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INTERNATIONAL TRADE IN THE RECOVERY PROGRAM

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The subject assigned to me is a tangled topic in a vast subject emote from the interests of most of you. My time is too short to do justice, or even to treat briefly all of its pertinent phases.

I must interpret the title broadly, to refer to the entire pro-am of the Roosevelt Administration. Speaking as a student, not as partisan, I question the implication that the Administration has d a recovery program. It has had several more or less conflicting jectives: relief, recovery, reform, reconstruction. By no means l of its multifarious measures have been directed toward national onomic recovery. Hence neither the plans with which it started out, or the succession of measures which it has adopted, nor a selection f these, can safely be termed simply "a recovery program."

On the whole, international trade has not figured heavily in the actual policy of the Administration. At the outset, hopes were raised that the World Economic Conference would bring about substantial decreases in trade barriers. These hopes were certainly excessive, and might have been dashed in any case; but the actual deathblow to the Conference was given by President Roosevelt's message refusing our support to currency stabilization moves that he felt would unduly tie our hands. The International Wheat Agreement, designed in part to lower barriers to wheat imports and to regulate wheat exports, soon broke down; and suggestions for other international commodity agreements came to naught. Despite Secretary Wallace's eloquent pleas that "America must choose" extreme internationalism, extreme nationalism, or a planned middle course, 1/

1/ Actually, of course, the choice does not lie between these three. It is altogether improbable that either extreme will be chosen, and there is no one middle course. The pertinent questions are: which of the many middle courses shall be chosen, and how carefully shall the choice be considered, with all of its implications?

Up to date America has chosen its course too "planlessly," and one that is too nearly nationalistic. This choice calls for reconsideration in the interest of agriculture and of the nation at large. Intelligent public discussion of the subject should be fostered. On the other hand, a choice based on anything like a popular vote would probably be even more narrowly nationalistic than it has been. One's faith in democratic government need not include the conviction that

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e are still muddling along on the wrong side of the middle. No re-ision of the "iniquitous" Hawley-Smoot tariff was undertaken. Nego-iation of several bilateral trade agreements has been the Administra-ion's principal direct contribution toward expansion of foreign trade. his has been accompanied by domestic policies with respect to agricul-ure, gold, and silver which have had greater influence, for the most art in the direction of restricting our international trade.

Before touching on these policies, let me frankly state my conviction that trade - intercommunity, interstate, interregional, international - works to the economic advantage of communities, nations, and mankind. On the whole and by and large, this is the plain lesson of economic history: trade facilitates effective utilization of resources, brings economies in production, promotes stability in the functioning of the economic system, and advances and enriches standards of living. Where trade is severely limited, famines still recur; elsewhere they are obsolete. Much of the growth of population and of the remarkable improvement in living conditions, in the past century or two, is attributable directly or indirectly to trade expansion. Trade restrictions, whatever their purpose and other effects, tend broadly to restrain economic progress, sometimes even to reverse it. The United States has made notable gains in spite of its high protective tariffs, not because of them. Here and abroad, economic recovery in the past three or four years has been on the whole impeded, not promoted, by the unprecedented multitude of restrictions on international trade with which nations have cursed themselves and one another.

I make bold to take this position in a section where many people and agricultural activities are partially dependent on tariffs or other restrictions affecting imports of cattle, wool, sugar, flaxseed, even wheat. Several of the states represented here would have fewer people, and their occupational distribution would be different, if we had not built up our tariff walls; but I think it safe to say that standards of living of these people would be higher, not lower, and that their distress during the recent depression would have been less instead of greater. I recognize, however, that once adjustments have been made to a complex system of trade restrictions, there is no simple and painless way to remove them. On this point economic science has yet given little help and "politico-economic engineering" has yet to make important contributions.

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questions of policy involving intricate economic aspects can be settled wisely at the polls. The electorate is ill fitted to pass upon such questions; and in the propaganda preceding such a vote, most of the advantages lie with those who favor something like extreme nationalism. Under these circumstances, even "muddling along" may be preferable to paving the way for a commitment of a worse kind.

At the root of trade restrictions lies the vice of shortsightedness - a very prevalent human defect. Temporary and sectional interests loom unduly large on our limited horizons, and by a process of log-rolling is built a structure called "nationalistic" which is really contrary to the true national interest. In severe economic depression, dominated by emergency psychoses, the process tends to be intensified, and particularly when people induce their governments to do any and everything to end their troubles. In the lifetime of men now living, national restrictions on international trade were probably never more general and more effective than today. Indications of reversal of the recent tendency are scanty, but I submit that it is always hazardous to extrapolate short-term trends. It is still possible that the tide of so-called economic nationalism is near its flood, and it is too early to assume that it will remain at its flood.

Economic forces, since the war as well as before it, have been working toward upward trends in the aggregate volume of international trade. While railroad expansion has latterly been of minor importance, there has been a notable cheapening of ocean transport, and the enormous expansion of automotive equipment and of improved roads has helped further to shrink the commercial world by reducing economic barriers to distribution of goods. With this and other improvements in communication, to some extent aided by experience and contacts during the war, business enterprise has developed in scope and intelligence, with selling efforts extended and intensified. Despite checks by war and recent severe depression, the upward drift in standards of living, based in part on increasing productivity and on slower growth of population, has helped facilitate international trade.

By contrast, political influences have strongly tended, particularly during the depression, to counteract these economic forces and to diminish the volume of international trade. Restrictive national policies have been dictated by various motives, differing in weight from country to country. Among these were (1) meeting specific financial difficulties; (2) protection of particular classes or pressure groups; (3) desire for security against the event of war; (4) gratifying the national pride. While severe depression alone makes for diminution in international trade - in value even more than in volume - the unprecedented declines during the latest depression, and especially the limited subsequent increases, 2/ are attributable more largely to political measures than to economic forces.

2/ League of Nations indexes, covering 75 countries, are as follows:

Year	Quantity	Value	Year	Quantity	Value
1929....	100	100	1933....	75	35
1930....	93	81	1934....	77	34
1931....	86	58	1935....	79	35a/
1932....	74	39			

a/ Calculated without Italy from October 1935.

By its very nature, however, international trade is subject to great variations in composition from year to year and over periods of years. If economic forces were allowed completely free play, this would still be so. Crops vary. Transportation facilities and costs undergo great changes. Comparative advantages shift - both among nations and among commodities. Technological improvements in agriculture, industry, and commerce introduce modifications. New commodities compete with old. Changes in the age distribution of peoples, and in modes of life and work, alter national consumption. In our dynamic civilization, gains and losses of markets for particular products are the rule, not the exception, in international as well as domestic trade. The "normal" economic trend of total trade is upward, but this is not true for particular products, from particular countries or even the world at large.

Economic forces have thus been operating toward a decrease in our exports of cereals and pork products from the abnormal peaks reached during and shortly after the war. Agriculture in Europe has not only recovered from the effects of the war, but has made advances in technique which would have enlarged production of cereals and pork products there even in the absence of protective measures. With the aid of improved machinery and cheap ocean transport, other exporting countries with comparative advantages over us have tended to increase their share in the export trade. A trend toward lower cereal consumption per capita has extended to more and more countries, as incomes have increased, as more varied diets have become possible, and as energy requirements have been reduced.

The common phrase, "loss of foreign markets," should be considered against this background. Declines in exports of particular agricultural products are due in varying degrees to broadly acting economic forces, to economic consequences of the depression, to national measures (here and abroad) affecting the total volume of trade, and to national measures affecting these specific products. Various factors which are important in their effects on total exports (such as our international creditor position, new loans to foreign countries, international movements of gold, silver, and securities) exert very secondary influence in determining how much of a particular farm product is exported. This is largely determined by conditions peculiar to that commodity and those affecting its relative cheapness in foreign markets.3/

3/ Administration spokesmen often seem to exaggerate the effect upon agriculture that reorientation of our international trade policy could bring. If we imported much more heavily, we could export more heavily, unless we insisted on large payments on the war debts or chose to withdraw our foreign investments. But such a change would not necessarily be reflected in corresponding increases in our exports of specific farm products or even in our agricultural exports as a whole. Indeed, price-raising policies can largely nullify its influence.

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The Democratic party platform of 1932, while it advocated "effective control of crop surpluses so that our farmers may have the full benefit of the domestic market," condemned "the unsound policy of restricting agricultural production to the demands of the domestic markets." In fact, however, the Roosevelt Administration has gone much farther in these directions than any preceding one. Nevertheless, I think Governor Landon gave an exaggerated impression when he said, in accepting the Republican nomination for the presidency:

> By its policies the Administration has taken the American farmer out of foreign markets and put the foreign farmer into the American market. The loss of markets, both at home and abroad, far outweighs the value of all the benefits paid to farmers.

It was a prime element in AAA philosophy that American agriculture must be restricted in view of the loss of foreign markets, to build down our surpluses of export staples until foreign markets were "reopened." The weakness in this theory is that the very act of restricting production tends further to decrease our exports of the commodities concerned. The primary objective of AAA policy was raising the farm price of farm products. Progress in this direction, however, inevitably tends to lessen the ability of our exporters of these products to compete in the international market. Even a slight price differential against American wheat or cotton in world markets suffices to cut down exports radically; a larger one practically eliminates exports; a still larger one attracts imports here. The experience of the past three years gives illustrations of all three types of effects. Most conspicuous have been the marked reductions in our exports of raw cotton, pork, and lard, and the amazing shift of the United States from a net exporter to a net importer of wheat, corn, and cottonseed oil.4/

While the clear <u>tendency</u> of production restraints and most of the other price-raising devices employed is in the directions indi-

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These, together with the influence of weather conditions here and abroad, exert far greater influence on our agricultural exports, in total and in particular, than the character of our balance of trade or international payments as a whole. Other things equal, our exports of cotton, wheat, and tobacco would probably not have been materially larger in the past six years if we had reduced our tariff in 1930 instead of raising it, though our exports of many lesser agricultural exports would have been greater.

4/ In the calendar year 1935, net imports of cottonseed oil reached 163 million pounds - a larger amount than our exports in the five years preceding, and over three times the average annual exports in 1925-29.

cated, the AAA cannot properly be blamed for all the shifts that have taken place. In respect to cotton, severe cuts in production reinforced by two loans at excessive rates have certainly been the dominant factor in keeping exports down to abnormally small proportions of increasing world consumption; and, with the stimulus to foreign cotton production thus given, seriously adverse effects will be felt for years to come. Temporary gains to cotton growers have been dearly bought. This policy has been less conspicuously a factor also in tobacco, rice, cottonseed oil, and some other products, even where our actual exports have increased. For cereals, pork products, and even cottonseed oil, however, the dominant influence responsible for the remarkable shifts has been adverse weather, notably including the great drought of 1934. Nature outdid the AAA. Had weather conditions been as favorable in the past four years as on the average, the underlying tendencies revealed in the case of raw cotton would have been manifest in several other commodities, but the shifts would have been far less extreme. With weather conditions as they actually were, the shift in our international trade in cereals and pork products would have been much the same in the absence of any AAA program.

In spite of Secretary Wallace's avowed leaning toward economic internationalism, the AAA program in practice has moved in the direction of economic nationalism. In addition to the tendency of price-raising measures to reduce our exports of several farm products, there are instances of restriction of imports. Outstanding is the quota limitation on imports of sugar. Other import quotas figure in reciprocal trade agreements. Congress has given the Executive authority to impose others, and one on potatoes is in force. Moreover, a few subsidies are being given to aid producers of farm products of which we are not importers, which will tend to expand our production and decrease our imports. Examples are flaxseed, flax fiber, and (in effect) sugar beets and sugar cane.

Under the Reciprocal Trade Agreements Act of June 12, 1934, the Administration has negotiated such agreements with 14 countries, 12 of which have been put into effect since September 3, 1934. The Department of Agriculture, we may note in passing, has shared in the research underlying these agreements and in their formulation. While the 1936 Democratic platform declares for continuance of the policy, the Republican party platform calls for repeal of the law as at once "futile and dangerous," declaring: "Its effect on agriculture and industry has been destructive. Its continuation would work to the detriment of the wage earner and the farmer."

No such conclusion is at present warranted. Really, it is too early to measure results under the agreements. We can compare short periods before and after their coming into force, but we cannot yet safely make reliable statements as to cause and effect, much less appraise the net effects. If one studies the agreements thus far adopted, however, he is generally impressed by their limited scope and character - in number of commodities, rates of duty, etc. In a few lines they have facilitated some expansion of exports, and in others some increase in imports, above the levels to which trade had receded. But if there are few possibilities for pointing to them with pride, there is even less justification for pointing to them with alarm. Their chief significance - and it is important - lies in the fact that here is a conscientious effort to lower excessive trade barriers, which may perhaps pave the way for more far-reaching and substantial moves to make possible freer flow of goods.5/

The Administration has tried out the policy of loans to foreign countries for the purchase of particular farm products - a policy advocated by various groups ever since the war. The most conspicuous instance under the AAA - loans to the Chinese government in 1933 for the purchase of wheat and cotton - yielded some results, and the loans are being paid off; but the experience did not tempt repetition. Others, out of many proposals, have been of negligible importance. Mr. Peek's Export-Import Banks yielded insignificant results. If the Administration had been willing to embark on the barter arrangements which Mr. Peek also urged, we might have done a little more export business with particular countries for a time; but at best the positive results would have been small and the net outcome might easily have been to contract our total trade still further.

Our recent experience with export subsidies likewise gives no promise of important results from their use. The original Agricultural Adjustment Act authorized the use of AAA funds "for expansion of markets and removal of surplus agricultural products." Under this provision about 6 1/2 million dollars were diverted from processing taxes to subsidize wheat and flour exports from the Pacific Northwest in

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5/ I can virtually endorse the following conclusions in Lockwood's recent excellent analysis of the trade agreements program: "(1) The reduction of trade barriers through bilateral agreements is the New Deal's major effort of a positive character in the field of economic foreign policy. (2) American interest in the recovery of foreign markets has gained as it has become clear that the emergency expedients adopted in the absence of such recovery were costly, in some cases unconstitutional, and often tended toward the restriction rather than the expansion of production. (3) The revision of the tariff by Administration experts within the limits laid down by Congress represents a significant step away from the scandalous procedure employed in previous Congressional revisions and toward scientific tariff-making in the national interest. (4) The trade agreements program of the United States is perhaps the major force in the world today working toward the liberalization of commercial policy, the reduction of barriers, and the restoration of equality of treatment as opposed to preference and exclusion." W. W. Lockwood, Jr., The Foreign Trade Policy of the United States (American Council, Institute of Pacific Relations, New York, 1936), p. 6.

933-34, of which over 40 per cent went to China under her loan. ection 32 of the amendments of August 1935 put at the disposal of he Secretary of Agriculture a fund consisting of 30 per cent of the ustoms revenues to be devoted, among other things, to "recovery and evelopment of export markets." This fund, amounting to around 100 illion dollars a year, has thus far been drawn upon in 1936 to finance xport subsidies on (1) flour to the Philippines (continued in 1936-37), 2) substandard prunes to Germany, (3) walnuts and pecans, and (4) low rades of fire-cured and dark air-cured tobacco. The total sum thus far sed in these operations has probably not exceeded 2 million dollars.

From the standpoint of international trade as a whole, these operations are of negligible importance. The Philippine flour subsidy is apparently succeeding in recovering a leading share in that market for Pacific Northwest millers, which they had been losing, in spite of the Philippine tariff on flour from other countries, because Pacific Northwest wheat prices were so far above an export basis.6/ Conceivably the walnut and pecan export operations may open up some new markets, but it is doubtful whether these can be retained on an ordinary commercial basis. Considering the state of international trade, our competitive position in it, and foreign machinery for controlling it, the practical possibilities of even appreciable expansion of our agricultural exports through subsidies are exceedingly limited, and those of using subsidies to develop foreign outlets that can later be exploited without subsidies are negligible if not nil. This the Administration realizes far better than Congress does. "Recovery and expansion of foreign markets," in any significant sense, cannot be achieved by such a policy. It will come if and when our products compete more effectively in world markets on truly commercial terms.

6/ Its principal effect, indeed, is to help Pacific Northwest millers to keep up their volume of operations. Among its other effects are to add a little strength to Pacific Northwest prices of the cheaper wheats; to diminish slightly the region's carryover, and the flow of its wheat into feed use there and into the southeastern states for flour; to enable Philippine flour consumers to get their flour a bit cheaper; to reduce the commercial outlet there for Australian, Canadian, and Japanese millers, and slightly to lower their outturn and prices. But at most it involves only 2 or 3 million bushels of wheat a year.

Pacific Northwest interests have persistently urged the reopening of the export subsidy on a larger scale. In 1933-34, with important aid from the loan to the Chinese government, subsidized exports of wheat and flour amounted to 28.4 million bushels, of which less than 7 million went to ex-Oriental markets. Since then, the great bulk of the regional surplus has been absorbed in United States domestic markets. In recent weeks, however, the advance in world wheat prices has been such as to bring Pacific Northwest wheat close to its export parity.

Of the gold and silver policies of the Roosevelt Administration I need say but little here, since their major significance lies outside the realm of international trade. One direct effect of depreciation and devaluation of the dollar was temporarily to promote exports of certain farm products, including apples from the Pacific Northwest. Apart from such transitory effects, the influence of the policy has been chiefly indirect - on the whole, perhaps, toward restricting the volume of international trade through uncertainties as to our future currency action and delays in reaching international agreement on exchange stabilization.

The silver purchase policy of the Administration has had two distinct influences on international trade. Purchases of foreign silver have added a little to the resources of foreign countries for purchase of American goods and securities. More important, the resulting advance in the price of silver intensified the forces of depression in China, eventually forced her off the silver standard, and indirectly led to contraction of our export outlets there.

Let me summarize briefly as follows:

Trade works to the economic advantage of mankind. Restrictions on international trade, imposed under short-sighted sectional pressures, tend to impede the economic progress of nations. Exceptionally extensive though such restrictions are today, it is not safe to assume that their tide will remain at flood level, even though signs of ebbing are hard to find.

The "normal" trend of international trade, in terms of total volume, is upward; but political actions and other depression influences have caused unprecedented declines since 1929, from which recovery has been slow and slight. Many factors, however, combine to determine the volume of trade in particular products and have been jointly responsible for our "loss of foreign markets" for several farm products.

Price-raising devices, notably including production control measures, tend directly and indirectly to increase such losses, and have been important in the case of raw cotton. The AAA program as a whole has operated to diminish agricultural exports, and has tended to increase our drift toward economic nationalism. Nature, however, has been mainly responsible for some of the more remarkable export shrinkages and for our becoming net importers of several products for a time.

Export loans and subsidies, cautiously applied, are at best puny devices for expanding exports; if rashly applied, subsidies would probably tend even to reduce our total exports. Reciprocal trade agreements have thus far exerted relatively slight influence, for good or ill; yet while their direct results are likely to be limited, they do represent a wholesome effort in the direction of freer international trade.