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INTERNATIONAL TRADE IN RELATION TO AGRICULTURAL DEVELOPMENT

FIRST OPENING PAPER

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BECAUSE of a misunderstanding I received the request to give an opening address on this subject just a few weeks before sailing. Under these circumstances it would perhaps have been better not to venture upon this task, but the request was so urgent that I could not resist, and so I have put my ideas on paper, not as a base, but as an exordium for a discussion.

Free trade, in the sense that every one is able to buy all his requirements where they are cheapest to obtain, whereas every seller is able to dispose of his goods in the place where he can get the highest prices, probably never existed. Although after 1850 various countries recognized the principle of free trade, in nearly every country the production of certain goods was promoted artificially. Before the World War this was generally done by imposing a duty on imported goods and by allowing export bounties and subsidies on products to be exported. Next to this, however, many special ways of protecting home produce were found. I need only point to the many ways in which the home production of sugar in almost every country was advantaged and to the disabilities on the importation of live cattle, nominally to prevent contagious diseases being introduced, but in reality with the specific intention of reducing competition of foreign cattle or of excluding them entirely.

In spite of these measures to protect home produce, an extensive trade in goods all over the world was to be observed before the War of 1914. This trade not only took place on a large scale between neighbouring countries, but many articles, especially agrarian ones, such as wheat, corn, rice, sugar, &c., were dispersed in large quantities over the globe. They formed the base of world trade, against which other parts, especially Europe and the United States, exported industrial goods.

After the War, however, we observe everywhere a further development of the endeavour to produce the necessary requirements primarily or entirely at home. Next to and backed by political

nationalism, economic nationalism is developing with the undertone of a conviction that in case of war it is of the utmost importance for each country to be independent of imports from other countries with regard to the principal requirements. Even mighty England is developing the cultivation of sugar-beet within her own boundaries at the cost of high subsidies.

To advance international trade and especially export trade as much as possible, almost every country enters into bilateral treaties, whereby the favoured-nation clause, whether combined with a differential tariff of import duties or not, is generally applied to promote exports. Whilst this procedure was at first satisfactory, more and more ways and means have been thought of, especially since 1920, to make the consequences of the favoured-nation clause inactive without open discrimination. A well-known example is the live cattle trade of country A with which the countries B and C each have a trade agreement including the above-mentioned clause. If born in mountainous districts, the cattle are subject to a comparatively low import duty, but if born in lowland districts are liable to a high duty. In the case of country B, for instance Holland, which is all less than 300 feet above sea-level, the favoured-nation clause is respected *pro forma*, but by the above-mentioned differentiation is suspended *de facto*.

Thus for every country the necessity arose of entering into a separate trade agreement with each country with which trade relations are maintained, stipulating quantities to be imported or to be exported and the terms on which this may take place; this was especially the case after the general introduction of the quota system by which imports above certain quantities are prohibited. The negotiations about these agreements show the truth of the old adage that, in order to be able to export, one has to import as well. Many countries are obliged to lower high import duties on goods which can be produced at home, or to enlarge low quotas, because otherwise the opposing party cannot be expected to open its frontiers to the exports of the first country.

A new and important element in this development is the fact that gradually more and more countries are compelled to prohibit or to restrain the export of gold and of international currency. This leads to the so-called *clearing-treaties*, so that in principle claims from country B on country A can only be paid for with claims from country A on country B. From the free commercial relations between these countries nothing remains, and the governments consult together about the quantities of the various goods to be imported

and exported. For the sake of the stability of the exchange of one of those countries, or of both countries, the trade between them by means of clearing is usually fixed on a lower level than would be the case without difficulties in exchange. Taking this into account it is not surprising that, especially after 1929 when because of the depression the governments of all countries were obliged to take steps to prevent the collapse of their production-system, world trade volume has diminished sharply. If, because of the drought, the United States had not been compelled to import wheat and other foodstuffs, the decrease of the trade volume of these products would probably have continued even during 1935 and 1936.

As a result of the endeavour of many countries for agrarian autarchy the changes in the volume of international trade in foodstuffs probably have a more permanent character than the decline of trade in manufactures. According to the *Commerce mondial de la Société des Nations* the course of foreign trade in four of the most important countries (Great Britain, the United States, Germany, and France) reads as follows (1929 = 100):

	1932	1933	1934	1935	1936
Foodstuffs . . .	89	83	82	85.5	85.5
Raw materials . .	81.5	87.5	88	91.5	95.5
Manufactures . .	59	60.5	66.5	69.5	75.5

As to the gold value of this foreign trade the following figures are given (1929 = 100):

	1932	1933	1934	1935	1936
Foodstuffs . . .	46.5	37.5	34	34.5	36
Raw materials . .	36	35	35	36	39.5
Manufactures . .	37.5	34	33	33.5	36

It stands to reason that only the *government* of a country can decide about the conclusion of a trade- or clearing-agreement. In this respect the interests of different parts of the population are often diametrically opposed to each other. As a rule the producers insist upon the restriction of the import of an article, and many a time, indeed, the government is willing to allow the import of small quantities only, especially for the sake of employment in its own country. The first difficulty is that in this event a government will often come into conflict with the interests of large groups of consumers who have great political influence.

Moreover, all the drawbacks of the Mercantilism of the seventeenth century then arise, viz. that many final products of one branch

of industry are raw material or aids and appliances for other sources of prosperity. If a country restricts its imports too drastically, it causes damage to the interests of industries and branches of agriculture producing for export. These exports as a rule diminish automatically in the same proportion as the imports in a given country are restricted. Therefore a compromise has usually to be made between the various parties. In such a case it is impossible to reckon with all interests in the same proportion.

In view of the interests of national defence, of fighting unemployment, as well as of the maintenance of essential industries and branches of agriculture, it cannot be prevented that those who produce for export and those who engage in international trade or shipping are often damaged in their business. In my own country, for example, the import of nitrates, formerly as a rule supplied by Germany, is restricted. Nowadays Germany supplies less nitrates, and consequently our export to Germany under the clearing treaty has diminished; and because the exports of my country to Germany consist almost entirely of agrarian products, whereas the import of industrial goods is restricted, the export of agrarian products suffers. On the other hand, I have a vivid recollection of the indignation of parties concerned with the glass-industry in my country when the Government admitted a large quantity of bottles in order to be in a position to get rid of a large surplus of vegetables.

Of which products have the exports to be restricted? This is one of the problems which will eventually cause the greatest difficulties to governments if a just and proper arrangement is to be made. It is impossible to indicate lines along which this problem can be solved *internationally*, as each country has to take account of its own national position from a social and economic as well as from a political point of view.

In my country the products are divided into three groups, i.e.:

- (a) the industrial products;
- (b) the agrarian products;
- (c) the colonial products.

The aim is to maintain the export of each of these groups in equal proportion; for this purpose the export during a certain basic-period (in this case 1933-4) is taken as a starting-point.

Apart from the fact that this method might work rigidly and is therefore undesirable, there are other reasons as well why the desired proportions in the export of various products cannot always be reached or maintained. In this respect it is not the exporting country alone which can decide. The country which imports also takes

a hand in these transactions and very often is not interested in the products which the exporting country has to offer. The result being a compromise, the interested parties can no longer judge whether the negotiators for the government have tried sufficiently to obtain the best possible export quotas for a certain group of producers. This leads to jealousy and dissatisfaction, especially when export difficulties increase.

When the economic structure of a country is not complicated, or when a country exports only a limited number of products, as is the case with many young and colonial countries, it is probably possible to make clear to the parties concerned that the negotiators endeavour to look after all interests in the same zealous way. But in other countries, particularly in many West European countries, where the interests of industry and agriculture are very diverse, many difficulties arise. This year, for example, the government of my country, where cattle-breeding forms the most important branch of agriculture, had to allow the import of beef, notwithstanding the fact that our cattle stock has been restricted artificially, because without a restriction we would have far too much meat. It is not surprising that under these circumstances the need for importing foreign beef is not understood by most people. The reason was that at the time we had a large surplus of other agrarian products. In order to be able to export these products we had to accept that an article which we can produce abundantly ourselves had to be imported. In this case, therefore, the interests of producers of cattle and arable products conflicted with each other. Also horticulture, which in my country forms one of the most important groups of producers of export products and whose interests have been badly hit by the economic crisis, has to be supported often at the cost of cattle-breeding and agriculture.

In those countries where people have the liberty to stand up openly for their interests in newspapers or in meetings and to criticize the policy of their governments these conflicts of economic interests often give rise to sharp expressions of dissatisfaction. As a rule this dissatisfaction is concentrated on the government. Actually this is a drawback of a government being mixed up in the conflict of interests between the various groups of citizens. Their dissatisfaction could go so far that the foundations of the state would eventually be endangered.

Those who wish to prevent their country running such a risk are of the opinion that the government's interference in private trade and free production should not be more than is strictly necessary. Besides, it will be wise for the government to publish the lines along which

it intends to regulate trade policy, in order that every one will be convinced that this policy is justified in the interests of the country as a whole.

In countries which have had an old-established and a well-developed trade the handicap caused by the measures and the restrictions of the government is generally felt more than in countries which for the greater part are self-supporting and therefore have little foreign trade. For a small and densely-populated country where agriculture and horticulture, up till 1929, depended to a great extent on an export trade, the consequences of the international trade restrictions are, of course, much more serious than for large and more thinly-populated countries, such as, e.g., Germany and U.S.A. For countries producing mostly agrarian products of which only a few sorts are exported, the problems, although they may be severe and not easy of solution, will be less complicated as a whole.

All measures which have been taken by governments in order to minimize the effects of the agrarian crisis tend to diminish the volume of international trade and to make it follow a different course.

It is clear that as a consequence of imperial preference the sources of United Kingdom supplies of cereals, butter, sugar, bacon, &c. are changed from what they were before the Treaty of Ottawa. Moreover, this country, Canada, has experienced the grave consequences of the fact that the European countries which formerly bought American and Canadian wheat in large quantities now try to support themselves. The endeavours of the governments of the Provinces and of the Dominion to extend as much as possible the trade of their principal product—wheat—have not met with the success, either for Canada or for the States, which so many farmers had expected.

In 1936, at the Conference at St. Andrews, Mr. Cairns of the Wheat Advisory Committee in London gave an opening address on 'Commercial Policy and the Outlook for International Trade in Agricultural Products'. The speaker restricted himself principally to the prospects of the international wheat trade, concerning whose future he was not at all optimistic. Many speakers after him shared his opinion, although some of them were more optimistic. I think the latter have been wrong and that the revival of the wheat trade and wheat prices situation in 1936 was not a sound and natural one; it was more a reaction to too drastic restrictions in some countries, combined with a series of very dry years in North America and with an effort of war-fearing countries to replenish their stocks which had

diminished too severely. In the last two years we have, as a matter of fact, perceived little of a general revival of free trade. Also in the near future I presume that we shall not see much of it. The number of countries which for social or political reasons do not wish to expose their own producers, and particularly their farmers, to the competition of foreigners is increasing rather than diminishing. If I am not mistaken, in Europe the view that a farmer is not to be considered only as some one who cultivates a plot of land, on which wheat or potatoes or sugar-beets are grown, is gradually gaining ground. Countries wishing to maintain a farming class in order to build up a firm social structure of a powerful nation cannot accept free trade, now or perhaps ever.

Another complication is caused by the fact that bit by bit in various countries widely diverging price-levels are to be observed. Whereas formerly articles could be consigned to different countries with about equal profits, it is no exception that an article nowadays can be exported to a certain country at large profits (provided the seller has an import licence, of course), whereas the export to another country can take place only at a loss. Of course, we cannot expect private business to export at a loss. If, therefore, a country wishes to maintain its trade with its old relations as much as possible, it is often compelled to call into being an official or a semi-official institution which will take off the cream of excessive export profits in one case and allow export premiums in other cases.

The present trends still point to a tendency towards further development in the direction of government interference and government control. In 1936 the Prime Minister of my country took the initiative for a more liberal traffic between various countries of western and northern Europe. The larger European countries did not join this so-called Treaty of Oslo, and, although at first, in the beginning of 1937 when the situation showed an improvement, the prospects for the treaty theoretically looked rather favourable, the new depression in 1937 so much increased the opposition against a renewal of the pact in 1938 that it has been discontinued.

The efforts of the Belgian Prime Minister, Mr. Van Zeeland, who visited the principal countries in Europe and also the U.S.A. in order to examine the possibilities of enlarging international trade, have had no results either. For myself, I do not see that individual initiative, either industrial or agricultural, will have more freedom in the near future. Whatever may be the opinion about the principle of 'planning' in economic life, circumstances lead to it. As long as co-operation between the various nations is as small as it is now,

such planning can only be effected on a national basis, whereas internationally it will not be a success. The results of the International Sugar Conference which was held in London in May 1937 will confirm this.

The conclusion of my considerations cannot be other than that the volume of international trade in future will diminish rather than increase, especially because of the many difficulties which in the whole present world are weighing upon agriculture.