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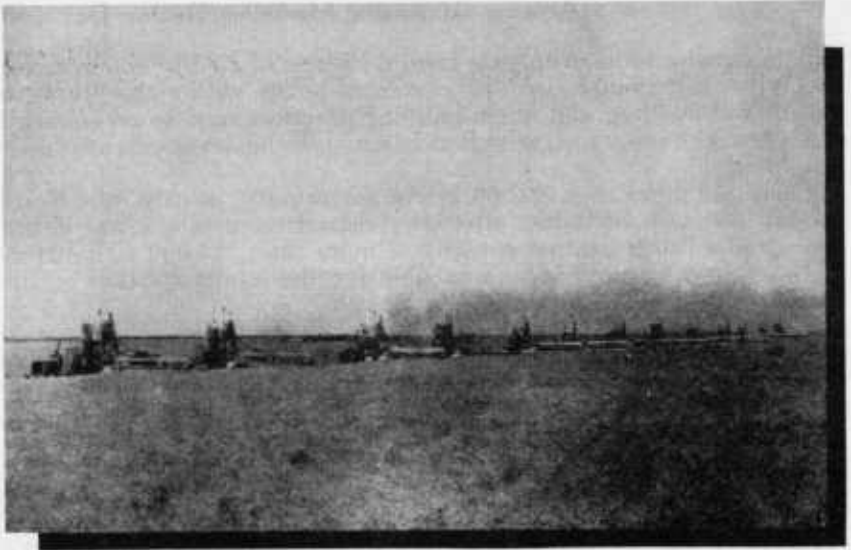
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The Meaning of Foreign Trade for Agriculture

by ARTHUR P. CHEW¹

THE AUTHOR of this article deals with basic considerations in foreign trade. He argues that the foreign-trade situation determines the fundamental nature of the agricultural problem in the United States and that it is now more rather than less significant than formerly. From a broad historical and economic analysis he concludes that no creditor nation can indefinitely maintain a favorable trade balance to get rid of its surplus production. The ultimate consumption-production balance must be domestic, and domestic consumption must be stepped up when an unfavorable trade balance appears. But this does not mean resorting to a self-sufficient economy. On the contrary, he argues, maintaining the international exchange of goods at a high level in itself makes for increased domestic consumption and general prosperity.

BROADLY, American agriculture has three main possibilities, each of which turns on foreign trade. The first is that it will regain its foreign market, through trade agreements and improved international relations. Then it will have to make only small long-time adjustments. The second is that it will not regain its foreign market. In that event, if the home demand remains unchanged, agriculture will have to retire an enormous acreage permanently. The third possibility assumes that

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agriculture will get substantial compensation for the decline of the foreign demand in the shape of an increased domestic market, along with some resultant favorable influence on its export position. This will require action to increase the national income, through increased industrial production, and to increase the purchasing power of the low-income groups. It will involve some changes in the crop pattern; but the total foreign trade may be larger ultimately since the country will more readily take imports for exports.

Each of these three possibilities involves changes in our foreign-trade policy. Revival of the former market requires virtually world-wide abandonment of trade restrictions and implies that the United States will make its full share of the concessions. Permanent loss of foreign trade, on the other hand, will still leave American agriculture under world-market influences; for tariff protection cannot be effective unless domestic agricultural production drops to the point of shortage. In drought years, foreign competition would leap over the tariff. With domestic buying power raised to offset the decline of foreign buying power, as the third possibility requires, exports will be relatively less important. Nevertheless, they may actually increase in total volume, because the country will be in a better position to take imports in exchange. Any course on which we can embark, in short, will be a reorientation to foreign trade.

On what we do about foreign trade depend the answers to a host of other agricultural problems, such as the alteration of the crop pattern, the adjustment of commercial to noncommercial farming, the ratio between farm and nonfarm population, and the adjustment of agriculture to the rest of the economic system. It is impossible to allocate different lands to different uses, to conserve the soil efficiently, and to improve land-tenure conditions without reference to foreign trade. In short, the foreign-trade problem influences the entire farm economy. Indirectly, it dominates the production of crops consumed at home as well as that of the crops grown largely for export.

Some persons believe, because the percentage of our farm production exported is now only 5 or 6 as compared with 16 in 1934 and 14 or 15 before the World War, that the farm export problem is becoming less significant. Actually, it is becoming more significant. There is even an inverse relationship between the volume and the importance of our farm export trade under present conditions. The smaller the volume, the greater becomes the need for agricultural readjustments. Our agricultural industry grew up largely for trade with Europe; it depends vitally on the export market to absorb its surpluses and to maintain the level of its prices in the domestic market. American agriculture is still an integral part of the world economy, and this affects everything it does.

THE FOREIGN-TRADE SITUATION POSES THE FARM PROBLEM

That we can hide behind the tariff, turn to price fixing, and rely on Government aid for limited farm export trade is conceivable. Nevertheless, that too is a response to the world situation, and not an avoidance of it. Even a diminishing farm export trade, if it depends on price fixing at home and subsidies in the world market, is a deter-

mining factor in our agricultural life. Our governmental policy looks primarily, through reciprocal agreements, toward the restoration of relatively free international trade. It resorts only with profound reluctance to price control and subsidies. It stands ready to drop these things in favor of world agreements arrived at in international commodity conferences. Nevertheless, even if this hope fails and the solution proves eventually to be mainly a domestic one, it will still be true that the foreign trade situation posed the problem and dictated the response.

Farmers saw their problem in terms of foreign trade early in the 1920's, during the agitation for the McNary-Haugen plan. They saw it truly. Then as now the weakest spot in the agricultural situation was too large production for export. Farmers wanted to separate the home market from the world market. They urged that supplies for export should be segregated and sold abroad under conditions that would allow domestic prices to rise behind the tariff. The proposal involved a fundamental readjustment to foreign trade.

In one form or another, this proposal has had a part in everything that has been done since in our agricultural policy. It rested on a sound if crude analysis. Essentially, the problem today is the same as it was in the 1920's. We see it now, of course, in terms far more complex. Now it appears to us as part of the world struggle toward a new economy with so-called autarchy or economic nationalism in conflict with economic internationalism. Essentially, the issue is world unity versus national unity as the basis of the rural-urban balance.

Foreign trade will not be hereafter what it has been in the past. It will not be an answer to the problem of the surplus, since it will not carry away a net surplus of the national production of all products above the national consumption of all products. It will tend to be reciprocal, with exports quickly offset by imports. Reciprocal international trade, with goods and services brought in to offset goods and services sent out, leaves the consumption-production balance unchanged. It alters only the form of the surplus. True, the new form of the goods and services may be in better demand than the old; it may correspond better to actual prevailing wants. But if the people have insufficient buying power, part of the supply will constitute an economic surplus still. Liquidation of the surplus then becomes a domestic problem. This is the thesis of the present article.

POLITICS A FACTOR IN FOREIGN TRADE

It should be borne in mind that foreign trade is always a problem in politics as well as in economics. Indeed the very theory of it rests on political foundations; it has to do with commerce across as distinguished from commerce within national frontiers. Hence whatever changes the frontiers changes the trade. Other things being equal, an increase in the number of political sovereignties within a given area means an increase in the proportion of its international to its domestic commerce. Conversely, a decrease in the number of political units means a corresponding decrease in the exports and imports. Changes brought about in that way in the volume of the trade across

frontiers may or may not be useful in an economic sense. They may simply reflect an alteration in the number of customhouses and be negative from the standpoint of human welfare.

Current diplomatic and military operations in Europe, for example, may greatly increase or greatly decrease the number of independent political units there. In the event of an increase in the number of Europe's national frontiers, more goods will have to pay tariffs, and international trade will show an apparent gain. If on the other hand the number of political units declines, the areas of relatively free trade will expand, and customs collections may partly give place to excise taxes. More of Europe's trade will be theoretically domestic. It goes without saying that the new ratio between domestic and foreign trade will not be the measure of any real economic change that may have taken place. Light on that problem will have to be sought in other directions; in the extent, for example, to which the frontier changes have or have not favored technology and good relations between town and country. Mere substitutions of foreign for domestic trade or vice versa are worthless. What finally counts is the total production and consumption.

In the political economy of international trade the entire world today is in conflict between two opposite principles. One is the principle of force, which through annexations, protectorates, and dictated spheres of influence essays to make more and more of the trade of certain nations essentially domestic in character. It projects their political influence beyond their borders, so that what were formerly exports are no longer truly exports, and what were formerly foreign investments are henceforth on a parity with investments in the homelands. The opposing principle, of course, is that of agreement. This principle, though it has never yet been supreme, has progressively until recent times substituted mutual for one-sided advantage as the basis of trade among peoples. Setbacks notwithstanding, it seems destined ultimately to triumph; for the essence of trade is equality of exchange. Trade that is mutually advantageous has no need of force; it grows and prospers through comparative advantage. Meantime, nevertheless, the political aspects of international trade are dominant, and they will always be influential. In foreign trade economics cannot be divorced from politics.

HISTORICAL DEVELOPMENT OF AMERICAN FARM EXPORTS

Let us glance at the historical development of our agricultural export trade. In the early years of the Republic, our farmers produced cereals and meats chiefly for home consumption. Farms were largely self-sufficing. More than 90 percent of the population, indeed, was rural. Trade with Europe did not become important until well along in the nineteenth century. Then, however, it developed rapidly, as a consequence of the industrial revolution and of mass migration to the West.

The age of machinery, which started in England toward the end of the eighteenth century, led to industrial specialization in the Old World and to agricultural specialization in the New. Europe was the workshop; the United States was the breadbasket and the leading

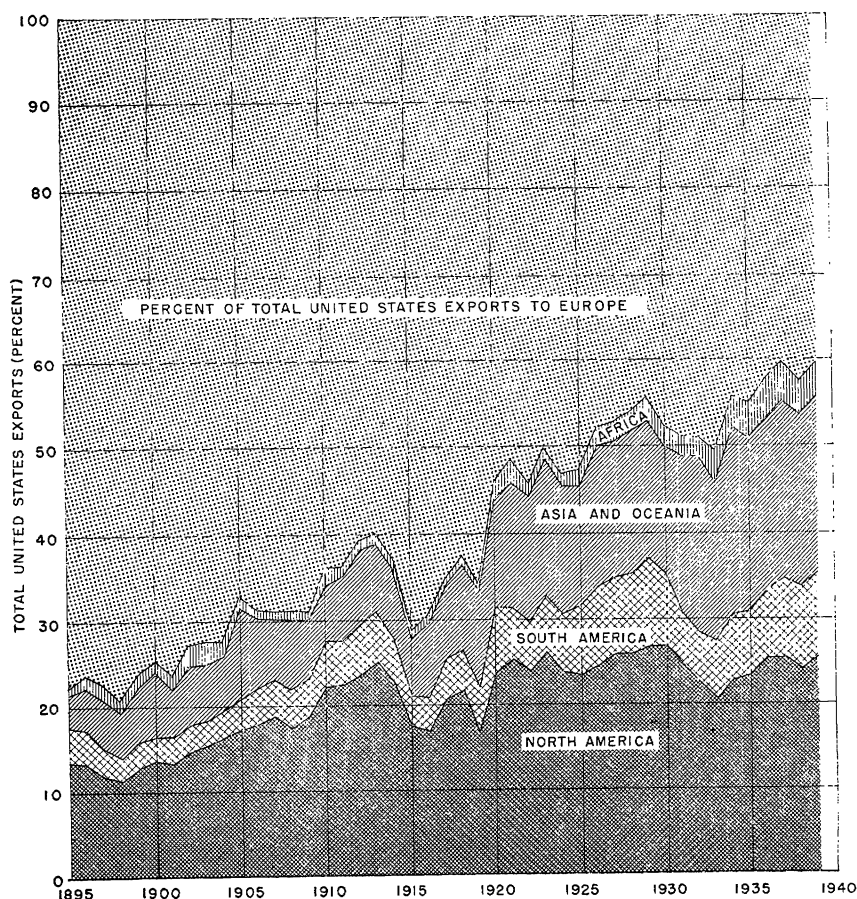


Figure 1.—Declining relative importance of Europe as outlet for United States exports. In the last 50 years the relative importance of Europe as an outlet for the exports of the United States has declined from about 80 to about 40 percent. In the first 9 months of 1939, Europe took about 41 percent. In 1915 and 1916, during the World War, Europe took about 70 percent of our exports, as compared with about 60 percent in the year before the war. The percentage dropped off again after the war to a point which was almost in line with the pre-war trend. In fact, by 1929 the percentage of our exports taken by Europe was 45, or exactly what projection of the pre-war trend would have indicated. The continents that have compensated for the decline in the relative importance of Europe are North America (chiefly Canada), Africa, South America, and Asia. Countries in the Asiatic group have risen most in relative importance. In the first 9 months of 1939, for example, Asia and Oceania took about 20 percent of our exports, as compared with only 4 percent in 1895.

source of fibers. Four-fifths of our exports between 1830 and 1860 were farm products, with cotton, tobacco, cereals, and meat products constituting the bulk of the merchandise. In this period trans-Atlantic commerce was ideally reciprocal. In return for our grains, meats, fibers, and tobacco Europe sent us tools, textiles, metals, glassware, earthenware, and most articles of comfort and luxury.

Eventually, however, Europe sent to us not merely finished industrial goods but means of industrial production. The industrial revolution crossed the ocean. Manufacturing took root here, and our imports of finished goods declined. Our imports of machinery, of steel for railroad building, and of capital goods in general, increased; also, our imports of raw materials for manufacturing. Soon after the Civil War we began to export manufactured goods in moderate quantities. Thereafter, nonfarm goods formed an increasing proportion of our export trade. This change, though gradual, was of revolutionary significance—it implied that we were becoming less dependent on European industry, and it gave our trade with Europe something of a one-sided character. As a matter of fact, we began, shortly after the Civil War, to have a considerable excess of exports over imports.

For several decades the farm share of the export trade, though it declined in proportion to the total, increased tremendously in volume. Not counting forest products, our agricultural exports rose from about \$297,000,000 in value in 1870 to more than \$840,000,000 in 1900. The peak year was 1898. Up to that time our cereals, livestock products, cotton, and tobacco found an almost insatiable European market. Indeed, our exports of these things went almost exclusively to Europe (fig. 1).² Europe had loaned us a great deal of money. Consequently, our goods went to Europe without need for us to receive immediately an equivalent in kind. In large measure we had received payment in advance. Eventually, nevertheless, the increasingly one-sided character of the trade brought about a change in its volume.

The turn of the century brought a decline in our farm exports. By 1910 the outbound commerce, except in cotton, tobacco, and fruit, was down in volume nearly to the level of the 1880's. This was a consequence of the increasing difficulty which Europe experienced in sending goods to us. Our imports of Europe's manufactured goods, for example, dropped to only about 30 percent of the total imports, as compared with more than 60 percent in 1860. On the other hand, our imports of raw materials for manufacture trebled, and the source of these products was largely non-European (fig. 2). Europe, though still vitally important to us as a market, was less important to us as a source of supplies.

Because its trade with us had grown unbalanced, Europe was turning elsewhere for agricultural products—to Canada, Argentina, and Russia for grains; to Argentina for meat; and to Australia and New Zealand for sheep and dairy products. Indeed some European countries, though not yet Great Britain, were hearkening to the demands of their farmers for tariff protection against the United

² Figures 1 and 2 have been adapted from the following publication: BEAN, L. H. OUR CHANGED FOREIGN TRADE. U. S. Bur. Agr. Econ., Agricultural Situation 24 (3): 17-20, illus.

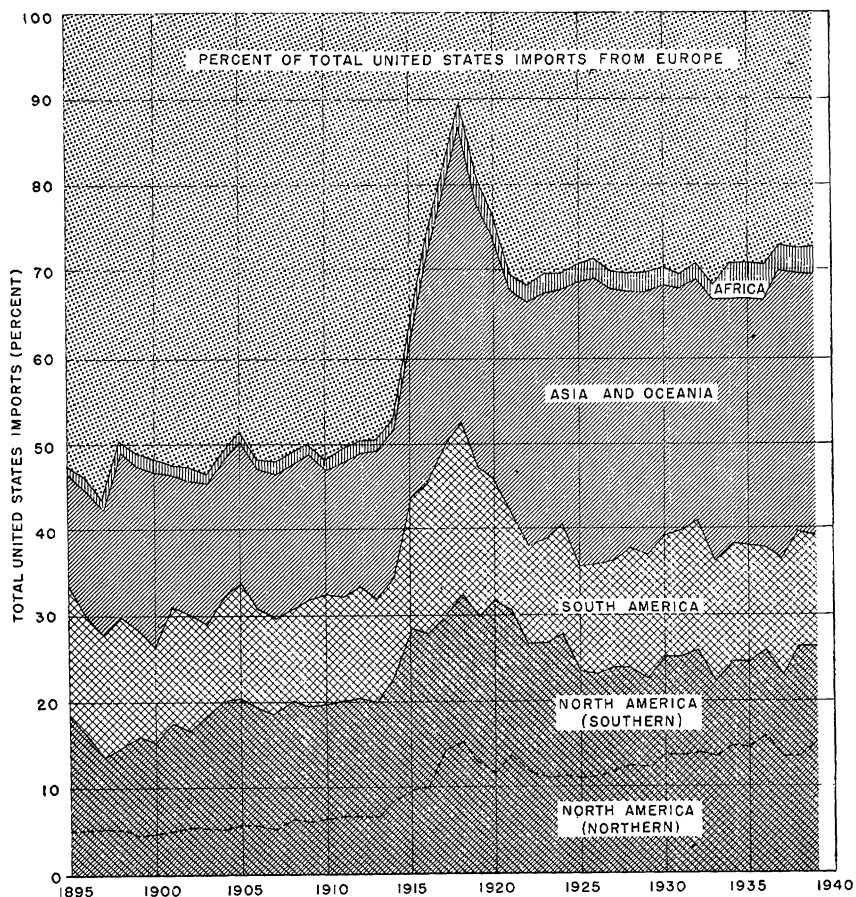


Figure 2.—Declining relative importance of Europe as source of United States imports. In our imports as in our exports the relative importance of Europe has declined. In 1895, for example, Europe supplied 52 percent of our imports. In 1939 it supplied only 28 percent. The drop came somewhat abruptly, rather than gradually as did the drop in our exports to Europe. Up to the outbreak of the World War Europe was still supplying close to 50 percent of our total imports. The World War reduced that to about 10 percent in 1918. After the war there was some recovery. In the period 1921 to 1938 our imports from Europe were about 30 percent of our total imports. Since 1936 the percentage has been about 28 percent. Canada, Asia, and Oceania have taken up the relative decline. Before 1914 Asia and Oceania sent us about 15 percent of our total imports. Since 1924 they have sent us about 29 percent. Before the war the contribution of North America (chiefly Canada) was about 7 percent. Since 1930 it has been about 14 percent.

States and other agricultural exporting countries. Germany, France, and several other countries raised their agricultural tariffs. Economic nationalism was coming. The hemispheric specialization, with its basis here in tremendous agricultural capacity and in Europe in a tremendous growth of industry and population, was breaking down.

Reverse Trend During the World War Only Temporary

As is well known, the World War reversed the slump in our agricultural exports. Wartime expansion in this country brought into cultivation 20,000,000 additional acres of wheat, and 5,000,000 additional acres of rye. It increased cattle and hog numbers by more than 20 percent, brought about gains nearly as large in a number of other basic foodstuffs, and caused expansion in our tobacco production. By 1918 our farm-commodity exports, including cotton, had reached a point 45 percent above the pre-war level. Our farm exports in 1919 amounted to nearly 20 percent of our total farm production.

But the change was only temporary. The expansion rested on precarious foundations, chiefly loans extended by the United States to the importing countries. In the late 1920's, when the lending policy broke down, our farm exports declined. In 1937 they were the lowest in 60 years. Essentially, our wartime growth of farm exports was a mere interlude. Post-war conditions revived and accelerated the pre-war trend toward declining agricultural exports.

Probably our agricultural export trade would have declined only very slowly had the war not intervened. Europe could have got supplies here for a long time, even without sending us anything in exchange. It had ample purchasing power on deposit. The war depleted its dollar exchange and plunged it into debt to us. Our excess of exports over imports before the war represented chiefly payments of interest and principal on borrowed capital. Interest payments alone required more than \$200,000,000 annually. After the war, we became on balance a creditor country. Other nations owed us more than \$500,000,000 annually on interest account alone. Eventually the interest due us annually rose to more than \$1,000,000,000 until repudiations and defaults reduced it. It was impossible to maintain a large favorable balance of trade based only on additional credits.

Exports of foodstuffs were the first to decline. Exports of meats and cereals slumped sharply from year to year; in the fiscal year 1935 exports of cured pork dropped to 22 percent and exports of lard to 48 percent of the pre-war average. Our cotton exports, after an upturn for a number of years, dropped likewise, and in 1938-39 amounted to only 3,500,000 bales. In the 1938-39 decline, however, our cotton-loan policy was a factor. Between 1932 and 1939 the production of foreign cottons increased nearly 45 percent, and Europe's takings of foreign cotton increased almost proportionately. In the middle 1930's the total farm exports were only slightly more than half the pre-war volume. The United States had lost its former place in world trade as supplier of basic foodstuffs.

Prominent as both cause and effect was a movement in western Europe toward agricultural self-sufficiency. Wheat and wheat-flour production in Europe jumped from 1,100,000,000 bushels in 1922 to 1,500,000,000 bushels in 1932. The world's imports of wheat and

wheat flour declined from an average of 819,000,000 bushels in 1927 to only 426,000,000 bushels in 1934. World imports of beef and veal products declined 33 percent between 1928 and 1933, and similar declines took place in world imports of live cattle, dairy products, and other staples. Accompanying these changes were drastic restrictions on international trade—tariffs, embargoes, quotas, and exchange limitations. Underlying these things, however, was a progressive decline in the earlier hemispheric reciprocity. In many countries whose foreign trade declined sharply after 1921, internal production increased after 1929 or fell only moderately below the 1929 level. Our own foreign trade declined with no offsetting increase in our internal production, which indeed also declined tremendously.

EARLY INTERPRETATIONS MISTAKEN

Theory that developed with the early reciprocity misconceived it. In what was dynamic, changing, and essentially temporary, the theory assumed an automatic and permanent balance. International division of labor between industrial countries and agricultural countries, it held, would continue forever and produce endless progress. Our own population increased tenfold and our wealth proportionately. Europe's population increased from about 200,000,000 in 1800 to more than 500,000,000 in 1900, and at the same time its standard of living rose. But the method had limitations. It made the industrial countries more dependent on food imports and yet nursed the agricultural countries along toward industrial independence. The original reciprocity could not endure. Trade among the nations came to rest more and more on other foundations—chiefly on credits and capital loans.

One reason was that our reciprocal trade with Europe in the nineteenth century did not put the whole of our economic system into the world economy; it put only part of it there—the agricultural part. In industry it fostered an opposite trend, of which protection was the guiding principle. Manufacturing grew up behind the tariff, on a price level relatively much higher than that of agriculture. It had a greater price differential in its favor throughout the nineteenth century than it has today. Agriculture had free or cheap farm land, with the prospect of increasing land values; hence the distribution of advantages may not have been grossly uneven. Agriculture's involvement in and industry's exemption from world competition was bound, however, to create a problem eventually. When industry too developed an export trade, the import difficulty arrived.

In the beginning of the industrial revolution no one could have imagined such a development. Agriculture and industry were then very primitive. Farmers knew nothing of mineral fertilizers and very little of plant and animal breeding. Farm production per man or per acre seemed fixed by nature. Population, especially in Europe, seemed likely always to press upon the food supply. Europe's agriculture improved materially. Deliverance from the food difficulty came chiefly, however, through industry. Railroads and steamships carried Europe's factory products abroad and brought foodstuffs back. Trade fed the growing populations—the exchange of manu-

factured goods for foods. Trade solved the population problem for decades. But when the trade tended to get out of balance, through the spread of industrialism to agricultural countries, it became evident that this crude international division of labor, with industry emphasized in Europe and agriculture elsewhere, had actually been unstable from the very start, though it had had a long inning.

Perhaps we can state the general principle. In countries with limited agricultural resources, the law of diminishing returns is highly authoritative. It limits the domestic food supply and tends to keep the populations small. Industry provides an escape, though industry cannot expand indefinitely. Industrial labor and capital can be employed, however, long after agriculture has passed the point of diminishing returns. Factory output can be increased tremendously by mass production. Population growth may therefore continue, provided only that factory goods can be exchanged for foods. Industry can grow if it has buttresses in agriculture abroad. But this requirement is often difficult to satisfy. As industry expands and needs a conversely disproportionate development of agriculture elsewhere, it has fewer agricultural areas to balance it off. Nevertheless, the relationship can endure under the proper conditions for a long time; as long, in fact, as the agricultural buttresses retain their simple agricultural character.

Apparently the broadest basis for foreign trade will always be the exchange of factory goods for foodstuffs and raw materials. (There is room for a considerable reciprocal exchange of industrial products of different kinds, costs, or qualities; but the basis for trade of this sort is convenience rather than sheer necessity.) Modern industrial countries, however, have difficulty in getting adequate farm supports abroad. Fewer can do so, moreover, as the agricultural countries too become industrialized and have less need for industrial imports. This throws the industrial countries back on their domestic agriculture, which will now be far too small. Not choice but necessity controls them, though the procedure means lowered standards of living. World unity between agriculture and industry then reverts to an aggregation of local or national urban-rural balances, with tariff barriers and all-round loss of comparative advantage as usual though not necessary features, and with desperate imperialism as one alternative. "Fighting for trade" is a term that has a very literal meaning.

There is a fatal paradox. Although industrialism stimulates population growth in certain countries beyond the supporting power of the national agriculture and makes the people vitally dependent on foreign trade, it simultaneously nurses industry in the agricultural countries. In short, the process first creates and then destroys an international division of labor and with it a certain kind of international trade. Then the swollen populations face decline. They cannot return, without decimation, to primitive self-containment; their domestic resources are insufficient. In many countries, for example Great Britain, Belgium, the Netherlands, and Germany, self-sufficiency is impossible. Not even kitchen gardens could be provided there for everyone; not to speak of farms to produce enough cereals, meats, dairy products, and fibers. Attempts on the part of these countries to establish more nearly a domestic balance between

industry and agriculture, though natural in the circumstances, are merely projects of despair.

This would promise well for renewed trade between western Europe and North America but for the fact that it takes two to make a deal. Only reciprocal wants can nourish a permanent international trade. And, broadly speaking, we do not want what Europe can supply, or at any rate not to the extent that we did formerly. In trying to make itself as nearly self-sufficient as possible, western Europe does not expect to prosper. Ultimately, it hopes instead to establish trade relationships with countries that need its products. Even that can merely postpone the difficulty, which must recur. Overdeveloped European industry cannot balance itself indefinitely with nonindustrial countries. The supply of these countries will give out. Postponements of the crisis should not be despised, since posterity may know better how to deal with it. Manifestly, however, the answer is not a permanent division of labor between industrial and agricultural countries. No such arrangement can possibly be permanent.

PERMANENT BASIS OF INTERNATIONAL TRADE

The permanent basis of international trade is comparative advantage. Certain comparative advantages, such as those of climate and geography, are often practically permanent; for example, those of growing rubber in the Tropics and wheat in the temperate zones. Other comparative advantages may be great at one time and small at another, as we can see from the fact that Europe has lost its superiority in manufacturing. Our own preeminence in some industries, such as the mass production of automobiles, may not be permanent. Large unified markets may be developed elsewhere, and we have no monopoly of engineering. Invention and discovery may develop new types of comparative advantage. In addition to the natural advantages of soil and climate, there are innumerable acquired advantages of skill and knowledge, which international trade can strengthen and perpetuate. It by no means follows, just because the nations are no longer predominantly industrial or agricultural, that they cannot trade with one another at all. Yet the world-wide diffusion of similar industrial skills obviously tends to diminish the opportunity.

Possibilities exist, to be sure, for the international interchange of even industrial products, not to mention the products of agriculture. Trade between Great Britain and Germany, for example, was large both before and after the war. Yet both are industrial countries dependent mainly on the exchange of factory goods for foodstuffs and raw materials. Countries with similar technologies have different aptitudes, training, tradition, and social organization, as a result of which their costs of production may vary. American typewriters, British textiles, Swiss watches, and French lace are familiar examples. Such international trade, however, involves reciprocity. It stands apart, moreover, from the great problem of balancing agriculture with industry, and apart from the problem of countries like the United States that want to export farm products but not to import factory goods. There will not be room anywhere indefinitely for large favorable balances of trade. Only reciprocal international trade can be

truly permanent. Countries that wish to export must also import.

In discussing so complex a matter as foreign trade, it is difficult to avoid oversimplification. There are very few clear-cut dichotomies, with one thing set off against its opposite. It has been shown, for example, that the early trade between the New and the Old Worlds, with its basis in hemispheric specialization, tended to be reciprocal. Actually it was never merely a simple and immediate interchange of goods and services, but also an affair of loans and credit. Deferred payment was a factor. With its industrial surplus western Europe bought goods and services from the United States and also a stake in our economic development. It lent to this hemisphere a part of its production annually, in the expectation of receiving it back eventually with interest. It became part owner of American farms, factories, mines, and railroads.

In consequence certain European countries, notably Great Britain and France, developed favorable balances of trade; they had an excess of merchandise exports over imports until nearly the middle of the nineteenth century. Other European countries had favorable trade balances until much later. In this way they became creditor countries; western Europe preceded the United States in this status by nearly a century. Inevitably, however, as the American development proceeded and provided payments of principal and interest on the capital previously borrowed, the merchandise balance turned in our favor, and Europe on the other hand began to have trouble in disposing of its goods. The proof was the rise there of unemployment, which is the industrial expression of the surplus problem, long before the corresponding agricultural difficulty developed here. In recent years we have had unemployment, too, in both town and country. But the fact that Europe had it before we did was a reflection partly of the trans-Atlantic balance of trade. Unfavorable trade balances, which usually involve unemployment, are a sign that consumption should be stepped up domestically.

Favorable trade balances have at least provisional utility. They take care of surpluses and allow production to run above consumption domestically. Temporarily this condition, the first cause of which is foreign lending or the exportation of capital, satisfies a number of requirements. It carries surpluses away from the surplus countries, helps along the development of backward countries, and diffuses science and techniques throughout the world. Moreover, it enables surplus countries to get out of economic crises without redistributing their national income. Obviously, if the commodity surplus can be exported, it need not be consumed domestically, and the national distribution of income may remain substantially unchanged.

Surpluses of exports over imports, with the exportation of capital as the operating mechanism, often have yet another function; they stimulate outward movements of labor also, and relieve the pressure on the labor market. The world migrations of the nineteenth century and the resulting development of virgin continents were a response to investment opportunities. Capital and labor emigrated from their native lands together. But the favorable trade balances that the double movement created at first changed over later into unfavorable trade balances and left the problem of balancing consumption with

production domestically more difficult than if it had been tackled in the beginning.

Sometimes debtor nations temporarily have favorable trade balances. Our own pre-war experience is an example; but as payment proceeds, the favorable balance declines. It can be restored only by replacing the payment of debt with a grant of credits. Hence, by its very nature, the favorable trade balance is only a temporary device for balancing consumption with production. The ultimate consumption-production balance must be domestic.

Many countries are still industrially undeveloped. It is to these that the industrially mature ones will prefer to turn for foodstuffs and raw materials, and also for favorable trade balances. In that way they can kill two birds with one stone. They can satisfy their wants and get rid of their surpluses. This is not simply an affair of equal exchange. Factory surpluses in the developed countries represent more than just enough purchasing power for necessary imports. The excess can be used in foreign investment. Eventually, however, capital exports to the undeveloped countries must diminish. The first form is the exportation of finished goods; but the second and final form is the exportation of means of production—of machinery and sometimes of entire branch factories. This phase of the one-sided trade movement is necessarily the declining phase, since it raises the backward countries to industrial maturity.

Even if political or other conditions protract the surplus-deficit relationship, the reciprocity fails eventually. For example, India served England well for decades both as a source of agricultural raw materials and as a market for processed goods. Cotton and other crops went from India to Great Britain; Lancashire textiles and other commodities went back and supplanted the products of the Indian native industries. Though Indian agriculture benefited temporarily, India became excessively ruralized, since its handicrafts decayed without being replaced by machine industries.³ In recent years the rural population of India has been about 73 percent of the total population, as compared with 66 percent in 1901 and 58 percent in 1881. The resulting excessive pressure of population on the land, accompanied by extreme rural poverty, may have been as detrimental to the British commercial interest as would have been the rapid development of Indian manufacturing. Now Great Britain is fostering Indian industry.

The dependence of Indian agriculture on foreign industries is a cause of profound unrest. It has given rise to the Gandhi movement for the revival of village industries, and simultaneously to native industrialism and to demands for Indian autonomy in tariff making. In its own fashion, without using the slogan, India moves toward economic nationalism—in other words, toward some kind of approximately domestic rural-urban balance. On the basis of excessive agricultural specialization, it can exist no longer. The symptoms are overcrowded, inefficient agriculture on the one hand and lack of urban employment on the other.

In consequence India seethes with nationalism both political and

³ LADEJINSKY, W. AGRICULTURAL PROBLEMS OF INDIA. U. S. Dept. Agr., Off. Foreign Agr. Relations, Foreign Agr. 3 (8): 321-346, illus. 1939. [Processed.]

economic. It wants native industries, not merely as a basis for increased domestic trade, but as a means of alleviating pressure of population on the land and at the same time of modernizing its agricultural technique. One-sided economic development indefinitely is impossible for India, just as it was for the United States. Probably it no longer benefits even England and the other industrial countries that supply the Indian market, since the overgrowth of the Indian rural population has reduced per capita buying power to the vanishing point.

BIOLOGY GOES ALONG WITH ECONOMICS IN FOREIGN TRADE

In the exportation of capital for the creation of favorable balances of trade, there is biology as well as economics. Regarded as merely a source of profit, the exportation of capital often seems inept. It may involve immense financial loss. Usually, however, it facilitates a desirable outward movement of labor as well. Capital and labor leave home as partners under the steady pressure of their growth, which would otherwise expose them to low interest and low wages, and leave them in slavery to the owners of natural resources. Ricardo, with Malthus' law of population as his starting point,⁴ declared that population growth combined with rents, royalties, and other charges for the use of land would steadily increase the disparity between earned and unearned increment. This doctrine seemed impregnable. Nevertheless, interest and wages rose in the country of its origin, social conditions improved there, and the pressure of population on subsistence declined.

Labor and capital in Great Britain did not refute the Ricardian thesis. They simply got around it. Specifically, through joint emigration, they escaped from the local land monopoly into rich and cheap resources throughout the world. They went together to the United States, to Canada, to Africa, to India, to Australia, to South America, and to the Orient. Each block of capital took with it, directly or indirectly, a certain number of executives, technicians, and laborers, and the double movement benefited stay-at-home capital and labor also. Soon it had its counterpart in a dozen countries where capital and labor were superabundant, and as a result the industrial system developed offshoots throughout the world.

Theoretically, the potential field for this kind of thing is still enormous. The continent of Africa has scarcely been touched. Comforts and satisfactions of western life are almost entirely lacking in China and are by no means abundant in the Soviet Union. Much development can take place even in Canada, Mexico, Central America, South Amer-

⁴ David Ricardo (1772-1823) was an English political economist, chiefly famous for his theory of distribution, which deals with the division of the produce of the land and labor of a country among the several classes that take part in production. An important element in the theory is that economic rent is the return imputable to land for its production contribution. Ricardo defines economic rent as measuring the excess of the value of the product of a given amount of capital and labor on good land and the value of the product of the same amount of capital and labor employed on marginal or no-rent land or at the intensive margin of cultivation. Thomas Robert Malthus (1766-1834), English political economist, published in 1789 the first edition of his *Essay on the Principle of Population as It Affects the Future Improvement of Society*. In this he declared that population increases in a geometrical, food in an arithmetical, ratio, so that population unless checked by war, pestilence, or famine tends to increase faster than subsistence. In later editions Malthus dropped the mathematical formula and retained only the general idea that the growth of population tends always to press upon the food supply.

ica, India, and in the Middle East. The field is still almost virgin.⁵ Yet the competition for entrance into it is bitter. There are more contestants than prizes; the demand for "spheres of influence" far exceeds the supply. In consequence there is a general tendency to enter them by force. Force goes with exported capital and labor as guarantor and guardian. Within a country, if the laws are favorable, capital and labor can move about under the prompting solely of the principle of comparative advantage. It may take force besides in the international sphere.

Moreover, as soon as the exported capital and labor become productive, and generate the inevitable return flow of goods and services, the search for deficit areas recommences. It ends in a vain struggle for perpetual favorable balances of trade—for a condition in which exports may always exceed imports. The struggle is vain for a very simple reason. Favorable trade balances represent a lost investment unless they change in due season into unfavorable balances. Even when a nation extends its power or its boundaries to cover the investment, it must take back some day an equivalent in imports. Many countries had unfavorable balances of trade before the World War, precisely because they had previously had favorable balances. Though they strove to reverse the tide, they could not. All countries try to keep their trade balances favorable or to hold their unfavorable balances down, because the alternative is economic stagnation or redistribution of wealth. None has yet proved that exports can continue without imports.

IMPLICATIONS OF OUR CREDITOR POSITION

Foreign lending by the United States has produced an impasse already. It irks us that our debtors decline to pay; but we do not make a way for them to pay. We do not receive their goods with open arms. When goods come in anyway, in spite of tariffs, and threaten us with an unfavorable balance of trade, we talk about embargoes and quotas, entirely in the conventional manner. Our reciprocal trade program lags mainly because the country objects to imports. Farmers and manufacturers alike insist on protection against foreign competition.

Each group may favor lower tariffs on what it does not produce itself; but the result is a stalemate. Though it is a creditor nation, the United States lacks a creditor psychology. With surpluses constantly produced at home, it wonders how it can receive surpluses from abroad. No one knows the answer. The dilemma involves a painful choice. Either we must let the goods come in and make shift to consume them domestically; or we must keep them out and struggle to maintain a favorable balance of trade.

Obviously, when powerful and productive nations want to have favorable balances of trade simultaneously, an impossible situation exists. They cannot just swap surpluses, particularly of similar things. Even the exchange of dissimilar goods alters merely the form of the difficulty, without changing the net surplus position. The basic trouble is the tendency of production to outrun consumption. Rationalization, or the rationing of an insufficient market, is a misnamed and

⁵ HOBSON, C. K. THE EXPORT OF CAPITAL. 290 pp. 1914. London.

ineffective remedy, a temporary expedient. Industry tries it through trusts, cartels, and other trade agreements; agriculture through cooperative marketing, acreage restrictions, marketing quotas, and import controls. Such action can diminish surpluses of goods only by creating surpluses of labor and capital. It is not a true solution of the surplus problem. Swinging from overproduction to underemployment in industry and to drastic crop limitation in agriculture is ultimately futile. The only final remedy is increased consumption.

In the depression after 1929 the share of the United States in a much reduced volume of international trade declined more than that of almost any other country. In 1934 our share was only 9.8 percent of the total, as compared with 13.8 percent in 1929. Agriculture suffered much more than industry. The agricultural proportion of the total domestic exports dropped to 26.5 percent in 1938 as compared with 38 percent in 1927. With production power far beyond the effective buying power of the home population, we had nowhere to put our surplus. We had not developed a domestic outlet for it, or seriously contemplated doing so, and our favorable balance of trade was falling.

The immediate cause was the virtual cessation of our foreign lending. Yet even if we had resumed such lending, the action would merely have postponed the decline of the favorable trade balance. Lending implies subsequent receiving; and in international trade both operations influence the movement of goods. Countries that lend money abroad should remember that real repayment is always in goods and services and that the only way for a creditor country not to have an unfavorable trade balance eventually is to make no collections whatsoever. Only by forgiving its debtors can a creditor country keep its trade balance on the favorable side.

This country's position is unusual. It has surplus production power in industry as well as in agriculture. In some years before the World War our exports of nonagricultural goods ran close to a billion dollars. Potentially, indeed, the surplus problem is chiefly industrial if we may judge by our unemployment totals. True, agriculture more commonly has large unsold stocks of goods. Proportionately, for the time being, it is more dependent on foreign outlets. Nevertheless, both of the two great branches of production have more production power than the domestic market can employ at present, and the unused capacity is larger in the cities than on the farms. Hence, if we rely to any extent on foreign lending to carry away the surplus, it will raise questions as to the goods we should take as final payment.

Two big reasons justify taking mainly industrial imports. (1) Consumption per capita can be more easily increased on the industrial than on the agricultural side; and (2) the receipt of nonfarm imports is necessary to sustain our farm exports, and consequently to preserve our comparative farm advantages. It suffices to mention cotton. Without a foreign market for cotton the South would be prostrate; there is no cash crop for the domestic market into which the South could shift its entire export acreage. And we cannot export cotton without importing something else. Taking imports for exports, however, raises another question. How are we going to get the imports consumed, on top of our domestic production?

There can be no evasion of the problem. Foreign countries that take our exports can pay us in only three ways: (1) By shipping gold to us; (2) by borrowing money in this country; and (3) by selling goods and services to the United States. As a permanent device we can dismiss the first method, because the world's gold reserves outside the United States are insufficient and because we do not want more gold. As to foreign lending by the United States, the obstacles are many. Moreover, this way of financing exports merely defers the necessity to take imports for exports. Taking goods and services from foreign countries is the only final way. Moreover, it is the best way, since it keeps us in foreign trade and allows our production to continue in the established ways without loss of comparative advantage.

Manifestly, however, the incoming goods must either displace domestic products or be consumed domestically in addition to the normal domestic supply. This is the fundamental challenge. In the first case, with domestic goods displaced, the imports will cause unemployment. In the second case, through price changes or otherwise, they will alter the distribution of the Nation's real income. These, however, are not obstacles; they are merely conditions. Hereafter, production for foreign consumption will increasingly involve letting foreigners produce an equivalent for consumption here. Therefore we must raise the domestic level of consumption. Industry and agriculture cannot remain at cross-purposes. Neither can push its own interest exclusively; each must recognize that the period of exports without imports is drawing to a close.

The issue is not world trade versus self-containment. Essentially, it is whether or not we shall recognize now or later that the favorable balance of trade must tend to disappear and that our international trade, whether it be large or small, must be approximately equal and reciprocal. It is obviously possible to have either a large or a small amount of reciprocal international trade—to have the import and export total either high or low. Our problem is to decide which is the better course, and it is not a difficult problem. It is better to maintain our foreign trade on a high level.

With foreign trade maintained reciprocally on a high level, our comparative advantages will be retained. Foreign trade on a high level of exports and imports is entirely feasible and desirable. It is the desirable alternative, especially for agriculture, to the old system of disproportionately one-way trade. The negative of self-containment, it excludes also the basis on which our export trade has depended heretofore. It sacrifices what has been the supreme significance of our foreign trade in the past—namely, its power to keep our production running above our domestic consumption. Reciprocal international trade keeps only the benefits of international specialization and comparative advantage. These, however, are very substantial benefits.

Into a prosperous United States selected goods can be imported liberally. That we know from what happened before the depression. In the calendar year 1929, during the greater part of which business was active in the United States, we imported merchandise to the value of \$4,399,000,000. Our exports exceeded this figure by only \$842,000,000. It is evident that for the great bulk of our exports we

took payment in imports, and no one complained. In the ensuing depression imports and exports declined together. In 1932, for example, the merchandise imports totaled only \$1,323,000,000; but the exports were down also—to \$1,612,000,000. Buying less abroad did not give us proportionately more business at home.

Such facts do not necessarily prove that the decline or disappearance of our favorable balance of trade would raise no problem. Between 1901 and 1913 our annual excess of exports over imports averaged in the neighborhood of half a billion dollars, and during the World War it jumped to the billions. It is impossible to deny that the absence of a favorable balance involves either less production or more consumption domestically, and adjustment to either position is difficult. Nevertheless the figures above cited show clearly that liberal imports not only do not prevent business activity but actually are one of the usual conditions. It may prove easier than we think to absorb domestically our surpluses or their import equivalent.

INTERDEPENDENCE OF FOREIGN AND DOMESTIC COMMERCE

The increased domestic consumption need not and indeed should not be only or mainly of goods domestically produced. It can advance as well, and indeed better, through international trade whereby the different countries can retain and develop their comparative advantages. There is no need whatever, merely because imports for the most part must balance exports, to turn away from foreign trade and to make every country do without or produce inefficiently what it could readily bring in.

Action to raise the consumption of the masses through a more equitable distribution of income enhances the opportunity for more liberal trade conditions throughout the world. It is not an alternative but a complementary means of improving the balance between consumption and production. The consumption level can be raised higher on a basis of world trade than on a basis of relative self-containment.

Practically, the cure for the problem of the surplus, which we have sought hitherto in various methods for stimulating export trade, is not wholly in foreign trade at all or wholly in domestic readjustments, with increased consumption per capita. It requires sound policies in both fields. With buying power efficiently distributed, the foreign-trade situation will improve. Largely of itself it will become an affair of reciprocal imports. With higher incomes the people of the United States will be able to consume more of the farm surpluses. Some cotton may be left over, and some wheat, tobacco, and fruit. For these crops there may be an increased foreign demand. In the absence of an entirely adequate foreign market the growers can turn partly to the production of something else—something wanted at home. There is a large potential demand for dairy products, fruits, and vegetables. It is better to satisfy that than to insist on exports without imports.

Specifically, the problem calls in the domestic field for a narrowing of the margin between consumption and production and in the sphere of foreign trade for a continuous effort to realize the benefits of inter-

national differences in the kinds, costs, and qualities of production. Full employment available at good wages is the basic requirement. With that accomplished it will not be a calamity any longer that agriculture and industry do not complement one another on a hemispheric basis as they did formerly. New types of international trade, based on new types of comparative advantage, will develop in a world economy.

Our imports of industrial raw materials and of semimanufactures and luxury goods will increase. Foreign buying power for our agricultural and other surpluses will be larger; simultaneously the domestic market for farm products will expand. So long as it exists and thrives it will matter little whether our export trade is predominantly agricultural or predominantly industrial. In either case it will facilitate distribution—which is all that counts. Sales will increase both at home and abroad and costs of production will go down.

This is the formula of prosperity. Along with increased production and consumption domestically will go increased foreign trade, and the increased foreign trade in turn will enhance the domestic prosperity. Trade among the nations will then be a means of facilitating consumption everywhere rather than simply of shifting goods from surplus to deficit areas. It is entirely feasible, through the coordinate development of rational domestic and rational foreign-trade policies, to solve the problem of the surplus and at the same time materially to increase the wealth of nations.