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Economic internationalism in a nationalistic world

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Recent trends in the balance of international payments of the United States and of other countries disclose important new phases of the long drawn out world crisis. They are faithful reflections of changes in the domestic conditions of the nations, transmitted from one country to another through the quick and sensitive action of the international exchanges. Recoveries, on the whole world-wide, have been registered in productive activity and, to a moderate extent, in the physical quantity of world trade. The unsettled state of world monetary affairs, unmarked for the moment by any startling change, continues to operate as a depressant, while international political factors have in the past few months taken a decided turn for the worse. These are mixed trends. In the early summer the substantial recoveries in production which had occurred since last year, and which have since continued, were described by the author of the most comprehensive recent survey of world affairs as "superficial rather than fundamental" and the uneven rate of recovery was characterized as the cause of increased "strain on a precariously maintained international equilibrium."

The international transactions of the United States during the first half of 1935, as determined or estimated by the Department of Commerce forcibly indicated the demoralization of our agriculture, the increased activity, present and prospective, of our manufacturing industries, and the tensity of the political situation in Europe. There was a continuance of the serious contraction of our raw cotton exports which were less by $39,000,000 than in the first half of 1934, and of lard exports, which were less by $7,000,000 or 47%. These decreases were slightly more than offset by a substantial further ex-

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2 The words quoted were written by Mr. Condliffe in May, 1935. In a final chapter written in July, 1935, he took a somewhat more optimistic view.

3 In quantity the lard exports fell off from 274,000,000 lbs. to 68,000,000 lbs., or 75%.
pansion in our exports of automobiles, machinery and other manufactured goods. Total exports including foodstuffs decreased $12,000,000 or 1.2%, while commodity imports shot up 15%.

Of the increase of $153,000,000 in imports for consumption, over half was in foodstuffs and nearly 40% was in raw or semi-manufactured materials for our manufacturing industries. We took a little more coffee and a great deal more cane sugar, cocoa, bananas and tea; we also brought in large quantities of corn, wheat, feeds, cattle, meat and meat products, the importations of which should normally be small or nil. The increased imports of materials for industry reflected as to rubber a decrease of 11½% in tonnage at an increased dollar value of 22½%, but as to most of the import items represented increased quantities, including substantial increases, in most cases at lower prices, in such important raw materials as tin, copper, nickel, chrome, shoe leather, burlaps, wool, raw silk, boards, shingles, creosote and fertilizers. There was a continuance of the heavy inward movement of gold from Europe, which in 1934 was attributed to return of American flight capital. The gold movement has continued this fall, apparently now representing European capital seeking safety in a land of peace and stable institutions.

Looking at the over-all condensed figures we find that the import of gold from January to June, 1935, amounted to $802,000,000, of silver $79,000,000, and of currency $11,000,000. Added to these inward bullion and currency movements on the debit side we had an adverse balance of services and interest on capital for the half-year of $39,000,000, which was about three times the 1934 estimate at the half-year mark. On the credit side, our merchandise export balance for the half-year of only $29,000,000 was startlingly low, representing a decrease from the 1934 half-yearly figure of 83%. This reflected in part the wearing off of the favorable price differential for our exports created when the dollar was devalued, in part the heavy importation of foodstuffs and in part the increased import of raw materials, the last-named movement probably fore­shadowing, as was earlier the case in England, a further expansion in the export of manufactures.

On these figures, our small export surplus of goods was, in effect, paid for by a small import balance of services, and we balanced the account in the same abnormal way as in 1934 by delivering, against the bullion imports, $60,000,000 of long term securities, $560,000,000 evidences of short term or demand debt and, as a final residual item, in which was absorbed all errors in the other estimates, $282,000,000.
in obligations of various kinds created or surrendered by our citizens but not specifically identified by the Commerce Department.

The sensational shrinkage in our cotton exports is probably the most disquieting single event in our recent economic history. From an export level during the crop year ended July 31, 1934, of 7,500,000 bales valued at $421,000,000 a drop occurred in the year ended July, 1935, to 4,800,000 bales valued at $326,000,000, while the percentage of American cotton used in total world consumption fell from 58.3% in the crop year 1933 to 53.7% in 1934 and to 44.4% in 1935.

Simultaneously the aggregate cash intake of our agricultural community through price advances and bounties has been substantially increased—50% or more as has been claimed—with resulting favorable effect on the sales and profits of industry generally. The Agricultural Adjustment Administration does not hesitate to take credit for this improvement in general business as being the result of its crop restriction and price-fixing policies.

The crop destruction policy of the AAA requires here only the passing comment that restriction of this kind through the erasure of tangible wealth already in being carries a shocking picture to the plain mind, which is unlikely ever to discover in such a waste any social justification. The more important major policy of holding millions of bales of cotton off an unregulated world market on government loans made at an uneconomically high price stands as one of the most costly attempts ever made to prove that the law of supply and demand has been abolished.

Some part of the shrinkage of our cotton market in Germany has been attributed to difficulties experienced by manufacturers in obtaining dollar exchange. But the fact is that our cotton exports to Germany have fallen off more proportionately than our other exports to that country. It is also to be noted that the proportion of our total cotton exports to our total exports to all countries has dropped heavily, despite a substantial increase in the unit price of the exported cotton. These decreases in cotton exports, both absolute and relative to other exports, are clearly traceable to a competi-

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4 Preliminary figure.

5 In the last six months of 1933 our cotton exports amounted to 25.4% of our total exports; the proportion fell in the two semi-annual periods of 1934 to 17.6% and 16.8%, respectively, and in the first six months of 1935 to 13.9% of our total exports. At the same time the average price of cotton exported increased from 7-7/10 cents a pound in the crop year ended July, 1933, to 10-6/10 cents for 1934 and to 12-9/10 cents for 1935.
tive situation unfavorable to our growers. We are obviously facing a substantial permanent loss of former markets abroad to foreign cotton-growers who have been more realistic in their price policies. Thus it may accurately be said that the increased cash returns to the farmer have been realized by a large-scale dissipation of the capital assets of agriculture represented by market organization and customer relationships.

It is suggested that the stimulus given to general business by the increased purchasing power of the farmer will prove to be the determining factor in rolling up a great tide of national production, and that this tide will be so big that the unsoundness of an economic policy that cashes in on capital and calls it income will no longer matter. This is specious reasoning. It avoids the real point, which is that the calamitous government loan scheme was wholly unnecessary for the major purpose for which it was created. That purpose was to provide cash for the farmers, who in turn were to prime the pump for the nation at large. The taxpayers were to furnish the cash, and they did so, but why this was not done directly instead of through a foredoomed scheme of price maintenance on the world market is not explainable on any rational basis.

The cotton catastrophe is the logical result of a scheme conceived, though perhaps not consciously, in the true spirit of economic nationalism. The essence of the plan was the attempted imposition of a heavy tax on our foreign customers, and it ended up, as it was bound to end, by our having to put our own necks on the chopping block and hand over our business gratis to our competitors. Each generation has to learn for itself a good many painful lessons, because people won't take the trouble to read history. But we might at least take note of what is reported in the newspapers. Trying to go it alone in price-fixing and restriction schemes was already a notorious failure when the American Government tried it in cotton. It was only a few years ago that England had to abandon the Stevenson rubber restriction scheme for British Malaya when its effect was seen to be to build up the rubber-growing industry in the Dutch East Indies and elsewhere. More recently, Brazil had a similar experience in coffee. In face of this, the AAA unsupported by any international restriction agreement cheerfully took on a finish fight with the law of supply and demand. The only plausible reason for this action is that it was the expression of a philosophy, at present much in favor, that regards as of no consequence all previous experience not personally participated in by ourselves.
Looking at the appalling complexity of the whole apparatus of the AAA, it is reasonable to suggest that there is such a thing as being too ingenious. We ought to ask ourselves whether there is no virtue left in the simple and direct approach to human problems. We ought to look the problem of the distress of our great farming community fairly in the face, call a spade a spade and a dole a dole and pay it directly under that name. Why should we try to sugarcoat the farmer's dole and overlay it with unworkable paraphernalia, at the risk of bringing down in ruins a great industry that was his birthright and has been the backbone of American economic life?

Turning to other countries whose conditions and policies have an important influence on our own, we find that in Germany domestic business has been flourishing. But we are obliged to note that the activity has been based largely on that sinister and unproductive industry which is devoted to the manufacture of instruments of war, and which has been acquiring its imported raw materials in considerable part by using funds withheld from foreign holders of German securities. While there is no reasonable doubt as to the fundamental power and vigor of the German national economy, the basis of the present activity is not such as to carry any large degree of assurance for the immediate future. Looking at Italy, we find a distinctly unfavorable position, with the country sliding steadily down into conditions of financial crisis as a result of fiscal and monetary difficulties, and we observe a desperate effort being made by Signor Mussolini to rescue the nation from this precarious situation by taking a gambler's chance on a war of conquest. In France and certain countries still associated with her in the gold bloc we see the governments still struggling to keep their monetary systems on the gold standard, and maintaining this position only at the cost of an economically painful and politically hazardous deflation, the outcome of which is still uncertain.

Even the British, unsurpassed though they usually are in the degree of intelligence, or at least of hard-headed equanimity with which they face their problems, have been trying to reconstruct their domestic economy by substantial reliance on tariff barriers erected against old customers—a policy which would be observed with serious misgivings by their equally hard-headed forerunners who laid the foundations of England's preeminence in the markets of the world.

These recent movements and conditions in important occidental countries illustrate the world-wide vogue of the philosophy that recovery must be induced at home by whatever means and at whatever
cost. National leaders bear the unenviable responsibility of determining the point at which the means adopted carry more menace than reassurance and at which, in consequence, the probable costs become prohibitive. No judicious person will deny the difficulties of determining when the danger point has been reached and of then putting a stop to movements already under way, in the course of which new varieties of vested interests have arisen. Even those leaders rightly to be called statesmen fall far short of infallibility and they frequently lack, as well, the necessary authority to act or power to persuade; while in countries where fanatics or ambitious self-seekers are at the wheel the mass of uneducated opinion is swept blindly along past the red lights.

The nationalistic doctrines that have recently dominated international relations have moved in two different planes, depending on their country of domicile. Almost everywhere they had an economic origin. They were born of economic stress. Especially in Germany and Italy, however, they have been translated into the sphere of high politics and explosive political action. It is a truism that the highly charged domestic political atmosphere produced by economic crises finds its easiest outlet by a violent discharge directed across the frontier or against racial, religious or political minorities at home. Where this has happened, a species of emotional frenzy has been aroused, which will not submit to critical examination, much less to contradiction, and its disruptive effects have to be endured until the Frankenstein can be chained up again.

But elsewhere, in those countries which have refrained from taking the easy way of finding an alien scapegoat, economic nationalism can still be combatted on its merits. It is true that the governments of free countries find the domestic political aspects of their economic problems all the more difficult from their having avoided the easy solution. It is a fact that political necessities are paramount in that area of human affairs known as economics—once much more accurately called political economy. If these necessities are something more than organized group selfishness or self-serving inventions of the politicians, if in other words they are rooted in aspirations looking to a better world for all and thus possess the authentic character of great political forces, there are few so-called economic laws that do not have to submit to being moulded by them. But many so-called political necessities are in fact pitched in the lowest plane of political expediency, and wherever a high general level of intelligence is found and free institutions are cherished, large bodies of independent
voters are sooner or later moved to give them something more than a casual scrutiny. Periodically despite the smoke screens of pressure groups and office seekers, the independent voter puts national policies to the real test of their desirability and effectiveness from the standpoint of the nation as a whole. For one, I am willing to believe that that is what the independent voter in our own country tries to do at intervals of not longer than four years.

In the United States today it is not political ideas having as their prime motivation any anti-foreign complex that are responsible for the existence of nationalistic economic doctrines. There is no considerable opinion here—certainly none of the dignity of a party or even bloc—that for reasons of crude race prejudice or domination demands the enforcement of policies destructive to the well-being of our neighbors. Nor is there any important body of such opinion in the countries of our sister democracies. The innumerable economic barriers of various kinds which nevertheless persist had a rational origin in the economic events of the crisis.

The principal contribution of the United States to the present world-wide collection of economic strait-jackets is our failure to lend money abroad, as a creditor or exporting nation has to do in a normal world, or relinquish its role. The reasons back of this negative contribution have been up to now perfectly correct. For, credit is not anything that the creditor can manufacture for his debtor; it is something that the debtor has to create for himself. And Europe, which is still the greatest factor in our international relations, has not yet created credit for itself. Indeed at the moment, Europe thinks so poorly of its own credit that it insists on sending us from week to week more and more millions of gold for safekeeping. The truth is that today the United States, and the United States alone, has more credit at home and abroad than we know what to do with.

Abroad, the contributions to the economic tangle in the form of new or increased tariffs, import quotas, clearing agreements, and exchange controls, were erected in debtor countries largely as protection against imminent dangers to currency systems, precipitated by the collapse of prices, of trade and of credit. Most of these dangers were real, and to that extent and in so far as the measures taken were not unduly harsh, it is impossible to say that those countries in the critical circumstances which they faced had any practicable alternative.

However this may be, our chief concern now is the prevalence of the view that the extreme nationalistic measures and attitudes fastened on the world in a time of chaos have to be with us always—
that they are permanently desirable as expressions of a practical ideal. That ideal is fixed on the attainment of a substantially complete national self-sufficiency—of an exclusiveness of national life, which, wherever it is most favored, seems inevitably to tend toward racial intolerance and a consciously hostile attitude toward neighboring peoples. There are persons credulous enough to believe that mankind can live by spiritual sustenance of that low-grade variety and by dependence on substituted materials, second-best machinery and synthetic foods, and still maintain the standards of civilized society as we have known them.

The obstacles in the way of breaking down the barriers are a catalogue of all the desperate political and economic problems raised by the depression. Any proposed measures of amelioration, other than mere palliatives, are immediately brought squarely up against one central fact. That fact is that international trade as well as all the processes of our domestic economic life are enabled to operate healthily only through a proper and multilateral functioning of the credit system. At the bottom of our economic system there is, of course, its philosophical basis in the urge to survive and in the money-making motive, as well as the basic human factor of differences in individual aptitudes, which as translated into division of labor make possible diversified large-scale production. These primal biological factors being present, there remains the necessity of joining them up by the dynamic process that makes the system work. That process is the provision of capital for production and for moving product to the market and to the consumer. That provision is effected only through the credit system. It therefore seems clear that an adequate flow of credit is the master key to the restoration of world prosperity.

As long as domestic credit remains largely potential in our idle banking reserves and foreign long-term credit non-existent, responsible leaders searching for the way to a better world are restricted to palliatives. The importance of such measures, however, in these times of slender material and psychological returns, should not be minimized. There is hopeful significance in the reciprocal trade agreements which have been sponsored under the Trade Agreements Act by our high-minded and understanding Secretary of State. Such agreements tend to make two blades of grass grow where previously there was but one and, by the extension of their benefits under the most favored nation clause, to permit international trade to resume its normal channels and magnitude. They should tend to relieve the
rigid canalization resulting from bilateral clearing agreements and other instruments of barter, the effect of which in the opinion of all competent authorities is to diminish trade and production and to force down commodity prices on the world market.\textsuperscript{8} By consistent development, indeed, of the new reciprocal trade policies it is felt by some that the way of escape from the present strangulation may be found.

On the other hand, there are some who believe that international stabilization of currencies is the basic remedy without which nothing can be accomplished. In my opinion, however, currency stabilization when it comes will be less a means to general economic stabilization than a reflection of such a condition at least measurably attained. There are strong indications that certain other things must and will precede permanent currency stabilization.

Some who emphasize the desirability of an early return to gold and think it practicable are convinced that there must first be a formal revision of the war debts. This appears to me equivalent to saying that currency stabilization will be a long time deferred. From an observation of the war debts problem from its inception, in part at rather close range, I would hazard the opinion that any nice tidy legal document of revision, with all the seals attached and all the ratifications appended, will not be seen for a long time to come, if ever. But the assertion might also be risked that the American people have already mentally written the war debts off to profit and loss. It seems probable that the state of practical cancellation now existing will run along without much fresh exacerbation, and on the reasonable assumption that pending a new settlement there will be no further payments, it is clearly impossible that the debts can throw any strain on the monetary systems, whether stabilized or unstabilized, of our debtors.

Despite the war debt defaults, it is a reasonable supposition that the United States will continue to do business with Europe, and that when the proper conditions arise, American capital, though avoiding the extension of credits to defaulting governments, will again flow through private channels to carefully selected areas in Europe and elsewhere, in order to finance on long term the export of our surplus production. That the United States will move for formal revisions of the debt settlements seems improbable, and any early attempt by Europe to obtain them would meet almost insuperable obstacles here.

\textsuperscript{8}See "Enquiry Into Clearing Agreements," League of Nations, April, 1935.
If, however, our debtors hold the view that a final legal liquidation is a prerequisite of currency stabilization or of any other necessary phase of recovery, it will be for them to take the initiative and make concrete proposals which will in some perceptible degree do justice to the facts of history.

The gold standard still holds the field as the only practicable international monetary system suitable for the orderly and profitable transaction of international business. The weight of opinion undoubtedly favors ultimate return to gold, though under some modified plan which will be free from objectionable features of the old scheme. What that new form should be, however, no one has yet been able to suggest with any widely accepted degree of authority. The difficulty is that the stability we are seeking is of two contradictory kinds. If money is stable and prices are unstable you cannot manipulate prices into stability by monetary means without making money unstable. Under the gold standard there are to be expected periodical conflicts between the necessity for high interest rates to check the outflow of gold reserves and the advisability of low interest rates for the promotion of domestic business. It is true that the theory of the gold standard furnishes an answer to this difficulty, for in theory high discount rates tend to attract gold from abroad and the result of that influx is to make domestic credit easier.

Thus the gold standard seems to offer its own automatic checks and compensations. As a practical matter, however, the British Chancellor of the Exchequer and other monetary authorities abroad appear extremely reluctant to place themselves at the mercy of a theory. They are unwilling to run the risk that if credit has to be tightened to protect the currency reserves, the compensating reverse movement will in practice work freely enough or rapidly enough to save domestic business from serious recession. Moreover, if the theory did work, it would do so through the influx of international short term money, which in itself offers another cause of serious concern. Monetary experts have been trying, so far without notable success, to discover some method of control which will retain the advantages of the international fluidity of short term money and at the same time minimize its dangers. The importance of the question appears from the well-known fact, among others, that England was forced off gold in 1931 by the sudden withdrawal by foreigners of large short term credits which had been running in the London market. It is true that England might have reserved against this contingency by keeping liquid her own large balances abroad. But her
banking machinery for the placing of long term loans abroad was working too well, and so it is that today the British mind still views with acute misgivings the possibility under a restored gold standard of again having suddenly to liquidate large deposits held on demand for foreigners.

The British see other objections to tying up to gold, related like the one just mentioned to their present difficulty of maintaining a credit balance on their international current account. Until, therefore, the situation of England's export industries shows substantial improvement or until as a less probable alternative her whole economic structure is transformed, it seems useless to expect the concurrence of England in a permanent stabilization of currencies; and without British participation a return to the international gold standard is out of the question.

If in a rash moment I were to join the decimated ranks of the prophets, I would suggest the likelihood of a certain general sequence of events leading back to a healthy functioning of the international system. Given the close and rapid interaction of economic forces, nothing is of course more baffling than the question of what comes first—of what is cause and what is effect. I reason, however, that credit directly underlies the operation of all systems of money and exchange, and that the fundamental basis of an adequate international credit structure resides in a reasonable measure of political stability. The unanswerable riddle seems to be that while prosperity comes with political stability, the latter in turn depends on prosperity. But that riddle, seeming to defy solution by logic, has never yet failed of solution in practice. On the economic interpretation of history, political stability has habitually been regained by the gradual restoration of productivity, induced by the wide, persistent pressure of millions of individual human beings, tired of strife, determined to survive and ingenious in their efforts to find the way to make a decent living.

By whatever means induced, such a restoration is now under way in many areas. Assuming that a solution of the Anglo-Italian crisis will be found, it is not unreasonable to believe that the improvement in production will continue and that it will have a steadily increasing influence in easing the tensions of the political storm areas. Especially is this healing process going forward in this country, more highly favored as we are by the absence of intense population pressure and by the possession of a strong tradition of free institutions. The upward movement in the United States is the important thing. Our returning prosperity, in my view, will be the determining
factor in promoting better conditions abroad, in loosening trade barriers and finally in lifting the world definitely out of its misery. And in turn as the tensions are eased abroad and the barriers loosened our own recovery will thereby be accelerated.

Thus the unmistakable signs of domestic recovery in the United States seem to mark the turn of the nationalistic tide. We should be thankful if this is so, for there are few nations that stand to gain less than this country by economic nationalism, as we may plainly see by the disproportionately unfavorable effects on us, in our position as a creditor and exporting nation, of the world-wide restrictions on the free movement of trade. We have been witnessing a conflict not primarily between nation and nation but a clash of ideas which has cut across boundary lines and divided each nation, if not into two camps, at least into two schools. One school holds the view that economic society functions in a world market place and draws its sustenance in considerable part from national specialization and division of labor and from the exchange of the fruits of that specialization. The other idea is that the world can be and should be an unorganized collection of isolated national units, each sufficient to itself. In the realm of action there is a similar clash of forces. The forces of nationalism work against the trend of science and of evolutionary thought. The forces of internationalism, on the other hand, are the irrepressible forces of a society which all the way down to the individual has always lived by division of labor, co-operation and exchange. Man was lifted out of the stone age by his recognition of this basic evolutionary principle, and by following it through the centuries he has achieved standards of physical comfort and spiritual satisfaction unattainable by the cave-dweller.