately and very few among the thousand producing industries would be hurt. If imports are increased sufficiently to stimulate large exports, industry as a whole would be benefited.

Go through the tariff schedules and you will find many rates so high that nothing is imported, others where 1 per cent or 2 per cent of domestic consumption comes in. Lower them all enough to insure an importation of 10, 15, 20 per cent of domestic consumption in

² Economist, Chase National Bank, New York City.

widely diversified manufactures; the resultant equilibrium will provide an increase in domestic buying power for those same products of 30, 40, or 50 per cent. Thus the American manufacturer, sharing an expanded market, would be vastly better off, despite some measure of foreign competition, than he is today.

The question is frequently asked: What specific products can we import without seriously injuring American business? This approach to the problem Mr. Anderson regards as fallacious. He would not single out any special commodities; rather, he would open up imports on a wide front without incurring excessive foreign competition in any line. By opening up the channels of trade, general purchasing power would be increased and the domestic market thereby enlarged.

MR. LIONEL D. EDIE³ disagrees sharply with the views expressed by Mr. Anderson. The attempt to force an ideal (internationalist) program upon the present unsettled world would lead, he believes, to unfortunate results. On the other hand, the more moderate methods advocated to enlarge foreign trade would, under present circumstances, have very little practical significance. No amount of feasible tariff bargaining or tariff concessions is likely, in his opinion, to increase our foreign trade by more than 5 per cent. The extent of the change would certainly not be sufficiently important to warrant any considerable revision of the tariff under present emergency conditions. We could not increase imports enough to make a significant difference without striking a heavy blow at our major industries. We must, therefore, solve our domestic problems first; and of these the most pressing is a revival in our capital goods industries.

MR. JOHN A. ZELLERS, MR. E. P. THOMAS, MR. HARRY TIPPER, AND MR. CURT G. PFEIFFER⁴ all plead for a reduction in tariffs, for putting into the hands of the President the power of tariff bargaining, and for an expansion of our foreign trade.

MR. ZELLERS thinks that we are trying to work with worn-out tools. A large part of the difficulties in which the world finds itself today is attributable to the restrictions which have been put upon the national flow of products from one part of the world to another. Our greatest need, therefore, is a revision of our entire viewpoint with respect to the tariff. There is no way out of our present difficulties except by resorting to the negotiation of reciprocal tariff

³ Chairman, Edie-Davidson, Inc., New York City.

⁴ Mr. Zellers, Vice-President, Remington Rand Company.

Mr. Thomas, President, National Foreign Trade Council.

Mr. Tipper, Executive Vice-President, American Manufacturers Export Association.

Mr. Pfeiffer, President, National Council of American Importers and Traders.

agreements. We are endeavoring to arrange trades with Russia and we should similarly arrange trades with other countries.

MR. THOMAS stressed the importance of foreign trade as an essential feature of our domestic economy. In 1928, he said, our foreign trade provided a livelihood for seven million workers and dependents. At the peak of unemployment during the depression, 14 per cent of those unemployed had been identified with some aspect of our foreign trade. Restoration of foreign trade, therefore, is an indispensable factor in the solution of the unemployment problem.

Regarding the current movement toward self-containment, Mr. Thomas thinks that it is unlikely to advance beyond the stage of academic discussion. It serves chiefly to emphasize the futility of dealing in generalities at a time when our national policies aim at a scientific investigation of the means whereby the United States, as a creditor nation, may absorb a larger volume of imports without injury to our essential national industries.

Tariff-bargaining powers should be given the President and opportunity should be provided for consultation between the government and American industry at every stage of the investigations designed to further reciprocal trade negotiations. The restoration of foreign trade would be materially assisted by appropriate credit extension to exporters. In this connection Mr. Thomas called attention to the fact that American manufacturers had frequently been compelled to relinquish business to foreign competitors solely because they were unable to finance sales through the period of shipment, test and installation, and, in some instances, a period of usage. The government, Mr. Thomas thinks, should undertake to insure or guarantee payments on a percentage of the credit risk on exports of agricultural and manufactured products. When so insured, credits might then be discounted through the existing channels. Some form of credit insurance or guarantee is now available to the exporters of a number of countries, including Great Britain, Germany, France, Italy, Belgium, Czechoslovakia, Norway, Finland, Denmark, and Japan.

MR. TIPPER thinks that we cannot retire from foreign trade and at the same time maintain our standards of living. It is imports that help to increase a nation's economic well-being, and exports are needed to pay for them. The livelihood of millions of workers in wholesale and retail stores, transportation, advertising and selling activities, factories and farms, depends upon foreign trade—upon imports no less than upon exports.

The tariff, Mr. PRERFFER contends, has not been based upon a rational theory. It has, like Topsy, just grown and grown. To deal

with the tariff in a broad, rational way, the institution of a tariff commission representing not only economists but exporters, importers, manufacturers, shippers, and other business interests is recommended.

Mr. Pfeiffer believes that we should deliberately attempt to widen the scope of exchangeable goods by every means not inconsistent with preserving our living standards. There are a number of goods that come into this country which, strictly speaking, are not competitive. Many of them are stimulating and helpful to American production. At present the possibility of permitting the "seasonal" importation of agricultural products from South America is being considered. It may prove wise to extend similar consideration elsewhere to specialists in wine, cheese, and other products, limited as to origin to small geographical areas, and as to competition, by their peculiarly high quality and correspondingly high value. It may be realized before long that it will be as profitable for the Department of Commerce to study foreign countries for suitable import commodities as to find markets for exports.

MR. MATTHEW WOLL,⁵ thinks that we should not delude ourselves in the thought that a development of our foreign trade will help to end the present depression. We must, on the contrary, seek the remedy in our domestic economy primarily, and must therefore reshape our domestic economic policies. An increase in imports would only mean enhancing foreign competition in our own market. If a way were found to increase domestic purchasing power, present exports could and should be consumed by America's own people. We must not lower the tariff if we wish to protect the standards of living of the American laboring man. The policy of giving tariff-bargaining powers to the President is a dangerous one, for although labor has implicit confidence in the present incumbent, it does not know who may succeed him.

Labor has always viewed capital exports with great apprehension, for it has felt that they meant the loss of employment opportunities at home.

What the nation needs is not greater dependence upon the foreign market, but the opposite—greater independence. To assure American workers an opportunity of employment at fair wages it is essential that the American protective policy be maintained, and that the dangers of entangling alliances with foreign nations be avoided.

In the course of the discussion which followed, Mr. Woll indicated that, in his opinion, the only method by which wages were increased in this country was the organized economic power of the

⁵ Vice-President, American Federation of Labor.

workers. In discussing this statement, MR. JOHN H. WILLIAMS⁶ raised the question as to whether it was not true that success in organizing an occupational group depended upon already relatively high wages. If this were so (Mr. Woll agreed it was), were not such high wages due, in part at least, to some prior condition such as high productivity of the industry rather than to organization alone? Proceeding a step further, Mr. Williams then suggested that industries which have high productivity and low unit costs are the industries best able to compete abroad, best able to pay high wages, and therefore most favorable for organization. It follows, Mr. Williams argued, that labor ought not to favor inefficient industries dependent upon tariff protection.

MR. WALTER R. PEABODY⁷ emphasized the fact that in his view the plan of changing tariff rates now is completely out of harmony with the other attempts at internal recovery. We cannot increase importation without a direct threat against our internal wage-raising policy. No permanent gain, he believes, is to be made through reciprocal trade arrangements. A bargaining tariff policy will merely aggravate the political aspects of the tariff. Tariffs will be raised for the mere purpose of reducing them again whenever a bargain is to be made.

In the discussion which followed his statement, Mr. Peabody commented upon the difficulties involved in various tariff formulae. The formula based upon equalization of the cost of production at home and abroad has not worked very satisfactorily. The principle of a ratio of imports to production would involve serious difficulties of a statistical nature, since in about half the cases the classifications and categories of the census of manufactures would not be comparable with customs classifications. Regulation through the size of the ad valorem rate would be equally unsatisfactory, for, based as it is on foreign values, this rate could, in low-cost countries like Japan, rise to high percentages without being very effective.

The Chicago Hearings, April 2, 1934

At the Chicago hearings (where representatives from Minneapolis and St. Paul were also present) appeared the heads of the two leading national mail order houses, the economist of a leading packing company, the director of export of a flour milling company, the head of a large cooperative dairy association, an exporter, an editor of a Chicago paper, a banker, a political scientist, an agricultural economist, and two monetary experts.

⁶ Economic Adviser, Federal Reserve Bank, New York City.

⁷ Secretary, American Tariff League.

MR. SILAS H. STRAWN.⁸ Mr. Strawn's testimony has been presented in full in Part IV, page 273.

MR. GEORGE R. MEYERCORD⁹ spoke officially for the Illinois Manufacturers Association, and as the founder of the American Foreign Credit Underwriters Company. Mr. Meyercord thinks that we should strive for the greatest practicable measure of national self-sufficiency, but that we do not want complete economic isolation.

Foreign trade is eminently unstable, especially that in manufactured articles. Changes in patent laws, erection of foreign branch factories, etc., may occasion the sudden disappearance of important export items.

As to the tariff, Mr. Meyercord proposes a drastic change in the system upon which present tariff making is based. Congress should determine the amount of imports permitted on the basis of a definite ratio of such imports to domestic consumption. The President should then adjust tariff rates so as to keep imports constantly within these limits. American manufacturers should be compelled to make reports of their production based on the classifications of the tariff act, so as to make possible an exact determination of the kinds of goods that are domestically produced and of the quantities of these same goods that are imported. This system would be far superior, in his opinion, to that of adjusting tariffs to the difference in the cost of production at home and abroad.

Tariff bargaining, he thinks, will do more harm than good. Especially for important staple commodities, a market gained at one point is lost elsewhere. Suppose that we sell France or Italy an increased amount of wheat. The fact that these countries bought wheat from us does not create new consumers. We would merely take the business away from another country which would be forced to sell in some other market to which we also are shipping. What we need is a flexible tariff so adjusted as to permit imports in definite small proportions (say 5 per cent) to our domestic consumption.

It is often argued that our export trade should be handled on long-time credits. Mr. Meyercord doubts whether American exports of manufactured goods could be increased more than 2 or 3 per cent at the maximum were we to grant long-term credits. What is needed for our exports is a liberal discount market for 60, 90, and 120 day drafts.

⁸ Lawyer; Chairman, Executive Committee, Montgomery Ward and Company; former President, United States Chamber of Commerce.

⁹ President, Meyercord Company; former President, Illinois Manufacturers Association.

MR. PAUL SCOTT MOWRER¹⁰ believes we should not let the temporary difficulties of the depression influence our judgment too much regarding a desirable long-range national economic policy. Isolation and self-sufficiency viewed as historical phenomena belong to the past and not to the future. To return to them would be a step backward, not forward. Isolation entails dangerous internal economic readjustments and a general lowering of the standard of living. World trade must be restored and the first essential in this restoration is the re-establishment of a stable international monetary system. Experiments such as the proposed commodity dollar varying from time to time and from country to country would hamper, not help, trade. There is no satisfactory substitute for the gold standard. Another important factor is the restoration of international credit through cooperation among the world's leading central banks. Such cooperation is necessary for the control of international credit expansion. It was the collapse of an overexpanded credit, both national and international, which caused the depression.

Tariff bargaining is advocated as a means of temporary relief, but a permanent solution of the tariff problem is to be found only in a *general* downward revision, designed to free the initiative of our international traders and to establish the principle that we need to buy from other countries as well as to sell to them. Congress is capable of dealing more intelligently with the tariff problem now than it has in the past. There is nothing to prevent the Executive from making complete and permanent tariff proposals, but, Mr. Mowrer believes, Congress should jealously guard its constitutional right to pass upon these proposals.

MR. GEORGE E. PUTNAM.¹¹ Mr. Putnam's testimony has been presented in full in Part IV, page 246.

MR. WALTER LICHTENSTEIN¹² believes that in the long run the world would probably be best off if restrictions hampering the free intercourse of nations disappeared, but he warns that such a disappearance must be gradual, since we can hardly expect the people who have invested capital in protected businesses, and the men who earn their living by working there, to sacrifice everything to the removal of tariff barriers.

Long-term capital investments abroad are favored, but short-term credits to banks and industries of other countries should not be widely accorded. Capital which is liable to be recalled at any moment ought not be allowed to wander freely from country to country.

¹⁰ Associate Editor, *Chicago Daily News*.

¹¹ Economist, Swift and Company.

¹² Vice-President, First National Bank of Chicago.

MR. QUINCY WRIGHT.¹³ Mr. Wright's testimony has been presented in full in Part IV, page 281.

GENERAL ROBERT E. WOOD¹⁴ believes that we are moving toward national self-sufficiency and that it will be the best road for us. Of the forty thousand items listed in the Sears Roebuck catalogue there are practically none that could not be produced in this country and very few that are not now produced domestically. (In 1913 imported goods accounted for 3.2 per cent of the company's total sales; in 1920 for 1.8 per cent; in 1929 for 1.5 per cent; and in 1933 for 0.73 per cent. The largest percentage in the past twenty-five years was 3.2 per cent in 1913.) Export trade based on a low standard of living of the exporting nation is of little value. Our largest export item (cotton) has always been grown at the price of pauper labor. General Wood, however, does not advocate a total cessation of international trade nor a total abolition of our imports and exports. There will always be room for the interchange of products specially native to certain varieties of soil and climate. But as long as there are wide disparities in the standards of living of the various nations, the trend will be toward more and more national self-sufficiency.

As to the monetary policy, General Wood is a firm believer in the policies adopted by the President. The commodity dollar, he thinks, is, in theory at least, the ideal monetary standard. Had we gone off the gold standard in October, 1931, at the same time England did, we would have escaped much of the distress that occurred between that date and March, 1933. The recovery that has taken place thus far is almost entirely due, in General Wood's opinion, to our present monetary policy.

MR. R. F. BAUSMAN¹⁵ believes that the progressive shrinkage in our exports has had effects detrimental to both agriculture and industry and has undoubtedly aggravated the domestic depression. Export trade should therefore be revived. The intelligent marketing of our surpluses alone offers a fundamental relief to agriculture. Increased exports would bring traffic to our railroads and steamship lines, and increased business for a variety of allied industries.

As to the flour trade in particular, it has maintained itself surprisingly well in the face of keen competition. During the 1920's United States flour was shipped to ninety-five countries and territorial divisions. The volume of trade was large and dependable, and for a long period ranked in importance with cotton and grain. With the exception of automobiles, no other commodity or impor-

¹³ Professor of Political Science, University of Chicago.

¹⁴ President, Sears Roebuck and Company.

¹⁵ Director of Exports, Washburn Crosby (General Mills).

tant article of export had so wide a distribution. American flour trade has shown a serious decline only since the recent widespread adoption of extreme exchange controls. Flour imports declined and wheat acreage and production increased in those countries where wheat growing might otherwise have been expected to decrease. At the same time flour consumption also declined because of higher wheat costs and lowered bread quality.

MR. C. M. WYNNE¹⁶ points to greater foreign trade as the only stable basis for our future prosperity. If exports are not revived we shall not be able to put our labor back to work and to restore a level of prosperity such as we have known in the past. Our tariff policy since the war is inconsistent with our new position as the world's leading creditor nation. The tariff must be lowered to make possible the importation of foreign commodities produced by countries which in turn represent important outlets for our own agricultural surpluses. Changes in our tariff should include bargaining and reciprocal trade agreements. As to monetary policy, Mr. Wynne believes that a stabilization of exchanges is badly needed. He recommends the inclusion of silver as a monetary base to facilitate international monetary stability.

MR. O. B. JESNESS¹⁷ Mr. Jesness' testimony has been presented in full in Part IV, page 216.

MR. HARRY D. GIDEONSE¹⁸ Mr. Gideonse's testimony has been presented in full in Part IV, page 196.

MR. MELCHIOR PALYI¹⁹ Mr. Palyi's testimony has been presented in full in Part IV, page 236.

MR. JOHN BRANDT²⁰ doubts the alleged advantage of importing into any nation products that can be produced in sufficient quantities within its own boundaries. There should be no possible question regarding the protection of commodities, such as dairy products, for example, of which we can unquestionably produce a sufficient quantity for the American market. We should permit the free importation of those agricultural products that are least disturbing to American production and definitely safeguard the American market to the American farmer for those products that can be produced economically and in sufficient quantity at home.

We cannot limit production to American requirements and withdraw from foreign markets, for we would thus make our foreign

¹⁶ Managing Director, Overseas Industries, Inc.

¹⁷ Chief, Division of Agricultural Economics, University of Minnesota.

¹⁸ Professor of Economics, University of Chicago.

¹⁹ Professor of Economics, University of Chicago; formerly Economist, Deutsche Bank, Berlin.

²⁰ President, Land O' Lakes Creamery, Minneapolis. Mr. Brandt was unable to be present but submitted his paper in writing.

markets available to the foreign producer and, in effect, be curtailing production at home to the advantage of foreigners.

To maintain and advance American standards of living, Mr. Brandt advocates a price and production control plan for agriculture, based on the establishment of a minimum fixed price for all major farm products, permitting price increases over and above that minimum according to conditions of supply and demand. The minimum fixed price should be protected in the home market by a tariff or by an embargo from foreign competition.

The Des Moines Hearings, April 30, 1934

At the Des Moines hearings emphasis was placed on reduction of our tariff barriers as a means of restoring the foreign trade of agricultural commodities. Mr. Milo Reno, however, advocated a continuation of our protective policy. While recognizing the importance of foreign trade as a means of relieving the farmer's distress, Mr. John Thompson called attention to such means as a planned system of production control and an increase in productive efficiency. With the exception of Mr. Reno, all the witnesses who expressed themselves on the subject were in favor of a return to a stable international gold standard. Mr. Carl Weeks, who did not appear before the Commission, but submitted his views in a letter, joined Mr. Reno in advocating a policy of economic isolation and national self-sufficiency.

MR. L. E. HOFFMAN²¹ believes that foreign trade is needed to market agricultural surpluses; otherwise sufficient acreage must be withdrawn to reduce crops to the domestic demand. Curtailment of agricultural production would, moreover, reduce the numbers engaged in lines related to agriculture. Meat operators, creamery workers, fence producers, makers of cotton gloves, packers of fruits and vegetables, etc., would be adversely affected; 75 per cent of Iowa's factories, employing 20 per cent of all gainful workers in the state, depend upon farms for raw materials. The crowding into other lines, due to inability to achieve a freely expanding production, is indicated by the increase in Iowa from 10.3 per cent in 1910 to 12.9 per cent in 1929 of workers engaged in trade. We do not need more middlemen, but there was no place else for workers to go.

In the long run it is doubtful whether our farmers would tolerate a scheme permanently limiting production. At heart the farmer is a pioneer and does not like coercion and supervision. The remedy is foreign trade, mainly with countries whose industries are complementary to our own.

²¹ Dean, School of Commerce, Drake University.

As to foreign investments, we must either trade with our debtors or cancel the debts; for debts can only be paid in the form of goods or services.

To MR. CARL WEEKS²² a policy of economic isolation and national self-sufficiency seems a logical development. In his own business there are today, he thinks, few if any countries with whom the expense and effort necessary to develop an export trade are worth while because of existing nationalistic restrictions and limitations. He believes that in industry and agriculture we shall increasingly have to depend upon ourselves, and that national economic planning should be addressed toward that end.

It would be desirable to place international trade on the basis of international barter. Such barter should be conducted by the departments of commerce of the various governments. This would permit direct exchange of surpluses for foreign goods of which there is actual need.

MR. CHARLES E. HEARST.²³ Mr. Hearst's testimony has been presented in full in Part IV, page 210.

MR. W. W. WAYMACK²⁴ thinks that grave consequences affecting not only our already shrunken trade but also our system of government must be faced if a real and permanent adjustment to a policy of self-sufficiency is sought. He is unable to conceive of the kind of strictly bossed or planned economy which such an adjustment would necessitate.

We have no workable system of evolving a sensible tariff policy. Congress will never be able to legislate a set of tariff schedules without utterly irrational logrolling. The power to make trade and tariff arrangements should therefore be given to the President. American agriculture needs foreign trade desperately; the methods proposed would greatly contribute to that trade.

MR. F. I. HERRIOTT²⁵ believes that among the factors responsible for our present difficulties none is more serious and important than our protective tariff.

As to lard, in consequence of practically giving it away, the American people ate, last year, two pounds more per capita than ever before. The German market might be regained for lard, and Cuba would be glad to recognize our advantage in lard production if we would recognize hers in sugar.

Mr. Herriott pointed out that New England, fifty or more years ago, was seriously injured when the agricultural West was devel-

²² President, Armand Company.

²³ President, Iowa Farm Bureau Federation.

²⁴ Associate Editor, *Des Moines Register and Tribune*.

²⁵ Professor, Department of Political Science, Drake University.

oped, and that it faces the same difficulties in textiles today. Adjustments must be made to changed conditions or the country will be confronted with growing subsidies and relief.

MR. JOSEPH W. CONARD²⁶ regards national isolation as dangerous in that it tends toward exaggerated political nationalism and war. The expansion of foreign trade would be of particular benefit to the agricultural region of the Middle West. Secretary Wallace's suggested middle course seems thoroughly sound as the most practical immediate step.

MR. JOHN THOMPSON²⁷ called attention to the fact that population in America is not growing as it did in the past fifty years. There can consequently be but little agricultural expansion within this country unless foreign markets for agriculture are found. The farm problem overshadows in importance all other national economic problems, for the prosperity of our industrial population depends upon the buying power of our farmers.

Citing Dr. O. E. Baker of the United States Department of Agriculture, Mr. Thompson said that 44 per cent of all farm products exchanged commercially are produced by 10 per cent of the farmers located upon the most productive land and 49 per cent of all our farmers, located on the least productive land, contribute only 10 per cent to the farm products commercially exchanged. If the poorer land continues to be populated we must make some radical changes in agricultural efficiency in order to bring to these farmers sufficient buying power to maintain an American standard of living.

The farm problem cannot be permanently solved by governmental purchase of marginal land and its withdrawal from cultivation. Such a plan would remove millions of people from farming areas and throw them back on an already overcrowded industrial system, or on public support. We must therefore continue to cultivate the poorer land. This may not be commercially profitable, but it can continue to provide support for the people who reside there. The development of subsistence homesteads and of part-time farming projects by industrial workers is a step in the right direction.

MR. T. W. SCHULTZ²⁸ Mr. Schultz's testimony has been presented in full in Part IV, page 268.

MR. GERARD S. NOLLEN²⁹ does not believe the "commodity dollar" to be practicable. The administration was right, however, in abandoning the gold standard. This was in line with monetary re-

²⁶ Representing student body of Grinnell College.

²⁷ Editor, *Wallace's Farmer and Town Homestead*.

²⁸ Acting Head, Agricultural Economics, Iowa State College of Agriculture and Mechanical Arts.

²⁹ President, Bankers Life Insurance Company, Des Moines.

adjustments made throughout the world and with the necessity of stabilizing our present price and credit structure. An advisable program to follow in our monetary policy should include the following points: First, the use of monetary gold should be confined to international trade transactions. Second, fixed safeguards against credit inflation such as gold reserves and bank reserve requirements should be replaced by a more flexible system resting on restrictive and regulatory powers placed in the hands of a properly qualified federal authority. Third, we should not yet restore a definite statutory gold value for the dollar. The dollar should be allowed to seek its own level internationally. Fourth, we should ultimately return to a fixed and stable gold dollar through international agreement. This would remove an important element of uncertainty in foreign trade. A variable gold content is not a workable means of controlling the price level, as recent experience has shown.

MR. JOHN COWLES²⁰ urged the restoration of a gold standard at the earliest possible date. He does not think it necessary nor advisable to wait indefinitely for an international agreement on currency stabilization. A loss of several million dollars of gold, he believes, would help to strengthen the price levels of foreign countries and would prove more beneficial than harmful.

MR. B. F. KAUFFMANN²¹ gave a brief discussion of monetary policy. Mr. Kauffmann thinks that since the bank holiday there has been a tremendous change in the financial condition of the whole country. Financial institutions have been brought to a point where they are strong and able to handle any business expansion which may occur. The current large reserves must now be made available to the business community. New security issues should be encouraged, and to that end some changes should be made in the Securities Act. The confidence of the investing public should be restored, possibly through an announcement from the White House, assuring the people of the United States that a sound monetary program will be strictly adhered to.

MR. MILO RENO²² expressed the belief that we have had but one honest dollar in the United States and that was the greenback dollar. Consequently he advocates large issues of paper money by the government to help alleviate the people's present distress. It is as much the duty of Congress to issue a legal tender as to protect the country and maintain an army. As to tariffs, Mr. Reno thinks that we should continue to enforce our protective policy. He believes that agriculture in this country is entitled to protection. Exports

²⁰ Associate Publisher, *Des Moines Register and Tribune*.

²¹ President, Bankers Trust Company, Des Moines.

²² President, Farmers National Holiday Association.

are not important, for if all the people were having "three square meals a day" there would be a food problem instead of a food surplus. Statistics show that less than 10 per cent of the food produced in the United States is exported. If domestic purchasing power were restored that 10 per cent could easily be consumed at home.

MR. JOHN W. STUDEBAKER³³ gave a description of the means which have been employed in the Des Moines area to produce a more enlightened and intelligent public opinion. The Des Moines public school system received a grant from the Carnegie Corporation with which to initiate the establishment of public forums in the Des Moines area for a five-year period. So far 341 meetings, led by competent discussion leaders, have been held and over 47,000 people have attended. The public has participated in the venture with great interest. From a questionnaire sent out to those attending the forums it was learned that 44 per cent are in favor of a "sound" currency. Other questionnaires have been sent out and Mr. Studebaker has promised to supply the Commission with a tabulation of the answers given by the group.

MR. HENRY S. NOLLEN³⁴ submitted a written statement. A proper balance between prices is needed, and this problem has not been solved by the action of the federal government in changing the gold content of the dollar. The tariff has favored specific industries at the expense of other lines of production. Tariff making ought not to be a political problem. For this reason Mr. Nollen favors granting, at least temporarily, the tariff-making power to the President.

The Denver Hearings, May 1, 1934

At the Denver hearings there appeared a director of a mining company, the secretary of the Colorado State Federation of Labor, a former officer of the Denver Chamber of Commerce, an investment banker, professors in two universities, an attorney, and a judge of the District Court.

MR. FREDERICK A. BUSHEE³⁵ advocates freer international trade, first, because without it complete economic recovery will be impossible, and second, because nationalism may lead to a reactionary political movement, such as Fascism, and possibly to war. The tariff should be reduced as soon as possible through reciprocal trade agreements. To accomplish anything, the power to negotiate them must be given to the President, who will make use of the Tariff Commission for the elaboration of technical details.

³³ Superintendent of Schools, Des Moines.

³⁴ Equitable Life Insurance Company, Des Moines.

³⁵ Professor, University of Colorado.

MR. CHARLES N. BELL⁸⁶ believes in the maintenance of our protective system. If, during the boom period, the foreign business of the United States amounted to 10 per cent of the total, in normal times it may not exceed 7 per cent. A portion of this 7 per cent is gained at the expense of surrendering a part of the home market. In view of the fact that other nations protect their markets to the utmost it seems desirable for the United States to forego a portion of the foreign business, raise tariffs to the point where foreign goods become luxuries, and then make reciprocal trade agreements covering necessary raw products and materials.

Let us say that one-fourth of the beet sugar requirements are now supplied by the United States farmer and three-fourths by foreigners. In the great effort now being made to do something for the American farmer would it be amiss to reverse this proportion and give the foreigners one-fourth of the market under a reciprocal trade agreement and keep three-fourths for the American farmer?

MR. JOHN E. CROSS⁸⁷ thinks that a policy of self-sufficiency and isolation is undemocratic and unchristian. We have a moral obligation to assist less fortunate nations in the elevation of the social and living standards of their people. It is doubtful whether civilization can progress if any nation endowed with abundant natural resources should attempt to isolate itself from the peoples of the world. A major contribution toward the establishment of world peace can be made by following a policy of freer international trade.

Our tariff legislation has been largely the result of "logrolling" and "back-scratching." The labor movement in this section has recognized that highly protected industries have largely been low-wage and long-hour industries. (Example, the beet sugar industry.) It is significant that the higher the protective tariff on beet sugar the lower the earnings of the beet field workers.

There is considerable merit in the program of reciprocal trade agreements. To leave the question of tariff making in the hands of Congress invites all the iniquities of political logrolling. Proposals for tariff making should be entrusted to a commission independent of both the President and Congress and free from official pressure in the discharge of its duties. In a good many instances downward revision of the tariff is desirable.

A monetary system based upon the commodity dollar should be adopted.

War debts should be canceled, for whether they are paid in cash or in kind, payment will have a demoralizing effect upon employment and the economic standards of the people of this country and

⁸⁶ Director, Cresson Consolidated Gold Mining and Milling Company.

⁸⁷ Secretary, Colorado State Federation of Labor.

will mean a further impoverishing of the people of the debtor nations.

MR. BEN M. CHERRINGTON²⁸ believes that the world has become a community, and the security and self-interest of America demands that it be subjected to the control of reason and law. Existing international institutions created to serve the mutual interests of nations must therefore be strengthened and new ones established. In this undertaking America should cooperate intelligently and consistently. Some of the immediate steps which should be taken in the field of international economic relations are:

1. The President of the United States should be granted the power to negotiate bilateral and multilateral tariff agreements.

2. An international monetary conference should be called in the near future for the purpose of stabilizing currencies. In this connection the functions of the Bank for International Settlements at Basel should be expanded.

3. An international group of experts, possibly the Economic and Finance Section of the League of Nations, or the International Bank, should be charged with responsibility for investigating fields of investment where well-secured international loans promise a revival of trade and industry. The resulting business should be apportioned to participating nations on an equitable basis.

4. Disputes over trade agreements and treaties which are juridical in character should be submitted to the World Court for decision. The United States should join the World Court at once.

5. In international as well as in national affairs it is impossible to distinguish sharply between matters political and matters economic. The League of Nations provides the machinery whereby the nations, by unanimous agreement, may determine the rules and standards of international conduct. Fifteen years of experience have demonstrated many weaknesses in that machinery as well as elements of strength. A League commission is now studying the revisions that are called for. The United States should cooperate with this Commission and should join the League.

MR. A. D. H. KAPLAN²⁹ believes that the American people must clearly envisage all the implications involved in the two main roads, the nationalist and the internationalist, open to them in international economic relations. If we pursue a policy of nationalism we must be prepared to curtail our foreign commerce both on the import and the export side. If we do not want the goods of other nations in payment of their debts to us, we must be prepared to write off these debts. If we are not to export our surplus farm products

²⁸ Head of Department of International Relations, University of Denver.

²⁹ Head of Economics Department, University of Denver.

we must pursue a policy of drastic reduction in the area of our cultivated farm lands and be prepared to face large shifts in our population.

We must also envisage the fact that no nation has been endowed by nature with a perfect variety of climate and resources. Self-containment would mean, in certain directions at least, a lower and less fully rounded standard of living. Personally, Mr. Kaplan favors the international approach and a lowering of our tariff barriers.

In the course of the discussion, Mr. ARTHUR BOSWORTH⁴⁰ pointed out that while the sugar tariff should not be eliminated at this time, the sugar beet industry would not fear a gradual reduction over a sufficiently long period of years.

Asked to express his views on the silver question, Mr. WILLIAM E. RUSSELL⁴¹ said that in his opinion more silver should be used as money and the old ratio of 16 to 1 reinstated. JUDGE DUNKLEE⁴² also urged that silver be remonetized. He believed that this would raise prices and help the debtor class. Mr. MORRISON SHAFROTH⁴³ remarked that inflation has a tendency to run on without limit in the case where greenbacks are issued, whereas there is a natural limit fixed to an inflation through the remonetization of silver. Mr. KAPLAN pointed out that in his view the quantity of money is not the important factor. We now have more money than we can use. The important thing, rather, is to find a way to use the money we already have.

The San Francisco Hearings, May 3, 1934

A discussion of the difficulties involved in getting the mass of the people in our democracy to realize the logic in a program of tariff reduction and expansion of international trade was presented by Mr. Chester H. Rowell. The opinions of California's leading women's organizations were summarized by Mrs. Lucas. Mr. Teague, representing the fruit growers, pleaded for maintenance of our protective tariff. Mr. Chase, though recognizing certain advantages of international trade, presented a statement calling attention, from the point of view of the practical business man, to the arguments in favor of protection. Mr. Paul Scharrenberg defended protection as a factor aiding in the maintenance of the American worker's standard of living. Mr. Charles Horst submitted a paper presenting the protectionist argument from the point of view of a farmer and citrus fruit grower. An interesting discussion on the possibility of

⁴⁰ Investment Banker.

⁴¹ Former President, Denver Chamber of Commerce.

⁴² Judge, District Court.

⁴³ Attorney.

stimulating business revival through capital investments in underdeveloped areas was presented in a paper submitted by Mr. Landauer. Representatives of export corporations, shipping interests, mining, banking, and finance argued for the international position.

MR. C. C. TEAGUE⁴⁴ cited the California citrus and walnut industries as examples of the wisdom of a protective tariff policy under which American industries may be developed until they are in a position to supply the entire domestic market.

Protection has permitted the development of this large industry, giving work to American labor and to many other domestic producers and middlemen. This protected industry supplies the consumer with a good product produced under American standards of living at a fair price. It is reasonable to expect that the actual volume of our foreign trade would be increased to a greater extent by maintaining our domestic industries and thereby increasing our buying power for such products as rubber, coffee, etc., which are on the free list, than would be the case under lower tariffs. The proposal to give the President power to adjust tariffs would place tariff schedules in continual revision and would seriously affect the return of confidence, which is essential to a return of prosperity.

MR. IRA B. CROSS⁴⁵ thinks that the Hawley-Smoot tariff has caused us unending trouble in our relations with other countries and hopes that the present Congress may do something to permit a downward revision of our tariff barriers.

Mr. Cross believes that the survival of the capitalistic system depends upon the retention of a large measure of flexibility. If flexibility is lost, as represented by the failure to revise tariffs, things develop in a most unsatisfactory way and the cumulated rigidities are bound in one way or another to be broken in a general collapse.

As to monetary policy, Dr. Cross views sympathetically the monetary experiment of the present administration, but feels, nevertheless, that the results achieved in terms of higher prices are on the whole disappointing.

MR. F. L. LIPMAN⁴⁶ thinks that it is to the advantage of the United States to follow the accepted maxims of international trade. Everything should, so far as possible, be produced in the region best adapted to such production. If it pays for New York State to trade with Michigan it would seem logical that trade with Ontario, which lies between them, would also pay. Tariff making by Congress degenerates into political logrolling and therefore should be entrusted to an impartial authority.

⁴⁴ President, California Fruit Growers Exchange, Los Angeles.

⁴⁵ Professor of Economics, University of California.

⁴⁶ President, Wells Fargo & Union Trust Company.

The present monetary policy is criticized on the ground that the essential characteristic of money is certainty and definiteness. A commodity dollar would fail because of lack of these two characteristics. A return to the traditional gold standard is advocated.

That part of the war debts which can fairly be viewed as a partnership contribution by the United States should be written off. That part which can be viewed as trade debt (sale of physical assets remaining in Europe after the Armistice) should be paid, although it is probably too late to make this distinction now. In any event, payment of the debt in full would mean that for some decades European workmen would be kept employed, instead of American workmen, and this America cannot afford. In addition, Mr. Lipman pointed out that the fundamental consideration in all debt is that it cannot be paid except from the productive use of the money borrowed. If money is borrowed and spent recklessly, past savings are dissipated. The proceeds of war debts were as a matter of fact wasted, not husbanded. As to foreign lending, in the confusion now existing regarding the sanctity of government promises, a prudent man would probably hesitate to loan abroad until some new understanding is reached as to the meaning of good faith in intergovernmental transactions.

MR. J. R. FINLAY⁴⁷ believes that the American people are isolated already and are suffering from it. The real function of a protective tariff has been to promote immigration, i. e., its effect was to import foreign labor instead of the products of foreign labor. Gradual diminution of tariffs is favored, but a pessimistic view is taken as to the possibility of its practical realization. The tariff-making power should not be transferred to the President. The war debts might as well be canceled, for loans can be repaid only through importation of goods or services.

MR. THEODORE H. BOGGS⁴⁸ believes that a program must be devised by which a breach may be made in the vicious circle of retaliatory restrictions on international trade. Trade barriers mean a lower standard of living. A nationalistic economic policy means regimentation and increasingly vigorous economic control. In our effort to reduce existing barriers we should not enter into commercial agreements of any exclusive character. Preferential rates, unless tempered by most-favored-nation treatment, easily lead to antagonisms and tariff wars. Tariff reduction should not be based upon a general flat reduction of duties nor upon a reduction of duties confined to the high-rate schedules. The best plan would be to select special commodities and industries for tariff reduction. To

⁴⁷ Mining Engineer, Redlands.

⁴⁸ Professor of Economics, Stanford University.

initiate some reduction as soon as possible is important in order to change world attitudes. In part the Ottawa Agreement was the consequence of our uncompromising tariff policy.

In the course of the discussion which followed his statement, Mr. Boggs called attention to the fallacies involved in the equalization of the cost-of-production principle as an argument for protection. Even in our own country exact determination of the cost of production for a given industry is extremely difficult, for there are just as many costs of production as there are producers of a particular commodity. In the case of foreign countries, exact determination becomes practically impossible.

Mr. Boggs pointed out that the lace, linen, and embroidery manufacturers in 1930 promised increased production, with consequent enlargement of employment in return for an increased tariff against French imports. The proposal was defeated by pressure from the automobile trade, which was exporting fifteen times more in value than the imports in question, and whose exports might be threatened by reprisals.

Mr. IAN ARMSTRONG⁴⁹ thinks that the world has been suffering from overproduction on the one hand and inability of populations to take advantage of these surpluses on the other. Evidently something is wrong with our distributing system. The tendency undoubtedly should be toward a freer flow of goods and services. We have been moving in the wrong direction and it is high time that a change be made. We have failed to realize that our creditor position demands acceptance of payments from foreigners in goods and services. As to the war debts, we should follow the precedent set by Great Britain after the Napoleonic wars, namely, cancellation. An all-round tariff reduction is advocated in preference to tariff bargaining and special agreements. It was urged that it would be much more practical to reduce all duties 10 per cent in exchange for a similar reduction by other countries, on the ground that all interests would thereby be treated without discrimination and each industry would thereby contribute equally to promote the good of all. Such an arrangement once established would provide the principle for future reductions.

Mr. FRANK S. GAINES⁵⁰ believes that the revival and restoration of international trade is essential to permanent economic recovery and the well-being of the United States. Although less than 10 per cent of our production is normally sold abroad, many economic groups are dependent upon foreign trade. Other countries have abundant need for the surplus production of the United States and

⁴⁹ Balfour, Guthrie & Company.

⁵⁰ President, California Corrugated Culvert Company.

we, in turn, need a variety of goods from abroad. It is, therefore, in the public interest to support a government policy aiming at the encouragement and stimulation of foreign trade. As a practical step in that direction, we should enter into reciprocal trade agreements with foreign nations along the lines suggested by the President. Among other benefits, such a course would tend to retard the expatriation of American factories to other countries and therefore help provide employment for American labor.

MRS. WILLIAM PALMER LUCAS.⁵¹ Mrs. Lucas' testimony has been presented in full in Part IV, page 225.

MR. PAUL SCHARRENBURG⁵² believes that tariff protection is an effective means of maintaining the high standard of living of the American workman. He thinks that the practical difficulties confronting the removal of tariff barriers are insurmountable. Are we, he asks, to permit Japan to dump her products into California when the standards of living of our workmen are so much higher than theirs? If the workers of the world had the same standard of living, the outstanding reason for the world's tariff barriers would be removed. Mr. Scharrenberg advocates birth control as an important factor in aiding equalization of international standards of living.

MR. CHESTER H. ROWELL.⁵³ Mr. Rowell's testimony has been presented in full in Part IV, page 258.

MR. ROGER D. LAPHAM⁵⁴ believes that it is time to swing from narrow isolation back to a freer international flow of goods and services. A general downward revision of the tariff is favored. The President, and not Congress, should negotiate and put into effect reciprocal tariff agreements, since no legislative body can write an intelligent or businesslike trade agreement. A stable international monetary system is necessary to maintain a normal international exchange of goods and services. The President should be given the authority to reduce war debts in return for concessions made by debtor countries.

As an illustration of the inflated value of the war debts consider the freight rates at which 450 to 500 shiploads of our surplus products were transported to Europe at the close of the war. The freight rate charged in the bill ranged from \$40 to \$60 per ton. Today the rates are from \$3 to \$5 per ton. In one case \$10 a ton was charged merely to change the arrival port.

MR. ELMER CHASE⁵⁵ would approach the problem of tariff revi-

⁵¹ League of Women Voters.

⁵² General Secretary, California State Federation of Labor.

⁵³ Editor, *San Francisco Chronicle*.

⁵⁴ President, American-Hawaiian Steamship Company.

⁵⁵ President, Richmond Chase Company, San Jose.

sion cautiously. Theoretically, reducing the tariff on manufactures would create larger markets for our agricultural products. It is impossible, however, to determine whether the benefits to agriculture would be greater than the loss suffered by the industries affected. The delegation to the President of the power to adjust tariffs is not favored, as the danger exists that all the factors involved may not be weighted properly when tariff revision is made. This objection would be lessened by permitting the industries affected to present their views at an open hearing. In general, if increased tariffs have contributed to any considerable extent to recovery in England, it is difficult to understand how generally lower tariffs in this country would contribute to our own recovery. It would require the wisdom of a superman to estimate correctly the gains and losses involved in downward tariff revision.

MR. PAUL DIETRICH⁶⁶ thinks that without a well-developed export business the standard of living of American people cannot be maintained on a satisfactory level for any period of time. Without export trade a large part of our agricultural production would remain unsold. The logical international economic policy to follow is therefore one aiming at a re-establishment of freer international trade. The creditor position of the United States demands that we encourage a larger amount of imports. Reciprocal trade agreements would be a desirable means to achieving this end. The authority to make such agreements should rest in the hands of the President. With regard to foreign debts, a commission should be formed to study carefully compensatory equivalents which might be demanded from each debtor in return for a reduction or cancellation of the debt. A freer international flow of goods and services is not likely to be restored until the leading nations are back on a stable international gold standard. Our government should use its influence with other nations to re-establish a permanent international gold standard.

MR. PERCY C. DENROCHE⁶⁷ thinks that economic isolation is thoroughly undesirable, as it would reduce our standard of living. The development of Japan in the last fifty to sixty years is a splendid example of the advantages of free international flow of goods and services. The best avenue for a permanent improvement of our economic condition is to be found in a gradual downward revision of the tariff. Reciprocal trade agreements and tariff bargaining would also be helpful. As a typical case of excessive tariff protection, the 1922 tariff on Oriental low-priced vegetable oils is cited. Such oils had formerly been imported in large quantities, were used

⁶⁶ Vice-President, Bank of America.

⁶⁷ President, S. L. Jones & Company.

all over the continent by soap manufacturers, and were re-exported in the form of finished products all over the world. After 1922, the importation of low-priced Oriental oils practically ceased; these oils went to European soap factories, with the result that American soap manufacturers lost their foreign markets. American railroads, shipping concerns, banks, and insurance companies lost, in consequence, a very profitable source of revenue.

Dollar devaluation has been beneficial to American export business, but very detrimental to American imports. The throttling of our imports, however, ultimately means the throttling of our exports. There must be a fair exchange of commodities and services in order to achieve prosperity in this and other countries. War debts should be reduced in exchange for trade concessions. Future foreign lending should be carried on under government supervision.

MR. GEORGE W. DOWNER⁵⁵ believes that the gold standard is the least objectionable monetary standard. The United States should join with other leading countries in seeking the removal of obstacles responsible for its breakdown. International monetary and financial operations are retarded by a set of independent national monetary systems. A commodity dollar would not help in achieving domestic price stabilization and would demoralize international trade. In returning to an international gold standard the adoption of the following measures would be advisable: a general reduction in central bank reserve requirements; the removal of controls over exchanges and gold movements, leaving the latter to natural forces; the abolition of all gold coinage, and restriction of the monetary use of gold to the settling of international balances; the removal of war debt and reparation payments as disturbing factors in international finance and exchange; the building up of an effective system of central bank cooperation; the substitution of reciprocal trade agreements for the present excessive trade barriers.

MR. E. CLEMENS HORST⁵⁶ believes that fundamentally the variety and wealth of our national resources entitle our nation to the greatest prosperity. There is no reason why many millions of people should remain involuntarily unemployed. Our national problem is one of applying our productive capacity to supply the present and future increased wants of our people. In a plan for a cure of our present economic ills, one must face the facts to which unemployment, low wages, and ruinous farm prices are due. The chief among these facts is the competition which American producers and their labor suffer from foreign labor and foreign producers. To overcome unemployment it is necessary to stop practically all importation of

⁵⁵ Professor of Economics, Stanford University.

⁵⁶ President, Clemens Horst Company.

products that are either directly or indirectly competitive. Reduction of imports would also curtail exports, but this is not harmful. It would permit us to retain valuable natural resources and would prevent producers from seeking to compete in foreign markets by reducing domestic wages and other costs. As soon as we put into force the policy to import only essentials which cannot be produced domestically, we shall discover a solution of our problems of distress and unemployment of farm and factory workers.

MR. CARL LANDAUER⁶⁰ thinks that the development of closer relations between the highly industrialized countries and the world's less developed areas is a desirable policy. We can achieve prosperity only by resuming investment for productive purposes. The real problem is *where* to invest. In the parts of the world which have not yet reached a stage of economic development equal to that of Europe and the United States, there are visible opportunities for productive investment. Many worth-while projects could be found which could easily absorb the sums of money that can be and should be invested in order to start recovery.

But if these undertakings are profitable, why are they not carried through in a capitalistic world in which entrepreneurs are always eager for profits? Because of complete destruction of confidence. A single investment is profitable only if other investments can and will be made. In a period of depression a single entrepreneur cannot go forward because other entrepreneurs will not support him in his action. The single investment must be part of a whole investment program. A central body must guarantee the single investor that complementary investments will be forthcoming.

The only countries which, for political reasons, could at present cooperate in such an endeavor are the United States and the British Empire. A common development plan of the United States and different parts of the British Empire, looking toward improvement of production and traffic relations within those areas which are comparatively underdeveloped, would offer hope for fundamental recovery. The door should be open, of course, for other nations to join.

The new projects would at first have to be financed by new credit supplied directly or indirectly by the central banks. New money, instead of savings, must be used in order to start the financing of the proposed international development plan. The central body of the system proposed in the plan should be an international board or commission responsible for guaranteeing the justifiable character of the individual investments and the interdependence of the investments as a whole. Such a policy could be continued

⁶⁰ Department of Economics, University of California.

much longer than the usual public works program. The moment always comes when, for purely fiscal reasons, a public works program must be stopped. Because of the creation of productive assets behind the credits and because technically it would not increase the public debt, except perhaps to a very limited amount, it seems to Dr. Landauer that a project of investment in undeveloped areas would stand a good chance of becoming a successful means to recovery.

The Houston Hearings, May 7, 1934

MR. A. B. COX⁶¹ predicated his discussion on the assumption that the United States is striving to secure for its people the highest possible standard of living and security. Standards of living depend upon the richness and variety of natural resources and the efficiency with which they are utilized. Consequently, the first problem confronting the United States is to determine whether the country possesses all the natural resources essential to the fullest satisfaction of the wants of its people. If certain resources are lacking within the country so that some goods cannot be produced except at unreasonable cost, then a policy of self-sufficiency is detrimental.

Since the most-favored-nation clause is practically a dead letter, commerce should be promoted through reciprocal trade agreements and tariff bargaining. As a temporary measure, tariff-bargaining power should be given to the President. Action taken should be on the advice of a scientific and nonpartisan board, which would make recommendations to the President on its own initiative and would be compelled by law to make periodical reports and recommendations. These reports would be effective means to stimulate national thinking on desirable economic policy.

Mr. Cox favors neither the method of uniform reduction on all tariff schedules nor the lowering of all rates in excess of a 50 per cent ad valorem equivalent.

Reduction in war debts should be used as a source for bargaining to establish better economic and political relationships throughout the world. A dependable clearing house of information should be established regarding foreign securities offered in this country.

Speaking of the future of the cotton industry, Mr. Cox said that he thought the cotton-grower must be made aware of the fact that his future profits must come from lower costs of production (obtained through more efficient and more mechanized production) rather than from trying to keep prices artificially high. As a result of prevailing cotton prices, rayon production in the United States

⁶¹ Bureau of Business Research, University of Texas.

has increased by 50 per cent. If prices are kept unduly high foreign cotton producers and domestic producers of other textiles will make serious inroads on cotton markets. In discussing the Bankhead Bill for the reduction of cotton acreage it was pointed out that as a temporary measure the overwhelming majority (90 to 95 per cent) of the cotton-growers were in favor of it.

MR. BEVERLY D. HARRIS⁶² pointed out that much of the lack of unanimity in national economic policy is due to the fact that we have so recently become a creditor nation and that we have not quite been able to adjust ourselves to this new condition. We must recognize the fact that if we are to be paid we must accept payment in goods or services. Tariff barriers, the main obstacle to such payment, must be done away with gradually, in order not to harm too severely the industrial structure erected behind the existing tariff wall. The lowering of tariffs would be of particular benefit to the South—a region forced to sell its main products against the competition of cheap labor all over the world and to buy what it needs in the world's most highly protected market. The war debts, an important obstacle to the resumption of normal international trade relations, should be gotten rid of by a moratorium or by outright cancellation.

MR. CHARLES H. POE,⁶³ without contributing specific information, expressed the interest of labor in his state, and his own personal interest, in the work of the Commission.

MR. H. WINKLER⁶⁴ advocated revision of our tariffs through a nonpartisan, nonpolitical commission. There are many tariffs (that on sugar, for instance) which are too low and prevent the expansion of domestic industries. High tariffs in general have, in Mr. Winkler's estimation, always been beneficial to the country.

COLONEL R. C. KULDELL⁶⁵ pointed out that in his own field, the manufacture of tools for mineral oil production, there was no foreign competition and that large sales of his products had been made abroad. During the depression his foreign business has shrunk considerably. To revive it, little help could be expected from government-made, reciprocal trade agreements. To obtain trade, personal representatives must be sent abroad equipped with samples and sales enthusiasm. It is the free give-and-take among business firms throughout the world, not government planning, that keeps the wheels of trade and industry turning.

MR. VICTOR SCHOFFELMAYER⁶⁶ pointed to the vital interest which

⁶² President, Second National Bank of Houston.

⁶³ State Labor Commissioner.

⁶⁴ President, Central Labor Trades Council.

⁶⁵ President, Hughes Tool Company.

⁶⁶ Agricultural Editor, *Dallas News*.

Texas has in foreign trade. The state, he said, exports 95 per cent of the cotton and from 60 to 75 per cent of the wheat it produces. This explains the interest with which Texas cotton men are watching foreign developments in the field of cotton production. The present American situation is particularly favorable to foreign expansion of production. Once this expansion has taken place and foreign markets are lost it will be most difficult to recapture them. As to tariffs, we should gradually lower them through the efforts of an impartial commission and through reciprocal trade agreements; the tariff-making power, however, should, except in a temporary emergency, remain with Congress. If not totally canceled, payments on war debts should at least be postponed for ten or fifteen years.

MR. J. S. CULLINAN⁸⁷ believes that what the nation needs at the present moment is an expansion in its monetary means of payment to be brought about by additional paper issues and by the reinstatement of silver as a monetary base. As to foreign trade, in Mr. Cullinan's view, the first essential is to maintain cordial relations with other countries. We attach, however, in his judgment, too much importance to our foreign trade. Such trade normally amounts to only 8 or 10 per cent of domestic trade.

MR. MARCELLUS FOSTER⁸⁸ called attention to the changing world in which we are living. Time-honored institutions (in the sacredness of which we were brought up to believe) such as constitutional rights, state rights, and the gold standard, are undergoing profound changes. Modern inventions and machinery have altered world conditions. When our Constitution was written every man had and was guaranteed equal opportunity. Today millions have no opportunity to make a living and we must make these opportunities for them. Things we once thought should not be changed had to be changed. Some of our more recent and far-reaching experiments may fail but some have already been, in part at least, successful.

MR. PETER MOLYNEAUX⁸⁹ pointed out that the South has been at an economic disadvantage, in relation to the country as a whole, for more than one hundred years because of the policy of economic nationalism followed by the federal government. He thinks that we have come to a time when the old system will not work any longer. The international economic relations of our country were profoundly altered by the war. We have become a creditor nation and must look forward to, and be prepared for, a drastic change in our balance of trade. We cannot carry on with the policy of a high pro-

⁸⁷ Capitalist, former President, Houston Chamber of Commerce.

⁸⁸ Editor, *Houston Press*.

⁸⁹ Editor, *Texas Weekly*.

protective tariff, which implies that we shall sell but not buy. Without foreign trade no domestic prosperity is possible. As a matter of course, our efforts should be directed to the restoration of world trade and to the participation of the United States in expanding world commerce. To obtain a stable basis for such trade foreign exchange relations must be stabilized.

As to the tariff in particular, a general horizontal downward revision is undesirable, since it would perpetuate existing irregularities and create new ones. To give the President trade-bargaining powers also will not help the general export situation. What is needed is a patient, persistent policy of international cooperation.

MR. FRANK A. BRIGGS⁷⁰ believes that a policy of economic isolation is not desirable since it would necessitate strict regulation of production and the licensing of farmers and manufacturers. To such regulation, in particular the Bankhead Bill, Mr. Briggs strongly objects.

Foreign trade should be re-established by a gradual downward revision of the tariff. A first move in this direction should be made by the United States, which is the greatest offender in the matter of high tariffs. What is needed, however, is not a sudden sharp reduction, but rather a new long-range, nationally thought-out tariff policy.

The power to negotiate tariffs ultimately lies with Congress, but there are times when this power could advantageously be delegated to the President.

High tariffs applied by other nations as a defense against our own tariffs have forced many of our industrialists to erect branch factories in other lands. These factories consume the raw materials of other countries and employ their labor. This is in direct contradiction to the old theory that tariffs protect American labor and the American farmer.

MR. WILL CLAYTON,⁷¹ Mr. Clayton's testimony has been presented in full in Part IV, page 183.

MR. J. W. EVANS⁷² thinks that the proposal of a few uninformed individuals advocating a policy of economic isolation can hardly be taken seriously. There are many basic commodities and manufactured articles obtained from abroad which are as essential to our modern life as are the things which are produced in this country. The sentiment in favor of economic nationalism has increased with the coming of the depression. Many of the existing quotas, high tariff rates, and trade and exchange restrictions are direct con-

⁷⁰ Editor, *Farm and Ranch*, Dallas.

⁷¹ Of the firm of Anderson, Clayton and Company.

⁷² President, Evans and Company.

sequences of the economic crisis. American exporters face the question of how long these barriers will continue to obstruct trade channels. During the last few years the margin between our exports and imports has been gradually narrowed.

While the measures adopted under the Industrial Recovery Act and the AAA tend to decrease our competitive capacity in world markets by raising domestic prices for manufactured and agricultural commodities, dollar depreciation has had a tendency to increase it. Care must be taken, however, not to push devaluation too far, for competitive devaluation of currencies would soon end in complete international chaos.

The resumption of lending abroad for meritorious purposes would have a beneficial effect upon our export trade.

As to tariff bargaining, Mr. Evans thinks that the President should be given the power to make such bargains with foreign nations. The opportunities for bargaining, however, are likely to be quite limited. Political conditions and considerations will inevitably be given careful consideration.

As to the war debts, Mr. Evans advocates a small payment to liquidate the debt and thereby to allay the hostile attitude of foreign nations toward us. In concluding, Mr. Evans stated that in his opinion there is urgent necessity for a downward revision of the tariff and a better understanding on our part of the attitudes of foreign people.

Mr. J. H. HURTON¹³ called attention to the fact that our exportable cotton surplus must be sold to foreign buyers at a price competitive with foreign-grown cotton in a non-protected world market. For his commodity the American farmer requires payment in dollars. The only way in which the foreign buyer can procure such dollar balances is through imports into the United States. At present the cotton farmer is suffering, not from the lack of foreign markets, but from the lack of dollar balances on the part of foreigners. The reason for this lack is that our tariff does not permit the imports through which such dollar balances can be created. The tariff discriminates doubly against the cotton farmer: first, in the high cost which the farmer has to pay for manufactured articles; second, in decreasing the buying power of his foreign customers. Our tariff should be so reduced as to give foreigners an opportunity to sell in our market and thus obtain dollar balances with which to pay the cotton farmer. This in turn would permit the farmer to patronize domestic industry and stimulate domestic industrial activity.

Instead of lowering the tariff, the real issue has been evaded by offering substitute measures for the benefit of the farmer. But an

¹³ President, Texas Cotton Association.

analysis of these measures shows that they have neither succeeded in giving the cotton farmers any net benefits nor in evading successfully the real issue. The cotton farmer is still a seller in an unprotected market and a buyer in a highly protected one. The devices adopted to limit our production, such as the Agricultural Adjustment Act and the Bankhead Bill, will undoubtedly encourage an increase in the production of cotton on the part of foreign countries, and if carried to their logical conclusions will finally result in our production being limited to domestic requirements. We shall thus have lost our foreign markets for our principal export commodity.

Artificial attempts at a control of supply and demand simply cannot work out satisfactorily in actual practice. This was clearly illustrated by the Farm Board experiences and will be illustrated again by the policies of the present administration. These devices were created to offer a substitute for a reduction in the tariff. They are and will continue to be ineffective subterfuges for evading the real issue, which is that of a drastic reduction in tariff barriers and a resumption of world-wide reciprocal trading. To permit such trading with some degree of intelligence and safety, it is important that international exchange rates be stabilized and definitely fixed.

MR. R. W. WIER,⁷⁴ voicing the sentiment of the soft and structural wood industry, which, he said, is the third largest employer of labor in the country, pleaded for the adoption of adequate measures to prevent the dumping of Russian wood into the United States. Russian lumber, he pointed out, is produced by a country that controls its own timber, owns its own ships, and uses unfree labor. Since we have recently recognized Russia, we cannot discriminate against her alone. To protect the American lumber industry it is therefore necessary that our present tariff on lumber be maintained.

MR. GEORGE SEALY⁷⁵ fully endorsed the remarks made by Mr. Molyneaux and Mr. Clayton as to a desirable cotton policy. In addition he warned that in matters of economic policy personal interest cannot but play a rôle. Many Southern democrats who have industrial interests naturally lean to some measure of tariff protection, while, on the other hand, prominent cotton men tend to refrain from vigorous expression of their views against what they honestly believe to be economic fallacies in order not to be accused of defending a selfish interest. There is no doubt, Mr. Sealy pointed out, that the administration's cotton policies have already resulted in a substantial increase of foreign cotton production. There is no

⁷⁴ President, Wier Longleaf Lumber Company.

⁷⁵ President, Galveston Wharf Company.

reason in Mr. Sealy's opinion why the South, which in the last decade received more than \$750,000,000 per year for its exported cotton, should permit other countries to take away its foreign outlets.

In concluding, Mr. Sealy advocated an adjustment of our foreign debts and a gradual scaling down of our tariff in order that the South may regain its export markets.

MR. J. W. SARTWELLE.⁷⁶ A policy of economic isolation, Mr. Sartwelle thinks, is utterly opposed to the ultimate best interests of the United States. If any nation in the world can exist on a self-contained plan, ours surely can; but for a larger and freer life, a free international flow of goods and services is essential.

As to the tariff, Mr. Sartwelle believes that there should be a definite and clear-cut policy. There should be no upward changes except in very rare cases, and beginning as soon as it is possible, we should gradually revise our tariff schedules downward. Flat reduction of all high schedule rates is not favored. Each schedule should receive individual attention by a nonpartisan commission, with ample notice to the industry concerned of any material reduction and with sufficient time allowed for the industry to make necessary adjustments.

Reciprocal trade agreements, tariff bargaining, and quota arrangements are not favored. Ours should be a broad, straightforward policy, open to the world, as becomes our position as a large and strong creditor nation. Transfer of tariff-making powers from Congress to the President is not viewed with favor, but Mr. Sartwelle believes that in the present emergency and in the interest of more expeditious action, Congress might temporarily delegate to the President certain of its tariff-making powers.

As to monetary policy, Mr. Sartwelle questions whether the maladjustments of international trade can be cured through currency management. Gold, he believes, is still the best and most adequate base for a medium of exchange.

As to war debts, while their final collection is out of the question, they should be used in international negotiations for the reduction of armaments and for the furtherance of international peace.

In future international lending, new borrowers should not be penalized for the default of previous ones, and new opportunities for our investors should not be curtailed on account of previous defaults.

Mr. Sartwelle advocated joining the League of Nations and the World Court, thereby assuming the position to which the United States is entitled in international affairs.

⁷⁶ President, Port City Packing Company.

MR. J. E. McDONALD⁷⁷ believes that tariff walls for the protection of manufacture and labor must be maintained, but tariff benefits must be extended to agriculture.

A production basis for the major agricultural crops should be established through annual proration. This would give to each farm its pro rata share in the American market at the parity price now provided for in the Agricultural Adjustment Act.

After the year 1934 the government should not seek directly to control the production of American agricultural crops, but should, through annual proration of such crops, seek to maintain full prices for the part domestically consumed. Production for foreign markets should be freely undertaken by those farmers and agricultural sections which could produce cheaply enough to compete successfully with crops produced abroad. The parity price would have to be maintained by a subsidy raised by means of a processing tax. The entire country would contribute in paying this tax, but its distribution, in turn, would benefit American industry and American labor.

In the course of the discussion following Mr. McDonald's statement, Mr. Molyneaux asked whether by subsidizing the farmer we might not lose our foreign markets. India, for instance, might refuse to buy British goods if Great Britain should continue her purchases of subsidized American cotton. Embargoes on American-grown cotton, Mr. Molyneaux fears, may be the result of a domestic cotton subsidy. Asked by Mr. Sartwelle whether a general policy of tariff reduction permitting foreigners to sell in the American market and consequently to buy American cotton more liberally would not be better than a complicated policy of internal subsidies, Mr. McDonald replied that this might be so, provided the tariff could be reduced. Personally, however, he believed that it was politically impossible to tear down the tariff walls.

MR. L. P. GABBARD⁷⁸ thinks that we must first decide on the fundamental issue of whether we are to follow a nationalistic path or a program of international cooperation. Once that decision is made, a logical program predicated upon it should be elaborated. Personally Mr. Gabbard believes that if we give up the markets of the world and adopt a program of self-sufficiency this cannot but mean a drastic reduction in agricultural production and a consequent decrease of employment. Under a nationalistic program a high standard of living cannot be maintained. In grappling with our present internal difficulties Mr. Gabbard said that the program of Professor Graham of Princeton, who suggests large purchases

⁷⁷ Commissioner of Agriculture, Texas.

⁷⁸ Texas Mechanical and Agricultural College.

from some of our leading industries in order to put our people to work, would bring about a greater degree of employment in a much shorter time than the experiments currently tried. Mr. Gabbard has no confidence whatever in recovery through negative policies of restriction and control.

Mr. HARRY C. WIESS⁷⁹ pointed out that in 1933 Texas produced 45 per cent of the nation's petroleum and refined 25 per cent of it. In Texas petroleum is the first in importance of all local industries. During the depression the petroleum industry as a whole was fortunate. Consumption struck a minimum in 1932 when the demand was about 15 per cent less than the 1929 peak. Exports in the industry have been considerably curtailed because of relatively large reserves of crude oil outside of the United States and because of the barriers erected by several European countries against foreign petroleum products. But since our export business amounts to only about 13 per cent of total production, the decrease in exports does not involve a very considerable reduction in employment or serious loss of revenue.

In concluding his remarks Mr. Wiess pointed out that there is a large amount of American capital invested in the petroleum industry in foreign countries and that our policy should be to protect these American investments abroad.

Mr. J. W. GARROW⁸⁰ emphasized the fact that the fundamental cause of farm distress still appears to be the failure of the majority of our citizens to recognize the importance to agriculture of a radical readjustment in our tariff policies. Legislation has been fostered providing for compensatory rather than actual relief. The main motive of the Agricultural Adjustment Act is to give the producer a tariff benefit by passing on to him a processing tax collected on the crop domestically consumed in return for the destruction of part of the crop or for leaving a part of the land unplanted. While the NRA tends to create employment in industry, the AAA will produce unemployment in rural areas. Faced with this situation the South must fight for honest economic internationalism and refuse to permit further makeshifts to be imposed upon it. American crops controlled in advance by compulsory acreage production, topped, if necessary, by federal orders for crop destruction or bale confiscation, may give decided impetus to increased foreign cotton production and mean the loss of world domination in cotton production and marketing for the American producer. One step in the right direction would be to give the President the tariff-bargaining powers asked for in his tariff message.

⁷⁹ Vice-President, Humble Oil Refining Company.

⁸⁰ President, American Cotton Shippers Association.

MR. T. L. EVANS⁸¹ pointed out that our tariff has been raised so high that many foreign articles are practically excluded from the American market. Yet this freedom from foreign competition has not saved millions of workers from involuntary unemployment. It is now beginning to dawn upon both farmer and city dweller that the tariff does not insure prosperity, that it contributes rather to destroy profitable foreign trade and to raise the cost of living of the entire nation.

The day of the infant industries when there was a real argument for tariff protection is past. The tariff does not protect American high wages because high wages depend upon productivity.

Since production is now low in all branches of industry, this is the time to establish a new tariff policy. Such a policy would not cause important readjustments in the immediate present but would make possible business recovery for those industries which are efficient and do not require high tariff stimulus.

The opportunity now presents itself for the United States to take the lead in solving a great world problem. An American proposal made at the present time for a simultaneous horizontal reduction of tariff walls would unquestionably meet with good response. Then the American factories which have gone abroad because foreigners followed our example of practically prohibiting two-way trade may come home again and resume the employment of American labor.

The New Orleans Hearings, May 8, 1934

The participants in the New Orleans hearings were unanimously in favor of enlarged foreign trade. All urged the granting of tariff-making powers to the President. Some witnesses favored the continuance of free world competition in cotton, while the representative of the Cotton Association advocated control of domestic prices but freedom to produce for the export market at world prices.

The speakers represented cotton associations and cotton exchanges, a shipping company, transportation, a fruit-importing company, a rice mill, banking, and export trade.

MR. N. O. PEDRICK⁸² thinks that at the bottom of the desire for economic isolation is fear—fear of war and fear of foreign competition by producers. Far from robbing domestic laborers of employment, imports have made possible the maintenance of our export trade and have given employment to workers in our export industries. Even the strongest advocates of self-sufficiency must concede the necessity of importing such commodities as coffee, tea, spices,

⁸¹ Manager Foreign Department, Chamber of Commerce, Houston.

⁸² General Manager, Mississippi Shipping Company.

tin, and rubber and of exporting such staples as cotton, tobacco, oil, lard, etc. Those who say that the importation of very cheap manufactured articles is detrimental to domestic industry do not realize that these cheap articles will be bought by people who would not otherwise have been able to afford to buy these goods at all. In addition, the transportation, handling, and sale of these goods afford employment to a large number of domestic laborers, while the countries producing them and selling them to us are thereby given the opportunity of buying from us in return.

Some foreign countries are producing at considerably less cost a class of goods produced in the United States. Belgium, for instance, has certain natural advantages in the production of high-grade cement. Should the tariff on Belgian cement be so adjusted as to permit importation, the effect on the domestic industries would be insignificant as compared with the advantages which would accrue to the people living in or adjacent to the ports. When cement was imported free of duty it developed at a congressional hearing that the total amount of cement imported into the United States did not exceed 2 per cent of domestic production, because of the fact that the cost of transporting cement from the port of entry to interior points more than offset the lower foreign prices. Under the present high tariff, very little cement can be imported from Belgium, and consequently Belgium cannot buy as much of our cotton and other products as she formerly did.

The most definite step made by the administration for the improvement of the foreign trade situation is the request of the President that Congress give him authority within certain limits to enter into reciprocal tariff agreements with foreign nations. An emergency exists, and that should be the justification for Congress transferring, under reasonable restrictions, the right of tariff making to the President.

MR. JOSEPH LALLANDE⁸⁸ confined his statement to recommendations for increased trade relations with the West Indies and Central and South America. In this connection Mr. Lallande thinks that the United States government should encourage extension of credit facilities to responsible exporters; that provision should be made for the appointment and maintenance in Latin America of competent representatives of the Department of Commerce or of a special department dealing exclusively with foreign trade matters; that tariff laws should be amended so as to encourage importation from countries where we expect to sell our own products; that, in education, greater emphasis should be laid upon the study of the Spanish lan-

⁸⁸ General Freight Agent, Southern Pacific Lines.

guage, and Latin American students should be encouraged to attend our colleges.

MR. C. O. MOSER⁶⁴ believes that the hope of restoring pre-depression buying and debt-liquidating power lies in the re-establishment of the level of commodity prices and other values prevailing during that period. A Federal Monetary Authority should be created and given complete control over the issuance of currency, the determination of the gold and/or silver content of the dollar, the purchase and sale of gold and silver bullion, the financing of short-term government obligations, and open market operations. In short, such an authority should be charged by Congress with the task and responsibility of establishing and maintaining whatever commodity price level Congress finds necessary in the interest of the public welfare.

As to war debts, reduction would be the lesser evil. We cannot hope to continue to be a large surplus-producing nation, a high-tariff nation, and a huge creditor nation at the same time. We must choose among these conflicting alternatives.

Agriculture is entitled to the same protection as other industries. Regardless of the fact that the tendency in the immediate future must be to lower rather than raise the tariff walls, the protective system should be equally applied to agriculture, and then the entire schedule lowered in a systematic and orderly manner. Reciprocal trade treaties should help to overcome reprisals and embargoes now existing against American exports in many foreign countries. The President, or better still a federal tribunal, should be given the necessary power within definitely prescribed limitations to enter into reciprocal trade treaties with other nations.

There has been some confusion with respect to the program of controlled cotton production. Under efficient production methods American producers are prepared to meet world competition, and have no thought of reducing their production to domestic needs. Cotton producers, however, recognize the effect of their production upon world price and object to demoralizing the world price through their own efforts. Once the carry-over is reduced to normal requirements there is no probable danger that cotton-growers will voluntarily reduce their acreage or baleage. In the meantime there is no shortage of American cotton for world consumption. If, as a result of production control, the increased world price should materially stimulate foreign production, we may find it necessary to guarantee parity price for that portion of our production domestically consumed, and leave to the discretion of American producers the right

⁶⁴ Vice-President, American Cotton Cooperative Association.

to grow, without restriction, as much cotton as they desire for the world market. This plan would permit every individual producer to decide for himself whether under existing conditions he is able to produce in competition with the world market in excess of our domestic needs.

MR. C. P. ELLIS, JR.,⁸⁶ in a paper read for him by Mr. Planche, pointed out that it would be impossible for the South, which had been producing a surplus of cotton for world markets for 200 years, suddenly to shift to a domestic basis. Economic prosperity in the South depends upon foreign trade, and to restore such trade our tariffs must be reduced.

MR. BEN J. WILLIAMS⁸⁸ pointed out the lack of balance existing between the purchasing power of foreign nations and the amount of goods we wish to sell to them. He opposed the granting of further loans and advocated drastic tariff reduction and reciprocal tariff agreements. He pointed out that, according to a recent survey, 68 cents of every dollar flowing into New Orleans come from foreign trade. He urged full production by farmers and sales at world prices. As an exporter he favored the granting of export credits by the government.

MR. JAMES E. BOYLE⁸⁷ emphasized the quadruple impasse of surplus production necessitating exports, a creditor position necessitating an import balance, our present high tariffs, and the present depreciation of our currency. The remedies suggested are more production at lower costs, cancellation of war debts, lowering of the tariff, and return to a definite gold standard in response to a need which is "instant, overwhelming, and not admitting of delay."

MR. R. S. HECHT⁸⁸ pointed out that "human unwisdom, greed, gambling, and overambition" had proved stronger than the forces of the gold standard. He endorsed the administration's abandonment of gold and recognized the need of raising prices to restore solvency. He urged, however, the return to world-wide agreement on a uniform monetary policy based on strong metallic reserves as a means of installing into the business world the confidence necessary to the resumption of normal international economic relations. While the commodity dollar has much to commend it theoretically, it would constitute an untried experiment, carrying with it grave dangers of inflationary tendencies which it would become difficult to control. Moreover, human and political elements necessarily entering into the administration of its mechanism would add further uncertainty to its practical results.

⁸⁶ President, New Orleans Cotton Exchange.

⁸⁷ Pope, Williams and Company.

⁸⁸ Professor of Rural Economy, Cornell University.

⁸⁹ Chairman of the Board, Hibernia National Bank.

MR. CRAWFORD H. ELLIS⁸⁹ urged efficient production at world prices and, if necessary, the selling of surplus stocks at special prices. He emphasized the importance of the restoration of normal trade relations, and advocated reciprocal trade agreements and an increase in imports.

MR. FREDERICK W. RICKERT⁹⁰ in a paper read for him by Mr. Edmonds pointed to the tariff walls against milled rice built up by other countries. Relief might be found in reciprocal trade agreements. Greater purchases of rice by Latin America would readily follow an increased absorption by the United States of Latin American products. He pointed out specifically how our failure to purchase flax from the Argentine had forced them to develop the production of rice. He urged a horizontal lowering of tariffs and specific revision of tariff schedules accomplished with the advice of skilled nonpartisan specialists.

MR. WALTER PARKER⁹¹ believes that, in the United States, the period of huge economic expansion has come to an end, and that business in all lines must adapt itself to a greatly altered economic environment. The environment on which the calculations of our business men were mainly based—an ever expanding country and an ever ready foreign market—no longer exists. The tariff should be rapidly reduced in an effort to rebuild our foreign markets. Our protective policy destroys the necessary price parity between agricultural and industrial commodities. The South obtains between \$400,000,000 and \$600,000,000 from the export of cotton,⁹² and that money is fed as new economic life blood to all Southern enterprises. If the export market for cotton is destroyed, economic harm of the very first magnitude results not only to the South but to the country as a whole.

⁸⁹ Vice-President, United Fruit Company.

⁹⁰ President, Rickert Rice Mills, Inc.

⁹¹ Economist, Fenner and Beane.

⁹² In 1928 the figure was over \$900,000,000.

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* This list does not include those whose memoranda or oral statements are published in this volume. It does include not only those who actively assisted the Commission by special memoranda, conferences, and answers to inquiries, but also a considerable number whose early endorsement of the idea of such an inquiry was helpful in initiating it.

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* Dr. Welk was in the service of the Commission as assistant to the Director of Research until September 1, 1934.

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