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INTERNATIONAL TRADE IN RELATION TO AGRICULTURAL DEVELOPMENT

SECOND OPENING PAPER

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IT is of peculiar significance for citizens of the United States and Canada that this Conference of International Economists is being held this year in Canada. For over a hundred years the relationship between these two peoples has been on a high plane, and we hope the whole world will some day attain to that fine spirit which characterizes the understanding between them.

At the First International Conference of Agricultural Economists, held at Dartington Hall in early September 1929, I had the pleasure of presenting a short paper entitled 'Relation of the Tariff to Farm Relief in the United States'. That was just before the world-wide depression broke. To-day, nine years later, in again presenting a paper before this Conference, I have been invited to discuss the closely related subject—'International Trade in Relation to Agricultural Development'.

When I gave my paper nine years ago I was a private citizen. To-day, as it happens, I am an official of the United States Government and have been charged by our Congress with responsibility for administration of our national farm programmes and policies. Therefore, although I am speaking in a neighbouring country and before an audience composed of persons from all parts of the world, I am naturally inclined to discuss my subject from the standpoint of our own experience in the United States. I hope you will understand that in discussing our own experience in considerable detail, I do so because it has an important bearing on world affairs.

At the 1929 meeting, before the United States had completely stopped her loans to Europe, I pointed out the impending danger to international trade in these words:

'Reduced loans to Europe inevitably mean trouble for the agricultural products of which we have an exportable surplus unless we in the United States are prepared to accept manufactured goods in large quantities.

'From the standpoint of world welfare, it would seem that there are several things which can be done to benefit United States agriculture without harming agriculture elsewhere, namely:

'1. Gradually reduce the United States tariff on manufactured products to a reasonable level, taking into account the post-war reversal in credit balances.

'2. Work for international stabilization of the general price-level.

'3. Devise some scheme of giving to agriculture the moral, legal, and economic equivalent of what the corporate form of organization has given to industry, and yet maintain the family-size farm.'

In retrospect the comment which was made by Professor Ashby is interesting :

'I would like to point out to English and American economists that some part, at any rate, of the peculiar conditions in British farming in the latter years before the war, and in the years since the war, have been due to a reversal in financial conditions. From about 1850 until the early part of the century, Great Britain poured capital into other countries of the world. That process of lending and sending out goods as loans cannot go on for ever, and in the years just before and since the war we have begun to get back interest and repayment of capital; mainly in food supplies and raw materials which the British farmer can produce.

'In part, it is this process of reversal of credit that is producing unemployment. So closely is this subject linked up with national and political interest that it is almost impossible to get any clear statement or detailed information. If America is ready to continue making loans, the higher they pile up loans the more they will have to suffer. The idea of using a system of taxation to redress some injustices needs close consideration. Nearly all political parties have been converted to the idea that we should use a system of taxation to put things right when they go wrong in the sphere of economic distribution.'

In 1934 I took advantage of my position as Secretary of Agriculture of the United States to embroider the theme which I presented to the agricultural economists in 1929 in England. In a pamphlet entitled *America Must Choose* I urged the people of the United States to face the significance of the rapid reversal which had taken place in credit balances between the United States and the outside world. I pointed out that our failure to bring in new imports to make up for the cessation in capital payments to other countries would eventually put out of use 50 million acres of American crop land which had been producing for the foreign market. Recognizing that the psychology of our people would not permit any sudden change in our tariff, I suggested that the practical outcome might be some middle path. It is such a path which I believe America has chosen and is attempting to follow so far as the rest of the world will permit.

We all recognize, I think, that the large, irregular, and often abrupt capital movements which have characterized post-War international

economic relations have placed a great strain on the capacity of productive activity and trade to adjust themselves. Naturally that strain is much greater when a large part of international trade has been stopped by almost insurmountable barriers to the movement of goods. In the case of the United States the strain not only brought about the need of increased imports but also tended toward decreased exports. Until 1933 the United States Government resisted the pressure for larger imports by imposing new and higher tariffs. The result was that practically all of the strain had to be relieved through a decreased market for our exports, including especially the great export crops which have been the leading products of American farms.

Now that our country is following a middle course, we are meeting the strain by two co-ordinated lines of attack. On the one hand, we are judiciously adjusting to the forces making increased imports desirable, by reducing our tariff where that can be accomplished without damaging domestic industry. In exchange for these tariff reductions we are obtaining concessions from foreign countries in their barriers to trade in our export products. On the other hand, we are organizing agriculture in such a way as to adjust supplies to reasonable market potentialities. Before I discuss the relation of these two programmes to each other and to progressive agricultural development, let me say a word or two about another line of attack which is much discussed as a possible way of relieving the strain I have mentioned.

I refer to the apparent belief of some 'old-dealers' with a liberal slant that we can go back to the dear dead days of the past simply by getting rid of governmental restrictions, perhaps financing our exports again with large foreign loans. Those folks have been quick to forget the lesson of our 'lending twenties'. They apparently choose to ignore that experience of Great Britain which Mr. Ashby pointed out to this Conference in 1929 and the painful experience of the United States which followed so soon after. It is amazing that only six weeks before the beginning of the world-wide depression he should have said, 'If America is ready to continue making loans, the higher they pile up loans the more they will have to suffer.' In retrospect I suspect the only change Mr. Ashby would make to-day in his statement would be to say, 'If America is ready to continue making loans, the higher they pile up loans, the more *both they and the world* will have to suffer.' International capital movements apparently are subject to sharp changes in amount and direction. The strain of the adjustment to such changes is wellnigh unbearable not only for those like us who must either increase their imports

or decrease their exports, but also for the debtors who must either increase their exports or decrease their imports.

And yet I suspect that Mr. Ashby would agree with me that moderate international loans by a wealthy country with high productivity need not be embarrassing, provided they are made in contemplation of certain types of goods coming back to the country in question as payment of the loans. When a civilization is young and rapidly growing, the principle whereby the older, richer regions loan to the new and backward regions seems to work very well for a time. If the commodities whose production in the new region is financed by the loans are really needed by the world in increasing quantities, and if the older region is willing to use the interest and amortization payments on the loan to increase its purchases from outside its borders, the whole scheme may work out very beneficently. It will be particularly so if the new regions change from net-borrowing to net-lending or net-repaying countries very gradually over a considerable number of years. But if the loans are made for non-productive purposes and then stopped when their service becomes difficult, or if they are made to foster the rapidly increased production of goods which, because of unbalanced wage, price, and tariff policies, cannot be marketed successfully, the ultimate situation may prove to be very disillusioning. The loans which nationals of the United States made to the outside world during the decade of the twenties were used to a considerable extent for purposes which were either non-productive or resulted in the increased production of goods already abundantly available. Furthermore, the United States appeared unwilling to use the payments on those loans for increased purchases from abroad.

To outline the eventual role of the United States in world affairs is not within my sphere, nor does it come within the scope of this paper. At the moment we in the United States still have a tremendous distrust of the 'isms' and the 'balance of power politics' of Europe. From the European point of view our attitude may be unreasonable, but nevertheless it is very real, and it must be reckoned with by every prominent federal official in the United States, no matter what his own personal convictions may be. Any external lending policy of the United States in the future will probably be directed towards countries not dominated by the 'isms' which we consider so unreliable. It seems a little doubtful, however, whether the United States during the last sixty years of the twentieth century will care to duplicate the experience of Great Britain during the last sixty years of the nineteenth century. Some of the elements are present for so

doing. It is possible that we might benefit the world if we pursued a course similar to that of Great Britain in the nineteenth century; nevertheless, I see very little indication at the present time of our doing so.

One important element which is lacking for such a course is a group in United States society corresponding to the British ruling class. That group had at least a semi-realistic understanding of the relation between world trade and domestic economy, and of the role which they wanted England as a whole to play in world affairs. Our experience of the twenties demonstrated the amazing inadequacy of the group which then served us as financial and political leaders. For example, members of this group patted themselves on the back for cutting down the federal debt, but for every dollar of reduction in that debt they increased local governmental debts by a dollar and private debts by six dollars. With insecurely based loans this futile and thoughtless leadership blew a bright and shining bubble of domestic and world prosperity. The American people have not forgotten how the bubble burst and what followed its bursting. Those who look for large foreign loans to finance our exports and take us back to the 'good old days' are probably reckoning without their host; for I see very little indication at the present time of the United States pursuing such a course.

Let us return, then, to a consideration of the middle course our country is following and its effect on progressive agricultural development. We are using the mechanics of the reciprocal trade agreements to bring about as rapid an increase in imports as can be allowed without causing substantial damage to domestic interests. At the same time, recognizing the obvious fact that these agreements could not be counted on immediately and completely to restore the foreign market for the volume of farm products which we exported in the early years of this century or in the decade of the twenties, we have been developing forms of agricultural organization designed to bring about an adjustment between our exportable supplies and the quantities which we can market abroad at a fair price.

We have completed trade agreements with eighteen countries. We are negotiating with four others, including the United Kingdom, most important both as a market for our farm exports and as a supplier of our industrial imports. Upon the successful conclusion of an agreement with the United Kingdom we shall have agreements in effect with countries which take about 55 per cent. of our exports and supply about 52 per cent. of our imports.

The effect of these agreements in lowering our tariffs and restoring

our foreign markets is extremely difficult to measure. Because of the complicated nature of a modern tariff, and also because of the great variations which occur in the prices of imported commodities, it is not possible to measure the aggregate reduction in our total tariff structure, or in any particular tariff schedule, by any simple formula. Such studies of the question as have been made, however, indicate that the Trade Agreements Programme may thus far have resulted in reducing the average tariff paid on all dutiable imports of manufactured products by as much as 10 or even 15 per cent. If the Trade Agreements Programme did nothing but lower some of the extremely high tariffs of the Smoot-Hawley Act of 1930 and the foreign trade barriers that were raised in retaliation, it would be worth while. Actually there were many schedules in previous tariff laws which were greatly hampering international trade, and these too have come under scrutiny and been modified where possible and desirable. Most of the effect which this reduction has had on our foreign markets for farm products has been obscured during the past three or four years by the great effect on our trade of both droughts and fluctuations in industrial activity. With the completion of an agreement with the United Kingdom and the return of normal weather conditions, the importance of the tariff reductions will be more readily apparent.

The Trade Agreements Programme is the best method of making tariffs that the United States has ever had. Changes are made only after careful consideration of all the interests involved. The process is necessarily gradual because it is *honestly* scientific. In that programme the farmers of the United States for the first time have a tariff-making process in which their interests are adequately represented instead of being dismissed with such meaningless 'protection' as the tariffs on corn and wheat and our other regularly exported farm products.

It must be remembered that those charged with the conduct of the Reciprocal Trade Agreements Programme are up against the mercantilist attitude towards trade which predominates in the present-day world. That is, each nation wants to expand its exports and cut down its imports. Every one wants to sell. None wants to buy. The favourite method of trying to bring about this impossible result is the quantitative limitation of imports. That method is more effective in throttling trade (a country's exports as well as its imports, of course) than is even the highest tariff. Nations following such practices can only with difficulty be brought into an effective trade agreement.

Because of that situation a very probable result of the programme will be the effect of the most-favoured-nation policy on international trade as a whole. By generalizing concessions under this policy each agreement opens the way to increased trade not only bilaterally between the parties to the agreement but also multilaterally between all of the countries of the world. It is a fundamental fact of international trade that it cannot prosper when forced into constantly shifting, narrowly channelized courses. Secretary Hull never loses sight of this fact; and, by insisting on the most-favoured-nation policy, we are giving international trade a chance to develop toward a higher level on a sound basis.

One further factor which must be considered in an evaluation of the Trade Agreements Programme as a method of reducing tariffs is the political effectiveness of the small, short-sighted, minority pressure groups who are out to defend their own particular tariffs at any cost and by whatever means they can find. This will continue to be a tremendous political obstacle to Democrats, Republicans, or any other United States political party in the effort to bring about any reduction in our tariff rates, either by reciprocal trade agreements or in any other way. Activity of these groups makes it difficult to admit enough imports to enable the outside world to pay us the interest on its loans and at the same time have enough left over to buy the volume of goods which the United States was accustomed to export during the decade of the twenties.

To me this definitely means that the United States is literally driven to choose either the path of isolation or a middle path. Of the two I prefer the latter. Under a middle path programme agriculture does its full share in the effort to restore the foreign markets which can be obtained for it through our Trade Agreements Programme. We recognize that these markets help us both directly as an outlet for our surpluses and indirectly by restoring prosperous conditions among United States industrial workers who form our principal market. We do not turn our back on the world by any means. We believe in efforts to recreate a world economic community. But we recognize the realities of the post-War situation and do not fool ourselves as to the volume or the nature of the foreign market which can be created for our products in the immediate future.

There is, of course, another important factor which can ameliorate the situation. I refer to the possibility of complete industrial recovery in the United States. The recent decline of industrial activity in our country greatly decreased our imports and has thus limited foreign purchasing power for our exports. With the revival of

business courage now being evidenced, the new government recovery programme, and the improvement which appears to be under way in the housing cycle, our industrial production seems likely to increase materially over the next year, possibly over the next two or three years. Should it reach a peak index of, say, 135 (on the 1923-5 base) it might mean an increase of as much as a half billion dollars annually in our imports (even if price levels remain the same). This would be in addition to gains under the Trade Agreements Programme. The effect on our exports would probably be of about the same order. Such a development as that would not completely offset the need for the control of agricultural supplies, but it would moderate the degree of limitation needed and hence greatly lessen the difficulties of operating the programmes.

Some critics in our country say that it is inconsistent to lower tariffs and at the same time to control domestic supplies. Actually the two are parts of a single structure. They complement each other in the effort to arrive at a complete adjustment to the situation created by the shortage of foreign purchasing power for United States goods. It is as though the War and post-War developments in trade and finance had created for American agriculture a great chasm. To bridge this chasm the Trade Agreements Programme builds from one bank a span. The nature of that programme is such that it builds well but slowly. Under the various agricultural adjustment acts we in agriculture must each year, by an adjustment programme, build a structure from the other bank to bridge the remaining distance. In some years agriculture has to build longer spans than in others, for its bank is a shifting one. To build its part of the bridge agriculture must have that authority which I spoke of in 1929 to the agricultural economists as 'the moral, legal, and economic equivalent of what the corporate form of organization has given to industry . . . '.

With industry in the United States controlling prices and regulating production to sustain controlled prices, in most cases with the protection from foreign competition afforded by extremely high tariffs, either our agriculture must have corresponding power or we must bring about a situation in industry where production is sustained on a level of a more consistent abundance.

In asking what American industry's price policy should be we face a real dilemma. If industrial crises are to be permitted to recur, and are to be corrected by industrial prices falling as rapidly as farm prices fall during depressions, then other adjustments must be made too. Wages, freight rates, utility charges, interest payments, and

other fixed charges must all come down together in times of depression. If they do not, then many business concerns must go through the wringer of bankruptcy and reorganization before low prices can produce recovery.

As our society is now organized with corporate structures, labour unions, utility commissions, and government budgets and tax rates, I question whether we can count on such deflationary tactics to deal with depressions. Instead, most countries are now using the device of compensatory government spending to offset the declines in private spending and investment during depressions.

The recovery now just getting under way in the United States seems due in considerable part to the firm foundation government spending has placed under consumer purchasing power. Production has declined far faster than the stabilized consumption; the heavy industrial inventories of last year have been worked down in many lines; and more industrial production is now needed to balance current consumption. The further expansion in consumer income from the expanding relief programme in the months ahead will stimulate still more employment. To-day most countries seem to prefer to rely more on this new device of the temporarily unbalanced budget, and less on the device of falling prices and deflation, to check depressions.

There is thus serious question whether we could make industrial prices so flexible as themselves to *cure* the depressions. But there is another possibility. Perhaps if industrial prices were made more flexible over long periods that might help *prevent* depressions.

Some of us in the United States do know that the control of prices by corporations has helped to retard the distribution to consumers of the gains from increased productivity. As industrial output per worker rises, prices must fall and wages must rise, if consumers are to benefit. If corporations, through their control over prices, hold back too much of such gains for profits, buying power does not keep pace with consumption. It is clear that the 1929 depression was preceded by such maladjustments. Between 1923 and 1929 the income of farmers rose 4 per cent. Income paid out to workers and other employees increased 22 per cent. But income paid out as interest and dividend increased 50 per cent. If corporations had put more of the efficiency gains of the twenties into lower prices and higher wages, and less into rapidly rising profits, the stock price bubble would never have been blown so large, and the whole sorry economic sequence after 1929 might have been greatly different.

How industrial prices in the United States can be made flexible,

either for the long pull or the short one, and what means can be used to make them so, still remains to be worked out. The so-called Monopoly Investigation Committee is now studying this whole problem of corporate control and of corporate price and production policies. If that committee can work out practical recommendations which will help produce such industrial price, wage, and production policies as provide better industrial stability and fuller employment and production, farmers will have a vital interest in seeing that those recommendations are carried into effect.

In this connexion it is to be hoped that the principle of balanced abundance can be accepted by our industry as well as by our agriculture. In agriculture, with the Ever Normal Granary principle recognized in the 1938 Agricultural Adjustment Act, we are in position to make a steady advance towards working out that principle of balanced abundance which will prove in the long run to be best both for farmers and consumers. Can industry work out some form of Ever Normal Warehouse which will best sustain employment and which will result in a more continuous flow of industrial goods into consumers' hands, even though the prices of industrial goods fluctuate somewhat more widely than they have been doing in recent years?

An important determinant of how farmers in the United States will use their organization for the control of the supply of agricultural products is the nature of the foreign market which can be regained. I have in mind both the stability or instability of that market and the types of goods it will accept.

It is probable that in the future the types of goods which will move most in international trade are those which can be produced economically by large-scale methods. Of course, there will also be much movement of certain essential raw materials and of goods involving special skills. But, in agriculture especially, the goods which move internationally will tend to be those which are produced with the help of machinery used on an extensive scale.

I raise the question, therefore, as to whether the way of life on those farms which produce goods for countries overseas can be as happy on the average as the way of life on those farms which produce products for people at home. It is possible that under the ideal set-up farmers will somehow be protected from the socially undesirable effects of excessive commercialization of agriculture. Perhaps ways can be devised of accomplishing this purpose without impairing the technical efficiency of large-scale operations. In this, as in everything else, there is a happy medium, and in working towards this happy medium we must always keep in mind the history

of the immediate past. We want to engage in trade only to the extent that we can do so on the basis of a way of life fitting to the citizens of a wealthy and resourceful country.

In the United States we have very definitely before us the problem of maintaining a market for our export cotton while at the same time we enable our cotton farmers to live better than they have in the past. More international exchange of goods is probably the principal need of the cotton farmer of the United States. But the cotton farmer sees no virtue in putting 8 million bales of cotton on the world market year after year if that means he must accept an unprofitable price of 5 cents a pound for it. There is no gain to the cotton farmer, and none to the country either in the long run, in destroying the hills of the South by overploughing merely to supply the cotton exporters of the United States and the cotton importers of the rest of the world with 5-cent cotton.

We do propose in the United States to make our cotton production methods as efficient as possible. By producing on the richer lands which can be protected from erosion, by using the most approved varieties of cotton which we are rapidly discovering through an intensive research programme, and by reducing pest and other hazards, I believe we are going to be able to meet fair competition from any country in the world, provided we follow a sensible lending policy and provided our tariff policy with regard to the bulk of our imports is such as to enable foreigners to obtain the necessary dollar purchasing power to pay for our cotton surplus.

The statement which I have made with respect to cotton applies in principle to our other exportable agricultural products. We believe we can meet legitimate competition from the world in cotton, wheat, lard, tobacco, and many kinds of fruits. I believe that by following our Trade Agreements Programme we can build up a sound foreign market for a considerable volume of agricultural exports, and I think we can fill that market in competition with unsubsidized exports from other nations.

To me the most important thing about the type of middle path our country is trying to follow is its consistence with the greatest expansion of both agricultural and industrial production. If the other portions of our economy meet us in the spirit of balanced abundance, the domestic market will expand as a whole. Imports will be increased, and our foreign market thus will also be expanded. The two are interdependent. There is ample room for abundant and healthy activity in both domestic and foreign economic relations.

I should like to say just a word about the desirability of gradually

working out an International Ever Normal Granary, first with respect to wheat, and eventually, as we learn our lesson from wheat, with other raw materials. If each of the wheat-producing countries can set up wheat reserves in years of good weather and at the same time protect its farmers from price collapse in such years it should be possible to stabilize much more definitely year after year the share of each of the countries in the world wheat market. All the great raw materials which are affected by weather demand international consideration. The International Wheat Conference is a step in this direction. Some day it will really amount to something. But, first, certain key nations must exhibit a greater capacity to understand and work for stability on a world-wide scale.

In conclusion I wish to say that in my opinion the international idealism of the United States has not disappeared. Our Trade Agreements Programme is proof of that. We are genuinely interested in all moves which look in the direction of ameliorating world economic conditions, but we know that we cannot make any worth-while contribution unless we straighten out our own internal economy so that it will function more smoothly. We are exceedingly interested in working for world economic peace, provided we can do so in a practical manner. In connexion with the very sincere desire which so many Americans have to help in bringing about world peace and harmony, one must also take into account the tremendous fear which nearly all Americans have with regard to the hatreds and manœuvrings of 'balance of power' politics in Europe. Our people would like to help, but we do not know how to help safely. In the purely agricultural world it may be that we can help by understanding better the economics and sociology of both American agriculture and world agriculture. During the last twenty years, and especially during the last five years, we have been busy formulating in the United States the doctrines of agricultural statesmanship as they relate to the general welfare. We have been endeavouring to work out the principles of balance between agriculture, labour, and industry. We are now endeavouring to perfect the Ever Normal Granary, which will carry over crops from the years of good weather to the years of poor weather. We are endeavouring to relate our agriculture to the fact that the United States has become a creditor instead of a debtor nation. In our efforts we have improved our soil fertility and have increased the farmer's share of the national income, while at the same time the city people of the United States have been benefited. I hope that some of that which we have learned will be of benefit to agricultural statesmen in other

nations. I know that those of you who are in a position to come to Washington will find men in the Department of Agriculture eager to be of the utmost service to you. This applies not only to the economists but also to the scientists and the administrators of action programmes.

Nearly every nation in the world has been engaging in action programmes for agriculture during the past ten years. The international aspects of our own programmes in 1933 and 1934 called for a spirit of co-operation on the part of both exporting and importing countries, particularly those concerned with wheat and cotton, so that a fair sharing of world trade might be jointly and more sensibly determined. That co-operative basis has not as yet been fully developed. The domestic aspects of our agricultural action programmes called for a restoration of industrial activity and the development of non-agricultural occupations for our surplus labour when both urban and rural purchasing power were stimulated. Here too, for various reasons, the hoped-for progress has not yet fully materialized.

In the realities of 1938 we find numerous countries pursuing their programmes of price fixing and export subsidy with little regard to the fact that when carried to an extreme they are naturally self-defeating. Such programmes when carried out by a number of countries at the same time bring about an excessive increase in the supply of products on the international market and waste human effort which had best be devoted to producing something else.

Export subsidies are a type of economic warfare which, if used on a large scale and for a long time, eventually and almost inevitably harms the nation which uses the subsidy more than it harms any one else. Nevertheless, in certain emergencies, there may be exceptional and compelling circumstances justifying the use of export subsidies for limited and temporary purposes. It is such a situation that now confronts us in the case of wheat. In such a situation it is exceedingly desirable that our export efforts should work in the direction of eventual stability. In carrying out such a subsidy measure the United States, of course, must do everything it can in a co-operative spirit to synchronize its efforts along this line with those of the Canadian Government. We do not propose to use any type of subsidy which will result in extensive overploughing of our hill land or our poor land in order to send large quantities of our farm products abroad with nothing coming back in return. We must not ruin our soil for the sake of our exporters and our foreign customers, and we must not unduly encourage exports of those

products which our consumers can use in larger quantities at home; but neither must we lose our fair share in the world trade of cotton, wheat, hog products, and so on, by failure to take fully as aggressive actions as the other nations in the competitive export fields. We have powerful machinery for taking action along these lines, and we have supplies of certain farm products far beyond domestic needs. It would be a good thing indeed if the various agricultural ministries of the world could meet together to draw up a set of principles on which all nations could agree. I am convinced all nations could agree on the desirability of systems of agriculture which will maintain soil fertility and which will tend to give the farm section of the population a fair share of the national income. Perhaps there could be agreement on the desirability of giving to agriculture the moral, legal, and economic equivalent of what the corporate form of organization gives to industry while at the same time the family-sized farm is maintained. And perhaps there could even be progress in jointly and democratically determining the course of international trade in farm products as a contribution to economic stability and peace.

DISCUSSION

ASHER HOBSON, *University of Wisconsin, U.S.A.*

One finds in the two main papers on 'International Trade in Relation to Agricultural Development' a rather dominant note. If I interpret the authors correctly, both feel that too much dependence may not be placed upon the likelihood of increased volume of foreign trade in agricultural products.

Professor Minderhoud concludes that 'the volume of international trade in the future will diminish rather than increase'. Secretary Wallace exhibits more faith in the possibilities of increased volume, but that faith is far from a conviction.

These conclusions prompt me to inquire briefly as to the reasons for the expectation of a continued low level of world commerce. Is it because the economic advantages attributed to foreign trade no longer obtain? Can it be that the premisses upon which the arguments of the economist are based are no longer valid? It is held in some quarters that technical progress is so widespread as to eliminate, or at least to reduce markedly, the comparative advantages once enjoyed by various nations in specific fields of production. I am of the opinion that the importance of the evidence is greatly exaggerated. To refute this argument one need only point out that

the bulk of world trade is still carried on between the most highly developed industrial countries. One need not labour the point before this group that numerous and extensive economic advantages are still to be had by a division of labour among nations.

The argument of the economist that less world trade and its stepfather—national self-sufficiency—will inevitably lead to lower standards of living falls upon a seemingly disinterested audience. These arguments do not impress. I have often observed that, as far as the United States is concerned, there is no subject upon which the economists are so thoroughly agreed as on the tariff, nor one upon which they exert so little influence. This brings me to one of the points which I wish to develop. It is that foreign trade has, in considerable measure, ceased to be an economic subject. Its controlling forces lie largely in other fields.

One of the speakers during the sessions on farm labour stated that the status of farm labourers in India was the result not of economic forces but of the caste system, religious beliefs, and established customs. In at least some countries one is faced with a similar situation with regard to international trade. Considerations of political expediency, the desire for a numerous agricultural population regardless of cost, and requirements for national defence, have largely removed international trade, for the present at least, from the subject-matter field of the economist.

In order to avoid the tempting pitfalls of generalization, may I illustrate by the use of specific examples? Take the question of political expediency. Until recently in the United States tariff rates were the offspring of political manœuvring. The schedules were formulated by Congress. It became good politics for members to secure high duties on the products of the regions which they represented. One way of accomplishing this end was for a legislator to agree with his colleagues to support their requests for more protection in return for their support of his own demands for higher duties. This process reduced the tariff to a purely local issue, without regard to the effect of the sum of the increases upon the national economy. Its results were higher import duties. The point to be emphasized, however, is that, whatever might be the economic effects of the process, it was considered good political strategy by a majority of the Members of Congress to secure tariff favours for their constituencies.

In certain respects few nations have exhibited more zeal in this direction than has the United States. We are now in the process of granting independence to our largest dependency. Evidence is

not lacking in support of the belief that this action is being taken in order that we may penalize the imports from this dependency. One is reminded of the ancient but not honourable practice of inviting a guest to the feast in order that one might more conveniently administer poison.

I quite agree with Secretary Wallace that the present system of tariff-making by technicians removed from direct political pressure is a marked improvement in our own tariff-making machinery. In this respect the United States has returned international trade to the economic fold.

Another outstanding consideration which tends to remove international trade from the subject-matter field of economics is the belief manifested in many countries that a declining agriculture is the sign of a decaying nation; that agricultural numbers must be maintained at all costs.

At this Conference some speakers have pointed out that too many people on the land was not a good thing for agriculture. But the weight of opinion seems to be that governments must support their agriculture far beyond its economic importance to the nation. This support is generally such as to attract to the land more people than can be supported by the land at accepted standards of well-being.

Here again I must suppress the desire to generalize, by observing that in the United States we have too many people on the land. Agricultural prosperity would markedly increase if a smaller proportion of the population were engaged in agriculture. I am inclined to believe that the desire for a numerous agricultural population in most other countries is largely based upon other than economic considerations.

The most prevalent way, perhaps, of supporting larger numbers of people upon the land is that of maintaining domestic price-levels for agricultural products above world-levels. Such practices lay a deadly hand upon agricultural commerce between nations.

Another dominating force controlling international trade policies among nations at the present time has to do with considerations of national defence. Self-sufficiency in agricultural raw materials is a vital part of most defence programmes. Some people still remember those wheatless, meatless, fatless, sugarless days. Here cost is not the controlling factor. Economic logic is likely to receive a cold reception in a military atmosphere. The economist can only sit and wring his hands—or perhaps just sit. We all recognize, I am sure, that there can be no healthy growth of international trade under a threat of armed conflict among major powers. A feeling of national

security is a basic essential to the resumption of what may be considered as normal world-trade relations.

It is at this point that I make a reservation regarding the conclusion reached by Professor Minderhoud that in the future the volume of international trade will diminish. The accuracy of his prophecy seems to me to depend in large measure on developments in this field of national security. If major powers feel that they must always be prepared for war; if armed conflicts and the threat of war become chronic; then I must accept his conclusions. But if nations should find their military burdens too heavy and turn to other means of settling their differences, it is reasonable to expect a relaxation in trade barriers which belong essentially to self-sufficiency aspirations. Except under the stress of conflict or threatened conflict, I doubt if the people of most nations will be willing long to continue to pay two or three times world prices for the essentials of life, or to continue to accept more costly and less desirable substitutes.

Now may I turn to a more direct discussion of a portion of Secretary Wallace's paper? I am quite in agreement with him on many of his foreign trade views, and especially am I in agreement with him with regard to the importance of foreign trade to American agriculture.

I am one of those extremists who insist that no satisfactory solution of agriculture's economic woes in our country will be found unless it includes healthy foreign outlets for our agricultural staples. I do not say that the foreign market is the whole story, but I do insist that it is an essential part. I appreciate also that it may not be possible to effectuate that type of solution. If that be the case, we must be prepared to accept for an indefinite period the aches and pains, the stresses and strains, which are bound to accompany alternative solutions.

I find myself in disagreement with the Secretary on certain phases of the agricultural adjustment programme which I believe to be in direct conflict with policies designed to promote foreign trade. I confess to a bewilderment in his use of the term 'middle course', not only in this paper but upon previous occasions. To me the agricultural adjustment programmes, when considered with the reciprocal trade agreements from the standpoint of promoting international trade, represent not one but many courses—some of them running in opposite directions.

The complementary nature of the adjustment programmes and reciprocal trade agreements is illustrated in the Secretary's paper by a bridge. The Department of State through its reciprocal trade

agreements is projecting a span from one bank. The Agricultural Adjustment Administration is building a temporary structure from the other bank to join that built by the Department of State.

To continue the analogy: My analysis leads me to believe that some of the plans for the temporary structure were hastily drafted, and some of the material used badly adapted for the purpose, with the result that parts of the structure projected from the agricultural bank are falling into the water washing against the State Department's pier, in such quantities as to endanger the work on that portion of the bridge.

To be more specific, the phases of the agricultural adjustment programmes which I believe to be in conflict with sound foreign trade policies are:

First, there is the making of commodity loans which exceed world market prices. The raising of domestic prices above world levels by means of loans on the commodities is an effective means of closing normal export channels to those commodities. Formerly, the domestic price of cotton—our greatest export crop—was held for a considerable period above the world price by loans considerably above world market values. The current wheat loans threaten to create a similar situation. One need not comment extensively upon the disastrous effects of these practices upon exports.

Secondly, there is the export-subsidizing and by-products diversion of commodities with surpluses induced largely by a high protective tariff. Here I refer to specialty crops with surpluses not caused by loss of world markets, because they never were dependent upon these markets, or due to the bounties of favourable weather conditions. Their surpluses are largely due to a high protective tariff which has kept domestic prices at such levels as to bring about a state of over-production which promises to become chronic. Yet the Government at the present time cares for the surpluses by contributing financially to their diversion into by-product channels and to the foreign market. Here obviously is a situation caused by legislative protection which has created its own excesses and which, in my estimation, is not remedied by additional governmental support.

The third and most disconcerting practice to which I refer is the export subsidy. The export subsidy violates the spirit if not the letter of sound international trade relations. It is contrary to what I have always considered to be the basic assumptions of our trade agreements. But more important still is the likelihood of the subsidies creating complications which will react unfavourably upon our programme for international trade development.

Secretary Wallace, in the proof copy of his paper, has well stated the case in these words: 'Export subsidies are a type of economic warfare which eventually almost inevitably harms the nation which uses the subsidy more than any one else.' In the final draft as read this morning the statement has a significant qualification: 'export subsidies are a type of economic warfare which, *if used on a large scale and for a long period*, eventually and almost inevitably harms the nation which uses the subsidy more than it harms any one else.'¹

One appreciates that the first statement was prepared before the recently announced policy of subsidizing the exports of wheat by the Government of the United States. One appreciates also that such a policy calls for some qualifications in a statement by a high official of the Government applying the subsidy. For my part I am inclined to accept the first statement at its full face value, for I believe that all export subsidies are contrary to sound international trade policies.

We have subsidized, on a rather large scale, the export of Pacific Coast wheat. We now propose to extend the practice to all wheat. May I express the apprehension that the export subsidy is a second mistake fathered by a first mistake—loans on wheat above its world market price? For me this proposal raises grave doubts. It may be defended, perhaps, on the grounds that all nations are playing the same game; that one must fight fire with fire. Yet the fact remains that we cannot indulge in subsidizing exports on any considerable scale and at the same time build a sound foundation for a more permanent foreign outlet for our staple agricultural products. May we not be sacrificing substantial future gains for lesser and more temporary advantages?

OLIVER MASTER, *Economic Division, Commercial Intelligence Service, Department of Trade and Commerce, Ottawa, Canada.*

Two years ago, at the Conference held at St. Andrews, one section of the programme was devoted to the consideration of 'Commercial Policy and the Outlook for International Trade in Agricultural Products'. The general title for to-day's programme, 'International Trade in Relation to Agricultural Development', is similar but not identical. It embodies a change more in wording than in substance; and I have been wondering whether the revision may not have been intended to suggest the desirability of breaking new ground rather than of seeking continuity of discussion from one conference to another. Those who attended the sessions at

¹ My italics.

St. Andrews, or who have had an opportunity to read the report of the proceedings, will recall that the discussion of 'Commercial Policy and the Outlook for International Trade in Agricultural Products' resolved itself for the greater part into a rather spirited consideration of the wheat problem. To-day, quite independently of any intent that there may have been on the part of the Programme Committee to indicate a preference for new channels of discussion, I intend to refrain from initiating a return to the subject of wheat, a subject which has run such a strange and perverse course since that evening in September—forty years ago next week—when Sir William Crookes delivered his memorable address in Bristol as President of the British Association. I propose merely to salute the wheat question and to pass by, yielding only to the impulse to quote this one sentence from the opening speech at the corresponding session of the St. Andrews conference: 'If two years from now the answer to the question is 60 cent wheat, then we woolly-headed planners will at least have the satisfaction of saying "I told you so".' The present quotation for the Chicago September future seems almost to have been made to order!

Running through the opening papers that have been presented by Mr. Secretary Wallace and Professor Minderhoud, there are two veins of common thought that keep constantly coming to the surface.

First, there is the insistence in both papers upon recognition of the fact that international trade rests upon the principle that, if nations are to sell, they must be prepared to buy. Professor Minderhoud, in referring to the types of trade agreements that are now so much in evidence, says: '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.' It seems hardly conceivable that the world should have reached its present stage of commercial development without having acquired an ingrained grasp of that basic fact. But we cannot blink our eyes to the sober reality that the lesson has not been learned. In nine short words Secretary Wallace has stated the cold truth that has still to be faced: 'Every one wants to sell. None wants to buy.' How can one explain the power of resistance with which this attitude is held? Partly perhaps in this way. Prior to the great depression and particularly in the pre-War period the flow of international trade and of capital movements worked so smoothly along multilateral lines, made its adjustments of balances so unobtrusively in triangular and multi-angular ways, that the fundamentals of the system were hidden from the common

view. Under those conditions there was some excuse for failure to see and fully to understand that nations must buy in order to sell.

There is no such excuse for failure to-day. Recent years have stripped the mechanism of world commerce of its refinements and accessories. To quote from a recent study by the Royal Institute of International Affairs: 'The system of international investment lies shattered, and the idea of international lending is viewed with profound misgiving both in debtor and in creditor countries.' Gone also, without immediate prospect of return, are the gold standard and the monetary system that furnished the operating equipment, if not the basis, of exchange stability. Shorn of these vital complements, trade between many countries has been thrown back upon primitive methods, has been reduced to the simplest form. The fundamentals of commerce between countries have been laid bare and exposed for all to see. International trade no longer appears as an intricate, delicate, and mysterious mechanism, requiring an expert to explain what makes it go. The processes of bilateral bargaining and of bilateral balancing, as we now see them in action, should clear away—if anything can clear away—all doubt as to whether nations must buy in order to sell. Every clearing and payments agreement is nothing more or less than a two-sided admission that 'we can buy from you only if you will buy from us'. The formula admits of little variation. It may be stated in any one of half a dozen ways, but it is always reducible to words of one syllable that no one can mistake. Whether they are willing to recognize it or not, all countries have been compelled to accept to some extent this basis of doing business.

I am enough of an optimist, or of a fatalist, to believe that the very universality of this reversion to primitive methods of carrying on commerce is bound to serve a large purpose over and above its primary utility in rescuing international trade from a descent to even lower levels. Education of the most practical and vivid type—one might almost say of the roughest, hardest kind—must precede and underlie any durable reconstruction of world commerce. Speaking of the obstacles that confront the trade-restoring objectives of the Reciprocal Trade Agreements Programme, Secretary Wallace has said: 'Each nation wants to expand its exports and cut down its imports.' That attitude or aim, if not broken down, spells deadlock and stagnation in the field of international trade. If it is to be combated with success, it must be through demonstration of its futility. Could there be any more convincing form of demonstration than the world is now receiving in regard to the fact that buying and

selling must go hand in hand? How long must the demonstration be continued before that fact is fully digested? And, when it is fully digested, what will be the result? Shall we find that, broadly speaking, the desire to expand exports is stronger among nations than their desire to cut down imports? Or shall we be forced to the view that the desire to sell is weaker and less insistent than the urge to restrict imports? In the one event we may expect the restoration and renewed growth of trade; in the other, continued shrinkage.

These questions bring me to the second vein of common thought traversing the opening papers. Both papers, it seems to me, arrive not at the same spot but in the same neighbourhood as regards this problem of the future of international trade. Professor Minderhoud closes his paper with this sentence: 'The conclusion of my considerations cannot be other than that the volume of international trade in future will diminish rather than increase, especially in view of the many difficulties which in the whole present world are weighing upon agriculture.'

Perhaps I should be taking an undue liberty were I to assume that Secretary Wallace concurs in the view that international trade *as a whole* is likely to diminish rather than to increase, but, in explaining the close relationship between the commercial and the agricultural policies of the United States, he has clearly stated the outlook as regards that important element of world commerce represented by American farm exports. To quote from the text of his paper (proof copy): 'At the same time, recognizing that there is no likelihood of pushing these agreements far enough completely to restore the foreign market for the volume of farm products which we exported in the early years of this century or in the decade of the twenties, we have been developing forms of organization designed to bring about an adjustment between our exportable surpluses and the quantities which we can market abroad at a fair price.' And again: 'We do not turn our back upon the world any more than circumstances absolutely force us to. But we recognize the realities of the post-War situation and do not fool ourselves as to the volume or the nature of the foreign market which can be created for our products.'

No country accustomed to depend to any substantial extent upon the export of farm products can fly in the face of the facts that have led Professor Minderhoud to the conclusion he has stated, or that have led the United States to espouse a dual policy designed in part to rehabilitate its commerce in farm products and in part to adjust its agricultural economy to a smaller scale of production for export.

Yet it will be readily and sympathetically understood, I think, that *in certain countries* resignation to a lowered volume of farm exports and the definite acceptance of that view of the future as the basis of policy are bound to await inescapable evidence that there is no alternative. Some nations, indeed many nations, may consider that the evidence is already conclusive, but in this, as in other cases, the same evidence or the same set of facts can scarcely serve to carry equal conviction in all quarters. It is not that the 'certain countries' which I have in mind are closing their eyes to the realities, or that they are wilfully laggard in taking decisions that have elsewhere been accepted as inevitable. It is rather that they are realistic in the very highest degree, forced by their own circumstances to be doubly sure of their ground in shaping their policies for the future.

These 'certain countries'—they need not be enumerated—are countries that exhibit two characteristics. First, they are countries where production in the exporting industries, especially in field and animal husbandry, relies *mainly and not secondarily* upon export outlets. Their domestic markets for those industries are relatively small. For these countries retreat from export markets would be retreat from the major means of livelihood, not from the minor. It would entail drastic changes in internal economy, requiring a shift of productive forces that could hardly be considered as falling within the meaning of the term 'adjustment'.

Secondly, these countries are of the debtor class. To reduce their exports of agricultural products, unless they have other lines of export production to which they might turn in increased measure, would tend to weaken their capacity to pay. In describing American policy Secretary Wallace has referred briefly, but most appositely, to both the recent and the more remote history of international investment, to the altered financial status of the United States, and to the outlook for the resumption of international lending on a large scale—all in their bearing upon the development and financing of export trade. And in his entire paper there is, I think, no single sentence more illuminating than this: 'We are endeavouring to relate our agriculture to the fact that the United States has become a creditor instead of a debtor nation.' That sentence alone carries a wealth of significance with respect to the readiness or the reluctance of different nations to concede either the need or the wisdom of moving to bring their export production within smaller compass.

Given a group of nations with this combination of circumstances—the debtor position coupled with the extreme degree of dependence upon exports—we should be more than obtuse if we did not

expect to find in this group the hard core of resistance to policies of export trade retrenchment. It has been customary in recent years to speak of the 'hard core of unemployment' in the United Kingdom, using that term in reference to unemployment of the kind that seems beyond the reach of any real remedy except that of time. In a somewhat similar sense a hard core may be said to exist in the field of international trade; and it is to be found in those countries where, if the shrinkage of export markets finally forces the adoption of policies to curtail agricultural production, it will not be possible to say 'we are relating our agriculture to our status as a creditor country'. The group of debtor countries, that contribute a large portion of the total world export of agricultural products and that owe a very considerable share of the world's total long-time loans, will have to look long and hard at the problem of how to frame policies of restricting production that can be reconciled with or related to their position as debtor countries.

What will they do about it, or what can they do? I have so little faith in economic prophecy that I confine myself merely to suggesting some of the courses that these countries may take—not that they will take. They may, first, correct their own shortcomings in regard to full recognition of the fact that in order to sell nations must buy. They may do that without stultifying themselves as claimants for recognition of their debtor circumstances. As regards adjustments of their production to accord with narrowed export outlets, they may continue to hold back from the adoption of permanent and general policies, relying upon short-time policies to deal with the specific sectors of international trade that threaten to get out of hand. Further, they may subject their existing commercial policies to the closest re-examination to satisfy themselves that the direction of their international purchasing, as distinct from its volume, is contributing in the maximum degree to the purpose of restoring the export markets for their respective products.

Meantime these countries, caught in the vice of debtor obligations and of lowered exports, will grasp at every straw of hope that export trade is not doomed to diminish. And they may find it in unexpected quarters. May I quote, by way of illustration, a paragraph or two from a speech delivered in March of this year by His Excellency Felice Guarneri, Italian Minister of Foreign Trade, in the Italian House of Deputies:

'Self-sufficiency, in so far as it aims at utilizing to the utmost the resources of the soil and subsoil and those of technical knowledge, developing the activities of the Empire in accordance with national needs,

does not imply a closed economy cut off from the currents of international life. On the contrary, it allows the development of an ample system of trade relations with all countries willing on a basis of reciprocity to accept our products in exchange for theirs. The utilization of national and imperial resources may in time lead to deep-seated changes in the qualitative consistency of our international trade, as has indeed happened in the case of all growing countries, but as some activities in both directions are curtailed or cease they are replaced by others arising from new needs which inevitably make themselves felt in the case of a prolific people with a rising standard of living.

'The total volume of trade under a system of self-sufficiency, as under any other system, is destined to expand rather than to shrink. But the expansion must be in both directions, for it is impossible for a country to continue to buy unless it sells, or to continue to buy more than the conditions in which it is placed enable it to pay.'

Having confessed the weakness of my trust in economic prophecy, I do not in this case regard the element of prophecy as more than an expression of faith. Nevertheless, it is to some extent heartening to find, joined hand in hand with the advocacy of self-sufficiency, a measure of confidence that the total volume of trade is destined to expand rather than to shrink.

G. MACKENROTH, *Institut für Weltwirtschaft, Kiel, Germany.*

Owing to the short time at my disposal, I will speak only on one important point of the subject which has formed the criterion for an appraisal of the present and future situation in all previous discussion—the influence of state agrarian policy on the international exchange of agricultural products. In this connexion I will present some facts which may perhaps be surprising to some of you. I draw in this respect on hitherto unpublished data which have been collected at the Institut für Weltwirtschaft at Kiel and which will soon be published by one of my collaborators, Dr. Schiller. I would not like to neglect the opportunity to present these data, at least in some of their results, to so great a number of eminent colleagues, and I hope to receive perhaps criticism and new ideas.

At the institute we have attempted to study in considerable detail the influence of the agrarian policy of the various countries on international trade. We chose thirty-two countries representing about 80–90 per cent. of the world trade in agricultural products, omitting the industrial raw materials of agricultural origin which have partly been dealt with in excellent monographs by others. Our studies, therefore, only apply to commodities of human nourishment. We studied how, in the case of these products, production, consumption,

and foreign trade are directly or indirectly influenced by state measures. Neglecting tariff duties as a method of state control and taking account only of direct measures of influencing the market, such as "price control, control of production, regulation of consumption, export subsidies, quantitative control of imports and exports, and similar measures, we arrived at the result that over 55 per cent. of world trade in agricultural products is directly or indirectly affected by state measures of control or guidance."

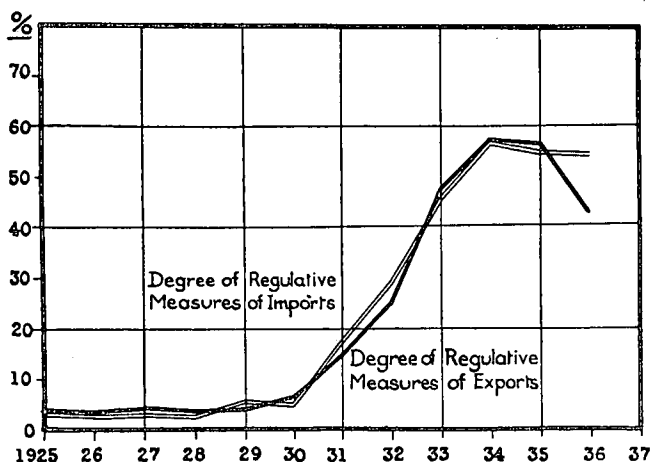


FIG. 1. The Degree of Influence of Regulative Measures in World Trade in Agricultural Products, 1925-36.

For the real expert on the subject this figure is perhaps not at all surprising. But it shows to what extent to-day the practice of *laissez-faire* is forced into the defensive in our field, even in foreign trade which—in contrast to domestic economy—is still accounted the domain of *laissez-faire*.

I would like now to draw your attention to some facts which may throw some light on the subject with which we are concerned here. For this purpose I would ask you, for a moment, to devote your attention to the graphs which I have prepared. I have prepared them to save the recital of statistics.

The development of 'the degree of influence of regulative measures', as I call it, i.e. the proportion of products directly or indirectly under state control in the total imports and exports of all agricultural commodities, is shown in Fig. 1. The double line shows the degree of influence of regulative measures of imports, the solid line that of exports.

First of all, the surprising thing is the complete conformance of the degrees of influence of regulative measures in imports and exports. What it means is that in equal measure as the great importing countries have exerted state influence on price and volume of their foreign trade by means of import restrictions, fixing of prices, &c., the exporting countries have exercised state influence on their export commodities through export subsidies, fixing of prices and quotas, &c. However, from the standpoint of world economy, regulative measures applied to the international exchange of commodities by exporting countries are aimed in the opposite direction from those of importing countries. In general the measures of exporting countries are for promoting or maintaining exports, whereas in general the regulations of importing countries are to protect their own producers by restricting imports. On this assumption, though it is somewhat crude, the conclusion would be that these measures roughly balance each other as to quantity and value of the commodities affected.

Secondly, the time factor also runs completely parallel. It is not the case, as presumably might be expected, that the importing countries led the way in state control; rather, the influence of state control increased in imports and exports concurrently from the year 1930 onwards, i.e. shortly after the commencement of the depression, and reached its first culminating point in both about the year 1934-5 with 55 per cent. I would like to set these facts in contrast with the popular conceptions, unhappily also shared by some professional economists, that the much-criticized self-sufficiency tendencies and so-called nationalistic economic doctrines of only a few countries were, by means of direct or indirect state control or planned guidance of foreign trade, the cause of the disturbance of the finely woven network of free international exchange.

Thirdly, we were not content with these findings and went a step further in our analysis. We divided the thirty-two countries into groups, whereby all countries with about the same agrarian-economic situation formed one group. We thus formed the following seven groups:

1. *The European deficiency countries*: Great Britain, Germany, France, Italy, Czechoslovakia, Belgium, Luxembourg.
2. *The old European processing countries*, i.e. those countries with a production of live-stock commodities, which already had a well-developed agricultural processing industry before the War and which sold the products to the European deficiency countries: Denmark, Netherlands, Sweden, Switzerland, Ireland.

3. *The new European processing countries*, to-day the strongest competitors of the old countries: Lithuania, Latvia, Esthonia, Finland, Norway.

4. *The European arable zone*: Poland, Yugoslavia, Rumania, Bulgaria, Hungary.

5. *The European border zone*, comprising countries which are not clearly drawn into this world-wide circle of zones around the European industrial centre: Portugal, Spain, Greece, Turkey.

6. *The overseas export-expanding countries*, which are competitors of the European exporting countries both in products of arable farming and of live-stock husbandry, and which are becoming increasingly prominent, thanks to favourable natural conditions of production: Australia, New Zealand, Canada, South Africa, Argentina.

7. *The overseas export-contracting countries*. To this group belong above all the United States, but also Japan. The United States is the old supplying country of the European industrial centres, but owing to the development of domestic industrial population and consumption it is increasingly falling out of international trade in food commodities.

We find that the country-groups show very characteristic differences in their degree of influence of regulative measures. Take Fig. 2 and look first at the left-hand graph. To-day the highest degree of influence of regulation is found in the old European processing countries. The European deficiency countries take only second place. The degree of influence is below average in the new European agricultural processing countries. But up to 1931 it was highest in these very countries.

As to exports—right-hand graph in Fig. 2—the old agricultural processing countries again have the highest degree of influence of regulation. The European arable countries have second place. Only the overseas export-expanding countries are below the world average. If we omit the overseas export-expanding countries with their relatively low degree of regulative influence, we find that at least in Europe the export commodities are subject to greater regulative control than imports. The degree of regulative influence of the European exporting countries lies throughout between 80 and 90 per cent.

This grouping of countries shows once again that things are not so simple as the popular conception assumes. Direct and indirect state measures of guidance go beyond merely protectionist policies on the part of the old European deficiency countries. It is particularly noticeable, for instance, that measures are equally pronounced

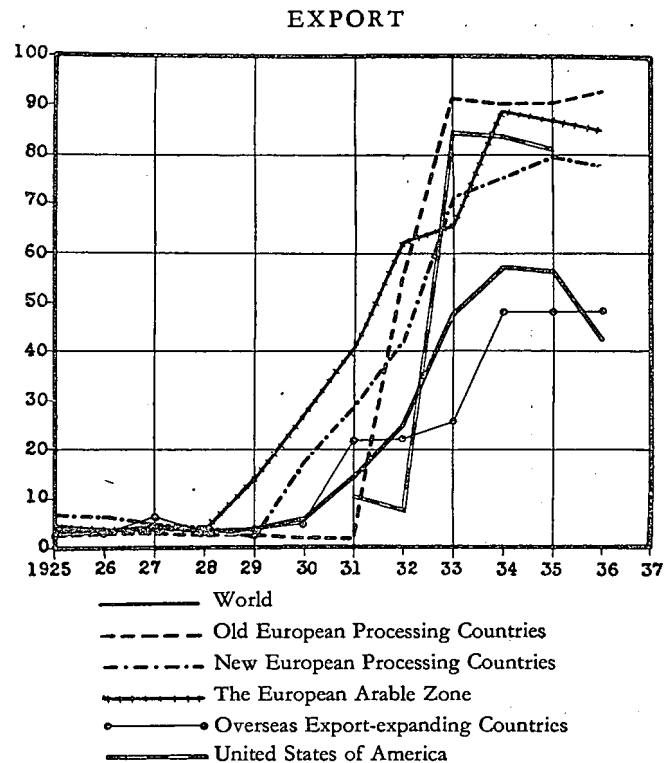
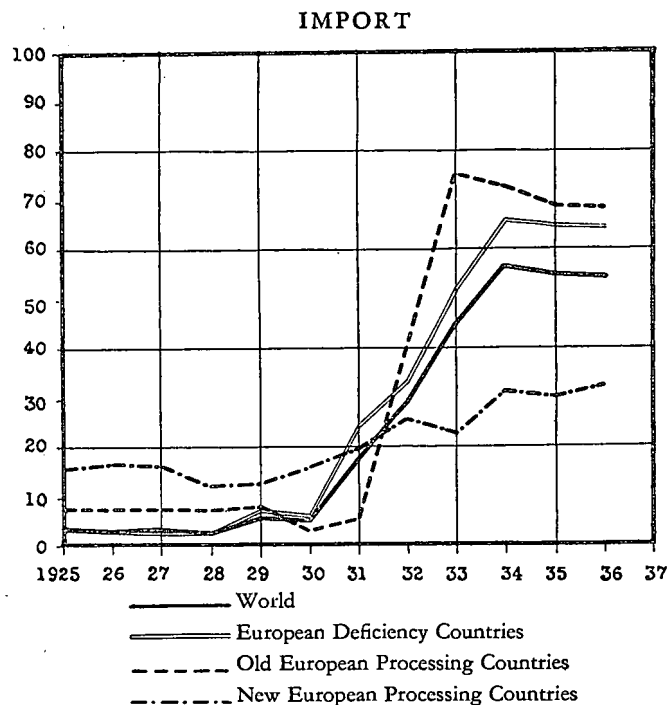


FIG. 2. Degree of Influence of Regulative Measures in World Trade in Agricultural Products by Groups of Countries, 1925-36 (per cent. of gold dollar value).

in old and new agricultural processing countries. Taking both imports and exports, the degree of regulative control is highest by far in the old European agricultural processing countries, i.e. they have the highest development of direct or indirect state control in their foreign trade in agricultural commodities. Among these countries are Holland, Denmark, and Switzerland; they are countries with the strongest tradition of economic liberalism in the whole world, and one cannot accuse them of over-great self-sufficiency tendencies or war-like ambitions.

Lastly, although we to-day believe that we have passed the first minimum point of world economic relations, the regulative tendencies do not show a diminishing tendency in any of the countries in question. On the contrary, the figures for the year 1937, of which we have not yet ascertained all and which I have therefore not inserted in the graphs, show that in a great many cases there is once again, after a short decline, a new rise in regulative tendencies.

Time does not allow me to draw all the deductions that might perhaps be deduced, but I will try to formulate at least a few theses which I may perhaps somewhat overstate in order to provoke your criticism:

1. The development from free international exchange of goods to forms of direct or indirect state control is world-wide for agricultural products and cannot be reversed. It is connected with the increasing integration of politics and economy taking place in all countries of the world whether it is desired or not. This integration of politics and economy is, in its turn, an expression of the fact that men are no longer willing to accept economic crises as tribulations of fate but wish to utilize all measures of state or common organization to prevent depressions.

2. *Per se*, the question of controlled or free international exchange of goods is completely irrelevant for volume and direction of exchange. It cannot be claimed that a controlled national economy must necessarily have a lower international exchange. More important are the distinctions between good and bad guidance, in external economy equally as in domestic economy. As a matter of fact we have at present inefficient control of domestic economy just as of external economy in many cases. The problems of political and social type that are involved are as yet too new. Neither men nor state apparatus are readjusted, and friction is caused in inter-state economic relations.

3. In the long run we may rest assured that, if there is no short-circuit in the form of war conflict, men will gradually learn. A

well-ordered domestic economy will always be a better partner in international trade relations than a national economy which has not yet put its own house in order. Nobody can shake my conviction that, if we order our national economies well and rationally—always on the assumption of a clear political atmosphere—the need for international exchange will be greater and not less. The mercantilist ‘fear of goods’, mentioned by Secretary Wallace, the desire always to sell and never to buy, is not only a mercantilist attitude towards economy; it is a bit of capitalism which still acts in us all, however fervently we may otherwise abjure *laissez-faire*. But I believe beyond all doubt that the contrary, the ‘hunger for goods’, the desire to supply oneself and one’s country as lavishly as possible with the goods of the world, is the natural attitude towards economic matters. It must again become manifest in a true socialistically ordered national economy. By means of a rationally ordered economy we shall perhaps arrive at a rationally ordered international exchange of goods, taking account of the interests of all concerned.

For the immediate present our problem is to put an end to classifying all direct and indirect state measures in domestic and external economy as exceptions from the rule. The facts prove that to-day state guidance has almost become the rule, not only in a few countries which are always said to show a special inclination to state control, but all over the world. Let us also put an end to always accounting them only as hindrances on the passive side of inter-state trade. The way to a revival of international trade, if it is ever to be achieved, is only through an ordered national economy.

Every attempt to revive inter-state economic relations must take account of the existing domestic ordering tendencies and must utilize them. They cannot be neglected. It is useless merely to yearn for the old conditions in which they had not found means to assert themselves. Once men have learnt that something can be achieved through state regulative control, they do not forget it. There is no way back; we must go through. The sooner we have ordered national economies, the sooner we may hope to arrive at least at a bearable form of inter-state trade, in which fundamentally all countries are equally interested. This appears to me to be the only realistic attitude to the problems of international trade in agricultural products.

OTTO PFLEIDERER, *Reichs-Kredit-Gesellschaft, Berlin, Germany.*

Mr. Wallace has explained to us very clearly the two principles which at the present time govern the foreign and the domestic

agricultural policy of the United States. Externally it is sought to increase international trade by means of systematic lowering of the tariffs on industrial goods. The aim of these tariff decreases, provided for in the trade agreements with other countries, is to give American agriculture a broader outlet to the world market. Internally the volume of agricultural production is being regulated to conform to the demand which may be expected at a price-level which provides a reasonable profit to the farmer.

These two fundamental principles of American trade and agricultural policy, which supplement each other very rationally, are certainly advantageous also to the European trade partners of the United States. The European countries have a vital trade interest in an increase in the purchasing power of American farmers. The basis of normal trade between the United States and Europe is undoubtedly that American agricultural products be exchanged for European industrial products.

In spite of the policy of attempting to produce all essential goods itself, Germany too, as recent developments have clearly shown, will continue to have a constant need for imports of agricultural products, necessitated by its economic structure. The United States can find a ready and lasting market for certain surplus products in satisfying this need, especially for cotton, fruits, and fodder crops. On the other hand there is hardly another market so well suited to the type of export products in which Germany excels, namely, industrial quality goods, as the United States with its high standard of living and its large population. It would thus appear that these two countries must be predestined for a highly developed trade with each other.

Why, in spite of these entirely favourable structural conditions, has trade between the United States and Germany, which was once so well developed, diminished so catastrophically in recent years? There are three important reasons for this development:

1. The boycott against German products promoted by certain circles in the United States.
2. The apparent incompatibility of the fundamental principles governing trade policy in the two countries (most-favoured-nation principle on the one hand and 'bilateralism' on the other).
3. The relatively excessive German price-level, which is due chiefly to the fact that Germany failed to follow the example of other countries in depreciating the currency.

The boycott need not be discussed here. If the other restricting factors were removed, its effectiveness would be very limited, since

the practical interests of both parties would strongly tend towards an increase in trade.

As for the two trade-policy principles, the most-favoured-nation clause and 'bilateralism', for the United States the problem is one of principle, whereas for Germany it is a much more vital one. Germany developed the practice of foreign exchange rationing on the basis of bilateralism not from an abstract principle but from practical necessity, and cannot give up this practice now without completely upsetting the basis of Germany's position in world trade. On the other hand the United States would be quite able to enter into an agreement in this case also, just as it did in the case of Canada in spite of the Empire preferences. Holland, a country which structurally, in its relation to Germany, is in a position very similar to that of the United States, has recognized the advantages of an intensive exchange of goods with Germany. The United States is harming itself by shutting Germany off from its markets, since even to-day Germany is one of the largest importers of some of the most important surplus products of American agriculture.

As to Germany's excessive price-level, it is generally agreed that this is a situation which cannot continue indefinitely, and that, in the short or long run, balanced international price relations must be restored. I cannot discuss here the enormous difficulties, both in principle and in practice, which the restoration of a sound international monetary system would involve. It is sufficient to mention that such an international monetary system cannot function satisfactorily unless currency reserves are distributed more evenly than at present. The United States holds a key position in this respect also. It is absurd to have the inflow of short-term credits and the repayment of long-term credits to the United States leading to continued accumulation of gold in that country, when it is at a loss to know what to do with its excess gold reserves. We may say on the world gold problem to-day the same as Mr. Wallace and Mr. Ashby said on the international debt problem in 1929: its solution cannot be indefinitely postponed; the longer it is put off, the greater the difficulties which will pile up for the final solution.

Practically speaking, a balanced distribution of currency reserves can in the long run be achieved only if the United States, over a period of years, consciously pays for additional imports of goods with gold and/or extends long-term credits to relatively undeveloped countries, credits to be granted by actual transfer of gold. A resumption of lending to European countries, as Mr. Wallace has rightly said, is out of the question in the present situation. As long

as a satisfactory basis for a workable international currency system does not exist, each country must meet its particular currency and balance of payments position by whatever method it thinks most appropriate. Germany, in view of the structural weakness of its balance of payments position, should not be blamed for employing the method of foreign exchange control with all its consequences; all the less as this structural weakness was due to an excessive accumulation of political debts for which the creditor countries are primarily responsible.

These are relatively long-term considerations. At present the short-run problem is more acute. All efforts of American economic policy to bring about a more intensive international trade would be made ineffective by a repetition of economic recession in the United States. American agriculture would not be least affected by a continued worsening of economic conditions in America, since there would be danger of a lowered demand for American agricultural products both in the countries trading with the United States and among the domestic industrial population. This would result in a fresh break-down of the price fabric in the international basic materials markets, and internally it would destroy the basis for a planned co-ordination between the supply of, and the demand for, agricultural products.

The success of the programme which has been undertaken to reduce unemployment by public works is consequently a vital question for American agriculture and for world trade as a whole. It should be considered, too, if in the long run the most important condition for renewed private investment activity might not even be to permit increased immigration. The cessation of the American population increase is certainly one of the most important reasons for the hopeless over-expansion of American producer-goods industries, under which American economic life is still suffering. At any rate the present experiences seem to show that, without the stimulus of increasing population, full employment under the prevailing economic system can be achieved only through strong political and financial strain. The responsibility for the degree of employment has been turned over to the governments in almost all countries, and the enormous increase in government debt and in tax burdens is the price which must be paid for this development.

A. W. ASHBY, *University College of Wales, Aberystwyth, Wales.*

There are one or two points on which I should like to offer comments on Mr. Wallace's paper. In the first instance there is an aspect

of international capital and trade relationships which has not been touched by Mr. Secretary Wallace or by any of the other speakers. The international systems of finance and production behind international trade during the last fifteen years or so have been much more subject to movement of capital between nations, which has no relationship to the trade, than ever before in the world's history. Mr. Wallace said that America suffered in the post-War period from not having an aristocracy—or at least a group of people—with broad conceptions of relationships between states, political and humanitarian as well as of a trading and economic character. I think the truth is a little different: that both the United States and Europe suffered in the post-War period because America had a group of financiers who were in some part ignorant, entirely unmoral, and for a large part operating in a sphere in which they had no guiding principles either political, moral, or sometimes economic. But we have to realize that there are many occasions of shifting capital having no relationship at all to real international trading, which are still continuing.

It is just as well, perhaps, that an agricultural economist should try to list some of these occasions and bring them to the notice of agricultural economists. There is temporary shifting of capital for what is called safety of capital; i.e. shifting from one country to another according to the political, or the expected economic, circumstances of one country or another. Then there are also very important shifts of capital for the purpose of exercising political influence, for assisting governments who are doing things approved by the financiers or for discouraging governments who are doing things which excite the disapproval of the financiers. In the cases of Great Britain and France, not to mention any other country, very considerable shifts of capital have been made in order to assist on occasions in attempts to upset governments. There are also occasions of international movements of capital for the purpose of breaking markets to the advantage of the financial group which is making the shift. Sometimes the aim is to rig a general investment market; sometimes it is to break the market for one commodity and the investment market associated with that commodity. Also on occasions there are very large transfers of capital from one country to another according to either temporary or permanent shifts in the domicile of certain very rich families and groups. The first three forms of these shifts, the shifts for expected safety, for exercising political influence, and for rigging markets, do play very important parts in international transfers of

capital and consequently influence international transfers of actual goods.

If we turn to international trade in the forms in which we usually think about it, it seems still necessary to repeat that nearly all real international loans are made in goods and nearly all international payments have to be made in goods. We might add services to goods, but they are rendered more by the lending than by the borrowing countries. Nearly all real loans have to be serviced in goods.

Proceeding from this basis, I think it is very necessary that somebody should say that there is room for a considerable development in international production and exchange for the further improvement of the standard of living of the peoples engaged in the process. It is necessary to say that, I think, because there are two sets of ideas to the contrary. There are people who are saying that distribution of production internationally on the basis of comparative cost is no longer necessary because of the slowing up of the increase in world population. They say that the nineteenth-century process of distributing international production and trade on the basis of comparative cost was only necessary because of the very rapid increase in population during that period. It seems to me rather that the contrary is true; that a combination of technical progress, the discovery of new areas for the use of new implements and machines, and the discovery of new raw materials, made possible, in part, the increase in population. It also made possible the very rapid rise in the standard of life of the peoples of Europe and North America and some other countries.

There are also people who say that the recent very rapid technical progress, with the great potentialities of technical progress at the present moment, make quite unnecessary any distribution of production on an international basis. Nobody could look at the condition of the population of Europe, at the condition of the population of a large part of the United States of America or Canada, and still say that it is not necessary for the industrial commercial world to use every means which it has in distribution of production and technical progress combined, in order to raise still further the supply of goods and services which the poorer part of our population needs to bring them up to what they, and I hope we, would regard in the second quarter of the twentieth century as a satisfactory standard of living.

Following that statement we should all the time bear in mind that any process of foreign lending that has a real basis in goods is a postponement of consumption on the part of the lender in order that

both the lender and the borrower may in the future have a greater supply of goods and services than either of them would have got if the loan had not been made. That is the basis of exchange which benefits both parties. There are still opportunities for lending and development of production on that basis, and the world still needs them.

But there is the corollary. If it is true that the loan accelerates and assists production both for the lender and for the borrower, it follows that in the long run both the countries concerned have to make the political, the social, as well as the economic arrangements, which will enable them to distribute and to consume the wealth, the increase in wealth, which is a result of the process. If the United States of America, let us say, is going to make loans on that basis, it can only get effective repayment in the future if it is providing either for vast increases in leisure or for vast increases in consumption or for some increases in both. That seems to be the crux on which hangs both the full development of internal national production and the redevelopment of international trade with the full application of the technical powers of production. I am not at all sure that that crux is not much more important than what is being described as the fear and uncertainty of military attack of one nation on another nation. But whether that is so or not, I am perfectly certain that the determination to protect the industrial capitalist system as it has existed is linked up in some degree with this desire to anticipate war in some cases and to avoid it in other cases, or that it is mixed up with a general political and semi-military insecurity, especially in the Europe of the present day. I do not know at the moment how we can meet the situation which is confronting us, either in respect of making further progress in the distribution of wealth, in securing consumption, or in setting the whole productive machine at work again, or how entirely we can get away from the political insecurity. But I do not believe we can do it on the basis of fighting for international trade with subsidies or anything of that kind.

I am inclined to agree with our German friend who said that a regulated home production was consistent with a development of international trade on the basis of regulation. Even there, however, one has to recognize that in both home planning and international planning there is not quite the same degree of security for those people who have to stake their fortunes on the plan as there was in the old days of what we called free trade. Political changes in 'plans' or programmes may be more abrupt, even more 'catastrophic', than the changes brought about by market forces. There is considerable

danger in political change in trends, not only as regards home production but also as regards the distribution of production on an international basis. But I think, in spite of that risk, we have to go forward, at least as far as Great Britain is concerned, towards more regulation and, I hope, in the long run towards direct national participation in import trade and possibly in both import and export trade. So far as one can see at the moment that foundation will give us the greatest possibilities of a development of international trade which I myself regard as essential to the welfare of the population of the industrial commercial world.

J. F. DUNCAN, *International Federation of Landworkers, Scotland.*

I was trying to avoid the President's eye after Professor Ashby spoke, because he has gone over most of the points and put very largely the point of view I was going to put before you, and he can do it so very much better than I can. But since I have been called upon, there are one or two comments I should like to make on the papers we have had this morning. Professor Minderhoud's paper seemed to me to be excellent, a model paper for presenting the economic issues involved in international trade. I am quite sure that every one here must be in a depressed mood as a result of reading it, because of the inescapable conclusions that he has put to us.

When Mr. Secretary Wallace presented his view I could not help feeling that Henry Wallace had developed as a politician in the last eight years. I am not so sure he has developed as an economist quite as well. I sympathize with him and with every politician. I think we ought all to sympathize with the politicians because those of us who are dealing with matters on a much narrower scale and those fortunate economists who are simply telling the world how far it will go wrong if it does certain things have a much easier job than the politicians have. A politician has to take account not merely of events and feelings in his own country but of the possibilities of what can be done with other countries.

I feel inclined to take some of the positions that Mr. Wallace is putting before us and push them back from the international field into the home field. Take that very simple statement that everybody wants to sell and nobody wants to buy. Is not that the basis of the whole of our profit-making system of industry? Of course, the manufacturer knows that he must buy raw material, but he wants to buy it as cheaply as he can; he wants, as we used to put it in Great Britain, to buy cheap and sell dear. But when you transfer

'buy cheap and sell dear' into the international field, we all see the danger of it; we can all see the disasters. What we forget is that the same mentality and the same outlook are operating throughout industry, and that all the stresses and strains that may be set up in the international field result from the strains which we have set up within the state, and that the whole matter has to be dealt with within the state as well as in the international field.

So far as international trade is concerned, I am not so much worried about the methods that may be adopted. I could not help underlining some of the adjectives in Mr. Wallace's paper. 'Fair competition', 'legitimate competition', 'unsubsidized exports', and so on—'we are exceedingly interested in working for world economic peace provided we can do so in a practical manner'. Whenever was the competition fair? How can it be legitimate? It may be legitimate granted certain premises, but it is all a question of what the premises are. There is no fair competition between an employer, with a large body of capital behind him, and a bunch of working men who have got to get a job if they are to have a meal next day. The settling of wages under 'fair competition' of that kind may be quite 'legitimate', but it is an act of war. So also in the international field you may say we want 'legitimate competition'; but whenever international trade is based on economic nationalism, then all questions of fair competition, of what is legitimate, whether you should subsidize or in any way help your own particular trade, go by the board, and each nation must consider what method best suits its interests under these 'war' circumstances.

What is wrong is not the particular plans. We had a certain amount of security that trade could promote good relations between nations when it was conducted more on a free-trade basis. We had a certain amount of security, but only a certain amount. It was quite as possible under the free-trade system for the stronger nation to exploit the weaker, and for the stronger groups within the nation to exploit the weaker groups. It is just as possible to have good relations between the nations with a system of trade which is regulated, which is not left to a free enterprise and to the search for profits, but these relations are liable to be upset by the people who are in control of capital.

What is important, and here we get outside the field of the economist, is the spirit in which trade is being conducted. I cannot help feeling despondent when I read in an American paper and I hear Mr. Secretary Wallace say that the people in the U.S.A. do not want to get mixed up in the 'isms', in our war situation in Europe,

in balance of power politics, and so on. Apart from the question of war altogether, the power politics of Europe at the present time are a development of the economic nationalisms of the nineteen-twenties, and America has been just as fully implicated in the growth of economic nationalisms as any other country in the world, quite as responsible for the economic nationalisms as any other country in the world. Even if we could by some magic wand wave away the whole of the fear of war, but left economic nationalisms, we should all still be building up defensive economic measures in the same way as we talk about building up defensive armaments. Nobody, you will notice, is ever building up aggressive economic nationalisms, just as no nation ever builds up aggressive armaments. We are all defending, just as we are all wanting to sell and not to buy. It is the same spirit underlying the whole thing. From the point of view of the economics of the country and the relation of agriculture to international trade it is a matter of importance, but not of the greatest importance, whether we are regulating industry or working under a system of free industry.

What are of importance are the ends that we are trying to secure. Then the question to which the economist can hope to give an answer becomes: Given our ends and given the circumstances, what are the best means for achieving these ends? Unfortunately in the meantime we are all at sixes and sevens as to the ends. Each of us is working to the end that our own nation builds up its economic defences. As long as we are working along these lines I agree with Mr. Ashby when he says we are going to find it very difficult to raise the standard of living in any country, or throughout the world generally. The most important thing, whether or not you like 'isms' and whether or not you like the war situation, is that we get away from this attitude of regarding nations as separate enclaves within which we try to build up economic systems, expecting each to be able to go its own way. We have got to get away from that spirit before we can get any discussions as to economic methods. Everything is in the melting-pot, and none of us can keep out of it. America cannot keep out of it any more than those of us who may be sitting near the powder magazine of Europe.

The whole situation is dependent upon that spirit of nationalism. That attitude of looking inimicably over the wall at our neighbours instead of trying to get down the barriers and enter into a freer method of exchange which would give us the opportunity of developing our resources, with the realization that prosperity is dependent upon our united efforts under the modern world circumstances,

is the root of our troubles. It is absolutely impossible for any one country to shut itself off either militarily, economically, culturally, or in any other way. We have got to take the 'isms' into account and contribute our share to providing the better 'isms' for the conduct of the world as a whole.

ANDREW STEWART, *University of Alberta, Edmonton, Canada.*

It is with some hesitation that I take part in this discussion, but there is one general point, arising principally out of Mr. Secretary Wallace's paper, to which I should like to refer.

It is important in referring to international investment that we should distinguish, as Professor Ashby has done, between different kinds of transfers of capital. In passing, and in connexion with Professor Ashby's remarks, I might point out that while I am unable personally to judge of the morality of other people it does seem obvious that, if the financial interests have the power which Professor Ashby imputes to them, they frequently act in an extremely stupid fashion.

We are probably all in agreement that transfers of capital form an essential part of the process of division of labour and specialization of function which has in the past contributed so greatly to the promotion of the general welfare. I am not so sure that equally universal assent would be given to the principles of lending which Secretary Wallace has suggested may dominate the policy of his country in the future, namely, of lending to undeveloped areas which produce only non-competitive products. But the kind of capital movements which we must deplore are those of an erratic, spasmodic, unpredictable, and irrational type. These are unfortunate for two reasons. First, because when they occur they do not give sufficient time for orderly processes of adjustment to take place, and consequently cause confusion, upheaval, and loss. In the second place, where conditions are such that large movements of this kind can occur, there is unavoidable uncertainty.

It was, I think, one of the virtues of the older order of things that there was a certain measure of regularity in the occurrence of events, and developments could be deduced with some degree of assurance from objective factors. Since the War, with the development of control and the investing of power in individuals at the centre, there has been a tendency—a cumulative tendency—to get away from this regularity and predictability. To-day, when we speak of countries, we generally speak of individuals. We do this because we know that certain individuals may, by a stroke of the pen, invert

the whole proceedings. We know that developments do not occur regularly in response to objective factors but that these developments are conceived within the minds of individuals.

Now, the reaction to this condition may not be a rational one, although I am inclined to think that on the basis of experience there are reasonable grounds for apprehension. In any event it is undoubtedly true that this condition does contribute to general uncertainty. Moreover, unfortunately, protestations of good intentions are not enough to allay these fears; again experience suggests that there is much truth in the old adage to the effect that these comprise the material which paves the road to hell.

The point is that, in pursuing the objective of internal security, we have not, as Mr. Duncan has contended, eliminated competition. We have simply shifted the location of competition to the national boundaries and have thrown into the field of competition the whole weight of the support of the community. Balance of power politics within countries has led to unbalanced power economics between countries.

It may be, as has been suggested in Mr. Secretary Wallace's paper, that the solution lies in the direction of the development of international control of international transactions. But in that event we are again simply shifting the location of competition and massing the forces of exporting countries against those of importing countries. What proportions international trade may assume when that is achieved is difficult to predict.

If international co-operation is to be the way out, then it seems to me that no individual country will be able to partake of the advantages of international co-operation when it sees advantage to itself, without at the same time assuming all of the responsibilities—some of these perhaps unattractive—which that form of collectivism implies. I am not sure that we are yet at the point where we are willing to accept these responsibilities.

S. SCHMIDT, *University of Cracow, Poland.*

I am glad Secretary Wallace is with us to-day so that I can in his presence frankly repeat a point regarding international trade which I have been insisting on since the Conference I attended at Cornell in 1930 and which I was always expressing to my teacher, the late Dr. Warren.

In studying international trade and its disturbances we should always take heed, much more than we usually do, of the position of the weakest seller and of the weakest buyer. The trade in a

commodity is not solely a question of volume, as many people seem to think. It is a question of the volume combined with the purchasing power.

You will notice that whenever Britain is prosperous—I am not a Britisher, and you need not be afraid that I am speaking for Britain—prices of foods and of other agricultural products are pushed up from the demand side. We notice the effect very well in our country. On the other hand, whenever Britain is in the midst of depression, prices drop because the British consumer is willing to take the same volume of goods only at a lower price. Prices in world trade depend, in fact, to a great extent upon the purchasing power of the British consumer, since from the point of view of international trade in food products Britain is one of the greatest consumers and can dominate the prices of food from the demand side.

On the other side the supply of goods has to be taken into account, and I venture to express the opinion that in this respect North America thinks too much of herself. It is not her supply that primarily influences prices. Prices depend upon the weakest sellers, and these particularly are the countries of South America and eastern Europe.

At the Conference in 1930 I gave some figures showing that prices of grain in east Europe are subject to much greater changes than those in North America. For the last few years, for instance, our grain prices in east Europe have been higher than in this country. During the last few weeks, however, prices of Polish grain have dropped by about 50 per cent. The reason is simply that our harvests in recent years up to this year have been comparatively short. This year the harvest in east Europe is much better. Prices have dropped for this reason and not because of the big volume that is being produced in North America.

It is necessary to pay attention to the weakest seller and the weakest buyer and to the purchasing power which influences the demand side and the supply side. Although I do not, of course, like to appear to be giving advice, I should think that if Americans would start industry in eastern Europe—not competing but complementary industry—much more would be done for stabilizing the prices of the food products which America has to export than can be accomplished by the different methods used at present.

I tried to show at St. Andrews that the volume of products which east Europe sells abroad is not the result of a high production but of the very low standard of living of our rural population. As an

example I quote our bacon industry. We started the bacon industry in Poland after the War. Because of our own low consumption we could easily by now have been in the first place as a bacon-exporting country, and Denmark as well as Holland would have found it hard to compete with us. If we have not done so, it is only because we began to control our bacon industry ourselves by putting those premiums on grain export for which we are so much blamed by Mr. Duncan. Six months ago export premiums on grain were cancelled, but now, if our Government does not reintroduce the export premiums on grain, the bacon industry will expand again, and farmers in America will have reason to complain about canned Polish ham coming to this country to compete with Iowa ham, as they already do.

If you are unconvinced as to how important the low standard of living may be for the international supply of agricultural products, the next Conference to be held in Hungary will provide an appropriate place for demonstrating and explaining the point to you in the life of the surrounding countries.

G. MINDERHOUD.

I have been exceedingly interested in the discussion on these papers by Secretary Wallace and myself. There is nothing, however, to which I feel that it is necessary for me to reply, and I prefer to hear what Secretary Wallace has to say in answer to the points raised on the policy of the United States. The only thing I wish to say is to thank the members of the Conference most sincerely for the interest they have taken in my paper.

SECRETARY H. A. WALLACE (*in reply*).

I am very much tempted to follow the procedure which Professor Minderhoud has followed, but, since so many comments have been made on the policy of the United States, I am perhaps, as Professor Minderhoud has suggested, under an obligation to reply. What we are all interested in—those of us who are not in economics for the mere pleasure of intellectual exercise—is to bring about day by day, week by week, and year by year, those necessary adjustments which enable us to get along in this world, state by state, country by country. We are all sincerely desirous of bringing that to pass. In theory I have agreed with practically everything that has been said here in these exceptionally fine discussions this afternoon. It has been a thoughtful discussion—a discussion of an unusually high quality. I accept most willingly Mr. Ashby's amendment to my

characterization of the international financiers. I agree most heartily with him that loans must eventually be paid in goods, although it seems to me he forgot for a moment the services and invisible items which economists usually include as a correction. Those members here who have come from the various countries of Europe to Canada have diverted from Europe to this side of the Atlantic foreign exchange which otherwise would have been enough to buy several thousand bushels of wheat for Europe.

It has been suggested that Professor Minderhoud and I were very pessimistic about the future of international trade. I would not undertake to speak for him, but I am quite willing to grant that the time may come five or ten years from now, I do not know when or how, when international trade might again expand extraordinarily and might conceivably expand faster than it has ever expanded before. I see no indication of that at the present time either from the facts or from the psychology of the situation. But changes come with exceeding speed in this field just as they come with exceeding speed in the field of the business cycle. This month we are in a depression, the next month the wind has changed its direction, and we suddenly are started on our way again. There are, however, certain necessary stabilities and assurances which are not present just now.

With regard to Mr. Hobson's criticism of the United States agricultural policy—first, with respect to our loans being too high, secondly, with respect to our use of surplus commodities (money to divert products to foreign use or to relief use), thirdly, with respect to subsidy—I would like to make the observation that perhaps I have done much more suffering on behalf of Mr. Hobson's point of view than he has done himself in each of those respective fields. And as a result of that suffering (I think we can learn from suffering) I have developed, as Mr. Duncan would say, as a politician and not as an economist.

Now let me suggest how economics sometimes works in the field of practical affairs. We are faced day by day with the inevitable psychologies of people who have inadequate education and are faced with definite emergencies. With regard to our commodity loans, the only loan that I can think of at the moment that has kept our products off the foreign market in any substantial quantity was the 12-cent cotton loan of 1935. It happened at that time (and I myself was against a loan as high as 12 cents) that many of us had not discovered the techniques of sufficiently resisting certain types of pressure. I think, however, that perhaps this administration has been

as successful in resisting pressures of that type as most administrations. The 12-cent cotton loan kept cotton in the United States above the world price from about March or late February 1935 until September 1935. With regard to the other loans, you cannot find any clear-cut evidence that they held the American price above the world price unless you go into the more abstruse types of statistical analysis. At any rate American cotton was being sold at the world price steadily and was not being held off the market particularly. The argument might be urged that the United States does not produce the same share of world cotton consumption as was the case five years ago or ten years ago. However, for fifty years the United States has steadily lost in her share of world cotton consumption, and projecting the trends throughout the period you can say that in 1937, on the same basis of trend, we should have had 37 per cent. of the world cotton consumption; actually we had 32 per cent.

Perhaps the loan policy was responsible for the difference. We do know this, however, that great increases in cotton production have taken place outside the United States—in Russia, for example. No matter what the price was in our country, Russia would have expanded to just the same extent. Our price policy had nothing to do with Russian expansion. I suspect the British would have strongly encouraged cotton expansion in Uganda, no matter what our price policy. In China, I suspect the combination of the Chinese and Japanese situation would have resulted in the same degree of expansion in China, no matter what our price policy. The fourth and last country in which there was great expansion was Brazil. Brazil's expansion was encouraged in very large measure by that country's unusual currency devaluation. Thus exceedingly low prices for cotton in terms of dollars or in terms of gold were attractive to Brazilians in terms of milreis. Also the alternative crop in San Paolo, coffee, has lost greatly in attractiveness by comparison with cotton. I am not saying that our price policy here did not have something to do with cotton expansion in Brazil, though I may say the Brazilian ambassador assured me most solemnly that he was convinced that it had no effect whatever and that they were determined to bring about cotton expansion for certain reasons.

In the case of wheat we now have a loan which, at the time we made it, was substantially at the going price at that time. For certain reasons which I will not go into now I do not think the wheat loan, in spite of the fact that it is above the current market, is going to hold any substantial quantity of wheat off the market regardless

of what is done on this matter of the so-called subsidy or new wheat policy. The wheat loan is 52 per cent. of parity. In other words, with the wheat loan as it is, wheat at that price would buy 52 per cent. of the things the farmers customarily buy as wheat would have bought in the years before the War. I do not think it could be called an extraordinarily high loan. The cotton loan is about 55 per cent. of parity prices, and the new cotton loan will only be 52 per cent. of parity. We have the option in the 1938 Agricultural Act of making the loan anywhere between 52 and 75 per cent. With wheat I think we demonstrated the strength of our ability to withstand pressure, and we held it to the 52 per cent. In the case of cotton I am hoping that we will be similarly successful.

When prices get down to distressed levels of 52 per cent. of parity I am not worrying about holding the product off the world market. At that point I am willing to take the criticism and to come back and criticize. It may be suggested that the parity-price standard, in view of improvement in farm technologies, gives the wrong answer; that the combine has come in the case of wheat and improved varieties, &c. That may be true to some extent, although I do not think it changes the result by more than ten points. But if it does change the result by more than that, I want to suggest that what it gets around to is: What are you going to do with the farm people if prices go very low? Suppose the long-time price of wheat will bring balance so far as all forces are concerned at 50 cents a bushel, or say 52 per cent. of parity. In that case there is a tremendous problem of population adjustment; not many growers can survive on 50-cent wheat. I think that is one thing we have to keep in mind in all of this discussion. How can you, with the least wear and tear and everything considered, bring about the necessary adjustments in order to maintain a living economic and social organism? All things are not decided in the purely economic field. There is a point beyond which specific segments of the population simply will not stand for low prices and incomes. When that point is reached it is necessary to take action of some kind, and the question is: What kind of action will bring about the fewest unfavourable repercussions in the long run?

I have told our farmers a good many times that they should not look on the loans as price-fixing in nature, except at the very bottom. They should look on the loans as a device enabling them to hold their surpluses till by their own efforts in co-operation with the Government they have brought about a better supply and demand situation. I think that is the proper way to look at it. So I suspect

in the main, while we may measure the economic forces somewhat differently, Mr. Hobson and I are not so very far out of line in our size-up of the situation.

With regard to our use of the powers of the Surplus Commodity Corporation, first let me say for the benefit of those who are not familiar with our Surplus Commodity Corporation that it is a corporation which has a close relationship to the Department of Agriculture. It has money which comes from section 32 of the 1935 amendments to the Agricultural Adjustment Act. This money is 30 per cent. of the customs receipts; in this particular year about \$145,000,000 is available for the use of this Corporation. The money can be used to buy up farm products which are unusually cheap and to distribute them through the state relief agencies to the people on relief, or to sell them where they can be sold. We have used the powers of the Corporation only to a small extent for purposes of selling products in Europe. We have sold some walnuts in Europe, certain other types of nuts, I think perhaps some prunes, but in the main the powers have been used to sell vegetables, fruits, dairy products, or to give fruits, vegetables, and dairy products through the state relief agencies to the people on relief. I think this has been good for the people on relief and for the farmer. Mr. Waugh of the Bureau of Agricultural Economics in Washington has made rather a careful study, the results of which are presented in the May 1938 issue of the *Farm Economics Journal*, which indicates that there can be a greater total income for agriculture in the case of products of the nature of dairy products, fruits, and vegetables, if a part of such products is channelled off at one level of prices for the benefit of those people who have low incomes, while the rest moves at a higher level of price to the people who have higher incomes. The total income to the farmers can be greater, and undoubtedly the total of human satisfaction can be greater, by following such a policy. I believe there are economists who dispute Mr. Waugh's discussion. I believe that, with the bargaining powers that exist in the modern economy, Mr. Waugh is right, whatever the supply and demand curves may show.

In the use of the powers of the Surplus Commodity Corporation we have not usually stepped in to buy until the product has gone down to less than 60 per cent. of parity. Dairy products have occasionally been an exception, but most products have gone down to less than 60 per cent. of parity before we began to buy. I have insisted on no buying under the surplus removal programme until the price is at a level where, as a result of observing the action of

big purchasers, we knew that unfair bargaining practices were being used. It is so easy to criticize procedure of this sort on theoretical grounds, and I agree with the theoretical grounds up to a certain point, but when certain limits are passed I move the theoretical grounds out of the way. I do not minimize in any way the usefulness of economists, and I hope that they do not become infected with my point of view, because if they did they might lose their usefulness to me, and I appreciate their usefulness to me. I want them to be able to look at these economic forces in a cold-blooded way and give me the results of their analysis without fear or trembling.

With regard to subsidies, I am not sure that this group is familiar with the statement issued to the Press on Thursday in connexion with a meeting at Ottawa between certain representatives of the Canadian Government and M. L. Wilson and Leslie Wheeler of the U.S. Department of Agriculture. This is the statement of policy which was given to the Press at that time.

'Mr. Wilson outlined the crop situation in the United States and market prospects having regard to the world wheat situation. In reply to his inquiry the Canadian officials outlined conditions in the Canadian wheat areas and explained in detail the working of the Canadian marketing system, involving guaranteed minimum prices and an export policy based on normal merchandising of wheat at competitive prices through the regular trade channels. The United States programme which is now being formulated contemplates, it was pointed out, a similar policy with respect to the sale of wheat through the regular channels at competitive prices in response to the demands of the market.'

The policy that is being followed is marketing the wheat through regular channels at competitive prices in response to the demands of the market. Both the Canadians and the United States are using this policy.

- The United States used a policy of this sort in 1934-5 with the north-west wheat—Mr. Hobson has criticized the use of the policy at that time. It happened that we had a large crop in the north-west of soft white wheat, more than we could use, and we moved it out under exactly the policy mentioned here. We did not move it out in a manner which was destructive to world prices. We watched that point with very great care, and I think we did a skilful job. I think we were warranted in doing the job as we did do it. Following that a great deal of pressure was put on us by the north-western wheat-growers in subsequent years to adopt a similar policy, but we refused to do so. But now this year the situation has greatly changed

in the United States. For four years, 1933-6 inclusive, the average wheat crop of the United States was 582 million bushels as compared with ordinary consumption for all purposes in the United States of 650 million bushels. If we had had average yields per acre on the planted acreage and average winter-killing on the planted acreage during that four-year period, we should have had an average crop of 845 million bushels instead of 582 million bushels. In other words, during that period we should have had at least 170 million bushels of wheat to put on the world market with our plantings as they were. Finally last year, 1937, we harvested a crop of around 850 million bushels; this year we have a crop of 956 million bushels, and if we had no exports we should have a carry-over next July 1 of over 400 million bushels, which would be the greatest on record.

At this stage it seems to me there comes into our thinking the principle of gradualism. You cannot make changes in this human world in too jerky a fashion, not in a democracy at least, and I am not sure that in the long run you can get away with it under any system. The wheat people in the United States have been planting wheat steadily on a basis which, with normal weather, would produce over 800 million bushels. In view of the fact that we are a creditor nation, we do feel it essential, now that weather has come back to a more nearly normal state, to get our acreage down. We are going to endeavour to do so to the fullest extent which the psychology of our people will support, and I feel that that is a contribution to the world wheat situation. But I feel that it will be impossible for us to get our acreage down and hold it to a point where it represents a production with ordinary weather of less than 750 million bushels. You may find out later that I am wrong in that estimate, but that is roughly what it looks like now. We are faced with a very definite situation, a very huge wheat supply. We do have to do something about it. If we consider alternatives, for example the cost of storing wheat year after year in the United States in quantities far beyond the necessities of our Ever Normal Granary, it seems to me you cannot find a policy that is as constructive as the policy we are now following. If any one can suggest another alternative, I should like to have it.

It seems to me that, while the United States was open to very serious criticism during the decade of the twenties both with regard to her tariff policy and her international loaning policy, we have not been subject to quite such serious criticism since 1933. I think our reciprocal trade agreements which have brought the tariffs on industrial imports down by 10 or 15 per cent. have been something

of a contribution to the world economic situation. I think the adjustment we have made in the acreage of our crops has been to some extent a contribution to a solution of the world agricultural situation. I think perhaps we have worked steadily in the United States in the last four years, at least as steadily as any other nation, towards the solution of the world agricultural situation, and we are exceedingly eager to work with other nations towards a fundamental solution of the world agricultural situation. But we do have to take in to account the psychology of our own people. We cannot carry the load by ourselves.

We may be able to hold wheat acreage down to a certain point, but we cannot expect our farmers to go completely off the international market; it just cannot be done. So it is also with cotton. It seems to me wise for the various agricultural ministries to compare notes in terms of the national psychologies as to what their respective peoples will stand for and what they will not stand for, and then see how the various policies add up in terms of meeting the prospective demand for agricultural products.

With regard to the comments of our Scots friend as to American responsibility for world trouble, I would like to say that there were certain gentlemen who sat around the table at Versailles in 1919 who had some responsibility. One of those gentlemen came from England, if my memory serves me right, and somehow I have a recollection of the way England behaved herself in 1931 with respect both to tariffs and the devaluation of gold. I do not know of anything to be gained by recriminations. I am quite willing to beat my breast and cry *mea culpa*, if my Scots friend will do likewise. But I do not know what profit there is in looking towards the past. What we are really interested in is stability and security in the future.

I was very much interested in listening to our German friends. The earphones did not work perfectly at all times, but I thought the interpreter did a marvellous job. The Germans were excellent in their presentation of their point of view, and I think it was a splendid thing to give enunciation to what I believe to be a fact—that with regard to certain matters the world is not turning back. The old days are dead and gone. It will be a new *laissez-faire* if we come to *laissez-faire*; it will be a new liberalism if we come to liberalism. And it is quite conceivable that we will learn a lot from these various experiments which have to do with more or less direct governmental controls in the field of loans, production policies, and exchange controls. Sooner or later various efforts along this line

will have to be integrated to produce a greater amount of world prosperity than is the case now. I think I will close on this note, with the suggestion of Mr. Ashby's that it is going to be necessary for the people of the United States, since the United States is a creditor nation, to learn to enjoy leisure and be willing to accept the goods that would administer to that leisure. We need to have perhaps a more precise calculus of the human desires of the future. We must not be afraid to look on recreation as having its economic aspect. But if we fail in this, I suppose sooner or later the United States will manage to escape from her creditor position in order that she may again cherish the puritanic discipline with which she is so much at home and have to work hard in order to pay some foreign country interest on her debts.