What Peace Can Mean To American Farmers

Expansion of Foreign Trade

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FOREWORD

This is the third of a series of reports on "What Peace Can Mean to American Farmers." The first report described the general economic conditions most likely to be associated with various levels of employment and their possible effects upon agricultural prices and income. It underlined agriculture's interest in a full-employment economy. The second discussed the role of Government in the maintenance of full employment that is largely private employment. Emphasis was given primarily to action that can and should be taken on the home front irrespective of the state of international economic relations.

To continue the description of what peace can mean, this report undertakes to show the connection between international trade and the potentialities for raising the material level of living of people in our own country. It also suggests possible ways and means for expanding trade with other countries.

Few problems of the postwar world have more meaning to our people, and especially to some of our farmers, than how to maintain a healthy and expanding world trade. No one has all the answers, but this statement perhaps contains some of the important guides. It was prepared by Bushrod W. Allin, F. F. Elliott, and O. C. Stine, with special assistance from Willard W. Cochrane and Mordecai Ezekiel.

Clinton P. Anderson

Secretary of Agriculture.

WASHINGTON, D. C. Issued October 1945.

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INTRODUCTION

In the discussion of possible action for the maintenance of full employment, in the second report of this series, attention was directed primarily to domestic measures. Mention was made of the desirability of expanding foreign trade, but no emphasis was given to the place of international collaboration in accomplishing this objective, to the specific measures collaboration would require, or to the relation of such action to the maintenance of full employment. The omissions were intentional because the subject merits separate and special treatment.

No one, to be sure, is interested in employment just for the sake of employment. The end and aim of full employment, as compared with underemployment, is the greater volume of goods and services it would provide for the maintenance of a higher material level of living for all the people. If the only purpose of American economic policy were to give everybody a job, one way to do it would be to withdraw entirely from international trade. Bananas and coffee could be grown in greenhouses. Of course, the people would have a smaller quantity of bananas and coffee of poorer quality, which would be too expensive for those with low incomes to use at all. But to build and operate the greenhouses would require a great deal more labor than it now takes to produce the things that are traded for these commodities. No isolationist would go as far as that.

What is really wanted is an **expanding** full-employment economy in the sense of a maximum volume of goods and services for a given amount of labor—and the fullest achievement of this goal requires international trade. Thus full employment, in the sense of jobs for all at the most productive work—work that will provide the best possible living standards—can be attained only through an appropriate degree of international collaboration.

If, for example, the United States can produce heavy machinery at less cost than the Orient, and if the Orient can produce handicrafts at less cost than the United States, both producing areas can live better by exchanging the product they can produce to best advantage than by trying to be self-sufficient. Similarly, if the United States can produce pork and pork products at less cost than Cuba, and if Cuba can produce sugar at less cost than the United States, both countries can live better by exchanging pork and sugar than if each tries to produce its own requirements of both products. Moreover, access to raw materials through international trade is a necessary condition to the peaceful development of foreign countries.

Even so, the greatest single contribution the United States can make to the achievement of a large total volume of trade with other nations in the postwar period is to attain a high and sustained level of economic activity within this country. So far as the various national economies are linked by world trade, the attainment of full employment and a high level of activity in the colossus of the United States would tend to raise the level of activity in the lesser economies; and, conversely, a business slump or a condition of economic stagnation in the United States would tend to drive the smaller economies into a similar condition.

Possible ways of maintaining full employment in the domestic economy have already been analyzed at length. Reference is made to them here only to recognize that a high level of production and income at home is basic to a healthy, prosperous world economy. Whether the purely domestic action taken by the United States stimulates or retards its own economic activity is a matter of very great importance to other countries.

PAST TRENDS AND TENDENCIES

If expectations for the future had to rest solely on prewar trends and relationships, the outlook for United States exports would not be bright. The net result of all economic and political forces operating between the two world wars was to decrease, both absolutely and relatively, the total volume of foreign trade (table 1). The level of trade declined gradually but persistently relative to the national income or the capacity to trade. Foreign trade in agricultural commodities declined even more sharply during this same period, both absolutely and relatively, than did total foreign trade. Moreover, the United States share of total world imports of merchandise declined from 12.4 percent in 1928 to 8.9 percent in 1938, while its share of total exports fell during the same period from 15.8 percent to 14.2 percent.[1] From 1929 to 1937, the United States share of world exports of agricultural products declined from 13.2 percent to 8.5 percent.[2]

The commodity composition of foreign trade has shifted in a steady and persistent fashion since the Civil War (fig. 1). Two striking characteristics stand out in the export chart. First, the relative

[1] See LEAGUE OF NATIONS, THE NETWORK OF WORLD TRADE, 171 pp. New York (1942 II. A. 3). (See tables 2 and 3, pp. 17–18.)

[2] Based on data compiled by Lois B. Bacon in Taylor, H. C., and Taylor, A. D. WORLD TRADE IN AGRICULTURAL PRODUCTS, 286 pp. New York, See pp. 512 and 1011.

decline in the importance of raw material exports. In the first period, 1866–70, these constituted two-thirds of total exports, mainly by virtue of large exports of raw cotton. This proportion declined in the subsequent periods, until in the final period, 1936–40, crude materials accounted for little more than one-fifth of total exports. Second, as crude materials lost ground, finished manufactures began their great and sustained rise to preeminence among exports. From a modest 15 percent of total exports in the decade preceding the Civil War they forged ahead until just before World War II when more than one-half of total exports were accounted for in this category. This development becomes even more impressive when viewed in conjunction with the parallel rise in the exports of semimanufactures.

TABLE 1.—*National income and the value of foreign trade, total and agricultural, United States, 1920–40* [1]

Year	National income	Total trade			Agricultural trade		
		Imports	Exports	Exports as a percent age of national income	Imports	Exports	Exports as a percentage of national income
	Billion dollars	*Billion dollars*	*Billion dollars*	*Percent*	*Billion dollars*	*Billion dollars*	*Percent*
1920	69.2	5.3	8.2	11.8	3.2	3.4	4.9
1921	51.9	2.5	4.5	8.7	1.3	2.1	4.0
1922	59.7	3.1	3.8	6.4	1.6	1.9	3.2
1923	69.5	3.8	4.2	6.0	2.0	1.8	2.6
1924	69.2	3.6	4.6	6.6	1.9	2.1	3.0
1925	73.6	4.2	4.9	6.7	2.3	2.1	2.9
1926	76.6	4.4	4.8	6.3	2.4	1.8	2.3
1927	76.1	4.2	4.9	6.4	2.2	1.9	2.5
1928	78.8	4.1	5.1	6.5	2.1	1.9	2.4
1929	83.3	4.4	5.2	6.2	2.2	1.7	2.0
1930	68.9	3.1	3.8	5.5	1.5	1.2	1.7
1931	54.5	2.1	2.4	4.4	1.0	.8	1.5
1932	40.0	1.3	1.6	4.0	.7	.7	1.8
1933	42.3	1.5	1.7	4.0	.7	.7	1.7
1934	49.5	1.7	2.1	4.2	.8	.7	1.4
1935	55.7	2.0	2.3	4.1	1.1	.7	1.3
1936	64.9	2.4	2.5	3.9	1.2	.7	1.1
1937	71.5	3.1	3.3	4.6	1.6	.8	1.1
1938	64.2	2.0	3.1	4.8	1.0	.8	1.2
1939	70.8	2.3	3.2	4.5	1.1	.7	1.0
1940	77.6	2.6	4.0	5.2	1.3	.5	.6

[1] U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce.

As to imports, the statistical trends of crude materials and finished manufactures were the reverse of those described above for the export trade. Finished manufactures declined from two-fifths to one-fifth of total import trade, and crude raw materials rose from one-fourth to about one-half of total imports. Among the materials imported, either in the raw state or partly processed, the most important are rubber, wood pulp, hides and skins, furs, wool, silk, copper, tin, jute, petroleum, nickel, vegetable oils, and a variety of steel alloys. Imported foodstuffs include, in substantial measure, products that cannot be grown in the United States except at prohibitive cost, such as coffee, tea, cocoa, tropical fruits and nuts, as well as cane sugar, and edible vegetable oils. In addition, sizable importations of various grains occasionally took place, as in 1936 and 1937, when there were crop failures in the United States.

The volume of the principal agricultural exports from the United States in the period between the two World Wars is summarized in table 2. The volume of all the principal agricultural exports declined, and the decrease in the case of cotton, wheat, lard, and other pork products was substantial. A considerable part of this reduction may be explained by the general decrease of economic activity in the United States and throughout the world during the depression.

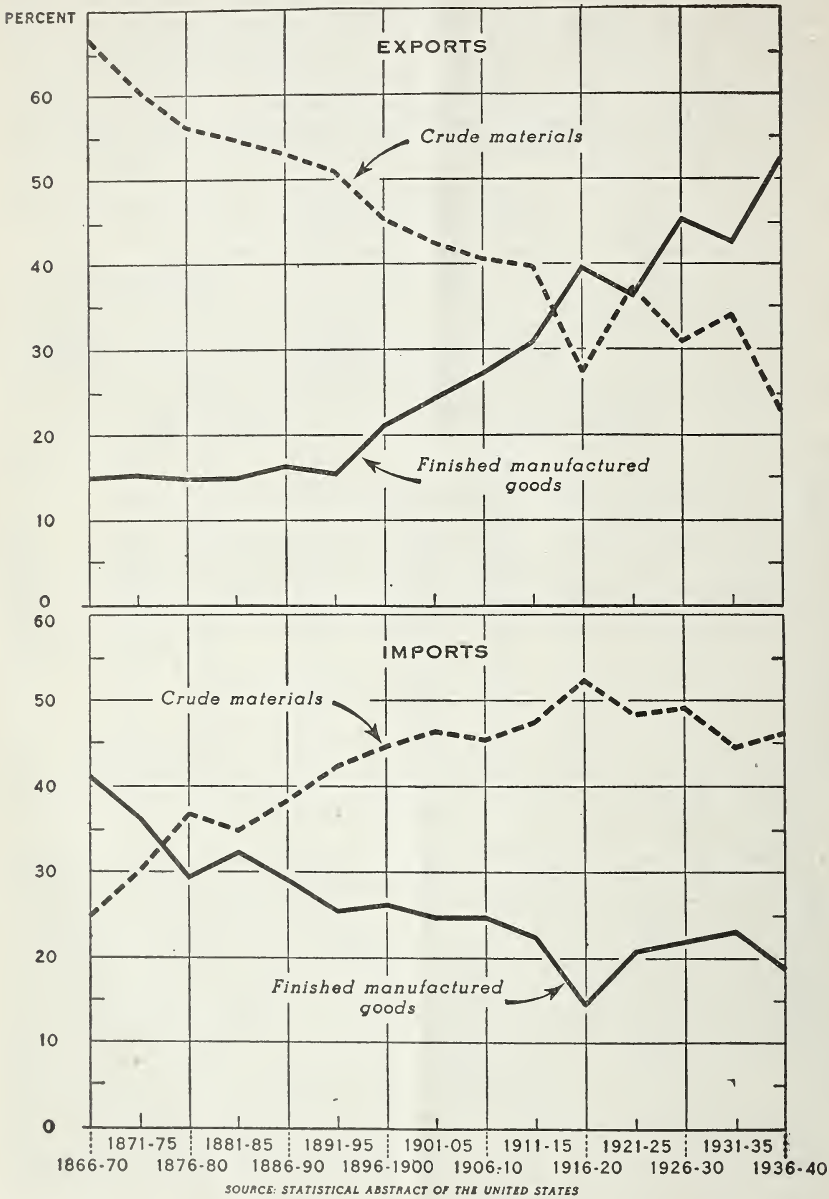

FIGURE 1.—Percentage of total exports and imports represented by finished manufactured goods and crude materials (including foodstuffs), United States, 5-year periods, 1866–1940.

However, the over-all decline in agricultural exports is consistent with the general reduction in United States foreign trade indicated in table 1.

The gradual long-time decline of the foreign trade of this country in relation to national income can be explained partially by the high-tariff policy followed until 1933, which remained in effect throughout most of the 1930's, and partially by the general world-wide reduction in foreign trade relative to domestic activity—due to autarchic methods both here and abroad.

TABLE 2.—*Principal agricultural exports and shipments, United States, 1923–40* [1]

Year	Lard including rendered pork fat	Total pork products excluding lard	Total fruits [2]	Wheat [3]	Total leaf tobacco [4]	Cotton
	Million pounds	*Million pounds*	*Million pounds*	*Million bushels*	*Million pounds*	*1,000 bales*
1923	1,074	1,034	2,030	168	616	5,784
1924	986	767	2,257	235	473	8,239
1925	719	578	2,335	131	577	8,110
1926	733	450	2,879	182	576	11,281
1927	717	344	3,386	220	538	7,890
1928	801	363	4,441	135	632	8,520
1929	866	408	3,032	144	680	7,096
1930	674	339	3,414	132	631	7,048
1931	601	224	3,535	113	475	8,989
1932	576	175	3,051	75	437	8,647
1933	612	202	2,850	19	501	8,366
1934	458	211	2,433	28	395	5,066
1935	115	136	3,206	8	474	6,397
1936	137	118	2,752	10	446	5,722
1937	162	114	2,854	50	508	5,899
1938	234	153	3,830	108	515	3,605
1939	311	192	2,931	93	351	6,471
1940	323	163	1,311	37	189	1,253

[1] Calendar year basis except for cotton and tobacco.
[2] Fresh weight equivalent.
[3] Includes domestic flour and flour ground from imported wheat.
[4] Farm weight.

Source: Bureau of Agricultural Economics.

But why has agriculture's share of total exports fallen steadily since the turn of the century? The answer would seem to be in the fact that the United States has restricted total imports, and hence the number of dollars available to foreigners. Foreign importers have purchased those commodities in this country for which their home markets had the greatest need—manufactured articles, machinery, and automobiles. In short, foreign importers found that they could obtain agricultural raw materials from many countries, but to obtain the most modern, efficient machinery and heavy equipment they were almost limited to the United States, which has enjoyed a competitive advantage over most countries in turning out mass-produced heavy manufactured goods. Thus, foreign countries have tended to buy agricultural raw materials from this country only with the dollars they had left after satisfying their more urgent needs for industrial goods.

As United States agriculture looks to the future it would do well to ponder this fact. What it means is that the expectation of increasing exports of United States agricultural products depends on the prospects of increasing **total** exports. But agriculture's interest in an expanded foreign trade is not limited to its interest in expanding agricultural exports. For even if foreigners tend to take an increasingly large proportion of their imports from the United States in the form of nonagricultural goods, they will be providing employment and pay rolls to United States industrial workers, and will thus tend to maintain a better domestic market for the farm products of this country. Farmers, therefore, are vitally concerned about the prospects for expanding total foreign trade irrespective of the outlook for agricultural exports as such.

THE SITUATION TO BE FACED

For some time to come the economies of all the important industrial and trading nations of the world will be in varying degrees of dislocation and maladjustment. Production will be greatly overextended in some lines and overreduced in others as a result of the shifts in demand arising out of the war. Stocks of a number of strategic raw materials will be in excess supply; prices, wages, and rents will be under control; and both producer and consumer subsidies as well as rationing of many commodities will be in effect in most countries.

International trade likewise will be restricted, with import quotas, export embargoes, and licensed or State trading generally prevailing. Price relationships between nations will be greatly distorted, foreign exchange rates will be under governmental control, and severe inflation may be underway in some countries. Many nations, furthermore, will have increased their internal debt; some both their internal and foreign debt. Most of the countries will still be saddled with the same restrictive laws—the tariffs, the milling restrictions, the quotas, the embargoes, the exchange controls, and other regulations—that were in effect in the period just preceding the outbreak of the war and that were so instrumental in causing a break-down in world trade.

Relation of Government to World Trade

With such an intricate array of controls and maladjustments, the United States and other nations of the world are faced with some formidable problems of reconversion and readjustment. Presumably it will be the policy of all nations to relax—and eventually to remove altogether—those controls which have been induced directly by the war. Such internal wartime devices as supply and allocation control of materials, ceilings on prices and wages and rents, consumer rationing, etc., undoubtedly will be removed just as rapidly as conditions will permit. Perhaps, also, there will be a relaxation of shipping controls and of war-induced quotas and embargoes.

But these are not the types of controls with which the United Nations must concern themselves in solving the problem of expanding world trade. The problem rather centers in trends of a more permanent character which were more or less accepted as normal by many nations during the years just preceding the present war.

Then, and even before, the general trend throughout the world had been toward increased governmental control not only of the various internal economies but also of international trade itself. The choice that will be really available to most countries would seem to be a choice not between free and controlled trade but between restricted and expanded trade. Trade expansion for an individual country conceivably might be achieved either by autarchic and nationalistic methods or by cooperative methods. World trade generally, however, would suffer from a return to the extreme nationalism that characterized the period immediately before the war. Fortunately, there are grounds for believing that it will not revert to this condition. The declarations in the Atlantic Charter and the agreements reached at Hot Springs, Bretton Woods, and San Francisco all point in this direction.

On the other hand, certain other developments point to a continuation of governmental control of the direction and constitution of international trade. Not only has the United States made definite commitments to maintain internal agricultural prices after the war, but other countries also either have continuing commitments to their farmers or apparently intend to make the transition from war to peace as smooth as possible for them. Still other countries either have state trading as a continuing policy in their national economies, or appear likely to resort to it increasingly as a means of meeting certain commodity problems.

If, then, the world is not likely to go back either to the extreme autarchic policies of the immediate prewar period or to the relatively free trade policies of the last century, what direction will it take? Though the governments of individual nations are likely to play an even more important part in managing their own internal economies than they have in the past, they might well tend increasingly to develop both their internal and their foreign-trade policies in a general framework of international collaboration and in line with mutually agreed-upon international action. This expectation rests on results already achieved at various United Nations conferences. One of the most hopeful results is the tendency for each nation to recognize that few important actions can be taken on the international front that do not have far-reaching repercussions on the domestic economy, and vice-versa—in other words, that domestic and foreign policies must be in harmony if the world generally is to develop an expanding economy.

Agricultural Exports under Full Employment

In the first report of this series, called "Post-War Agriculture and Employment," estimates of United States agricultural exports were made for 1950 on the basis of several assumptions, including (1) full employment, (2) the 1943 general price level, and (3) a national income of 150 billion dollars. Those estimates for selected commodities are as follows: Lard, including rendered pork fat, 600,000,000 pounds; total pork products, excluding lard, 340,000,000 pounds; total fruits, 3,800,000,000 pounds; wheat, 75,000,000 to 100,000,000 bushels; total leaf tobacco, 440,000,000 pounds; and cotton 4,500,000 bales.

This picture of the export position of United States agriculture in world trade is based on the further assumption of a continuation of prewar trade relationships. The estimates are high relative to the 1930 situation (table 2), because a high level of economic activity is assumed with full employment. But relative to the capacity to trade—national income—the estimates are low since they represent the 1950 point of the downward trend in the United States participation in world trade (table 1). In brief, the estimate that foreign countries would purchase 1.2 billion dollars worth of farm products from the United States, under full employment, with a national income of 150 billion dollars, represents an extension with slight modifications of the trends in international trade that existed during the interwar period.

If a greater degree of international collaboration had been assumed, these estimates of agricultural exports would have been larger. But there was no way of knowing then, as there is no way of knowing now, how far the United States and all other nations will move along the path of economic collaboration. Hence, the past was used as a guide to the future—a valuable guide if its limitations are fully understood. In this case the limitation which must be understood is that the trade and commercial policies of the United States in conjunction with those of other nations acted to reduce world trade in general, and the share of the United States in it. But those trade and commercial policies are not fixed or immutable, and the way to reverse that downward trend in world trade is to replace the old restrictive policies with policies to expand trade.

Thus, the above estimates do not in any way represent maximum possibilities. A larger volume of trade in a full-employment situation could be attained, which would mean a greater degree of specialization, greater productivity per worker, and in the end a higher material level of living for everyone concerned. And since agriculture in the United States is in some respects a residual claimant in the world-trade picture, the larger the total volume of trade, the larger the proportion agriculture may expect of the total volume. For as pointed out earlier, foreign buyers will tend to use the limited dollars available to them to purchase first those goods for which the United States has the greatest competitive advantage, such as mass-produced heavy machinery, before they purchase goods and services which may be obtained elsewhere on as good or better terms, such as food and fiber. The agricultural export goals, therefore, could be larger than the full-employment estimate, provided the United Nations pursue a policy of economic collaboration in the long-run postwar period. The purpose of this report is not to estimate "how much larger" the goals might be, but to describe briefly some of the more important proposals for improving past methods for international collaboration, and the conditions that tend to support the hope that these methods might be made effective.

A PROGRAM FOR INTERNATIONAL COLLABORATION

Two world wars in a generation should have taught the world the necessity of international arrangements for military security—as envisioned at San Francisco. There can be no world economic security in an atmosphere charged with fear of war. Likewise, there can be no military security in a world that is economically half free and half slave.

On the economic front, the farther the nations of the world move from independent and nationalistic action toward cooperative action involving all countries, the greater will be the possibilities for preserving the peace and improving the material levels of living of the people of every country. The main elements of a workable program for economic collaboration seem to fall into four broad categories: (1) cooperative stabilization of international exchange, (2) cooperative expansion of international investment, (3) cooperative development of food and agriculture programs, and (4) cooperative development of commercial policy.

Cooperative Stabilization of International Exchange

Real progress is being made toward achieving stability in international exchange. The establishment of an International Monetary Fund, as proposed at Bretton Woods by representatives of the United Nations during July 1944, would be a landmark in international collaboration. By agreeing to cooperate in the establishment of this exchange stabilization fund through contributions from member nations amounting to a total of about 9 billion dollars, the world would be taking a first step toward creating a "world climate" conducive to postwar trade.

Trade is facilitated by the use of money if there is general confidence in the value of the money and the stability of that value. Imagine, for example, what would happen to trade between the 48 States if each State had a different currency and if half of them looked with suspicion on the value of the currency of the other half. To add to the confusion, suppose each of them followed the practice of devaluing its currency whenever it thought that by so doing it could gain some advantage over the other States. Somewhat oversimplified in statement, this is about the situation that existed between nations before the war.

In the United States, of course, the dollar is the monetary unit for all States. In the absence of a single world government and a single world currency, the nations of the world must do everything possible, through cooperative effort, to prevent the value of the various national currencies from fluctuating too widely in relation to one another; otherwise, trade must remain throttled. The establishment of the International Monetary Fund would not create an "international currency," but it should reduce the wide fluctuations in the rates at which the various national currencies are exchanged.

A nation may get into difficulty in its dealings with other nations because of (1) adoption of foreign trade policies inconsistent with its domestic policies or (2) adoption by other nations of policies harmful to it. Regardless of whether its difficulty might be due to its own policies or to conditions dictated by other nations, the Fund could be helpful in preventing the adoption of excessive currency inflation or deflation as a corrective measure, and in directing attention to the underlying causes.

To illustrate one way in which the Fund might be of assistance in stabilizing international trade, let us visualize a small, undeveloped nation which normally exports more goods than it imports in order to service its debt. Let us suppose further that under these circumstances that nation should find its export market suddenly and greatly reduced because of the erection of tariff walls by the country or countries to whom it normally sells its products. In the absence of an institution like the proposed International Monetary Fund, that nation would be confronted with one or a combination of three alternatives: (1) It could default the interest payments on its debt, (2) it could reduce its imports and accept a lower level of living than that to which its people had become accustomed, or (3) it could reduce the value of its currency in terms of other national currencies so as to make its products more attractive to foreign buyers.

But with the Fund in operation that nation would have a fourth alternative. It could borrow from the Fund the foreign exchange required to service its debt and maintain temporarily the imports to which it had become accustomed. This would give the country, and the United Nations, a "breathing spell" within which to correct the cause of the difficulty—to persuade the countries who imposed the tariffs in the first instance to remove them—and if this could not be done, either to help the nation reduce its costs so as to be able still to export over the tariff walls or to assist it in making other appropriate adjustments.

It should be noted, however, that a breathing spell within which such action could be taken is the only thing the Fund could provide. The required action must be taken or the Fund would be of no lasting benefit. Thus, the Fund would function like a fire extinguisher, an instrument which is tremendously useful in keeping a small fire from becoming a big one but which is of no use after the whole structure is ablaze.

In agricultural parlance, the Fund might be described as an "ever-normal granary" of short-term funds. It would be a revolving fund created jointly by all the United Nations in accordance with agreed-upon quotas. One of its purposes would be to prevent excessive variations in exchange rates by providing a procedure and the necessary time to make the fundamental adjustments required for an expanding world trade. Another major purpose of the Fund would be to insure that temporary declines in a country's purchasing power need not be reflected in a reduction in foreign trade. Moreover, if the balance of payments of a member country remained chronically unfavorable, the governing board of the Fund would always be available to advise and help that country in adjusting its internal economy to correct the unbalance. Above all, it would provide an arrangement under which each of the United Nations would agree not to use exchange manipulation as an instrument of economic warfare to improve its own internal economy at the expense of other nations.

Cooperative Expansion of International Investment

Of parallel importance to the stabilization of foreign-exchange rates is the expansion of international investment. The two activities, of course, are complementary. Whatever reduces the risks of excessive fluctuation of exchange rates would at the same time be conducive to an expansion of international investment. On the other hand, whatever might be done to provide additional sources of funds for international investment would help countries in need of financial assistance to develop their economies in such a way as to keep their international payments in balance and thereby maintain relatively stable currencies.

There is a great need for capital to rebuild and rehabilitate war-devastated areas, and to develop and industrialize so-called backward nations. The maximum quantity of funds for meeting these needs will be supplied by private investors only if governments either guarantee repayment or create international relations that are conducive to repayment. It was in recognition of this fact that representatives of the United Nations also proposed at Bretton Woods the creation of an International Bank for Reconstruction and Development. It was proposed that the total capital of the Bank would be 10 billion dollars, and that it also should be subscribed by member nations on the basis of agreed-upon quotas. The risk of operations of the Bank would be spread among the participating nations in accordance with a reasonable formula. It was also proposed that all nations participating in the establishment and operation of the Bank should participate in the establishment and operation of the monetary fund, in order to reduce the exchange risks for funds invested by the Bank.

Whereas the Fund would provide only short-term credits to enable countries to make adjustments that would keep their exchange rates relatively stable, the Bank would make long-term loans to member countries, and would guarantee loans made by private investors for the same purposes through established investment channels. While the Fund would aim at greater stability in conditions of world trade and would be concerned with the member countries' short-term foreign exchange requirements, the Bank would promote the international flow of long-term capital by underwriting or making loans that otherwise would not be made because of the risks involved. By operating only through central authorities, it would encourage—but in no way supplant—private investment.

The war-torn nations of the world want to regain their previous productive powers, and the underdeveloped nations want to improve their levels of living. The Bretton Woods proposals have already been ratified by the United States. Their ratification by all the United Nations would be a constructive step toward the achievement of these objectives and it would create new and sustained markets for United States goods, because trade is always highest between countries which have something to trade. Many undeveloped and poor countries can buy goods from the United States only if they produce something they can export to us or other countries.

The Bank would be helpful in more smoothly equating world demand for and supply of capital. At high levels of national income in highly industrialized economies like that of the United States, the volume of savings has tended in recent years to exceed investment—thus acting as a force to shrink national income to the point where the flow of savings is matched by opportunities for investment. The establishment of the Bank would help provide additional opportunities for channeling savings into productive investments in foreign countries. To the extent that these foreign investments take the form of expanded exports of goods produced in this country, they would provide additional employment opportunities for United States workers.

All lending involves some risk. After the last war a large part of the international credit for reconstruction and development was provided by the United States, and much of the risk of those loans was borne by investors in this country. Under the Bretton Woods proposal for cooperative international investment after this war, other countries would help provide the capital, and even more, share the risk of capital provided by the United States. Because of the joint nature of the operation, the risk itself would tend to be less than formerly; and since the proposed interest rates would be lower and the terms for amortization would be longer, the chances for repayment would be better. And it is expected that the Bank would subject loans to more intelligent scrutiny than was the practice of some lenders after the last war. Moreover, United States investors in foreign bonds after this war would have the protection of the Securities and Exchange Commission which was not in existence at that time.

Cooperative Food and Agriculture Programs

But how can such countries as the United States carry over into the peace their wartime levels of food production, and thereby contribute to better standards of nutrition throughout the world without being plagued with excessive supplies and depressed markets? There has never been enough food in the world to meet nutritional needs. And part of the problem of marketing supplies that are produced is to find ways and means for increasing the ability of poor people and poor nations to buy the food they need and want.

So far as United States agriculture is concerned, a program for international collaboration would be inadequate if it did not include, in addition to the action thus far proposed, specific efforts for expanding world consumption of certain basic agricultural raw materials that are important in world trade and chronically produced in quantities greater than world markets in the past have been able to absorb at prices considered reasonable by producers. Such materials include commodities like wheat and cotton. Chronic "surpluses" of these and other raw products have given rise to low prices, social unrest, and control programs in all of the principal producing countries. Individual countries acting alone, or in concert with respect to a single commodity, and largely in the producers' interests, have failed to effect a satisfactory solution. Famines continue to occur despite glutted markets and so-called surpluses continue in the face of production-control programs with each producing area thinking the cause of its difficulty is the overproduction of a rival producing area.

Expansion of world production and consumption of food is not likely to be achieved without joint international action. In June 1943, at the Hot Springs Conference on Food and Agriculture, representatives of the United Nations discussed a proposal for setting up a permanent international food and agriculture agency. More recently, the Interim Commission on Food and Agriculture has evolved a specific proposal for such an organization. One of the primary purposes of the organization would be to help the nations of the world work out ways for increasing consumption of food and other agricultural raw materials, and for improving the conditions of their farmers.

A most significant recommendation of the Hot Springs Conference was that periodic reports by member governments to each other should be the basis for a cooperative program to expand world production and consumption of agricultural products. In these reports the governments would summarize their progress in developing and carrying out long-term food consumption and production policies. The reports would include current facts on "production, exports, imports, and consumption of food and other agricultural and marine products." The Conference also suggested that the permanent organization study to "what extent and by what means such reports might contribute to international collaboration, both on a regional and a world basis, in the field of agricultural production," particularly "with a view to balancing production and consumption."

By providing a forum through which the nations can compare their agricultural consumption, production, and trade programs, the suggested Food and Agriculture Organization can help member nations work out needed readjustments in their agriculture. This function of developing an international outlook for farm products and of providing means for effective international coordination of farm programs can do a great deal to prevent glutted markets for some farm products and to minimize international economic warfare, both of which were so common before the war and will recur again unless something is done to prevent them.

Efforts in the past to deal with the problem of surpluses or raw materials on a world-wide scale have been confined to what is known as international commodity agreements, such as the sugar agreement, the rubber agreement, and the tin agreement. The accent in too many of them has been on production control and price maintenance in a constricting world economy. From the viewpoint of promoting an expanding world economy, price maintenance by production control alone is no solution. So-called surpluses are liquidated only at a real cost to the nations that are committed to the agreements, and the needs of underprivileged peoples and importing nations are in no way satisfied. Furthermore, if each international commodity agreement is developed in isolation, the chances that it will have any salutary effect on the world economy generally are much less than if it is developed with some attention to related problems. Commodity agreements of the future can be so drawn as to correct many of the past weaknesses, and efforts in this direction are now being made.

It would seem that any plan devised for the postwar period to regulate and adjust international trade in agricultural products will need to take into account three basic principles. First, the importing nations should have an equal voice with the exporting nations in working out production and marketing programs for any given commodity. This principle carries with it, of course, equal obligations to act in accord with agreements reached. Second, shifts in production should be effective first in those countries having the least comparative advantage. Third, arrangements regarding the movement of raw materials in international trade should be such that concerted action can be taken with enough commodities to insure some degree of effectiveness in expanding the economy of the world.

The need for observance of the first of these two principles is very great. Cooperative activities designed to eliminate "chronic surpluses" should give full consideration to ways and means for increasing consumption, because the difficulties experienced by producers of these commodities have been much less chronic than the underconsumption of millions of people throughout the world who are in need of the same commodities. Individual nations have already made noteworthy progress in dealing with this problem within their own borders. Experience with government-sponsored programs to expand food consumption by low-income groups, for example, is widely available. The application of this experience on a world-wide scale is not only possible but would seem to be altogether desirable. It would represent a much better solution than price maintenance through production control. Around the conference table all manner of arrangements for moving production into consumption could be worked out which would be welcome to both importing and exporting countries. In this way the old evil of export dumping might well be transformed into a blessing, in the postwar years. As a matter of fact, the present international wheat-agreement provisions for using a part of world stocks of wheat for relief feeding is a move in this direction.

Even so, if the long-time trend of demand for a particular commodity is downward, such schemes would need to be supplemented by cooperative efforts to shift production away from that commodity into commodities for which there is greater demand—especially to shift production in areas that are in the process of losing their competitive advantage, even though production might be expanded in new areas that have gained relatively greater advantage because of the development of technology or for other reasons.

For agricultural commodities that are important in world trade there is special need for international collaboration to expand consumption and to shift production through activities mutually advantageous both to importing and exporting countries.[3] Regardless of the precise form of organization which might ultimately be agreed upon to carry out such activities, the following steps would seem to be indispensable. (1) On the basis of a thorough analysis of the world situation with respect to nutrition, production, and prices it would be necessary to determine at the beginning of each crop year (*a*) the total quantity of each agricultural commodity important in world trade that is likely to be produced, (*b*) the total quantity that is likely to be marketed within any given price range, and (*c*) the size of the probable surplus or deficit, if any. (2) Decisions would have to be made with respect to (*a*) appropriate operations—that is, whether administrative action should take the form of purchase and storage, sale at less than market price, relief feeding, etc., (*b*) the quantities each nation would take or supply under any of the agreed-upon methods, and (*c*) in what regions and to what extent the production should be expanded or shifted into other lines by action of appropriate national authorities.

The Food and Agriculture Organization would be able to make the analyses that would be needed as a guide to whatever administrative agency or agencies that might later be established to put into effect any agreed-upon action programs. But the Food and Agriculture Organization itself is purely advisory and research in character—it is not an administrative body. It provides an important means by which the member countries can pool their knowledge and experience to help create by their individual actions conditions favorable to better nutrition and an improved agriculture. Any international activities concerning food and agriculture which are recommended to the member countries by the Food and Agriculture Organization, and which might involve obligations on the part of the members, must be ratified by the members in accordance with their respec-

[3] See UNITED STATES DEPARTMENT OF AGRICULTURE, INTERBUREAU COMMITTEE ON POSTWAR PROGRAMS, A POST WAR FOREIGN TRADE PROGRAM FOR UNITED STATES AGRICULTURE. 26 pp. Washington, 1945. (See pp. 19–24.)

tive constitutional processes, and would become effective with respect to any country only after such ratification.

But to act on the findings of the Food and Agriculture Organization as they relate to the need for international cooperation in buying and distribution schemes, some agency must have the authority to enter into agreements or contractual relations with nations, corporations, and private individuals with reference to the production, processing, warehousing, and distribution of agricultural products. In addition, it should be empowered to buy, warehouse, and sell those commodities.

The necessary administrative body or bodies might take one of several forms: (1) a series of special agencies—one for each commodity or group of commodities similar to the agencies which have administered commodity agreements in the past, (2) a single International Trade Authority or Board which would have under its jurisdiction not only operations for agricultural raw materials but also those for other raw materials, or (3) if for any reason neither of these forms of organization are ever achieved, the participating nations in the Food and Agriculture Organization could delegate authority to that body to expand its functions to include the administrative activities.

Although the functions of the administrative organization, working with the Food and Agriculture Organization, would include the expansion of markets for agricultural products that are normally characterized by surplus production, and reorienting production in line with long-term market demand, its operations would include also the purchasing and storing of **seasonal** surpluses, or of surplus accumulations on account of **temporary** curtailments in demand, so as to avoid excessive fluctuations in prices due to weather conditions and movements of the business cycle. These operations would also include the sale and distribution of acquired stocks or surpluses in areas where supplies are relatively short temporarily in seasons of low production and in periods of increasing demand. Such types of activities are ordinarily referred to as buffer-stock operations or ever-normal-granary procedures. It should be noted, however, that they are a supplement to and not a substitute for long-term operations for dealing with chronic surpluses. In other words, they are designed to lessen excessive swings in prices due to seasonal and cyclical conditions, and they can operate successfully only if there is as much opportunity to empty the granary as there is to fill it. Activities for expanding consumption generally and for adjusting production over a long term would be designed to deal with that part of the surplus which would pile up in the absence of such long-term programs and in spite of the best administered buffer-stock or ever-normal-granary plan. Though the two types of problems are theoretically distinct, administrative procedures for dealing with them cannot in fact be separated. One must be handled as a part of the other.

Necessary liaison with other international bodies, such as the Monetary Fund and the International Bank, would have to be maintained. Operations through and with these agencies would be required not only to provide the credit for agricultural development programs but also to insure a unified approach to the over-all economic problem of developing an expanding world economy.

In none of these proposals is there any suggestion of regimenting agriculture through a system of fixed prices and quotas. Only price "floors" and "ceilings" would be fixed for the international market for the various commodities, and these only for one crop season, subject to review and revision during that season. In this way the inflexibilities and other antisocial effects of monopoly practices would be avoided. Price floors and ceilings agreed upon for the international market might or might not be the same as those prevailing in the domestic market in a particular country. For dealing with emergency situations, import and export quotas for the various countries might need to be fixed, but the objective in administering the entire program would be to avoid the accumulation of excessive stocks by moving supplies into consumption as quickly as possible and by avoiding price policies that would restrict consumption. Just as actions under the Monetary Fund would be intended only to afford a breathing spell while more fundamental adjustments are being made, so also actions to acquire and dispose of agricultural supplies in the international market must be accompanied by the operation of long-term programs to balance production and consumption at levels that will progressively approach world needs.

By giving free rein to market forces within broad limits, scope would be left for private trade to operate. If and when stocks in the hands of the organization should pile up, corrective action indicated would consist of any one of several types: (1) The price range for the ensuing crop season might be lowered by offering the accumulated supplies for sale at less than the price that prevailed during the previous season, (2) accumulations might be disposed of at less than market price by agreed-upon methods, and (3) cooperative programs to shift production into other lines might be inaugurated.

Cooperative Development of Commercial Policy

The United Nations have already held international conferences and have worked out large areas of agreement for accomplishing the objectives just discussed—stabilization of exchange, expansion of investment, and cooperative food and agriculture programs. There remains the need for an international trade conference at which conferees from all nations can consider steps to liberalize commercial policy and to develop and recommend to their governments more positive programs for a general expansion of trade in the nonagricultural as well as the agricultural field.

Most of the countries of the world have tended to look at international trade "unilaterally," which means that each nation has tended to act on matters of great importance to other nations without due consultation with them and without due regard to their interests. And much of that action has been protective or restrictive in nature. The erection of tariff walls, the imposition of import quotas, the adoption of export subsidies and exchange controls taken by nations acting alone during the interwar period, could not fail to invite retaliatory measures, and thus restrict the economies of all. A general expansion of world trade thus would seem to require the cooperation of many nations, or "multilateral" action. What are the chances for such action?

The Reciprocal Trade Agreements were a notable prewar step in this direction. The inclusion of the "most favored nation" clause gave these bilateral arrangements a multilateral effect in reducing trade restrictions, since the concessions granted by each of the contracting parties were extended to all nations. And the 1945 act extending the Reciprocal Trade Agreements program expands the area in which import duties may be reduced. But the trade-agreements procedure alone is a slow and uneven procedure. The reduction in trade barriers would be tremendously accelerated if the United Nations could reach a general agreement simultaneously to reduce tariffs and import restrictions on some graduated basis. On this point, the Interbureau Committee on Postwar Programs has this to say:

> In view of the limitations of the bilateral approach, there is an important body of opinion in favor of a multilateral convention for a simultaneous reduction in the trade barriers of as many private-enterprise countries as are willing to participate, with some general accompanying arrangement with the Soviet Union and with any other state-control countries. Since international commercial and financial transactions balance normally on a multilateral basis and since even the trade between two countries is influenced by measures taken by the governments of third countries, a multilateral convention for a reduction of trade barriers should bring about a considerable expansion in the volume of desirable international trade.[4]

In any case, countries that have State trading arrangements will need to negotiate with both private and public organizations in other countries. Countries that have provisions for stimulating or regulating the flow or composition of imports or of exports through Boards of Trade or other official bodies will need assurance that the policies such agencies are following are not in conflict with those of other countries. Actions taken by individual countries under international commodity arrangements or agreements will also need to be related to a general program for expanding international trade. If not properly guarded, such actions may tend to develop into restrictive measures with effects similar to those of international monopolies or cartels. All such arrangements, moreover, will need to be coordinated with other governmental measures that are designed to stimulate and expand world production and trade.

As for international cartels, the United States is large and powerful enough to go a long way toward regulating them by defining the rules under which any of its own corporations would be permitted to participate, and by defining the conditions under which such cartels would be allowed to do business here. But the effectiveness of what might be done by an individual country to induce these combines to expand rather than restrict world trade would be limited unless there is joint action on the part of the governments of all the countries affected.

The type of problem posed by these monopolies is of the same general character as the problem of domestic monopolies—how to retain for the public the efficiency of mass production and the stabilization possibilities of central control without the restrictive and exploitative effects of monopoly. What was said in the second of this series of reports about the need for making domestic monopolies more competitive applies with even greater force to the necessity for directing the operations of international cartels, to the end that they serve socially useful purposes.

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[4] See footnote 3, p. 14 (p. 18).

EXPANDED BUT NOT UNCONTROLLED TRADE

If all the foregoing proposals for international collaboration could be carried out successfully, trade between nations could be expanded—but it would not be uncontrolled. Nor are there many people today who seriously advocate no controls as a practical possibility. In the years that lie ahead the undeveloped nations of the world will have the same valid reasons for protecting their infant industries as this country had during its early development.

The case for protecting infant industries can be wholly consistent with international cooperation for controlled expansion of trade. Industries or enterprises that are already in production with established trade connections and adequate financial backing may and often do use monopolistic practices to destroy new competition even though that competition might be more efficient, provided it has an opportunity to develop to optimum capacity. Within the free-trade area of the United States, during the years following the Civil War, industries located in the Northeast which had been founded early in the growth of the Nation used all kinds of practices to eliminate new competition arising in the South and West. And English industries during the nineteenth century, while that nation was following a free-trade policy, used monopolistic practices to undercut and destroy developing and competing industries in other countries. In such a situation, a nation that seeks to facilitate and expand trade would, and justifiably should, provide appropriate protection for its young and developing industry—provided, of course, that industry enjoys a comparative advantage over competing producers to the extent of its anticipated capacity.

Unfortunately, most infant industries never seem to grow up, but continue to demand a monopoly privilege of protection when they no longer need it. But the unhappy fact that governments can be and are pressured into maintaining tariffs to protect industries that no longer need aid does not invalidate the arguments set forth by Alexander Hamilton; and an international program of facilitating trade does not mean that one specific type of action or program is the best in all cases.

The other valid argument for interference with free trade must stand on the demonstration of need for self-sufficiency to wage either an aggressive war or a defensive war. Where protection is an accomplished fact and has little or no connection with infant industries or military necessity, it can mean only that special-interest groups have pressured the government into granting to their private interest certain special privileges at the expense of all other individuals—the consuming public. If the protected industry is able to meet world competition, then consumers pay as an excessive profit to the industry the difference between the world price and the protected price. The agreements reached at San Francisco weaken the case for self-sufficiency based on military necessity.

INTERNATIONAL COLLABORATION AND EMPLOYMENT

Assuming that full employment could be achieved in this country with anything less than ideal cooperation and collaboration with other nations, it is obvious that full collaboration would not provide additional jobs, because full employment by definition means that everyone able and willing to work would already have a job. Thus, under this assumption, the real advantage to be gained from further cooperation to expand world trade would be to promote world peace and to provide our own people, as well as those of other countries, with more goods and services for their labor than would otherwise be possible.

But assuming neither full employment in this country nor full collaboration with other nations of the world, any arrangement whereby this country would be enabled to export more goods and services than it imports would tend to increase employment here temporarily. In the long run, however, sales and purchases must balance, for trade is a two-way proposition.

Too much emphasis cannot be given to the need for modifying the widely held view that high tariffs are the cause of high wage levels in the United States. Regardless of the validity of the argument in the days when United States industries were really infants, it has been greatly overworked in recent years. It is the labor cost per unit of output—not the wage rate per hour—that determines whether American industry can compete with the industry of other nations. Workers in the United States who receive high wages, but who possess a high degree of technical skill and work with modern machinery, produce at a lower labor cost per unit of product than do Chinese coolies or Danubian peasants who work by hand. Wages in general are high in the United States because of the efficiency of labor—not because our workers are protected by a tariff wall. So long as the output per hour of labor in this country exceeds that of workers in competing countries by more than the difference in wage rates, the competitive advantage of United States industry will be maintained.

But if there were no limitations on the immigration of people from densely populated, low-resource areas, the ratio of resources to workers in the United States could conceivably fall to a point where per unit labor costs would rise (or would continue to fall more slowly relative to other areas) and would be finally equalized throughout the world. Few people would suggest that all barriers to migration between countries be eliminated. This problem exists only in the realm of theory.

The fact remains, however, that jobs and profits in some lines in this country would disappear if some of the tariffs and other protective devices were removed. Precisely which jobs and to what extent they should disappear are questions for representatives of all the people to decide in consultation with representatives of the peoples of other nations. But because these jobs and profits have been created by past policies of government, many of them represent vested interests which can be eliminated fairly only by comprehensive conversion programs compensating those who will be affected by the costs involved in shifting to more efficient alternative activities. In other words, the execution of policies and programs for international collaboration should be carried out in the closest harmony with appropriate domestic conversion policies and programs.

SUMMARY

The net effect of the various international policies pursued by the United States and other countries in the interwar period was to reduce world trade. The total volume of United States exports declined gradually but persistently relative to the national income or capacity to trade in that period. And exports of agricultural commodities declined, both absolutely and relatively, even more sharply than did total exports in that same period. Hence, the volume of agricultural exports estimated for a full-employment situation, since they are based on historical trends adjusted for a rise in economic activity, probably represent a lower level than would be desirable for the economy. Or, stated differently, output per laborer could very likely be increased by a larger volume of foreign trade.

For some time to come the economies of all the important industrial and trading nations of the world will be dislocated and in need of reconversion to peacetime production. For a time, too, even the economies of the democratic nations will be severely circumscribed, both domestically and internationally, by government controls. The problem at the international level is, therefore, to weed out those controls which restrict trade between nations and to develop implemental measures to expand trade. The problem is not so simple as that of following either a free-trade policy or an autarchic policy; too many governments in various stages of evolution are involved. But the criterion is clear—take those actions which facilitate the movement of goods and services in world trade.

Four broad areas have been set forth in this report in which the Federal Government has already taken action to facilitate the expansion of trade: (1) Stabilization of exchange, (2) foreign investment, (3) food and agriculture, and (4) governmental commercial policy regarding the movement of goods and services. The stabilization of exchange rates is basic to a freer international movement of goods and services, for trade will not flourish where there is no confidence in the currencies of repayment. A program of international investment provides a means of putting savings to work when capital is badly needed, which may not be where the savings arise. The development of international food and agriculture programs will help to achieve the most basic of the four freedoms—freedom from want—for man must free himself from the spectre of starvation before he can concern himself with other freedoms. Finally, the reduction in trade barriers and the development of programs to expand trade make possible the international division of labor, which in turn increases the efficiency of production of those nations which do specialize and trade among themselves.

The quest for freer international trade has been hampered from time immemorial by the cold, hard fact that the importation of a particular good, produced efficiently in some foreign land, creates real difficulties for an inefficient domestic producer or set of producers. This effect is usually more readily seen than the offsetting expansionary effects which are widely diffused among a number of more efficiently produced commodities that are already moving as exports, with the result that the benefit to any single group of producers never seems so great as the damage to the particular group that is adversely affected. But it is only by greater division of labor, hence greater efficiency in production, some of which must be international in character, that most can be done to improve the material levels of living. Thus, the United Nations should do everything possible to (1) reduce restrictions to international trade and (2) help provide machinery to expand international trade.

With a high level of world trade foreign buyers will take United States cotton, wheat, pork products, and fruit in large quantities; but if the total volume of trade declines considerably these foreign buyers will use their limited dollars to purchase heavy machinery and equipment before they turn to food and fiber products. Thus, if United States farmers, especially those who are dependent on the export trade, want to produce to capacity—want to produce all the food and fiber they can—they should support those commercial policies which will expand both world trade and the United States share of it. And to the extent that increased foreign trade promotes employment within the United States, producers of all farm commodities would gain through the increased purchasing power of consumers.

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