

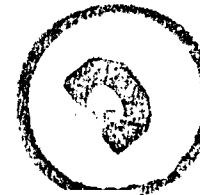
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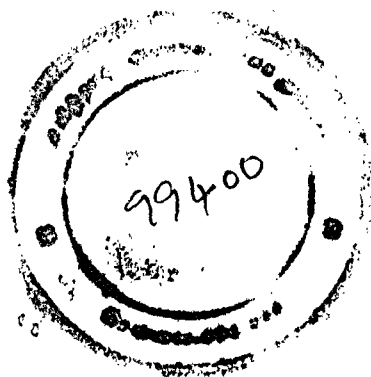
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PART I
DISARMAMENT AND SECURITY

ADDRESS OF WELCOME¹

NICHOLAS MURRAY BUTLER

President, Columbia University; President, Carnegie Endowment for
International Peace

ON behalf of the trustees of the Carnegie Endowment for International Peace and on behalf of the Academy of Political Science, I have great pleasure in welcoming this company and in taking the chair to present the speakers of the evening.

The object of this conference may be compressed into very few sentences. Following the example of a similar and successful conference held at Long Beach in 1917, we have invited a representative company of journalists from all parts of the United States to spend a few days here in close personal contact and relationship, with the advantage of having with us some distinguished representatives of journalism and public life abroad, in order to consider dispassionately and away from the heat of controversy some of the more important and far-reaching of the problems which affect the international life and the international peace of the world. These subjects will be presented by men who are familiar with them in their every aspect and their object is to enlighten us all, to give us material and opportunity for reflection and discussion, in order that as we go back to our homes we may each play his part in the better instruction of the public opinion of our people.

We have no illusions as to the date of the arrival of the Millennium and we are not particularly concerned with the establishment of a Utopia. We are quite ready to deal with our human nature as it is, and to try to make the best of such practical situations as the economic and industrial and political life of the world present, always endeavoring to carry forward our problems toward solution in terms of high ideals, wise experience and steadily growing and deepening knowledge.

¹ Address delivered at the First General Session of the National Conference on International Problems and Relations, at Briarcliff Lodge, Briarcliff Manor, New York, May 10, 1926.

There is a psychology of these matters which it is wise not to overlook. It was the mordant wit of Oscar Wilde that penned the sentence, "So long as war is regarded as wicked, it will always have a fascination; when it comes to be looked upon as vulgar, it will cease to be popular." It is worth while, perhaps, for practical men to take that hint and to deal from time to time with the psychological aspects and the psychological relationships of these great questions as to how men in communities, in states and organized society can resolve their differences by methods of reasoning and diminish the appeals—those terrible appeals—to physical force which are the last resort of controversialists of every kind.

Before presenting the speakers I have great pleasure in reading one or two telegrams of good will from representative citizens of the world.

The first is from the Governor of the State of New York: "This telegram is an expression of my hopes for the success of the conference which is being held under the auspices of the Carnegie Endowment for International Peace and the Academy of Political Science. My very best wishes to all assembled. Alfred E. Smith, Governor of the State of New York."

The next is from the German Ambassador at Washington: "Allow me to express in the name of the German Government my best wishes to the conference assembled at Briarcliff under the auspices of the Carnegie Endowment for International Peace and the Academy of Political Science. May its deliberations and discussions be inspired by the true spirit of international good will and contribute to the promotion of the great and noble cause of world peace. Ambassador Maltzan."

This from the Mayor of the City of New York: "In the name of the City of New York I extend cordial greetings to distinguished guests at conference opening this evening. My heartiest congratulations go out to the sponsors of so significant a gathering. The importance of international harmony being universally recognized, all discussions with this objective merit unstinted approval and it is my feeling that the tremendous possibilities for good which may confidently be expected to emanate from the Briarcliff conference will arouse greatest public interest and attention here and abroad. Best wishes for

the success of the deliberations which should prove informative to the individual citizen and helpful to the cause of international good will. James J. Walker."

We are first to give attention to the question, "What is Meant by Security and Disarmament," and I present the speaker, my colleague and associate, Dr. James T. Shotwell, Director, Division of Economics and History, Carnegie Endowment and Professor of History, Columbia University.

WHAT IS MEANT BY SECURITY AND DISARMAMENT¹

JAMES T. SHOTWELL

Director, Division of Economics and History, Carnegie Endowment;
Professor of History, Columbia University

THE subject of security and disarmament is one which may be considered from one of two points of view. It may be discussed from the academic or philological point of view, in which case a reference to a handy dictionary would be the easiest solution. This is the attempt simply to define in terms of other words the two great elusive problems of modern times. But even if you turn to the dictionary you will find that one of those terms, at least, divides itself up into a number of other words which seem rather to contradict the original. Disarmament is not disarmament according to the dictionary. It may be either limitation of armaments or reduction of armaments or the abolition of armaments; and these three different conceptions certainly call for entirely different consideration as to the means and method by which they may be obtained. However, I am not going to do more than remind you of the possible ambiguity in the subject itself,—the subject of disarmament—and I have only a very few minutes in which to consider it—rather from the standpoint of what I should call a historical definition. That is, the meaning of “disarmament and security”; for the phrase, as we shall find, goes together. It goes together in the practical setting of political experience of the world.

First of all, the historical definition involves a consideration of what armaments have meant in history. Now strange as it may seem, this very vital element in the history of national states and governments has never been analyzed in detail in our political science or history. Armies and navies emerge on the page of history only in the crisis of war, at the time when they are actually employed as offensive or defensive agencies; the place which they occupy in the ordinary development of

¹ Stenographic report.

the political texture of the world has never been adequately treated. If you turn, for instance, to a book like Anson's *Law and Custom of the British Constitution*, you will find the admission there that the British army and navy have never been brought out in historical perspective or studied as an essential part of the political development of the British constitution. And yet, if you were to analyze the British constitution in practice in the last phase of the imperial history you would find that the only single functioning body that could be called truly imperial was a Committee of Imperial Defense, hidden away from the back quarters of No. 2 Whitehall Gardens, a central keystone of the Empire unmentioned in either history or politics and its actual existence known only to a very few.

The secrecy, of course, that is involved in the principles of defense furnishes one real excuse for this failure to pay attention to the place that armaments have occupied; the technique furnishes the other excuse; and, finally, there is the fact that history is generally interested in these implements only when they come into actual conflict.

Now, if you were to trace the means of defense historically, through the long development of modern civilized nations, you would find that after the Roman period, western civilization began, with a technical military class. The noble, as you know, was the soldier (*miles*); the art and practice and science of war belonged to a limited section. So it continued through the early development of the modern nation, when regiments were privately owned and privately recruited, and through the early stages of national armies. That lasted down—I am giving a very hurried background—to the French Revolution period, when we strike a new principle. The French nation, faced with a common danger for all, gave us the idea of organized citizens—the nation in arms—a system which has no parallel in the Middle Ages. Indeed to find its anti-type in history you would have to retrace your steps to the early days of republican Rome.

This organization of the nation for war became a model in the mature period of the national state in the nineteenth century; and through the principle of conscription it developed a technical means that was coextensive with the manhood of the nation.

Then, about the middle of the nineteenth century, a new element came into this structure. Science, which had been recreating the conditions of industrial and commercial life, by that time overtook the rather sluggish movement of military development, and then we have, from the sixteenth on into the twentieth century, what is called the race in armaments. It is really a race with science; creative science showing its constructive side became an implement in the hands of man, alongside the conscripted armies, to fulfill the purposes of national defense. But to continue the definition—because this is all a definition—in proportion as it developed its efficiency, it tended to escape control.

Now, in the World War we at last come to the full employment of this double instrument: national conscription, and the full use of scientific invention and discovery. Following the trend of history, we find that this development of the mechanism of defense becomes so great that it ultimately becomes a mechanism of aggression.

The present question before us—in the matter of definition—is whether we are at grips with the whole process of the means of defense or only with a section of it. Are we dealing with the entire element of defense of national states with every available force at their disposal, or are we dealing simply and solely with the last phase of the race in armaments? You will find, if we try to make our meaning more precise, that this is the first question which will come to our minds. There are those who simply define the problem of disarmament as the synonym of a last phase, the phase of scientific development, dealing especially with such things as chemical warfare or industrial mobilization. There are others who think in terms of conscription.

* * *

I said that the question of armament must be linked throughout with the question of security. That is because armaments are after all political agencies and not merely technical entities. They have to serve the purpose for which they have originally been created, which is the purpose of making sure of the safety of the state.

If you examine this question of national security you will find that it falls into two great divisions. There are states

which have natural security and there are those which must make up for the absence of natural security by artificial devices. Natural security is at its maximum with us. Distance and barriers almost impassable west and east make the problem one which is very little realized, because security is very much like health in the individual, the more one has it, the less one knows of it. It is only those states which are face to face with the problem which are really conscious of its reality, just as in the individual it is only when disease and the menace of death come that one appreciates what health has been. Now, we in America have the full conditions of natural health and therefore we show a very fair misunderstanding or failure to understand the essence of the problem. When you are faced with the artificial problem, when your frontiers are insecure, when you are close up against an enemy, then you must have some substitute for distance, some additional barrier as well as mountains or other natural impediments along the frontier. So those who maintain the nation's security line the hills with forts which, as it were, continue the hill barrier; and they fill in the spaces where the hills recede or the rivers or swamps are lacking with armed and maneuvering troops. This is inevitable so long as there is danger, so long as the menace of war is present. There must be artificial security.

Now the menace of war will be present until other means for settling international disputes are not only available but likely to be used in the time of crisis. Therefore to some degree the old armament problem will continue to be before the world, with its dual possibilities of defense and aggression, until the world comes to the point where it can satisfactorily accept alternatives for war.

So, taking up the point I spoke of a moment ago, we come to the conclusion that until war itself takes on a different character from the historic use of it by national states, there is very little hope of anything more than palliatives in the line of disarmament, very little hope of anything more than tentative measures now and again, which don't go to the heart of the matter at all. Fortunately, that turn in human affairs which was coincident with the development of the machinery of defense was also coincident with a turn in human affairs in the arts of peace. The development of modern science

marks a turning point in human history so vast that few of us who live in these days have any adequate appreciation of the world which is being created in our time. Space and time, the two conditions of human life, are being fundamentally changed. So long as the conditions of life were based mainly upon agriculture, it was inevitable that there should be a recurring of the activities of life with the unchanging calendar of the seasons, and that recurrence not only came year after year and generation after generation but it offered no possibilities of escape. Spacially the world, though small, was filled with greater distances than today, villages close together were far apart because of the difficulty of travel, markets were self-sufficient where they were only the markets of the village or the hamlet! There was a self-contained, conservative society that had very little chance of developing a sense of community with others. When science broke through that persisting primitive world, in the eighteenth and nineteenth centuries, it induced a set of conditions in which not repetition but change became the normal element. We have entered a dynamic period of history when every succeeding change calls for further adjustment and every adjustment calls for still greater change. There is no such thing any more as counting upon those recurring elements of an exclusive society which was the characteristic of the Middle Ages. In this change in time and space a world community has come into existence. We didn't realize the extent of it until the war itself showed the inextricable entanglements of different states, one with the other.

I remember down in the Balkans asking a foreign minister of one of the smaller states which was his financial capital and he said, "London." I asked another and he said "Paris." In the world of finance—and it is true of course of commerce and industry and all these developments of modern science—the political boundaries of a country no longer coincide with the real and vital interests which may dictate even in time of crisis the extent of the armaments, the direction of a policy and the whole determination of the issue.

This new scientific world developed entanglements that are conceivable of expression in terms of peace as well as in terms of war. You can see how that has worked out if we take hurriedly, in a moment or two, an analysis of the Treaty of

Locarno. The Treaty of Locarno is based upon its Article 5, where the presumption of aggression is defined. It states there that if either of the signatory powers—without going into the detail of the text, say France or Germany—should go to war one against the other, refusing the accepted and agreed means of peaceful settlement, then Great Britain and Italy would take up the guarantee of peace, would regard that power as an aggressor which went to war refusing the accepted means of peaceful settlement and would police the world in favor of the victim. Article 5 of Locarno therefore definitely establishes a new principle with reference to war itself.

War, as Grotius pointed out, should be capable of distinction as between good wars and bad. When Locarno becomes part of the public law of the world, war can be distinguished into two categories, criminal aggression and mere defense. If the organized world can deal with the problem of criminal aggression we need pay no more attention to the problem, for defense will take care of itself.

Now, how can we in this country deal with this method of eliminating the possibility of aggression from the use of armaments? We would not undertake even the limited guarantee of police which England undertook under the terms of Locarno. We have stated so, and in our own time there is now no practical prospect of our undertaking to guarantee our interference, in terms of police, in case one power of Europe became an aggressor against another. But we could, by re-defining our neutrality, definitely check the tendencies toward aggression in those powers. If we were to say that in case of an aggression of this kind the United States would not so interpret its neutrality as to furnish help to the aggressor, to the criminal aggressor, then it would not be possible for that aggressor to proceed with the plans for armament which would make the Krupps and Creusots simply a part of our Bridge-ports and Pittsburghs and our great armament works.

This is a definite step which could be taken toward the determination of the political issues which underlie any real and fundamental progress in disarmament.

My time is more than up and I haven't yet spoken of the thing that you might think of first in disarmament—the Washington Conference. One word on that. The Washington Con-

ference applied a definite ratio for the reduction and limitation of armaments as between stated powers in certain well-known and clearly definable objects or units of armaments. That was all to the good. But if we are to deal with armaments as a part of this development of science, this continuing process which places one instrument of destruction in the place of the instrument that has been denied us, one after another, then we must go farther than any single unitary agreement like a Washington Conference. At best, if it is naval or land armament, or both, we must provide for continuing conferences which will take on from point to point the progress made at any one congress. And with continuing congresses we need a mechanism for control and inspection which would be satisfactory to the powers concerned so that the resultant queries would not be fought out in the pages of newspapers by correspondents who are rather ill informed. We could turn to a technical apparatus adequate for dealing with a problem so vast as this. And that can be done only if it is worked out in harmony with the existing structure of Europe as it stands today, in harmony with, although not an integral part of, the effort of the League of Nations in this direction.

[12]

THE OBJECTS AND EXTENT OF PEACE-TIME MILITARY ORGANIZATION

GEN. TASKER H. BLISS

Chief of Staff, U. S. A., 1917; Member of Supreme War Council in France;
Member American Commission to Negotiate Peace, Paris, 1919;
Washington, D. C.

[In introducing General Bliss, the Chairman, President Butler, said:—The next speaker has had contacts with the problems of war and of peace that are quite exceptional in our country's experience and perhaps in the experience of the world. He has been Chief of Staff of the Army of the United States; he was a member of the Supreme War Council to conduct the war in France; he was plenipotentiary member of the Commission to Negotiate Peace at Paris in 1919. I present General Tasker H. Bliss. (Applause).]

I ASSUME that the subject which has been assigned to me is taken up at this stage solely for the purpose of clearing it out of the way as preparatory to a discussion of the question of disarmament. Nor can it be fruitfully considered at all in the time available except in its bearing upon the latter question. It is from this point of view that I take it up. It may be considered first with reference to the existing situation and its origin; second, with reference to the modification of this situation resulting from future modified conditions. The latter must be very largely speculative.

The first of the sub-questions which constitute my subject is: What are the objects of national peace-time military organizations? Manifestly, the answer must be sought—(a) in the declaration of its purpose made by each nation concerned; and (b) by a comparison of this declaration with the actual facts which show what each nation is doing in carrying out its purpose.

What is the universal declaration of purpose—which may, or may not, be substantiated by the facts observed in its execution? If every nation could be brought before the bar of the world's judgment and asked its purpose in the maintenance of

[13]

its military armaments, and its preparations for the maintenance of them, there would be but one answer: "We maintain them as the necessary result of three admitted and fundamental rights and duties of an organized state:

"(1) To guarantee, as far as may be, the security of our peoples against external aggression by violence;

"(2) To guarantee our internal peace and the orderly functioning of our governments, as against domestic violence;

"(3) By such security as is thus attained to guarantee as far as possible the opportunity for the attainment of happiness and prosperity by our peoples."

In other words, each nation would doubtless declare that its object in the establishment and maintenance of military force is solely defensive. These forces began to be organized long before nations began to explain their motives and give reasons for their action with intent to influence world opinion. But now, and for a long time past, any nation which increases its military establishment is careful to make known in every possible way for the information of its own people and of others that its declared object is to increase its capacity for defense. And even in the earliest times, before there were permanent military establishments whose existence might have to be explained, we find in another way evidence of this "decent respect for the opinion of mankind." The works of the oldest historians are filled with the elaborate argumentative speeches which they put into the mouths of their political and military characters to prove that their object in the use of force was solely to defend one or another of their natural rights. And for us, ages afterwards, the impression thus given is modified only as we may discover the views of other equally intelligent and perhaps more impartial observers of the same historical events.

It may be said in passing that no definition can be made which, *per se*, enables us to differentiate between a defensive and an offensive military force. Some of its auxiliary parts may be called noncombatant, that is, they take no direct part in any military operation of force, either in defense or offense. But the organization as a whole must, to the extent permitted by its size, its training, its leadership and the circumstances of the moment, be capable of offense as well as defense.

Of these three rights and duties of a state, the third is now the really basic one; the former two are *sine qua non* to its fulfillment. At a given time and with a given nation, one or all of these guarantees may prove ineffective. With one of them — the guarantee against internal violence — there is reason to believe that, at least with nations of a certain temperament and mentality, the greater the liberalization of their institutions and the less there is of unnecessary government to revolt against, the less need there is of military guarantee against domestic violence. And in fact with such nations the need for any considerable military force to preserve internal peace is already little thought of as compared with the necessity for relatively great preparations to guard against external aggression.

Now, this right of a government to protect both its people and itself is the inherent, indefeasible right granted by nature to everything that has life to protect its existence and the conditions of its satisfactory existence. And this natural right inheres regardless of whether the continued existence of the thing whose life is threatened seems desirable or not. Deliberate suicide, or the contemplation of it, is repugnant to natural law.

Therefore, whether as an axiom of life or as a law of life drawn by induction from universal experience, it is evident that any people, in the lowest or the highest stage of civilization, will continue to maintain whatever agency of force it considers necessary for its existence against any other force, and for the attainment of its own accepted purpose in existence; and that it will continue to do this until some better, and equally enforceable, guarantee is provided which it accepts *voluntarily or under compulsion*. And there is absolutely no evidence that the law of progress in this direction, which has governed individuals in their advance to higher civilization, does not equally hold for the nations formed by these individuals. With any other conclusion we can not escape the paradox that civilized man is still in barbarism; that while he individually is capable of any degree of civilization, collectively he is forever liable to recurrences of savagery. The paradox is not so crude as I have stated it, because it can not be that individual man is completely civilized if to any considerable

degree and for any considerable length of time he is collectively a mass of savages. But to whatever extent it is true, it is a paradox that is abhorrent to nature and one which she can not permit to hold indefinitely. Collective man must become civilized or individual man become savage.

Unfortunately, this particular law of development is held in check by the principle of atavism and the operation of that principle, in turn, can be held in check, as we know from experience in other things, only by man in his collective capacity. The principle of atavism is, in short, the natural tendency of the individual in an improved mass to revert to his ancestral type. If the ancestral type of the life of the individual is savagery, to prevent reversion of the individual requires the check of collectively civilized national masses. There is, therefore, in the indefinite continuance of the paradox that I spoke of, the danger that with recurrent outbreaks of increasing savagery in collective man the individuals will also reacquire the instincts of savagery. We may be sure, of course, that a new cycle of development will then begin. But when we see man in his collective capacity doing so much to prevent this reversion in the life that surrounds him, using all his intelligence to preserve rather than inertly permit the destruction of beautiful and useful forms, endowed with a capacity for further indefinite development in beauty and usefulness, must we admit that he has reached the limit of his capacity in doing the same thing for himself?

Now, from this point on, during the few moments of my time, and in the light of what I have already said, the two sub-heads of my subject—both the object and extent of peace-time military organization—must be considered together, the one being indeterminable except in the light of the other.

I have spoken of possible new cycles of development. They have been going on through all recorded time. Fortunately for the ultimate and absolute advancement of man, the initial process of reversion with which they begin does not always throw them back to their point of origin. There is a partial recoil with a longer advance. It is the difference between a cycle and a circle.

It requires a long time, ages perhaps of recorded facts, before we can be sure that any given line on which man has

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been advancing is cyclic in character or is a continuous straight line. Not many generations have seen, within their own lifetime, changes in direction of a line of advance which suggest a backward curve; and fortunate they, if within the same time they can see that the backward loop in the cycle is very small, to be followed by another long curve in advance. Our own generation has been able to mark the points which indicate two such cyclic changes in what seemed before to be straight lines of progress.

One of these is in the line of development of political government; the other, in the line of development of military organization. In the former we have noted in our day some changes in direction in what theretofore seemed a continuous straight line of development of liberal democratic institutions, which indicate an actual reversion towards an ancestral type of autocracy.

In the latter, our generation has witnessed a complete reversion, *in principle*, to the most ancient type of national military organization. I say "in principle" because we cannot pursue in detail a comparison between an organism of almost inconceivable complexity and another so simple as to be almost amorphous. I think that we may accept the traditional organization for war of the Roman people some time before the days of Servius Tullius, when that people had little more than passed from the rude form of tribal government, as a fair type of the organization for war of any people in the early dawn of its civilization—that is, when it has passed the stage of nomadic tribal life and has begun the founding of a city-state. We find then no evidence or suggestion of any special military force set apart from the rest of the community to do its fighting. The entire able-bodied manhood formed the army. The so-called city being as yet not a place for residence but for refuge in time of danger, the community tilled the land and pastured its herds in close vicinity to its refuge. Each man was armed with weapons made by himself to protect himself and his property against predatory men and beasts. And with these arms he went to war. Within a few hours the entire manhood was assembled and the full power of the state—such as it was—was available for attack or defense. Thus, the entire male population converted itself into

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a tumultuary army for a short campaign almost annually, and then disbanded to till the fields again.

This fighting of course was symptomatic of growth and necessary to it. The peoples that did not or could not do it, gradually disappeared, being destroyed or absorbed in the mass of the stronger.

Now, keeping within the limits of the growing European world, this principle of universal service was the basis of all national military organization. There were rapid changes of detail within the organization of the military machine, suggested by experience to make the machine more effective in the application of its force—mainly changes in tactical organization and tactical use, in improvement of weapons and in devising engines for the effective attack and defense of fortified places.

But, with growth of population there came a change in the basic principle of universal service. This growth was partly due to the growth of law within expanding territorial areas, which preserved domestic peace—though there was constant war on the borders—protected property, and thus stimulated the growth of commerce and industry. As the territory expanded the distances from its center of mass to its foreign enemies increased. Communications, however much improved, were still such as to limit the size of armies that could be usefully employed. And the state found that it could not use all its available man-power in war. While the principle of liability to service was not abandoned, the military force became more and more set apart to perform this service for the rest of the community. With that gradual change there came in rapidly increasing degree the material evidences of civilization. Because, instead of the state for a part of each year devoting all its energy to war and the remainder to preparation for the next campaign, now works of peace could be continued by at least a part of the community uninterruptedly.

This growing change in Europe culminated with the dissolution of the Roman Empire. Then, for hundreds of years, military systems were based on the hired professional soldier. Indeed, during the darkest centuries of this time, pay and the military oath of allegiance were synonymous terms. The latter acquired its validity from the former. The soldier had

little hesitation in transferring his allegiance, if he could, from the leader who did not pay or did not pay enough, to one who did. The principle, not only of universal service to the state, but of liability to service, as well, disappeared. With sporadic revival of them, neither reappeared in full force until the early wars of the French Revolution, though the principles were not fully enforced then nor in the following wars of Napoleon.

Towards the end of these wars, and as a result of them, there began the system of national military peace-time and war organization which has reached its full development in our day.

We all know what this system is. I mention it only as the last, for it would seem that it cannot be merely the latest, in a series of cyclic changes which has brought us back to the point of origin—that is to say, to the devotion of all the energies of the state to war in war, and a growing part of them in peace to preparation for war.

During all this time, now as formerly, I suppose that the primary subconscious object of each people, when it began to form a peace-time military organization, was defense. But now, as formerly, it is impossible in practice to separate this declared object from the motive of offense. And it is well for those of us who are interested in the subject of disarmament to keep this in mind. The object of defense on the part of one presupposes the object of offense on the part of some one else. And this at once necessitates the competition in armament which has been going on during the historic period. So long, but only so long, as a state has to rely on its military strength for its defense it will never feel reasonably secure unless its power is at least equal to that of one which it suspects of intending offense. It increases its power to bring about equality. If its neighbor really does intend offense, it in turn increases its own; and if it has no such intention, it at once suspects the intention of the other, and for this double reason it increases its power. And it is difficult to see what can change this procedure except the finding of some other means than individual national power to guarantee individual security.

Thus, in my judgment, the answer to the question proposed by my subject is that the object of modern peace-time military organizations is both defense and offense, because in practice

the former may be realized only by the latter. And as to the second part of the question, the extent of such organization is now, as in all time past, limited in the case of each nation solely by, first, the degree of its fear and, second, its available resources.

Now, in what way can world conditions reasonably be expected to modify with resulting modification in the existing military system? To this, each one will have his own answer. I shall give my own. My conclusion is repugnant to the average American. But I state it as my belief, to an expression of which the subject I was asked to talk about naturally and inevitably leads.

Civilization differs from barbarism not in the abolition of force but in the replacement of lawless force, applied at arbitrary will, by force which is regulated and applied by the law of the community concerned. Now, in this discussion, there are two "communities concerned." One is the community which forms the state; the other is the community which is constituted by the states. Each has developed a system of law; on the one hand domestic, on the other international law, or the law of the community of states. Of that community, more extensive than the League at Geneva, we are a member and we have helped to formulate its law. In our domestic law we prohibit force applied at arbitrary will. We make it criminal, and we declare the one who uses it to be a criminal aggressor, and we punish him regardless of the merits of his case in the dispute which led to his act.

But, of course, along with that we had to provide some other way for him to settle his disputes, which we did. His criminal aggression is in the fact, when it is a fact, that he refuses this other way and resorts to force. Does any one suppose that in our domestic law we can "outlaw" the use of force if we neither provide nor even attempt to compel the use of some other way to settle disputes? Abolish courts, and we shall see. Or let the courts remain and allow recourse to them to be optional, and we shall again see. Nor is there one of us that can say he knows or can conceive of any other practicable way to preserve the domestic peace.

In short, domestic civilization requires force regulated by law, and when so regulated we find that we need the least.

Can any one give a valid reason for a belief that any other method will produce similar results in the community of states? I, for one, can not. Temporary and palliative measures may be resorted to. But I do not believe that a radical and permanent change for the better in the general military situation of the world can be expected until a change comes over its spirit, beginning with the relatively few great and highly civilized powers on which, after all, the peace of the world depends; a change that will result in the regulation, at first solely among these powers, of the use of force between states as in the case of individuals within them. And I believe that in no great lapse of time, though self-interest may have to be further reinforced by disastrous war, such a change will come.

THE RELATION OF AMERICA TO DISARMAMENT

DAVID HUNTER MILLER

Legal Adviser to American Commission to Negotiate Peace, Paris, 1919

THE war left behind it at least one kindly legacy; it affords a convenient starting point for a speaker on almost any topic and thus solves that usual and very real difficulty of where to commence.

Certainly here, the war is an unusually appropriate point of departure in discussing the relation of American policy to disarmament, for before 1914 the United States had very little armament, a moderate navy and, if I may venture to put it so, a very limited foreign policy summed up chiefly by the Monroe Doctrine and the Open Door.

One change came with the Naval Appropriation Act of 1916 in the administration of Mr. Wilson and before we entered the war; this created a very extensive naval program; ten battleships, six battle cruisers and ten scout cruisers were only a part of it and it was designed to make our navy one of the great navies of the world, if not equal to any other.

In this Appropriation Act itself there was a rather extraordinary passage which frankly admitted that our program was competitive and provided for its suspension if there should be established "with the cooperation of the United States of America, an international tribunal or tribunals competent to secure peaceful determinations of all international disputes."

Furthermore, there was another remarkable expression in this statute which has a very curious similarity to statements that have been made since at various times in capitals that have a rather more militaristic reputation than Washington: "The United States realizes that no single Nation can disarm and that, without a common agreement upon the subject, every considerable Power must maintain a relative standing in military strength." Rather appropriate that, for Warsaw or Bucharest!

The actual relative naval situation at the end of the war was a very curious one, partly the result of accident and partly

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of design. The British fleet was larger than all the others in the world put together; the German navy was gone; the United States was engaged on a program which would have equalled or passed that of the British in 1928 or thereabouts; the French and Italians had been too busy on the land to think much of the water; and the rest of the world, including Russia, was nowhere.

Of course such a situation was too unbalanced to be lasting; but it seemed to be the only phase of armament in which the United States was directly interested. Our army almost automatically went back to about its former size, a size dictated in part by our geographic situation and in part by traditions going back to the times of the Stuarts; and efforts to arouse interest here in the dangers of air warfare did not get very far.

The possibilities of this naval situation were seen very early by the British. It is perhaps not generally known that Mr. Lloyd George at the Peace Conference in 1919 endeavored to get Mr. Wilson to come to some agreement regarding our fleet. But nothing came of this and the race went on until the Washington Conference of 1921 and 1922, where the agreement that was reached stopped the competition of the naval powers in capital ships; but, as the event has shown, stimulated it as to vessels of 10,000 tons and less.

Our declared policy is to agree to the further reduction of the world's fleets including our own; and we are participating in the meetings of the Preparatory Commission on Disarmament which commence next week¹ at Geneva, in which Russia will not cooperate, however; and another circumstance is that Congress is about to vote a rather extensive air program for the next few years.

Now the relation of our policy to any further reduction of sea forces is a perfectly obvious one; our navy is as large as any other, so what we are willing or not willing to do is necessarily one of the controlling factors. On the other hand, our army, so to speak, is of domestic interest only and the two oceans make this true or largely true of our air force.

So, looking no farther, it seems that a very American policy, and from our point of view a very attractive one, is to put the

¹ The Preparatory Commission on Disarmament met in May, 1926.

naval situation in a pigeon-hole by itself and say that we are concerned with fleets and equally of course that we are not concerned with the armies of Europe; let the Europeans if they will, as certainly they should, limit their armies and their air forces; but our policy is not involved at all.

Now I have called this an attractive idea, attractive because it is so simple and also because it leaves us out of some of the most difficult international problems that exist. The trouble with it is that it is unreal except to a very limited degree, a degree that was largely reached at the Washington Conference itself. In other words, under this theory of naval segregation, as I may call it, the Washington Conference might have made some further limitations in capital ships, either in size or in total tonnage or perhaps in both, but that is about all.

Of the three great naval powers, one is American, one is Asiatic, but the other is European. And the British Empire has its interests all over the world, at least as extensive as our own in the Far East, for example. If we admit the proposition that the forces of the Continent of Europe have not the remotest bearing on the size of our fleet, they certainly have a bearing on the size of the British fleet. It may pass the wit of man to establish a standard which will measure the armament of Great Britain against the armament of France, taking properly into account the navy of the former and the air forces and the army of the latter; none the less every one knows they do have a relation in their existence, one to the other.

So let me put it this way: If the size of the British fleet depends, as to some extent it does, upon the size of the Continental forces, and if we say, as we do, that our fleet is to equal the British fleet, then the figures of our Naval Appropriation Bill are governed to some extent by those same Continental armies. Whether we call it proximate or not, the cause is there and the only objection that can be urged to the reasoning is one that I heard quoted the other day in another connection: "It seems so unjust."

Now if I were to follow this argument a little bit farther, which I am not going to do, it might even lead to the still more startling conclusion that the problem of European security is one of the links in the same chain. Think of the consequences of demonstrating that the British fleet would be larger if the League of Nations did not exist! I forbear.

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After all, the only logic that is generally effective in the political world is the logic of events, and often even that sort of logic has a pretty rough time of it. Facts are proverbially stubborn things; but it is not my experience that they are any more stubborn than people or even sometimes than governments. Perhaps we might say that facts have more patient endurance than do the human elements of a problem.

A really notable instance of this principle is to be found in what is perhaps a rather minor phase of the armament question; that is the matter of traffic in arms, international traffic, traffic in times of peace. If anything whatever is to be done in connection with the armament problem generally, something must be done regarding this international traffic.

I do not mean at all that such traffic is to be prevented; so far as I am aware nobody has made such a suggestion; but it must at least be known about; in other words, there must be publicity. And if there is to be publicity there must be governmental supervision; I do not say international supervision. In other words, the government of the exporting country must know about the export and permit it and the government of the importing country must authorize the import. Indeed it is so obvious that traffic in arms might defeat any armament agreement whatever that at the Washington Conference the contracting powers went so far as to agree not to transfer vessels of war at all.

The necessity of the cooperation of this country in any scheme whatever about the arms traffic is apparent. The productive capacity of the United States for most kinds of armament is greater than that of any other one country. Publicity, with American figures omitted, would be meaningless; supervision, if the United States stood apart, would simply mean that the United States did the business which other countries gave up; and the possible evils of the business, unrestricted and secret, are very great. There is not very much satisfaction in remembering the source of the rifles with which different varieties of Chinese have recently been engaged in killing each other. In this connection, and even more obviously perhaps, in some other regions such as Africa, our Western civilization seems to have been willing to "take the Cash and let the Credit go."

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As I said, it is perhaps a minor phase of a much greater problem and one that does not excite great public interest; still we are of necessity involved in it; and it is gratifying to think that we took part in the conference last year at Geneva which dealt with the question and drafted a treaty which Mr. Coolidge warmly recommended to the consideration of the Senate in his Message last December.

I noticed the other day that a question was asked in the House of Commons as to what the prospects were for immediate ratification of this treaty; Sir Austen Chamberlain's reply was very properly quite a cautious one; it would certainly be entirely useless for other governments to act in the matter before we do; and delay in such matters is not unknown here.

My effort has been to deal with some of the visible realities with which we are indeed concerned; but there are some realities that are not visible. One of these is the influence of American opinion, which in the long run perhaps forms the basis of the later policy; and those of you whose high function it is to aid in the development of that opinion have in your charge more than a little share in shaping the destiny of mankind.

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BRITISH POLICY AND DISARMAMENT

H. WILSON HARRIS

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[In introducing Mr. Harris, the Chairman, President Butler, said:—It is a peculiar pleasure to welcome to these discussions some distinguished journalists from sister lands who have done us the honor to accept invitations to come this great distance in order to give us the benefit of their presence and their counsel. First, it gives me much satisfaction to present a representative of the journalism and public life of Great Britain, Parliamentary Secretary of the League of Nations Union, a member of the staff of the London *Daily News*, Mr. H. Wilson Harris. (Applause).]

SPEAKING as an immigrant alien whose moral turpitude has been sufficiently slender in volume or sufficiently successfully disguised to enable me to obtain lodgment on your shores, may I, on behalf of my fellow foreigners, express the very great satisfaction with which we received the invitation to visit this conference and the extreme pleasure which it gives me, and I am sure gives all of us, to be here tonight.

The subject with which I am especially entrusted is the policy of Great Britain in regard to disarmament, and I find myself confronted at the outset by a certain difficulty because I have serious doubts as to whether such a thing as a British policy on disarmament exists. Men differ in Great Britain, as in other countries, on political questions. I myself am a member of a comparatively small minority. Those who differ from me and my handful of fellow secretaries are almost always wrong, but the fact remains that they do differ, and they differ in regard to armaments as in regard to other questions.

To take the two largest political groups in our country, there is a fairly clear-cut difference, at any rate, a difference in degree, between the attitude of the Labor party and of the Conservative party. That was demonstrated in particular in regard to the question of the Singapore naval base — a ques-

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tion, by the way, not of creating a new naval base, but of enlarging an existing base in order to keep pace with the growing size of modern war vessels. The Conservative party was in favor of extending the base, and it is in fact being extended, whereas the Labor party was opposed to any such action. It would be easy to quote other cases in which it could be shown that there is not one British national policy, but at least two or probably more, in regard to disarmament as in regard to other matters. At the same time there are, of course, certain arguments used by politicians of all parties; there are certain considerations based on the facts of the case which must affect their judgments and which do enable one to stand on such a platform as this and give in broad outline what may be regarded as the British attitude toward the general disarmament problem. After all, I think we should be doing wrong if we were to seek too assiduously to discover distinctive national attitudes in this matter. If every nation has a separate policy of its own, unity will be singularly difficult to attain. Therefore if it should turn out in the course of these discussions here that the policy of one country is after all not so very far different from the policy of another country, even though we may have lost something in rhetorical effect, we shall at any rate have gained something in our approach to practical results.

This, at any rate, may be said of Great Britain; that no matter what party may be in power at a given moment, we do recognize, I think, our treaty obligations and we are bound by at least three recent treaties to take definite and practical action in this matter of disarmament. We are signatories of Chapter Five of the Treaty of Versailles which in providing for the disarmament of Germany laid it down specifically that that disarmament was being imposed on Germany solely in order to enable the Allied Powers—and other powers as well—to reduce their armaments to a point to which they could not reduce them unless the armaments of Germany had been compulsorily cut down to a lower level.

We are signatories also of Article Eight of the Covenant, and all signatories of that article bind themselves to take steps to reduce their armaments to the lowest level consistent with national safety and the enforcement by common action of in-

ternational obligations. Much more recently we are one of the seven signatories of the Treaty of Locarno, and the Final Act of that treaty lays it down that the signatories believe that the very fact of concluding the treaty established a sufficient degree of security to justify the states in proceeding toward reduction of armaments, and they further pledge themselves actually to carry that reduction out. So that whatever government is in power in Great Britain, it is under a solemn obligation to take some steps in concert with other states to bring about limitation certainly, and if it be possible, actual reduction, of armaments. We have, therefore, a national policy pointing toward disarmament and in considering that policy, however briefly, we must divide it into two categories, the policy of disarmament for ourselves and the policy which we desire, not indeed to impose on other nations, but to persuade other nations to adopt.

Let us turn briefly first to the former of those categories. What is the feeling, the predominant feeling, of public opinion in Great Britain regarding the present armaments of Great Britain? That question again must be considered obviously under the head of army, navy and air forces. Regarding the British army, there is, I think, little to be said. Like the American army, it has been cut down virtually to the level of a police force and it can hardly be imagined that under any general scheme of disarmament Great Britain would be required or expected to reduce her military forces further. If she were, I believe she would be willing to meet that demand in a reasonable spirit. When we come to the navy the case, of course, is entirely different. The navy has to be regarded not merely in its concrete form as it exists today but in some relation to the whole course of English history. It may not be entirely logical that we should take those sentimental considerations into account, but they exist, and we should make a mistake in approaching this question if we left any salient characteristic out of account. And the fact is that Great Britain has a great naval tradition. We may be merely a small island on the coast of Europe, just as the United States is merely a kind of an accident interposed between the Canadian and the Mexican frontiers (laughter) but our lines have gone out to the ends of the earth, and they have gone out for the

most part over the surface of the seas. It was our merchant venturers who carried English blood first of all to the coast of Massachusetts and to Virginia and Carolina. It is too late to repent of that now (laughter) for it is part of our national history, and also part of yours. The result of all that is that there exists a national sentiment regarding the navy in Great Britain which does not exist for a moment regarding the army. It corresponds very much more, I suppose, to the sentiment which exists regarding the army in the case of various continental powers, and we have to reckon with the fact that any proposals for the reduction of the British navy will meet with a certain sentimental, slightly unreasoning opposition on the part of those who feel that the greatness of Great Britain, such as it is, is bound up inseparably with the greatness of the British navy. Of course, small island though we may be, we have—not possessions, because that word is now superseded happily—we have associated nations spread over the whole of the face of the earth, and however questionable may have been the method of obtaining some of those territories, at any rate we have in the main ruled them well or allowed them to rule themselves well, and in any case they have to be defended in case of war. The relations between the dominions of Great Britain at the present time are such that Great Britain bears the main part of the burden of naval defense, and in considering the standard of our navy we have to take some account of the tasks which may be imposed upon it in time of war. At the same time that argument, of course, lays itself open to a quite reasonable and a quite legitimate response. After all, a navy does not exist to protect its commerce or the outlying dominions of the country against marine monsters; it exists to protect them against one thing and one thing alone—that is the navies of other nations. Therefore, in proportion as the navies of other nations can be and are reduced, the claim on the maintenance of the British navy at a high standard is so far reduced.

I am not quite sure that my countrymen will appreciate the truth of that unquestionable dogma quite as readily and quite as decisively as they should, and it seems to me a perfectly legitimate diversion on the part of some other nation to endeavor to impress that truth upon us, as it must be impressed

on every nation from whom a reduction of navy or army or air forces is sought.

We have, of course, to some extent reduced our navy just as the United States to some extent has reduced hers, but the mere limitation of capital ships and aircraft carriers does not take us very far. We are already plunged into an undisguised race in a new type of cruiser. The last cruiser constructed in Great Britain cost seven million pounds, \$35,000,000, and the annual upkeep is not far short of half a million pounds, \$2,500,000. That is the kind of burden which we cannot go on accumulating in these times, and if there were no other argument in favor of disarmament, the economic argument would more and more impose itself upon us. Therefore I believe Great Britain will be ready perhaps to initiate, certainly to respond to, any proposals that may be made in an international discussion for a considerable extension of that form of reduction of armaments in regard to which the first very limited steps were taken at Washington in 1921 and 1922.

In regard to the air force, there again we find ourselves driven to a competition we do not seek. A great neighbor with whom we stand on the friendliest relations is developing an air force on a very extensive scale. It is perfectly certain that that air force is not directed against Great Britain, but there it is, and there it will remain, at a distance from our shores which makes it possible for our greatest cities to be laid in ruins in an attack that need not, I suppose, last more than a matter of hours, or certainly of days. We have to face the position of the men, the experts and to some extent the politicians in our own country, who are responsible for national defense. They are entitled to say, I am afraid, in view of the record of history, that you can never be perfectly certain that the friend of today may not be the enemy of tomorrow and that in any case the business of the expert is to provide for the defense of his country against any external danger which may threaten it, no matter what the sentiments existing between the country from which that danger appears to threaten and the country on which they speak. Therefore we are embarked again on a very thinly disguised race in air power, and even as I came here on the train tonight I tore from the evening paper a paragraph which I will not read, but the nature of

which is sufficiently indicated by one of those headlines which so far surpass in zest anything of which we are ever capable in the rather more conservative journalism of my own country, "ITALY WILL OUTSTRIP WORLD'S AIR FORCES," AVIATION HEAD SAYS." That declaration, on the part either of the commander of the Italian air force or of a sub-editor in a New York office, will be read in Paris and in London, and it can hardly fail to have the kind of effect that that sort of announcement always must have. Therefore, in the matter of air armament we certainly in Great Britain feel eager for any international arrangement that can be reached, though at the same time fully conscious of the extraordinary technical difficulties that stand in the way of any effective agreement to limit the actual striking power of an air force which can be recruited from commercial aeroplanes adapted almost in a few hours to military uses.

So much then for our own policy in regard to our own armaments. But Great Britain, like the United States, is next week going into discussion with the representatives of some eighteen or nineteen other nations in the hope of evolving an international disarmament policy and our representatives will go there not entirely devoid of ideas as to the policy they would like to see adopted.

They believe, first of all, that for the reasons that Professor Shotwell demonstrated so clearly, security and disarmament must be associated. In Europe at any rate until nations can somehow feel secure from the dangers which they believe to threaten them—and a mere belief in danger is sufficient in itself to account for large armaments quite apart from the actual existence of the danger—until they can get somehow free from their belief in that danger they are not going to be willing to reduce their armaments. Therefore the formula that disarmament and security must go together will, I think, be supported by the representatives of Great Britain. They believe further in the main that disarmament must be universal. If you take the map of Europe it is very easy to see that you cannot segregate a little group of states and say, we will have disarmament here and we will leave disarmament alone in the rest of the continent. Russia, of course, is from some points of view the key to the situation. If Russia will

not reduce, Rumania, let us say, cannot reduce. If Rumania maintains large forces, her neighbors in the Balkans will do the same. That will react on Italy, that in turn will react on France, and that possibly may react on Great Britain and on certain other states. Therefore the aim must be some relatively universal disarmament agreement into which practically all the states of the continent of Europe can enter.

At the same time, as the Locarno agreement showed, there is the possibility—and the British policy is to recognize the possibility—that in certain notorious danger areas, if one may so term them, agreements may be reached which will create security in those particular areas and simultaneously and for obvious reasons, enable a certain reduction of armaments to take place in those special areas without any direct relation to what is taking place over a larger space of territory.

I think this may be affirmed—and it is extremely important that it should be affirmed—as a policy which is certainly the British policy, and I trust may be the policy of most other nations taking part in the impending discussion, that if under the existing circumstances progress is to be made at all, that progress must by the nature of things be slow, and it is vitally important that both the actual men who take part in the discussions and the public who follow those discussions from a distance should preserve a reasonable poise and wait patiently for the gradual working out of a scheme, which if it is to be comprehensive must be almost infinitely complex.

There is no time here tonight to demonstrate what it really means to reduce land armaments, and measure the land armaments of one country against the land armaments of another—because that is a task which faces us. We have got somehow either to maintain the armaments of different countries in a certain relation to one another on a lower scale or else to create, it may be, a new relationship in defensive armaments between one country and another. And when you come to consider how you can measure armies, when you realize the utter impossibility of merely dealing in figures of man-power, comparing for example 500,000 Chinese with 500,000 French—to take an extreme example—when you realize the extraordinary difference in the equipment of armies and in the efficiency which that equipment creates; when you realize how

the money factor itself is quite indecisive because one country will spend the same money but buy with it a far higher degree of efficiency than another; when that, and about a hundred other considerations are taken into actual consideration, how infinitely patient must be those who are preparing the ground for that ultimate disarmament conference which must, I suppose, be at least twelve or eighteen months, or perhaps more than that, distant still.

Great Britain, as a signatory of the Washington convention, is under no illusion as to the abyss of difference which separates the Washington problem, merely the reduction of the battle fleets of five powers, from the vast naval and military and aerial problem which confronts Europe today. Therefore the British policy is quite definitely and quite clearly to proceed methodically, to proceed slowly, but to proceed with determination as well as with deliberation.

The real problem seems to me—and it applies to Great Britain only as one among many other states—to be this: Are we going to allow—I speak with the most profound deference for the distinguished speaker who has preceded me and I think he will not take exception to what I am going to say—are we going to allow, as so often in the past, the politician, the civilian, to labor for a scheme of disarmament and the expert merely to spend his time in showing how impossible that scheme is; or are we in each country going to see the politicians use to the full their proper prerogatives and instruct the experts who are their servants to prepare plans of disarmaments which must be as practical, and can be as practical, as the schemes of war which they live to produce? Are we in that way going to see the whole military and naval resources of each country turned at the will of the governments of the country into the preparation of a common plan of disarmament?

If we are going to see that, if we have that sincerity among the different countries—and I believe I may claim that we have it in my own country—then though the road toward an effective reduction of armaments may be long, I myself believe that we may have considerable confidence that before this generation is in its grave something very like the goal toward which we have been aiming will in effect have been attained.

FRENCH POLICY AND DISARMAMENT

GEORGES LECHARTIER

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[In introducing M. Lechartier, the Chairman, President Butler, said:—From France we welcome a journalist of exceptional influence and representative capacity, who knows our country well, who was stationed at Washington as correspondent of his journal during the war, who is one of the leading members of the staff of the *Journal des Débats* of Paris, and, we are happy to add, an important member of the Administrative Committee which has charge in Europe of the work of the Carnegie Endowment. I present M. Georges Lechartier. (Applause).]

I FEEL that I must try to refute an accusation which has been widely spread in the United States for the last seven years. It was first launched, in a moment of nervousness, in a memorable note of President Wilson's in 1919. It has been repeated many times since—and not by the best friend of France—in the Senate at Washington. It has been renewed more recently and emphasized in a so-called report of the American ambassador to Great Britain. It is about the militarism and imperialism of France. I must refute it because, should this accusation be true, it is obvious that France will never agree to any plan or program of disarmament, as she will not like to be deprived of the means of exerting her imperialism and militarism.

What first caused this accusation? I am tempted to say, what created this legend? After the terrible experience of 1919, France wished naturally to be protected against any possible return of such a catastrophe as she had just encountered. She at one moment hoped that the tripartite treaty which had been much spoken of at the time of the Peace Conference would forever free her from all fears of that kind. As this treaty failed, however, to be ratified, she turned to herself for future help and security and had recourse to the same old means which have been used for that purpose ever since man-

kind began to be divided into nations, the strengthening of her military force. This, at the moment, was a preventive measure designed to insure her security.

Very unfortunately, France has had, since that time, three occasions to make use of this military force: in the Ruhr, in Morocco, in Syria. About the Ruhr, I think everything has been said. It may be recalled that President Poincaré believed—rightly or wrongly (for myself I thought he was wrong and said it)—that he should immediately use the powers given by the treaty in order to make Germany meet certain obligations which she appeared at the time to be more or less inclined to evade. The result of this adventure, as you know, proved disastrous in every way—materially, financially, politically, and even morally—for it dealt a very severe blow to the prestige of France abroad. However, it must be noted that, in the first case, the commanding motives which decided the premier's action were neither militaristic nor imperialistic. It was a case in which France endeavored to compel fulfilment of the terms of a contract by a contracting party toward whom she thought she had reasons for mistrust. It may have been a case of misjudgment on the part of the premier—in fact, as I said, I believe it was—but this misjudgment occurred in all good faith and the war-tired French people would certainly not have endorsed and backed, even tolerated, the miserable expedition had it been determined through any other motive than defense and protection.

As to Morocco, the situation appears to be somewhat different. At first sight it does not seem that it can be a defensive war. In fact, it is. What seems to have been overlooked here is that the Riffians, whom we are fighting in Morocco, live in a country with which we have nothing to do, and so long as they stayed there we took no notice of what they were doing. But what we objected to was that they left their own country and invaded the one where by introducing peace and prosperity we had so won the good will of the people that they not only did not give us any trouble during the Great War—when they could have done it easily—but volunteered to fight for us, and fought splendidly during the four years of the war. If some Mexican party invaded California or Texas, it is probable that the United States would promptly dispatch

troops to expel it, and nobody would even dream of accusing you of militarism or imperialism. Well, this is exactly the case with Morocco and France.

Now what about Syria? Syria is a country which France saved in 1860 from the terrible fate which has since been that of unfortunate Armenia. It may be recalled that we took and exercised this Syrian mandate with the approval of forty-eight nations and with the full agreement of the majority of the Syrians themselves. Some faults have been committed since. But the man guilty of these faults has been recalled. The instructions publicly given to his successor are as follows: "Liberty of conscience. Individual liberty. Equality before the law. Right of property in accordance with the Declaration of the Rights of Man." The aim of France is to protect the Syrians against invaders and to enable them to protect themselves in a given time. The states into which Syria is now divided according to different races and creeds "are to have representative governments of republican form." Each state is to vote its organic laws. The Grand Liban (Greater Lebanon) has already voted them. It has been actually proved that the Syrians do not—as has been said by too interested propagandists—desire their independence. That would mean for them massacre, wholesale murders, as it did for Armenia. We are willing to quit Syria as soon as Syria sincerely declares and shows that she no more needs nor wants us.

If one more proof that France is not imperialistic were needed, it could be found in the comparison of her military expenditures with those of Great Britain and the United States. In 1914 French military expenditures were 2,150,000,000 gold francs; in 1925 they were only 1,383,000,000 gold francs. In Great Britain in 1914, expenditures were 2,700,000,000 gold francs; in 1925, 3,800,000,000 gold francs. In the United States in 1914 they were 1,286,000,000, and in 1925, 2,800,000,000. Of the three nations, France is by far the one which spends the least for her national defense.

I think that these too brief explanations were necessary to dissipate a too long-lived misunderstanding concerning the true feelings of France about military adventures and consequently about disarmament. In fact, for France, the question of disarmament is strongly and irrevocably bound to the prob-

lem of security. If I needed really disinterested and unprejudiced support on this subject, I would quote the opinion of a paper which is appreciated throughout the world and considered most representative of the opinion of Great Britain. Great Britain, I may be permitted to add, has not invariably appeared in history, and particularly in recent history, as overly prejudiced in favor of France. Speaking of the resentment which was aroused through all France at the recent publication of the so-called report of Mr. Houghton, the *London Times* wrote editorially:

We are certainly able to realize what is lacking, for instance in Mr. Houghton's very vehement criticism of France. There have been times—as in the Ruhr period—when dangerous tendencies in the French policy have been very clearly marked, but, if there is one thing certain in Europe to-day, it is that the dominating motive of French policy is not a desire for war, but, on the contrary, an exceptionally acute dread of war. To allay the fears of France is to promote peace.

Indeed, fully to understand this view is to understand the fundamental armament and disarmament policy of France ever since 1918. Disarmament is conditioned by security. The humblest citizen of a country which, better than any other, knows what war means would feel delighted should he be enabled through new political conditions to economize the money and time actually wasted in France on military armaments. But, on the other hand, since the recent terrible experience he is not unaware of what it costs to be exposed to the danger of an invasion; and he does not feel inclined to submit lightly and perhaps prematurely to an experiment to which, should it fail, he would fall the first victim.

The recent conferences of the League, since 1922, on disarmament have not removed his fears. In the absence of America, who alone is capable through her geographic situation as well as through her power in men, wealth and ideals, to act as a stabilizing power, he fears that the League is not actually so composed as to give him the necessary security for abandoning the policy of France concerning armaments. He fears that the majority of the states which are represented in the Assembly at Geneva can be too easily persuaded to admit schemes generous in appearance but Utopian as far as efficiency is concerned and dangerous in their results—and that for a

psychological and too human reason, simply because those states by their geographical situation are protected, at least partially, against threats which others not so well protected have to face constantly. Nations are just as naturally selfish as individuals.

The average Frenchman would like the opinions of those who are thus more threatened, such as France, Belgium, Czechoslovakia, Rumania, Poland, Sweden, Norway and Holland, to be of more weight in the Assembly than the opinions of better protected nations. He would like the voices to be weighed rather than counted, for there is no equality of risks.

He does not believe that all European nations are now in such a state of good will and reconciliation as to render the use of force unnecessary to reduce a revolted nation which, having industrial power, may have prepared secretly for war. He believes that, under the actual circumstances, should a dispute arise between disarmed France and another nation, secretly armed, nine-tenths of the nations represented in the League, being not directly interested in this dispute, would spare themselves the painful effort of military intervention and with all due diplomatic forms and attitudes would support the stronger state against the weaker, namely France, if she disarmed. Moreover, he is not ready to believe that, given the actual direction of the national feelings of the European nations on one hand and the progress of science on the other hand, the signing of a paper will be sufficient to prevent a nation which has secretly prepared for war from launching that war at the precise moment when she esteems that her national interest commands it. No one knows what form war may take in the future. And the French fear that while a conference of disarmament may be reducing armaments at sea, on land and in the air, a lonely, resentful nation may possibly be preparing her powerful industries and chemical plants to be turned into the most deadly gas factories overnight, and a new, more hideous kind of war may be launched when nobody is prepared for it.

In brief, the French think that there is no use talking of disarmament—whether it be at sea, on land or in the air—so long as there has not been accomplished a radical change in the views and hearts of the peoples as regards the high gen-

eral interests of mankind, dominating the limited, selfish view of national and immediate interests. The French believe that moral disarmament must precede and enforce material disarmament.

Are these difficulties insoluble? No! In international policy there are few insoluble problems. They are only problems which it will take time and constant, untiring effort to solve. In the case of disarmament, the confidence and security which are now lacking will be given when the peoples are so educated as to understand that the barbarous methods of calling men to arms for settling disputes between governments have no more a place in civilization. It will be achieved through the development of what has been so judiciously called the "international mind," the only antidote against the selfishness of nations. And the earlier this education is begun, the earlier the international mind is developed, the sooner the old prejudices of the nations will vanish, confidence take the place of suspicion and hatred, and final and sincere disarmament be achieved.

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THE NEW ARRANGEMENTS IN EUROPE

FRITZ SCHOTTHOEFER

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THE subject I have the honor to deal with is of a very complicated nature. I cannot undertake to explain it in detail. It could be considered from the point of view of international law, or of internal European politics, or in its significance for the whole world. The time just permits me to give you a glimpse of it.

The new arrangements in Europe are in one word the Treaty of Locarno. They constitute one of the most important facts in European history since long years and the other continents cannot be indifferent to their political significance. It is impossible not to pay fullest attention to the events in Asia, which seem to open an era of racial antagonism on a world scale. But it is just in connection with those tremendous future problems that European politics acquire a significance reaching far beyond their own frame. Where would the place of Europe be in cases where the other continents are in conflict? I only mention this side of the problem, to show you the interest which the non-European peoples and political groups may have in the complete pacification of Europe or in maintaining her in a state of restlessness.

Europe has not yet completely overcome the crisis of the war. The peace treaties have left a lot of irritating questions to be resolved in some way or other. The tracing of the new frontiers in Europe created a number of weak points in the body of peace. I need not mention them in particular. In past history such problems generally caused war, and it is just in this respect that the new arrangements in Europe are important. The lesson of the war is beginning to fructify. We are convinced that a new war and new peace treaties would not settle anything. There must be found other means and methods of settlement. That constitutes a radical change in political thinking, and that is what we call in Europe the Spirit of Locarno.

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I should not like to give you the impression that Europe might be suddenly cured of all her diseases by that spirit. I am not even sure that it will make its appearance each time we call it to our table. But we must appreciate at its true value what that change in political thinking practically means. It means: (1) the beginning of a revival of confidence among nations; (2) a will for cooperation in establishing and insuring peace in Europe. In my mind those are the essential features of the recent evolution of affairs in Europe. The treaties are only the outcome of that political mentality.

Now that Spirit of Locarno has not come over us from heaven as a theory which diplomacy simply was to apply and to transform into treaties. I consider it to be a great advantage that this new insight is the result of practical political experience and not of pure pacifism. The very origin of the Locarno treaties lies in the Pact of Guaranty which had been promised at Versailles to France by the United States and by Great Britain, and which had not been effectuated. History is often a paradox. That pact was an alliance against Germany. Now it has become a mutual alliance which might turn against France herself if she should menace peace.

The Locarno treaties run in two lines: (1) definite recognition of the present state of things in western Europe completed by arbitration and treaties; (2) a promise not to make war for the settlement of questions in eastern Europe, so far as Germany is concerned, but to resort to arbitration.

I may be allowed to give my personal opinion here. I should like to attribute the higher value of these arrangements to the arbitration treaties, though they appear rather as an appendix, or, in the eastern question, as a momentary way of escape from the present difficulties.

It is generally admitted that arbitration cannot settle irritating political problems. A number of arbitral sentences of the kind which could be accepted by one side only *contre coeur* would increase nervousness instead of diminishing it. The question therefore is: How can you make peoples ready to accept those sentences? I think the only way is to avoid the sentences and to prepare the peoples for free agreements. Arbitration could not be separated, in such cases, from diplomacy. The treaties will—at any rate, I hope so—do much to

create a state of mind inclined to conciliation, and this spirit will have a great influence on the whole political evolution. To arrive at this goal it is not necessary to change human nature but only to adopt a manner of practical and realistic political thinking. I am very glad to see that I find this sort of thinking here in this meeting in its best form.

What I said of the Spirit of Locarno is not Utopian or too optimistic. The treaties have not yet attained their full juridical reality. Their enforcement depends upon Germany's joining the League of Nations. But they have already entered the realm of practical policy in lessening the burden of military occupation on the Rhine and promising further facilities to Germany, for instance, in the question of commercial aircraft.

Now I come to another point: Is Locarno in opposition to Geneva? The unsuccessful March session of the League of Nations seems to prove that it is so. Seen from this side of the Atlantic, that is to say at a great distance, the difficulties of the March session took indeed the character of a menace to the existence of the League. The Locarno powers themselves were in a dangerous crisis. But at last they agreed on a compromise which would have insured the admission of Germany into the League. The final failure was due to extra-European causes. Nevertheless it is scarcely deniable that the European compromise was not a model of masterful diplomacy.

In principle and for the future it may be said that the Locarno treaties will work out directly to the advantage of the League. They purify the air of Geneva. They relieve the League of precisely the most irritating European problems, handing them over to direct agreement or arbitration among the peoples directly interested in them. The League would suffer the gravest interior convulsions if it had to deal with those problems. That statement may not be very flattering to the League. But children may grow stronger when they escape certain infantile diseases.

Here I might mention the new Russo-German treaty. It has been interpreted as a deviation from the paths of Locarno and Geneva. On the Russian side that idea may have had a certain importance. Russia does not like to see Europe united against her. But the apprehensions put forward by some

papers in France and England are not justified. The French and English governments agree with the sense of the new treaty. Germany on her side at any rate tried to protect her interests in the East and the West. Those special treaties are not forbidden by the League to their members. Germany thought in particular to preserve her position with regard to Article 16 of the Covenant. She has obviously the most serious reasons for claiming a special treatment. The members of the League are equal in rights. But in geographical reality that equality does not exist. Germany, situated in the center of Europe, is much more exposed to the peril of becoming the battlefield between the East and the West than the peripheral countries.

Now you may ask me: Is that Spirit of Locarno the true and the sole "*spiritus rector*" of European evolution? There is still at work a good deal of the old diplomacy which seems incapable of discarding the ideas of Balance of Power and systems of alliances. And certainly the Spirit of Locarno has not yet penetrated all the political parties in European countries. There are strong tendencies of opposition on the extreme wings—Nationalism in its violent action and the Communist revolutionary with his widespread agitation. Both openly fight Locarno and Geneva in all European countries. But the real influence of these movements is far from dominating public opinion and the policy adopted by the democratic governments. Moreover, the Locarno treaties have been accepted by large majorities in the parliaments. I venture to say that even a change in the majorities would not seriously affect the attitude of the different nations with regard to Locarno.

I arrive at my conclusion: The new arrangements in Europe prove that the governments and the peoples felt the necessity of terminating a state of nervousness which was doing so much harm to everybody. They resolved to adopt methods of pacification and to substitute them for a policy which aimed to preserve peace only by preparing for war. What I have described to you is only change of mind. But I think that is a very great thing.

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SANCTIONS

DAVID HUNTER MILLER

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THERE are some general questions about sanctions that may be suggested as a preliminary to the discussion.

We think of sanctions as being guarantees for the performance or penalties for the breach of an international agreement, and of course ordinarily we are thinking of a serious breach, perhaps even only of aggression in the now accepted sense of the refusal of arbitration and the resort to war instead.

Now, there are various schools of thought about sanctions. One very definite idea is that there should not be sanctions at all and one chief argument in support of this idea is that under the state system the effect of a sanction, if applied, is to visit punishment on the innocent; in other words, the chief of state or the government, even a very democratic government, plunges the country into war; the sanctions are applied and the consequence is or may be that the most innocent part of the population, those who were opposed to the war, for example, or even children who know nothing about it, suffer as the result of the economic blockade or whatever the sanction may be. It is the inevitable result of the state system, not only in connection with sanctions but with almost everything else.

If the government goes wrong, the consequences are visited on the people. This is perfectly true of an erroneous fiscal policy, for example; an inflation of the currency, as we have recently seen, may bring want or misery to millions of people who have not the slightest idea about the currency problem and had nothing directly to do with the mistake; everybody has to pay for an extravagant government.

We are apt to think of the responsible government as meaning that the rulers are responsible to the people; but it also means that the people are responsible for the mistakes of the rulers. Indeed the same thing is true in municipal law; the

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unity of the family is such that no wisdom has ever yet found a way of punishing a criminal, whether by fine or imprisonment or anything else, without at least the possibility of causing disgrace or perhaps ruin to his immediate family.

And turning back to sanctions and looking at the other side of the picture, it is to be remembered that the complete absence of sanctions means that a state which violates its treaties, no matter how wantonly, stands on precisely the same international footing as one that keeps them in good faith; and this seems contrary to rather elementary notions of an international society of states.

Another school of thought is at the other extreme. It would provide an almost automatic liability for every violation of an international engagement; and looking at the analogy of human society generally, this school sees the same development taking place internationally, the growth of law with an application of penalties and the enforcement of law, as we call it, though it is not enforcement at all, going along step by step with the law itself.

The most complete attempt to embody this system in a document with thoroughgoing logic was the Protocol of Geneva. As to this, my only comment is that while there is a good deal of analogy between the progress that human society has made nationally and the development of the state system since the 17th century in particular, I do not think that the analogy is as perfect as is generally supposed. There are differences which are somewhat obscured by the use of the same words in different connections.

It is unnecessary to pursue this thought except to point out that, of necessity, dealing with individuals under authority has some very essential differences from dealing with those intangible entities that we call states, which, theoretically speaking, are on a plane of equality and make law by their own consent.

Another school of thought may be called the British School because it was the basis of the British reaction to the proposal of the Protocol of Geneva. The idea here is to be more practical even if less logical in a theoretic sense. I would put it this way: A state has certain direct interests; the application of sanctions requires binding engagements for the future; no country should enter into such engagements except in cases

where it can see in advance that its interests would be involved, and this because, or partly because, people should not be so committed, and partly because there is a good deal of doubt as to whether they would carry out the commitment if, when the time came, they felt they had no particular concern with it. To put it concretely, the British under this idea would make a commitment about the Rhine, but not about the Dniester. And this school of thought has found a very concrete instance, of course, in Locarno.

There is still one more, which may perhaps be said to occupy a middle ground between the logic of the Protocol of Geneva and the self-interest of the Pacts of Locarno. I would not venture to give it a name, but it was put forward in the so-called American Plan of 1924. Its fundamental idea is that sanctions should be voluntary in their execution, but automatic in their possibility.

The idea is, in other words, that the occasion for the application of the sanction is agreed to in advance and in this sense is automatic; the aggressor state, so to speak, itself steps outside the pale and loses its rights to equal treatment. But the action by other states in that sense shall be such action or none at all as they see fit when the time comes. The theory here is, and I say very frankly that I think it is sound, that it not only avoids the commitment or obligation, but that the very uncertainty and the vagueness of the sanction, the ignorance of the potential aggressor as to what will happen if the aggression takes place, would be much more effective than any precise knowledge could be. And looking at international relations as a reality, this uncertainty would be more effective because it would be impossible to make preparations in advance to counteract the possibilities of the unknown.

One more thought which is applicable to sanctions generally. We are very apt to think of them as being put into effect, by boys going to the Balkans for example. This seems a realistic way to think of sanctions; I submit that it is not a realistic way. It seems to me that if we reflect upon it, we would have to recognize that any sanctions that had to be put into operation, with any frequency at least, would not work. If the theory of sanctions is going to be effective broadly and generally, they will be sanctions which will deter the aggressor

rather than remedy the aggression; they must be prevention and not cure.

And I suggest to you finally that this brings forward for answer the question which has not been sufficiently discussed, and that is whether "security" means a security which prevents attack or security which repels an attack after it is launched.

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SANCTIONS AND DISARMAMENT

DR. WILLIAM MARTIN

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MILITARY armaments may be regarded either as a cause of wars or as a consequence of the feeling of insecurity. If they are primarily a cause of unrest, they must, of course, be attacked, in order to bring about peace. But if they are chiefly a consequence, the true cause must first be taken in hand before you can deal with disarmament with much hope of success.

On the whole, up to date the Anglo-Saxon people have paid more attention to the first aspect of the problem, the continental nations, which are more endangered by their geographical situation, being more concerned with the latter. Hence the differences in the method of dealing with the problem of disarmament which the discussion of the League on this matter in the course of the last years has revealed. The continental nations have always emphasized the necessity of giving to each state serious guarantees of security before any scheme of disarmament is adopted. Of course, security means sanction. It means that in the case of an unprovoked war, the nation attacked, having done no wrong, should be able to rely upon the help and cooperation of all the other members of the League or at least of a sufficient number to assure the victory.

No state can be expected to give up its armaments unless it can be certain of being helped in case of emergency in a very efficient way. That has been from the very outset the main topic of the discussions of the League on this subject. The British said: Disarmament first, if you have no army, you will have no war. The other people answered: We shall disarm when you give us a clear pledge to come to our help if needed. This the British Government was not willing to do.

Of course, there was Article 16 of the Covenant, providing for economic sanctions against any member breaking his obligations towards the League. But unfortunately, Article 16,

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which is not very clear, has been weakened, in the first year of the League, through a very loose interpretation. At that time the policy of the League was to make itself insignificant in order not to frighten the United States. Everything that could be done to make the Covenant more acceptable to the irreconcilables of this country has been tried and done. As Articles 10 and 16—closely bound together—were some of the chief arguments which had been brought forward against the United States joining the League, there was in Geneva at that time a strong tendency to weaken them as much as possible in order to make them inoffensive. Moreover, the British Government, which would have had no objection to Article 16 if applied at the same time by themselves and by the United States, were very much worried about the competition of this country in case of a blockade in which Great Britain would be bound to participate, but not the United States. Nevertheless, the real weakness of Article 16 does not lie in the interpretation given by the Assembly of the League in its first sessions. It lies elsewhere, in the lack of a clear and indisputable definition of the aggressor. Article 16 applies to any aggressor. If the aggressor can be ascertained at once and unanimously, it is all right. But if he cannot, the League is in danger of going to pieces at the first attempt to make Article 16 a reality. That is just the difficulty in the face of which every effort of the League towards disarmament has failed. When Lord Esher prepared in 1921 a scheme under which the forces of every country would have been determined on the basis of their man power, everybody objected that he did nothing to bring about security. When in 1923, Lord Cecil and M. Henri de Jouvenel drafted in common their treaty of mutual guarantee, everybody objected that it contained no provision for the determination of aggressors. That is why the League of Nations was at last obliged to redraft the treaty of mutual guarantee so as to make of it the Geneva Protocol.

The Geneva Protocol was just the reverse of everything that had been done before. Instead of weakening Articles 10 and 16 in order to appeal to the United States, it reinforced them in order to make the League more efficient, to enable it to apply Article 8 of the Covenant, and so to appeal in another

way to the idealistic mind of the Anglo-Saxon people. Unfortunately this appeal did not succeed very well, at least with the British people. The rebuff the League got from England in the matter of the Protocol appeared at first as a serious blow—because it seemed to make disarmament just as impossible as it was before. That was, of course, not what Great Britain wanted. But that is why the British Government, after having rejected the Protocol on account of the sanctions, assumed under the Treaty of Locarno more far-reaching obligations—not, indeed, in the geographical area covered by them, but in their content.

The Treaty of Locarno provided at the same time for a definition of aggressor, very much like the one which is included in the Protocol, and for the application of sanctions which are more precise and efficient than any contemplated by the Covenant. On the other hand, the signatory powers allowed Germany, in entering into the League, to adopt an interpretation of Article 16 which is consistent with its text but is not very consistent with its spirit. The idea of the powers at that time was that the most important thing was to get Germany into the League. After entering, Germany will soon identify itself with the policy of the League and will probably never make use of the letter she got in Locarno interpreting Article 16. Will this expectation be justified by the future? Nobody of course can tell at the present time. The treaty with Russia throws some light on the intentions of Germany.

The present situation is that Europe has a very strong system of sanctions in the relations between the signatories of the Locarno agreement. And it is very likely to happen that those agreements, without applying legally to the other members of the League, will create towards them a strong precedent. The Treaty of Locarno will in a sense become not law but custom for all members of the League. Otherwise it is not impossible that the Protocol, without being in force, would be applied by the Council, at a critical moment, as a basis for their determination of aggressor. Anyhow, it may be said that although the questions of the definition of aggression and of international sanctions have not yet been legally settled, in the last months great steps have been made towards a solution.

Will this system ever be put into force? Nobody knows, of

course. But I would like to emphasize in this connection what Mr. David Hunter Miller said in a recent pamphlet:

Sanctions are usually talked about in connection with their application; but the real purpose of sanctions is not their application at all. Their real purpose is to prevent the possibility of their application by the existence of that threatened possibility. In other words, we say in the Covenant that we will break off relations and so on with the idea, or at least the hope, that our saying so will be sufficient inducement to or sufficient constraint of a would-be violator to prevent the violation. It is true that the mind usually thinks of sanctions in regard to their application, but I suggest that the real way to think of sanctions is in regard to their non-application; the most effective sanction is the one that is never applied at all.¹

That is quite true. The simple fact that Article 16, the Protocol of Geneva and the Treaty of Locarno are in existence, means for Europe a considerable increase in the feeling of security. That is sufficient to establish a basis for further disarmament. You do not need, as a matter of fact, a great effort of argumentation to convince the European peoples they should reduce their armaments. The financial and budgetary difficulties they all face are quite sufficient arguments. There is in Europe an obvious feeling for disarmament. In fact, all the European countries have already reduced their armaments to some extent. If they have not done so to a greater extent, it is because they do not consider their security as established. But the moment they feel quite safe, you will—even without any previous international agreement—have a lavish expression of public opinion to oblige every government to reduce by a considerable amount its military expenditures. You can fully rely in this matter on the opposition parties in the different parliaments.

There is another aspect of disarmament which I would like to refer to in just a few words, that is, the economic side of the problem. We have been accustomed, up to now, to consider armies as synonymous with armaments. It is no longer true. The real race of armaments is now economic. It does not matter very much whether you have 100,000 or 200,000 men, if you have the means of equipping one million and providing them with ammunition. And it does not matter whether you

have 200,000 or 100,000 if you are dependent on your enemies for your food supply. That is why now all the states lay stress not on the possession of a big army, but on the possession of great industrial resources. Protectionism is, at the present time, the new and true aspect of the race of armaments. And I regard the Economic Conference which is to be held at Geneva next year as the first and most important disarmament conference.

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¹ David Hunter Miller, *Problems of Disarmament* (Foreign Policy Association, 18 W. 41st St., N. Y., May, 1926), pp. 26-27.

LAND FORCES

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I THINK I should state before discussing this subject that the views I express are my own and in no way so far as I know reflect the views of the War Department. My availability to discuss the matter at all is due to the fact that my present military status is wholly inactive. I am a busy lawyer and not at all warlike.

The first comment which suggests itself to me to make in relation to the problem of bringing about a reduction of land armament is that armament is not in itself the real menace to the maintenance of world peace. Many good people have been misled by the relation of armament to war and have even gone so far as to say "scrap the armaments and you automatically end war, for how then could nations fight?" The truth is that armament consists of inanimate things, quite harmless in themselves until made to function by man. The man behind the gun is the true source of the war evil. He with his passions, prejudices and ambitions is the problem. Pacify man, and his armaments will fall into disuse. Reduce his armament either by agreement or force, and fail to pacify him, and he will break loose and fight when he wills to fight. If a people get the war-lust and are organized and determined fighters under good leadership, and there is nothing to restrain them but lack of armament, they will either improvise their armament or take it away from some less martial people who may possess it.

Armament reduction is a side issue of the main problem of securing and maintaining an orderly world. To make of armament reduction a major objective is to put the cart before the horse. The people of the world do not bear the heavy burdens of taxation for armament maintenance because they enjoy their ownership of armament. They pay the bills because of their fear of the consequences of unpreparedness—

their fear of the ambitions and policies of other peoples who are as yet unrestrained by any agency other than force greater than their own.

I know, of course, that at times great armaments and the maintenance of great masses of troops prepared to use them have constituted in themselves a threat against peace which a lesser measure of preparedness might not have carried. But I believe these occasions to be rare and misleading. The real evil is the state of world relations which frightens people into armament maintenance.

But it may be asked, "Is it not a desirable thing, while attempting to solve the underlying problems, to bring about a reduction of armaments upon some equitable basis?" Let us assume the answer to be yes, and consider some of the difficulties.

It would not be equitable or practicable, for example, to reduce existing land forces on a basis of a common percentage of reduction, although that might seem, offhand, to be a reasonable proposal. Land forces must be considered in relation to naval forces. Governments which depend mainly upon naval preparedness for defense might welcome reduction of land forces particularly when such reduction would reduce the power of a potential enemy without seriously impairing their own power. But that would not be the attitude of a power weak in naval forces but strong in land forces.

Then again a government with colonies to maintain must ordinarily consider the peace-time garrisons of such colonies, unavailable for home service or expeditionary purposes in the event of war. Thus one government with an army of 400,000 men capable of immediate concentration may in effect be maintaining a greater armament threat against potential enemies than a government with an army of 600,000 men with its components scattered in colonial service.

But success in war is no longer to be forecast in terms of men and armament alone, or of organization and leadership. War to-day involves the employment of the population. Relative efficiency in the production of war munitions may determine ultimate success. The United States with its 100,000,000 of population, its unlimited natural resources and its unrivaled industrial capacity for armament and munitions production,

and with its skeleton army, is infinitely more formidable as a war antagonist than some other countries which maintain large standing armies.

And so these complexities which affect a just determination of the problem of mutual reduction of armament might be added to by considerations of topography, climate, past performances, present policies and treaty alliances. Then one must measure the effect, upon a proposal for armament reduction, of the advent of a Mussolini. Is he really to attempt the role of a modern Caesar and pacify Europe according to the old Roman method of conquest? Or are his intimidations and threats merely for home consumption, and for the sole purpose of giving his people a thrill and of solidifying public opinion back of him? I do not believe that people will agree upon the answer, but such incidents exercise a decided but unmeasured influence upon the question we are considering.

I therefore doubt whether any formula can be developed at this time to govern the reduction of armament among the governments of the world. As the League and World Court demonstrate their dependability to substitute reason and law for war, and confidence in their permanency and effectiveness increases, armaments will correspondingly decrease. The taxpayers of all countries will demand to know of what use is their maintenance. Financial anemia will settle the armament question quite automatically if the circumstances justify it.

If, however, an attempt is to be made by the more powerful governments to seek some basis of reduction in land forces, let each government mission write out the reduction in land forces each of the other governments should make to equalize a twenty-five per cent reduction in the land forces of its own government. These estimates might then be made the basis for discussion, and possible limitation by joint agreement result.

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LIMITATION OF ARMAMENT FROM A NAVAL VIEWPOINT

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I. *Introduction*

That advanced nations desire steps taken to

- (1) Prevent war and, failing this, to
- (2) Limit war,

is now generally accepted. A corollary is: if we are to reach workable solutions preventing or limiting war the agreements made must:

- (a) Be practicable and definite,
- (b) Be as broad as the practical and definite factors permit,
- (c) Be just to all viewpoints,
- (d) Be enforceable.

All agreements which nations seek to make, either to (1) Prevent War or to (2) Limit War, must pass the test of factors (a), (b), (c) and (d).

Nations sincerely desirous of achieving one or both of the two goals will subscribe to the qualifying test unless actuated by

- (v) Necessity,
- (x) Fear, or
- (y) Ignorance.

A nation not willing to subscribe to the qualification test and not actuated by the factors, (v) Necessity, (x) Fear and (y) Ignorance, must be influenced by (z) Ulterior motive. The above outline of principles forms the basis for future work.

II. *General Discussion of the Two Aims: (1) Prevent War, (2) Limit War*

To discuss intelligently the aim (1) Prevent War, it is necessary to know something of the origin of wars.

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From the point of view of objective, history teaches us that the world has engaged in two classes of wars:

- (3) Aggressive and unrighteous war,
- (4) Defensive and righteous war.

Those willing to analyze their problems make a distinction between classes (3) and (4). Those who believe all war is wrong, lump the two. Enlightened humanity will agree that (3) is debatable ground. Humanity forced by *Necessity* will refuse to discuss that part of aim (1) Prevent War, embodied in class (4) Defensive war.

Previous to the application of methods we must further differentiate between the two main aims, (1) Prevent War and (2) Limit War. This requires a preliminary study of

- (5) All preceding efforts made by any agencies toward the solution of the problems involved in (1) Prevent War, (2) Limit War.

Unless this is done, confusion of ideas will result; the two aims will be mixed; nations working toward the same ends will not understand each other.

As a nation, guided by dominating influences, lays conscious or unconscious stress on (1) Prevent War or (2) Limit War, so the methods which it advocates to attain the aim, will differ.

Speaking broadly from the point of view of fact, and stressing only the salient features, the World War developed two classes of peoples:

- (6) Those who suffered greatly and gained nothing materially;
- (7) Those who suffered less and gained much materially.

Analyzing this and applying it to definite cases we may express (6) and (7) in terms of national viewpoint as follows:

- (8) No. (6) becomes the late belligerent viewpoint, as represented by Europe.
- (9) No. (7) becomes the late neutral point of view, as represented chiefly by America.

Looking backward toward the past, Group (8) must lay greatest stress upon the aim (1) Prevent War, while Group

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(9) unconsciously stresses aim (2) Limit War, though with all sincerity it believes it stresses aim (1) Prevent War.

Looking forward to the future, we may anticipate Groups (8) and (9) interchanging viewpoints, or even a change of viewpoint within Group (8), depending upon the probability of war, its nature and its location.

As to the possibility of war, it is a reasonable assumption to make that with foresight and diplomacy America should not be one of the original belligerents.

The sum of all influences has the following effect:

- (10) Probably to induce Continental Europe to stress (1) Prevent War.
- (11) Probably to induce America to stress (2) Limit War.
- (12) Probably to incline England to take a position somewhere between these two points of view.

All are honestly desirous of achieving both aims, but each group unconsciously or consciously favors one more than it does the other. This has led to:

- (13) A tendency to misunderstand the purpose of each group by the other group.
- (14) A divergence in the methods adopted to achieve the aims.

III. Difference in the Application of Certain Terms

The total of all influences, furthermore, has caused America and Europe to hold different viewpoints in regard to certain terms. These terms are closely related to the aim (1) Prevent War. They are less directly related to the aim (2) Limit War, and are not more important in relation to (2) Limit War than other terms not included here. The terms to be considered now are:

- (e) Security,
- (f) Aggression,
- (g) Sanctions,
- (h) Disarmament.

Of these four factors, the last, (h) Disarmament, is the one which appeals most to America because of (i) Attitude of

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Mind. This Attitude of Mind is one of the consequents of the opposite but effective influence of (e) Security and (f) Aggression upon this country. The factor (i) Attitude of Mind is divisible into (i₁) Aggressive National Attitude of Mind and (i₂) Non-aggressive National Attitude of Mind. The factor (h) is likewise divisible into two parts, viz.:

(h₁) The Continental point of view of (h) Disarmament, which means now "Limitation of Armament".

(h₂) The American point of view of (h) Disarmament, which means ultimately "Total Disarmament".

The loose use of the term Disarmament has caused a degree of confusion.

In a consideration of the factor (e) Security, the foremost influence is (e₁) Geography. The influence of (e₁) Geography upon America is a major influence. The influence of (e₁) Geography upon Europe is in the inverse direction.

The total result of all influences is:

First. The exclusion now of factor (e) Security from the consideration of America and its inclusion on the Continent.

Second. The emphasizing of the vital connection between factor (e) Security and factor (f) Aggression on the Continent, and its negligibility to America except in its relation to (h₁) Limitation of Armament, through the factors (i₅₁) Undue preeminence in one of the three fighting arms, (i₅₂) Competitive Armaments in peace, and the unrelated factor (n) Cost.

Third. The necessity to secure effective (g) Sanctions for Europe to prevent war because of the close relationship of (e) Security, (f) Aggression, and (g) Sanctions.

Fourth. The strengthening of American purpose to adhere to present national policy and to disregard all sanctions, except legal sanctions applicable to situations before war and after war is declared.

In any attempt at reconciliation of the two viewpoints is there a common meeting ground at present for:

1st. (e) Security? None through agreements for mutual support. None through change of national policy.

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Yes through arbitration agreements. Yes through international legal processes.

2nd. (f) Aggression? None through armed assistance. None through change of national policy. Yes possibly through agreement upon what constitutes aggression, defined in treaties and incorporated into the body of International Law.

3rd. (g) Sanctions? None for military sanctions. None for political sanctions. Yes for legal and moral sanctions. Possibly for economic sanctions embodied in treaties, and incorporated into International Law, effective after the declaration of war.

The Naval viewpoint inclines to the treatment of the three essential factors, (e) Security, (f) Aggression, (g) Sanctions, as matters separate and apart from (h) Disarmament.

It is now in order to discuss briefly the factor (h₂) Total Disarmament.

IV. (h₂) *Total Disarmament*

Loose-thinking people frequently confuse aim with method. With this class the aim, peace, is confused with the method, disarmament. Overzealous ones advocate extremes. The extreme militarist or radical advocates methods opposed to the advance of democratic government. The peace-at-any-price adherent is not willing to fight even for a righteous cause. One wing of the extremists is not liberal enough; the other chases rainbows.

Neither extreme view will prevent war now.

Practical people and honest thinkers, whose aims for the future are influenced by the history of the past, realize that—

(3) Aggressive and unrighteous war should be eliminated if possible, and that

(4) Defensive and righteous war will probably continue.

There is no practical possibility of eliminating Class (4) Defensive War from world affairs. It is Class (3) Aggressive War that practical men are trying to eliminate. It is to this class of men that (h₁) Limitation of Armament makes its appeal.

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We have now arrived at the point to analyze the factor (h_1) Limitation of Armament.

V. (h_1) Limitation of Armament

All armaments can be divided into two main categories dependent upon objective, viz.:

- (15) Aggressive armaments,
- (16) Defensive armaments.

Aggressive armaments have certain features which characterize them, viz.—

- (i_1) Aggressive attitude of national mind.
- (15₁) Undue preeminence in one or more of the three fighting arms—the military forces, the sea forces, the air forces.
- (15₂) The strategical or tactical disposition of the three fighting arms.
- (15₃) Competitive armaments in peace.
- (15₄) The improper combination in peace of Armaments with factor (j) National Resource.

Armaments not coming within the sway of terms (i_1), (15₁), (15₂), (15₃), (15₄) may be classed under head (16) Defensive Armaments, which may be considered legitimate armaments.

The following divisions of (15) Aggressive Armaments have little logical affinity with (h_1) Limitation of Armament. A separate method of treatment seems applicable in their cases, viz.:

- (i_1) Aggressive attitude of national mind which requires the establishment and maintenance of *Mutual Confidence*.
- (15₂) Strategical or tactical disposition of the three fighting arms which can best be handled through treaties and agreements.
- (15₄) The improper combination in peace of Armaments with factor (j) National Resource, which can be handled through Treaties and Agreements.

The three factors (i_1), (15₂), (15₄) have greater affinity with factors (e) Security, (f) Aggression, (g) Sanctions than

they have with factor (h) Disarmament, and could better be treated with them than with (h_1).

Armaments exist during two periods, viz.:

- (P) In peace time.
- (W) In war time.

In (P) Peace Time the improper combination of (j) National Resources with either (15) Aggressive Armaments or (16) Defensive Armaments places the total combination in the category (15₄), to be treated as indicated above, but not as a part of (h_1) Limitation of Armament.

In (P) Peace Time, the legitimate proportion of (j) National Resource assigned to Armaments is a logical sequent of the quantities of fighting forces allowed under (h_1) Limitation of Armaments, and can be definitely determined in terms of the three m's, men—material—money, in proportion to the ratios established for the fighting forces.

In (W) War Time, the amount of (j) National Resource, which will be combined with Armaments, can no more be limited than it is possible to limit the size of Armaments. It is beyond human power to attempt to limit these quantities. This conception is based on the law of self-preservation. It is within the range of possibility to attempt to limit the ways in which these forces shall be used, as this is based on the factors civilization and chivalry influencing the law of self-preservation.

The discussion of the ways referred to immediately above comes under head (2) Limit War and is not logically a part of (h_1) Limitation of Armament.

The only legal, recognized definition of what constitutes Armaments is derived indirectly from International Law. If we recognize the sanctity of that corporate body of tradition—treaties—agreements—accepted practices, the term Armament passes from the vague undefined conception to the concrete fact. "War is a contention of states through their armed forces" (Oppenheim, p. 59).

Depending upon the natural element in which armed forces are used, Armament is subdivided into three kinds:

- (k) The land armed forces,
- (l) The sea armed forces,
- (m) The air armed forces.

A clear-cut, clearly defined line of demarcation between these factors and all other factors will immediately help us to—

(17) Prescribe limits directly to the factors (k) the land armed forces, (l) the sea armed forces, (m) the air armed forces, by the quantitative method, which in turn automatically reacts upon factor (j) National Resource, and apportions the amount of (j) which properly in peace may be combined with factors (k), (l), (m). This solution by the quantitative method takes care of the factors (15₁) Undue preeminence in one or more of the three fighting arms, (15₂) Competitive armaments in peace, (15₄) the improper combination in peace of Armaments with factor (j) National Resource, and the factor (n) Cost.

(18) Clarify the atmosphere for the prescription of the Ways necessary to (2) Limit War.

The treatment of factor (17) in relation to (h₁) Limitation of Armament, in so far as pertains to (l) the sea armed forces, will follow.

The treatment of factor (18) the prescription of ways in relation to (2) Limit War will be treated under a separate head (2) Limit War.

VI. *The Limitation of (l) The Sea Armed Forces*

The only legal sanction now existing for applying (h₁) Limitation of Armament to (l) Sea armed forces exists in what is known as the 5-5-3 Treaty. It is based on the American proposal which limited sea armaments by the quantitative method, in terms of ratios applicable to all types. The American proposal was accepted in principle by the delegates attending the Washington Conference. This acceptance in principle necessitated the acceptance of the quantitative method of solution. It was drawn up and laid before the delegates in the manner that it was, because it fulfilled the conditions demanded by factors (a) Be practicable and definite, (b) Be as

broad as the practical and definite factor permits, (c) Be just to all viewpoints, (d) Be enforceable, and the unrelated factor (n) Cost. Had the American proposal been adopted in entirety in treaty form, the factor (17), in so far as it relates to factor (l) the armed sea forces of factor (h₁) Limitation of Armament, would have been cared for.

It is a method possibly appropriate to factors (k) the armed land forces, and to (m) the air armed forces, in connection with (h₁) Limitation of Armament, if the effort will be made to divorce (k) the armed land forces, (l) the sea armed forces, and (m) the air armed forces from the factors which obscure the direct issue.

The American proposal stands today in principle as the one proposal having sanction. It is the expressed American policy. Naval thought believes that it should be carried to completion before anything new is attempted. Its method is the practice of starting with the simple things first, and working up to the more difficult later as the situation clears and is better comprehended.

AIR FORCES

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THE practical problems of aerial limitation of armament and the difficulties which stand in the way of making such limitation wholly effective may be discussed under two heads.

There is first a group of technical factors which are occasioning a great deal of difficulty at the present time and are likely to continue to do so; and there is, secondly, and interlocking with those, a psychological problem, an intensification of the technical factors growing out of the state of mind in certain of the countries which would necessarily be most intimately concerned in any movement for the limitation of armaments in the air.

Now the technical problem is first of all one of definition. That has become an axiom of the situation. It is recognized in every discussion, and in the agenda prepared for the meetings of the Preparatory Commission on Limitation of Armament at Geneva the sixth of the seven questions submitted relates to the problem of distinguishing between civil and military aircraft and the determination of the military value of civil aircraft and commercial fleets. I think we are all agreed in our sincere desire that some road to effective limitation can and should be found in the air as elsewhere. We are all agreed that if there is an effective limitation on which all nations can look with confidence, it will be a step toward the limitation of war itself, toward the reduction of the liability of war; but the technical difficulties which stand in the way are so grave that we cannot overlook them. It is necessary that they should be fully considered, that they should be analyzed in advance before any program is prepared, before any formula of reduction can be secured. No simple scheme of ratios will suffice for aircraft. There are other factors that enter in which have no direct counterpart in naval warfare, factors differing also from those which appear in the limita-

tion of armaments on land. The first is this matter of the definition of a commercial airplane, or perhaps I should say, definition of a military airplane, although one grows out of the other.

The commercial and the military airplane are in general quite different. Machines built for the service of commerce are distinct in form and distinct in their performance characteristics from those intended primarily for service in war, but the difficulty is that, while the best commercial airplane and the best military airplane are two very different things, it is almost impossible to draw a sharp line of demarcation and to be sure that aerial armaments are not being surreptitiously built up under cover of commercial activity. That is, it is possible for a commercial fleet built up under a heavy subsidy, to be made subject to specifications which will permit—in fact, require—that so-called commercial airplanes shall be effective for military use in case of need.

There have been some subsidy laws in European states subsidizing commercial air traffic which have had much that effect. In fact, in certain instances there has been a direct and explicit requirement that the commercial airplanes receiving the subsidy shall be adaptable for ready conversion for military use in time of war. In others, where that requirement has not been so explicitly stated, the effect has none the less been present.

There can be no such clear demarcation between military and commercial aircraft as there is for ships. In the first place, design is less specialized. It is about twenty-three centuries since the battle of Salamis, during which time naval warfare has been getting farther and farther away from commercial navigation. It is just twenty-three years since the first airplane flew, and there has not been time for an extensive dissociation of the aircraft of peace and of war, although that dissociation is beginning to be marked and is going to be more marked.

But there is another factor of difference. Whereas the merchant ship is not only ineffective in combat against a battleship, but is ineffective also for attack even on an unarmed coast, as it does not carry enough armament itself to be of much use except as a transport of troops; the airplane launches against

an armed or unarmed coast or city projectiles which are propelled by gravity, which have no reaction on the craft itself except for the sudden detachment of a portion of the load, and it is therefore perfectly possible for commercial airplanes to be used in bombardment unless they are opposed by efficient military machines. I think there is no conceivable way of preventing that, of drawing a line between the large commercial airplane and the bomber, except that the large commercial airplane used as a bomber will be so ineffective in defending itself against the enemy's military machines that it cannot well be used for attacking cities that are defended in the air in any effective manner.

Third, another technical difficulty is that the construction of aircraft is exceedingly rapid. In general, a naval war is fought by vessels which had been planned or were actually in existence as complete units at the beginning of that war. At the beginning of the war in Europe there was no European nation which had more than a few hundred airplanes. At the end of the war a single one of the belligerent European countries built over twenty thousand airplanes in the last year, and I presume that that figure was approximated by at least two others of the belligerents. That just about made up for current wastage. Machines were being designed and were on the fighting front within a few weeks, or at most a few months, from the time the design was started, so that the question of a limitation of aerial armament inevitably spills over into the fourth subject of this morning's discussion, that with which Dr. Slosson is to deal, the industrial resources of the country.¹

Then, too, it is much more difficult for aircraft than for ships to draw a clear line between effective and ineffective units. We hear a lot about reserves. We have a fairly clear idea of what that means on land and some sort of an idea of what it means when we speak of the reserve of a fleet, but in speaking of aircraft it means several different things. There are some nations which, in listing their air forces, include as reserve airplanes which are ready for flight, which are being kept with tactical squadrons, which are just extras in order to take the place of any that may be damaged, machines of modern design and of recent construction. There are others

¹ Cf. Dr. Slosson's paper, *infra*, p. 73.

in which that same term relates to airplanes that are hardly more than junk, that have been put in storage, wartime airplanes that have hardly been looked at for seven years. It is very difficult to get any figures on aerial armaments in comparable terms for the different nations. Whereas the number of units in a fleet is small enough so that they can be rated separately and ship can be compared with ship, the number of units in an air force runs into the hundreds or thousands even in time of peace, runs to well over a thousand in at least four countries at the present time, and yet the units really require individual ratings. It is very difficult to classify.

I do not want to intimate that there is no possible solution, but the difficulties, as I have said, are real and cannot be overlooked. The possible solutions seem to me to be three in number, broadly classified. There are a good many conceivable subdivisions, but I can think of three general schemes that might be applied.

In the first place, there is the possibility of a limitation on performance of airplanes. That is, of defining the military airplane and distinguishing it from the civil machine in terms of speed and rate of climb and other elements of performance. Now that by itself might be accepted as a basis of limitation, but we would run into very grave danger if we supposed that it was going to be complete, because left by itself it seems to constitute a positive invitation to fraud. Even if there is no fraud, it is almost inevitable that there will be suspicion of it as between several countries where there may be feeling on any score at any moment, unless there is a surveillance and control far more thorough and complete than anything that anyone has so far envisaged with respect to land or naval armaments, whether under the auspices of the League of Nations or some other international organization or by military attachés.

It is very easy to build an airplane which is for commercial use or for sporting purposes, and unless you read the designer's mind or follow the airplane through every stage of manufacture you will have no means of knowing that the plan was made so that the airplane could be converted into a military machine of very great potential effectiveness in combat in about an hour by changing the engine to one of two or three

times as high power. That can very readily be done. There are airplanes now in which one engine type can be changed in a few minutes to another of different power and giving a different performance.

So the problem of limitation runs inevitably into that of surveillance, and that, of course, is one of the sources of difficulty which has constantly arisen as between Germany and the Allies. It is rather instructive to consider what has happened in the attempt to enforce aerial disarmament—it is really disarmament there because the Treaty of Versailles provides that Germany shall have no military air force. The Allies laid down, to be effective in the spring of 1922, a group of rules, nine in number, which were to govern German commercial aircraft. I think no one denies that the aircraft built under those rules in good faith would be purely commercial, but there has been suspicion in France, and to a lesser extent in other countries, during the past few years that Germany's great commercial aerial activity is a disguised military air force. Whether or not the suspicion has any substantial basis in fact, it is impossible for any outside observer to say. Personally, I discount this suspicion quite heavily, but the important thing is that it exists. Here we run into the psychological factor. Since it is difficult for any nation to be sure of the strength of the air forces of another, since it is so difficult to prepare comparable figures or to be perfectly certain of the point where the line between some other nation's military and commercial air power is drawn, it is going to be very difficult to persuade certain European nations to decrease the strength of their air forces below present figures or even to consent to a stabilization at present figures or in any fixed relation to them.

The second possible means of limitation—I will run over the last two very briefly because I think that both of them run up against serious psychological difficulties, although technically they might be very effective—is the limit on the number of pilots that can be trained. Again we are confronted with the question of surveillance. Again we can see what has happened as we survey the correspondence between France and Germany on aerial matters in the last few years and the reports in the French press on the training of pilots in Germany

professedly for sport, but really, or so it is very commonly believed in France, for military purposes.

Third, there is a possibility of limitation of military activity under commercial disguise by a limitation of the subsidy that is given to commercial lines. That is, if all nations would agree to limit the amount of direct governmental assistance given to commercial lines, it would be impossible to build up military activity under that guise, because a military airplane running commercially is very inefficient and could not live without some support from some other source than the traffic. But unfortunately it would also be impossible for France to maintain lines to North Africa which at the present time, and for some time to come, cannot possibly pay for themselves, whatever type of airplane is used. And it would be very difficult, if not impossible, for the British to establish and maintain lines to the eastern Dominions and to South Africa under any form of subsidy limitation which would guard against the use of military machines on commercial lines in Europe.

Those are the major possibilities. Now as to the psychological factor once more. Among European nations sea power has a meaning for Great Britain that it has not in the same degree for any other country. Great Britain, of course, has had as a fundamental element of its policy for many years that there should be no other sea power superior to the British. It has been an inevitable element in the policy of every government. Now what sea power has been to Great Britain, air power is to very nearly every state in Europe, because there is not a single European capital except that of Russia which is not within reach from the territory of some potential enemy with an airplane which could make the flight carrying at least a moderate load of bombs and return without landing. As for London and Paris particularly, the flight from the territory of several possible enemy states, now or at some time in the future, is a very easy one. It is then very natural that France, quite aside from the fear of an upbuilding of German power, should be loath to reduce her air force below its present figures. It is very natural also that other European states should be unwilling to accept or to bind themselves permanently to a position of inferiority in the air.

I think that in the air, more even than on the land, and cer-

tainly more than on the sea, the questions of security and disarmament are inevitably intermingled. We can hope for a limitation of aerial armaments. There are several possible technical routes to such limitation when a sense of security has been established and when among the states involved in such an agreement there is a general confidence in the good faith of their neighbors. Failing that, I can see no possible arrangement that will not lead to more bad feeling; I can see no possible arrangement that will be fraud-proof to a degree where there will not be constant suspicion that fraud exists.

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CHEMICAL AND INDUSTRIAL MOBILIZATION

EDWIN E. SLOSSON

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WARS are no longer fights between armies. They are contests between peoples. Nowadays the battle is not to the strong, but rather to the ingenious. It is quite likely that in the next war—if there is a next war—the decisive factor will be neither cavalry, infantry nor artillery, and it is quite possible that it will be something not yet taught in military academies or discussed in peace societies. It may be something as unexpected as were horses to the Aztecs or muskets to the Indians. Against such unknowables neither military preparedness nor peace treaty can protect in advance. The most effective form of preparedness is scientific research and industrial development in general. And peace treaties are not likely to be effective so long as a war spirit prevails.

The disconcerting feature of the new weapons of warfare is that they are concealed weapons. In January, 1914, the Germans knew just how many dreadnoughts the British had, and the British knew just where the Germans had laid their railroads for the invasion of Belgium. But the Germans could not guess that the British would be rushing tanks through their lines, and the British could not divine that the Germans would be showering them with dichlorethyl sulfide. Nitroglycerin can be made in a kitchen from three common chemicals, and phosgene is no harder to make than hooch. Infernal machines can be secretly constructed by men who have no more sense than to be anarchists, and any skilful mechanic could rig up an automatic airplane capable of dropping fire, poisons and explosives on an enemy area. No international police could frisk a nation for concealed weapons of this sort. So limitation of armaments means merely that there shall be no more parades. The saber drill of cavalry and the goose-step of infantry cannot be carried out on a large scale in secret, but it is doubtful if future battles will be won by saber or goose-step.

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To conscript and train an army fit for the front takes less time than to arm and clothe them. When the United States engaged in the World War, the men were ready long before the machines.

The same qualities that make a nation successful in industry and commerce will give it the advantage in war. In estimating belligerent assets, the horse-power of a country counts for more than the man-power. The most effective fighting force of a nation may be composed of men deficient in courage and defective in physique. Resourcefulness is even more important than resources. The issues of a conflict may depend more upon engineer and inventor than upon strategist or soldier.

Modern warfare, like modern manufacture, might therefore serve as a sort of intelligence test between peoples were it not for the fact that nations, like students, cheat in examinations. They loan their minds out as they loan out their money. The redskins of America, who belonged culturally to the Stone Age, were often armed with better rifles than our soldiers, and the Rifians use artillery and airplanes that they could never invent.

Nowadays fighting is carried on with chemical formulas, and the nation that invents the best one beats. That Germany was able to hold out so long against encircling armies was due less to Hindenburg than to Haber, who discovered how to extract nitrogen for explosives from the air that blew over the blockade. The minuter the missiles the mightier they are. The first projectile was a hand-thrown stone, but an arrow goes faster and farther than a stone. A rifle bullet travels at the rate of 500 yards a second and goes three miles. A molecule from an exploding shell travels at the rate of 5,000 yards a second and never stops at all. And lastly, inventors are dreaming of a death ray that weighs nothing and travels at the rate of 186,000 miles a second. In this they would reach the limit alike of velocity and levity.

War has been virtually a branch of applied chemistry ever since the invention of gunpowder, or even since the forging of the first steel sword from the ore. The question now pending is, therefore, not the elimination of chemical warfare but its limitation to the older and less effective forms.

The Washington Conference on Limitation of Armament

ruled out the toxic forms of chemical warfare, but not the explosive forms. Even the comparatively mild lachrymatory and sternutatory gases cannot be employed against a foreign foe. But our police use them against our own citizens when riotous, and our bank cashiers find them handy against burglars. We may use chemicals to draw blood from our enemies but not to draw tears. Our military authorities are determined that the American army shall never be sneezed at.

The American constitution in prohibiting "cruel and unusual punishments" used adjectives that are practically synonymous in the common mind. Any unusual method of punishment or weapon of warfare strikes us as unusually cruel, even though it may turn out to be less so than those to which we have become inured. Our instinctive reaction against any novel means of killing or wounding our fellowmen is merely our natural repugnance against the act itself, which strikes us afresh whenever an unfamiliar agency comes to our attention.

The aversion to "villainous saltpeter," the stink-pot of the Malay pirates, and the Greek fire which saved Constantinople from the Mohammedans, is at bottom the same as the abhorrence excited by submarines, airplane bombing and poison gas in the late war. It is essentially a reaction against war itself. The modern weapons of warfare are more efficient but not more deadly or more cruel than the old. Cain killed Abel as dead as any man has been killed since, and no more ingenious means of inflicting suffering have been invented than those employed by Nebuchadnezzar in his campaigns. Further advance of the art of war in this direction is forever impossible.

At the First Hague Conference the representatives of the United States alone opposed the clause ruling out "the use of projectiles the sole object of which is the diffusion of asphyxiating or deleterious gases," for Captain Mahan argued that "until we know the effects of such asphyxiating shells, there was no saying whether they would be more or less merciful than missiles now permitted, and that it was illogical, and not demonstrably humane, to be tender about asphyxiating men with gas when all were prepared to admit that it was allowable to blow the bottom out of an ironclad at midnight, throwing four or five hundred into the sea, to be choked by water."

Captain Mahan's argument proved to be well founded. On April 22, 1915, the Germans turned loose chlorine on the British trenches, not indeed from the prohibited "projectiles," but from cylinders of the compressed gas, which was worse, and before the war was over both parties were using the most "deleterious" compounds that the chemist could concoct. These proved to be most effective weapons in knocking out soldiers and making positions untenable, yet the percentage of those who suffered fatal or permanent injury from gas attacks was considerably less than those who were killed or incapacitated by explosives.

During the war we were often told that the Germans were likely to win because they relied upon chemical warfare. On the contrary, as we now know, the Germans lost the war because they did not rely upon chemical warfare. On three distinct occasions at least they might have struck a decisive blow if they had made use of the advantage they gained by employing novel methods of attack which the Allies were totally unable to meet. In their first gas attack at Ypres the Germans drove back the French and Canadians nearly four miles with a cloud of chlorine. This opened a gap through which the Germans might have poured their troops, thus parting the British from the French, and giving them the foothold on the Channel coast which they struggled in vain to get for the three years following. But fortunately the Germans were as unprepared for their success as the Allies were for the gas.

By the time the Germans were ready to repeat the gas attack the Allies had been provided with masks which protected them in a measure against all known asphyxiating and poisonous gases. But against the so-called mustard gas, which the Germans tried out timidly in July, 1917, the gas masks were of little avail, for this is a liquid, whose vapor penetrates the clothing and blisters the skin. If the Germans had reserved this unknown weapon until March 21, 1918, when they began their final drive and had then drenched the Allied lines with mustard gas two nights before, they might have cleared out all opponents on a front of twenty miles.

The Germans later produced a third weapon against which there was no known defense, the dreaded Blue Cross shell, containing diphenylchlorarsine, which sets up violent sneezing

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and coughing. The masks our troops had when they went over there could not keep this out, but fortunately again the Germans did not know how to make the most effective use of it.

On the other hand, the British missed a chance of winning the war a year sooner through lack of confidence in their novel weapon, the armored automobiles disguised under the name of "tanks." They sent a couple of them into the field in September, 1916, just to see how they would work. They worked so well that it is probable that a hundred tanks, driven unexpectedly at the German lines, would have broken through.

The methods of warfare changed so rapidly during the conflict that if the United States had been completely prepared in 1914 its equipment would have been out of date when the United States entered in 1917. A large number of the thirty-five thousand articles necessary to equip a modern army were of types unknown when the Great War began. For war had for the first time in history entered the third dimension with airplanes above the surface of the ground, and submarines below the surface of the water. What was accomplished in this emergency by unstinted expenditure of our unprecedented wealth and energetic employment of our unparalleled industrial efficiency may best be stated in the words of the Secretary of War in his address at St. Louis on November 24, 1925:

In the World War, without an industrial plan, without any preparation on that head, we put 4,000,000 soldiers in the field and equipped them fairly well in seventeen months. This equipment was not complete, however. We used allied airplanes and allied artillery most extensively on the fighting front, and to a great extent we used allied machine guns and automatic rifles. We spent fifteen billion dollars for what we did provide in the way of equipment, and without going into the question of whether we paid too much for what we got, it is possible to say that if we had it to do over again we could equip 4,000,000 men more satisfactorily and more completely in a shorter time and for a few billion dollars less. That is because we now have this industrial mobilization plan, and in 1917 we had none.

Now we are given to understand that the War Department knows where to go to get each item of the 700,000 components of the military equipment needed, and arrangements are being made with 20,000 manufacturing plants of the country to supply them according to specifications. Against preparedness of such a sort even a pacifist cannot object. It is obviously

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the chief precautionary measure in countries like the United States, which, because of their location and extent, are incapable of being conquered at a blow, even if taken by surprise.

The following announcement of the War Department should also meet with the general approval, although the policy proposed is unprecedented:

The principle that the men at home shall not profit from war, while their fellows are staking their lives and their health for their country, is fundamental as a proposition of common justice. . . . It may be regarded as a fixed national policy for the future.

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POLITICAL AND TECHNICAL ASPECTS OF DISARMAMENT¹

JAMES T. SHOTWELL

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OUR time is more than gone. If we are to keep to the time schedule, we must soon adjourn. I personally would rather do without my lunch and continue, but it is obviously impossible to exhaust a subject which one could not exhaust in a lifetime, nor a nation in a generation, and so perhaps we may draw the matter to a conclusion at the moment in the expectation that the conference itself in its informal meetings around the corridors will continue in a very vital way what has been begun here.

May I just point out one or two things that come to my mind. In the first place, the drift of this conference this morning is very striking in view of the vote in Congress, which was, I take it, an indication of the American mind. Never was there a more overwhelming vote, I think, on international affairs than the vote taken to cooperate with the League of Nations in the Preparatory Disarmament Conference. It was taken at a moment of bitter and extreme controversy on international affairs, in the midst of disagreement over our adherence to the Court and, as you know, was practically unanimous. I take it that behind that unanimity lay a belief of the American people that very largely by way of disarmament was the path to peace. I think that at least was the interpretation in Washington of the American attitude. Now if that is the case, if that is the belief of the people, then the trend of the discussion this morning brings very serious considerations, because by and large we have emphasized that it was not directly through a technical disarmament that the real path to disarmament itself lies, but it is by way of the creation of the organization of new functioning agencies and a new state of mind for peace.

The Carnegie Endowment is directing its energies to the study of the peace problem in a quasi-scientific attitude—I say

¹ Stenographic report of address delivered by Dr. Shotwell as Chairman of Round Table No. 1.

"quasi" because I am a part of the enterprise. We are attempting not to take up this or that formula that may be popular at the time or to adhere to this or that movement which may sweep the nation, but we are conscious that a fuller consideration of real issues sometimes takes us athwart the current of popular opinion. The Endowment has no opinion. We have called here a conference for the purpose of exchanging the points of view of those best able to contribute from the technical standpoint with those who may have very much at heart the full fruition of what we believe to be a fundamental American policy. Now, that being the case, there does come from this conference this morning something that cannot be passed by. It has been stated or implied that the full solution of this problem would in a way be equivalent to hampering the free movement of modern science and invention and discovery, since the potential armament of a nation means the full use of the means of invention and discovery in industry or chemistry, industrial and chemical mobilization. This is the fullest and most proper means of national defense.

I take it that, as Mr. Harris has pointed out, it would be wrong for us to address ourselves to any such enterprise in considering the problem of disarmament. You can't stop science. As has been stated or implied in this morning's discussion, the chemist has only to change the formula by the slightest part and his factories for fertilizer become factories for explosives, yet the factories are proper for the maintenance and development of national prosperity. I know some factories in a certain country that are turning out every day of the year a thousand tons of nitrate of ammonia, which in a very, very short time could be transformed into a thousand tons a day of high explosives. Now those are the proper developments of science. It would be utterly ridiculous for modern civilization to attempt to curb that most beneficial development of human intelligence. But there surely is something else.

If you turn to Lord Grey's memoirs, for instance, or look back into the tragic days preceding the World War, taking not only Grey's, but the record from every capital of Europe, you find that alongside the political governments in every state there were the essential organs of defense, the national army with its general staff; and there came a moment when the

deadly time-table of the general staff was to take over the movement of events and supplant the political judgment and action that moved by way of diplomacy. Now those men in Berlin and in Petrograd who were responsible for the safety of their peoples at a given moment turned to the deadly time-table. I don't pass any judgments here, but the existence of that exigency certainly in my judgment brought the war. There was on the one hand a necessity of having the general staff, a necessity of having them and granting them the utmost freedom in their field. But the technical preparation for the defense of the nation, as it organized what one might call the first line of defense, developed so that the war was ultimately brought on to the world simply by a transference of responsibility into the hands of the general staff.

Now that is the kind of thing which people sense as a danger in armaments. It isn't a development of fertilizers or drugs. We are not even conscious of these in the background, and what I suppose is the pressing problem of the day is a problem of the adjustment of what I have called the first line of defense, the organization that is called out in the period "A" referred to in the League of Nations' discussion, that is, the period during which the existing active forces, the striking forces of a nation, could be brought into action.

That means that we concentrate, if we are dealing with any armaments that can be reduced at present, not upon creative chemistry or industrial efficiency, but upon the agencies at the moment's disposal which may be thrown into the battlefield; and if security is, as I take it, a state of mind and not a reality in the deeper sense of the word — for no nation is wholly secure — then that state of mind can be surely induced by a proper handling of the disarmament question that deals with the first line of defense. There, of course, you come to the point where Mr. Warner and I seem to part company. I don't think, though, we really do. Armaments of this kind have been built up by political action, not by military action. Their creation is due to political judgments. Is the political judgment to have nothing to say with reference then to their handling and their possible limitation or reduction? It would seem to me that the method and the degree of the establishment of ratios is a matter for the technician, but the political judgment is to say whether or not we are to proceed toward these ratios.

To achieve results here demands a striking and dramatic act. It can never come from the technician. In the nature of the case it must come from those who represent the will of the people, who are dumbly conscious of the danger that lurks where efficiency of killing is so developed. Only from that angle is there a possibility of action.

Finally, the League of Nations is at present dealing with this complicated problem in the only way in which it should be dealt with. They are studying it. They are studying the proper lines along which we may secure distinctions, distinctions that lead toward action—toward reduction—on the one hand and toward the preservation of a proper degree of national security on the other. That method of careful analysis, taking the problems home, working over them for some months perhaps before they are brought to the final conference for adoption, is a new method in this field. The Hague Conference was called for a reduction of armaments, as you know, not for the creation of a means of justice. It turned into an instrument for finding, if possible, some method as a parallel for war, but because the thing was thrown suddenly at the war offices and foreign offices without any preparation, no one knew what to do. They tried now and again to use the budgetary unit as a unit by which can be negotiated a parallel reduction of armaments here and there, and we know that that is capable of any amount of false interpretation. We know that there are countries where the budgets do not represent the war expenses. We know that even if they did, it wouldn't be a measure of the fighting efficiency.

All of these things were left to be studied in the way in which the League of Nations is dealing with them. And the point that finally I would like to make is that if out of that study itself no immediate measure is decided upon now, as it can't be in the nature of the case, if there is no dramatic act such as that at Washington, let us not mislead the American people to think that the earnest and responsible people to whom this vital question of national defense and international peace has been referred have ceased to concern themselves with it simply because we lack at the opening some dramatic act such as we had in the past. We need the scientific analysis, careful, long-continued. No one generation will solve this entirely, but let our generation make a start.

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DISCUSSION:¹ THE PRACTICAL PROGRAM OF REDUCTION AND LIMITATION OF ARMAMENT

DR. SHOTWELL: As usual, Dr. Hudson is right. The richness of suggestion from these papers and the variety of questions that they suggest to us is so great, so varied, that it does seem impossible now to go back over the field and gather up points that they might perhaps at a more definite moment have suggested to us all.

I will not add to the definite program by any attempt to sum up other than two points. We have here, I think, two definite fields of inquiry; one, a technical one as has been pointed out: the technical problem of disarmament or of armament which in its turn falls into two parts, that of the national necessity of maintaining sufficient defense for the nation's livelihood, for its existence, a question of vital interest; and the international problem of securing a ratio as between armaments of one country and the competitive armaments equally essential in another country. That has been pointed out. Those are some of the technical problems before us, but each of the speakers I take it, finally laid before us the question of turning this matter over into a political problem. The definite measures proposed would not effectively satisfy the technicians in any one field and would have to come as a measure in the field of politics. In that field the correlatives for war, those alternatives for war which the world is considering at the present time, would have to be taken into account. This question becomes primarily one of security, of the establishment of common confidence and the possibility of overcoming even the suspicion of the secret preparation of army or navy. These are rather political issues.

MR. HENRY K. NORTON: Professor Warner suggested in his talk the possibility of limiting subsidies to airplane services. Has any extended study been made along this line as a possibility for general limitation of armament or limitation of general armaments?

¹ Round Table Conference No. 1. For papers read at this session, see pp. 54, 57, 66, 73, 79.

MR. WARNER: That seems to fall in the field of the other speakers. Personally I think that would be rather an unsatisfactory basis for the limitation of other armaments because economic circumstances and the conditions under which armies and navies are recruited differ so widely in various countries. I suggested it for aircraft as the only apparent means of meeting a peculiarly difficult problem which has no exact counterpart on land or sea.

MR. L. L. SUMMERS: It doesn't seem to me that the aeroplane problem differs from any other problem of national defense. Dr. Slosson has called attention to chemical warfare. You might as well attempt to shut down the chemical industries of all nations under the delusion that they might make instruments of destruction. The aeroplane cannot be limited by any national action of sovereignty or any international agreement. It offers too great possibilities in coming commercial developments. In Germany great hardship has been created simply by the insane delusion that everything that the German made might be used for warfare. They have an extremely light metal in Germany which they alone manufacture. They have made engines of such high speed that the pulsations of the engine are beyond the range of human audibility. They do not dare apply that engine to aeroplanes for the reason that it would be considered armament for offensive purposes.

It is evident that the whole question of disarmament will resolve itself into the moral attitude of the peoples. We cannot disarm our police, though the London police carry clubs and not guns, but that is not usual in this country. Each nation differs in its problems. I think it is a very serious question as to whether you can make any effort to disarm a nation. The potential industrial capacity of the nation is the thing you are seeking to destroy and that is the industrial life of the nation. It would be a matter of relatively few months for a nation of this type, with its industrial capacity and its trained technique, to manufacture any arm for war. We are not manufacturing them but we keep standardized tools, known technically as jigs, etc., so that practically every arm can be rapidly manufactured. That lesson was taught by the war for the reason that designs were rapidly changed. It is true that

warfare changed rapidly in Europe and that the material that they started with in 1914 was practically obsolete to a great extent in 1918, and yet there was no arm that went into the British service that did not continue in that service throughout the war. The original gun of a type that was standardized both for them and for us was made in 1907 in Vickers' works and put in their museum to be resurrected in 1915. It was simply an accident that Germany turned both to chemical warfare and to the use of the tremendously high explosives of devastating effect. It is readily possible that the next war could combine the destructive effects of explosives and chemical warfare simply by producing a speed of explosion that would have a direct physiological effect that is equivalent to what Dr. Slosson calls the death ray. It is a vibration that need not be imposed by direct physical contact. Shell-shock is one of the manifestations of what I refer to. No action that can be taken, to my mind, can eliminate these possibilities except the development of the moral sentiments of the nation and the recognition that their own internal order is preserved and their external order and the cooperation of nations must be along the same line.

I do not think it is possible technically to disarm because you will absolutely prevent the growth of industry. The world to-day has become dependent upon the improvements of the industries in question and they are of such nature that they are most easily utilized for disastrous purposes.

GENERAL O'RYAN: I think it was von Moltke who said that nothing succeeds in war except that which is simple. That remark has application to the effort to curtail war. Each speaker has made some reference to the psychology of this whole problem. The thought I have in mind and to which I referred in my paper was the fact that perhaps we are side-tracking the understanding of our people in relation to the fundamental problem, by taking up as a major objective the attempt to limit armaments. I fear that, even if some measure of success follows the attempt, the tendency will be for people to lean on a broken reed. The tendency will be for them to feel justification for their attitude toward the League of Nations.

It reminds me of another axiom in war, that when a military

commander is given a mission he must not be swerved from the accomplishment of that mission by circumstances which intervene and tend to distract his attention; and yet the history of war is replete with many examples where the commander with the objective in mind has been distracted and turned aside and has complicated the entire situation.

We have here before the world, before our people, a simple proposition. Are we serious in the attempt to control war, to suppress war? If not completely, then are we serious at least about wars among civilized people, great wars? If so we must produce a substitute for war, for the truth is that war has been the agency for settling disputes among peoples. Now that substitute by common agreement among intelligent people is a system of justice and law with the machinery to make effective the application of justice and law. If we turn aside from that objective and concern ourselves with the tools that people use when they go to war, we get into endless complications and we serve to divert the attention of the people from the accomplishment of the main mission.

DR. JOSEPH MAYER:¹ It seems to me that General O'Ryan has struck the keynote of this whole problem. Dr. Slosson has pointed out how impossible it would be to limit the chemical and industrial preparation of a nation for war. If, for example, the people of this country took a notion to manufacture phosgene just as they have taken a notion to manufacture hootch on the side, there would be no end to the amount of poison gas that we could accumulate individually to throw at one another in case we engage in personal dispute at home. But we have learned to depend on courts and the police force to preserve order and to take care of disputes. I hail from the state of Texas and I recall the days—I was a youngster then—when there was a shooting affair every day. When two men got into a dispute the end would be that one or both were killed. Now it seems to me that when you take this question on the international plane the problem remains essentially the same. Nations will maintain and use their armaments until a better method of settling disputes is not only found but established. If you can not limit the chemical or the industrial preparation for war, and if it is difficult, as Professor Warner has said, to

¹ Professor of Economics and Sociology, Tufts College.

limit the air preparation for war, and if, coming down to military preparation, we find that Great Britain needs military preparation less but naval preparation more than Germany or Russia, you cannot take one of these factors as we did at Washington, and get a formula for limitation and expect that to apply to all nations with their different problems.

Even assuming that we could find a formula, a way in which we could reduce the air forces and the military forces and the naval forces and the chemical forces of the world the question would arise: How far reduce? Twenty-five, thirty, thirty-one, fifty, eighty per cent? It seems to me that that is reducing the question to its logical absurdity. You are not going to reduce armaments materially until you have found a way of settling disputes which does not require armed force, and that is by taking your problems to an international court or to an international conference behind which there is an international police force to see that decisions are adhered to. That may be a long way ahead but that seems to me to be the only solution. So soon as the nations place confidence in this new method or rather, if a few great nations, if Great Britain and the United States and France and Japan, let's say, would get together and decide that they were going to pool their armaments, for the purpose of policing the world, you would have a logical basis for limitation down to a police basis.

VOICE: It seems to me to be a pity to miss the real point of General O'Ryan's statement: the challenge he has thrown in that not merely is it futility to endeavor to reach abolition of armaments, but it is rather worse to discuss it for the reason that thought is diverted, whereas we ought to be concentrated on this main thing of setting up a substitute for war. I am in entire agreement with General O'Ryan as to his final point and with General Bliss; nevertheless it seems to me that there are perhaps some advantages in continuing discussion of disarmament as we rather loosely mean it. In the first place, there is a saving in money. Even the quantity of disarmament that we achieved in Washington will not involve, at least for governmental purposes, a better expenditure of money than for battleships. There is a delay in building up the animosities which competitive armaments themselves provoke. By the holding back of this building up of strictly competitive armaments we

eliminate what, as I see it, in itself tends often to be a force very potent in promoting war.

MR. TOM WALLACE:¹ It seems to me that we are pretty well agreed on some essential things. Dr. Butler said last night that this was an opportunity for some representative journalists to hear the views of some (I think he said) distinguished journalists and some distinguished experts. One thing that has pleased me greatly is to find that these gentlemen who really do know reach about the same conclusions that a fellow reaches sitting behind a desk in the middle of the continent, as to the real effectiveness, the practicability and the usefulness of disarmament proceedings looked upon as a means of really averting war. We have simply got to go at it in the way of building up a means, as the preceding speaker said, of averting conditions which will bring about war.

One matter seems not to have been touched on that is of importance and that is: In so far as we do in any way reduce armaments, we do reduce a burden upon the taxpayers. Moreover, we do make a gesture in the direction of depopularizing war and therefore I think every newspaper, while it may not believe in the efficacy of disarmament, ought to be for the idea because it is an aid to the taxpayers and it is a peaceful gesture.

MR. WILLIAM HOWARD GARDINER: It seems to me I read that this is a conference on disarmament. I infer from that that it is to address itself directly to the question of armaments rather than of substitutes for armaments. I happen to have here an excerpt from President Coolidge's special message to Congress of the fourth of January last in connection with the Preparatory Commission in Geneva in which he says, "The conviction that competitive armaments constitute a powerful factor in the promotion of wars is more widely and justifiably held than ever before and the necessity for lifting the burden of taxation from the peoples of the world by limiting armaments is becoming daily more imperative."

Frankly, it seems to me that we might concentrate our attention under two headings. First, let us look at the cost of armaments. Second, do armaments cause wars or prevent them? On the matter of costs I have some figures that may be of interest. First let me say that the United States, the

¹ *Louisville Times*, Louisville, Ky.

British Empire, the Japanese Empire, France and Italy last year spent the equivalent of very close to \$2,000,000,000 for armaments. Now that is startling but if those expenditures assured their security the cost was relatively insignificant because it amounted to a little less than \$3.00 per thousand of international wealth. It was unfortunate for the powers other than the United States that their cost averaged about \$4.00 whereas our cost averaged less than \$2.00. Just for comparison, the average cost of fire insurance in this country is said to be over \$9.00. However, some more detailed American figures may be interesting, if not surprising. The total cost of government in the United States in 1903, according to the National Industrial Conference Board, was \$1,570,000,000. In 1924 it was \$10,252,000,000. The armed forces of the United States in 1903 cost \$228,000,000, or 14½% of our then expenditure for government. In 1924 these cost substantially \$646,000,000, but that was only 6 3/10%. Reducing these figures to a per capita basis, in 1903 our armed forces cost us \$4.02 per capita. In 1924 they cost us \$5.77 per capita. In 1903 the total cost of civil government in the United States was \$24.22 per capita; in 1924 the total cost of civil government was \$85.85 per capita. In other words, the cost of armaments to the United States has increased in the last twenty-one years by \$1.75 per capita, whereas the cost of civil government in the United States has shown a net increase of \$61.53—over ten times as much as our total cost for armaments.

Now I very respectfully submit that before we grow too excited over the so-called "crushing burden" of armaments, "crushing" to the extent of \$5.77 per capita to us, that we pay a little attention to the net increase during the last twenty-one years of \$61.53 for civil government. In this connection I might simply add this relation, that in 1903 our total costs of government absorbed 7 7/10% of our national income. Today our government is costing us 16%. Really, as a practical business matter, it seems to me that our problem is not so much metaphorically to go to Geneva and try to reduce this \$5.77, but it is to go back home and try to reduce the \$61.53, each in our own community, for the federal government is pretty well reduced.

MR. H. WILSON HARRIS: It seems to me, if I may make a rather provocative generalization, that the whole course of this discussion forces us almost relentlessly to a certain definite conclusion. I don't think it has quite been shown—in spite of my great agreement with what General O'Ryan has said—that it is useless to attempt any limitation of armaments, and that for the reasons which were put forward in the quotation from President Coolidge's speech read by the last speaker. If we can do something to limit the present competition in armaments we shall have done something to limit the provocation to new wars. That hardly needs demonstration; but if it does need it, let us look at the airplane building on the part of Great Britain and France and Italy. We are building airplanes, quite frankly, because we cannot be exposed quite defenseless to a large French armament fleet, which is not, of course, built against us. Italy is building airplanes for the same reason. Anything that can limit that disastrous competition will be of some value. But at the same time, it has shown beyond any possibility of refutation, particularly by Professor Warner and Dr. Slosson, that you cannot really limit armaments. You may establish a ratio of what one might call actualities, visible armaments; you cannot establish any ratio of potentialities or any limitation of potentialities, and therefore it seems to me that we are really driven back to the question of whether we ought not to be facing, not the problem of armaments, but the problem of war altogether.

General O'Ryan has spoken of the necessity of developing other alternatives for war; that is, as a means of settling disputes. That must be done and is being done, but there we are faced with the hitherto unsolved problem of what is to be done in a world consisting, let us say, of fifty or sixty states of which forty-five are of good will and of good faith but the others are not. Let us reduce the proportion. Take a society of ten states in which nine are of good faith and the one is not. Are you going to allow the one to arm, are you going to allow it, after it has taken a pledge of peaceful settlement, to attempt to settle by war? If you are not, you are driven to the conclusion that in the international field as in national life, you must first of all create a régime of law and order, and then in case of necessity enforce it. Now is that possible technically

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and is it possible politically? Political argument is much too long to go into now. In regard to the technical argument, we were all impressed, I imagine, by what various speakers have said about the rapidity with which a modern state can organize for war, but in spite of that—I imagine it is true, of course I submit it entirely to the experts—that you can very broadly divide a modern war into at least two periods: the first, in which you have to rely on your actual armaments already visible and ready, and the second, in which your potentialities begin to come into play. One speaker, I think, pointed out that in the United States the men were ready before the machine was. The machine does take some time to set in motion. Now is it possible to get an arrangement between the nations inside the League or outside—that matters nothing as long as the arrangement is important—whereby if a nation which has pledged itself to accept peaceful settlements does have recourse instead to war, you can in that first period take such combined action against it that its ultimate potentialities can never be brought into play at all? That seems to me to be the question we really have to address ourselves to.

We have watched with great interest that chart of Admiral Pratt's but I wonder if we really believe there is a distinction between No. 3 and No. 4, whether you can in actuality divide wars into aggressive and righteous, defensive wars. And I wonder a little bit if there is any real distinction between preventing war and limiting war. And I wonder still more what is the latest attitude of my own country, which apparently stands somewhere between preventing war and limiting war.

To sum up what I have been trying to say, it does seem to me that this discussion drives us to the conclusion that we should consider whether we ought not to address ourselves very definitely to the attempt to regulate war as we regulate crime in the civil states.

MR. CHARLES F. SCOTT:¹ We have met under the auspices of an organization, the purpose of which is to endeavor to bring about international peace. I listened with a great deal of care and interest to the addresses that were made last evening. I have listened very carefully to the papers read this morning and discussions which followed and I have rather

¹ *Iola Register*, Iola, Kan.

missed an argument in any of the papers or discussions intending to point out to us the way in which a reduction of armaments might result in promoting international peace.

It seems to me that as readers of history we must realize the fact that the condition of the armament of a nation has had very little to do with its entrance into war. The United States in 1917 was as nearly disarmed as any nation of its size and importance could possibly have been, and yet we entered the war. It is hardly conceivable to me that nations would fail to engage in war, if a cause of war should arise, merely because of the state of their armaments.

The impression that has been left upon me from listening to the addresses under discussion—and I venture to mention it because it seems to me a personal reaction may not be without some value as an indication, perhaps, of the reaction that may come upon the minds of the people throughout the country as a result of this meeting—is that disarmament, internationally speaking, is a practical impossibility; that it is desirable to whatever extent it may be reached, chiefly for economic reasons; and that the main purpose to which this organization and any conferences held under its auspices should address itself and should address themselves, is the education of the people to the thought that a state of international mind may be created which in itself will be the best guarantee against war.

I agree very emphatically with the remark of General O’Ryan that we ought not to be diverted from the main purpose of the organization under which we meet here to-day by a discussion, technical or otherwise, of what appears as a mere side-issue in comparison with the great concern, the great concern being to educate the mind of the world against war rather than to point out some little detail that possibly might avert or postpone war on certain occasions and under certain circumstances.

MR. ROBERT S. BROOKINGS: The interesting papers which have been submitted and more than an hour’s discussion seem to have elicited nothing more than that while disarmament may save the nations a waste of money now expended on armament, the future implements of war trend in the direction of airplanes and chemicals and are so inseparably associated with

necessary economic developments that it appears practically impossible to make disarmament an important factor in war prevention. Usually when we discuss an evil with a view to its elimination, we go directly to its source. Yet we have not heard a word this morning regarding the source of armament which is the overdevelopment of nationalism. We honor that love of country which we call patriotism, but we have witnessed in Europe the development of this sentiment until it has taken the form of an obsession which assumes that love of one’s country necessitates the hatred of other countries. Hence we have armaments for so-called self-defense which have as frequently been used for selfish offensive. Thus patriotic emotions have blinded the people of Europe to the overwhelming importance of their economic well-being, which is dependent upon cooperation through the formation of one or more customs unions. It was the German Zollverein which nearly a hundred years ago broke down the antagonisms of the German principalities and consolidated them into one people with an enormous improvement in their economic well-being. That the economic well-being of a people is overwhelmingly more important than their purely political interests, witness the condition in our own country. While each of our states is most jealous of its political entity, it makes little difference to us in which state we live because free trade between the states, creating a free flow of economic life, utterly subordinates state patriotism. The way to disarm is to remove the incentive to armaments through one or more economic United States of Europe.

PROFESSOR EDWARD P. WARNER: It has been suggested by Mr. Harris and other contributors to the discussion that any disarmament that can be secured will in itself be a step toward lessened international tension and toward a better international feeling. I think that is very often true but that again gets back to the original state of international fear. Let me take a concrete instance, the same one that Mr. Harris cited. It is true that no one can read the press of Paris and of London without recognizing that there has been a good deal of bitterness over the competition in aerial armaments between France and Great Britain, but I think a competition in disarmament, if I may use that phrase, is almost as likely or per-

haps more likely under some circumstances to lead to hard feeling. When I see the fear that France feels of Germany despite elimination of the German military air force, I feel that if France and Germany had mutually agreed to disarm to the degree and to the state that Germany is disarmed now in the air, there would be much more hard feeling between those countries than there is between France and Great Britain. The armament is now at least on the surface. It is easier to form an approximate idea of what is going on in Great Britain and France than it is to formulate a statement in which the French people will have confidence of what is going on in Germany, and therefore the very fact of the disarmament has helped to make for suspicion.

I further find it difficult to accept what I understood to be the chairman's position in his remarks in opening the discussion about the relation between the expert and the politician. I believe Dr. Shotwell said that disarmament is a political matter and to some extent would have to be imposed by the politician on the expert. Again returning to aeronautical experience in central and western Europe, it has seemed to me that it is rather the other way. Those nine rules which govern German aviation were drawn up by experts in aeronautical matters and so far as I know the experts are pretty well satisfied; they do not say they are perfect, but most of them are not complaining very loudly. Most of the complaint comes from those who are laymen in aeronautical matters, who are suspicious because they do not fully understand the rules and the way in which they are being applied and the meaning of the limitations that they apply.

PROFESSOR MANLEY O. HUDSON: I would like to make just two points. I very much agree with General O'Ryan's insistence that this problem is dependent upon the development of a state of mind with reference to the solution of international difficulties, but may I suggest to him that perhaps the existence of armaments is one of the factors to be taken account of in going about the development of that state of mind.

I find it very difficult to believe, as General O'Ryan said, that armies and navies are maintained by all countries simply because the people believe they are necessary to their defense. I think many people probably take pride in the maintenance

of their navies and their armies. Surely one of our problems is to get rid of a state of mind in which they are taking pride in the maintenance of their armaments, and I think one way to go about that is to reduce the size of existing establishments.

The problem is not, as Mr. Gardiner seemed to think, citing statistics that I certainly do not understand, a problem simply for this country. It seems to me to be an international problem.

I should like very much to associate myself with what the chairman has said about the place of the expert in this matter. There is an old statement, I believe, that an expert should be on tap but not on top, and in this field the statement is peculiarly applicable. The politician's job is to say that you are going to have some reduction in armaments; the expert's job is to say how that reduction is to be accomplished, how it is to be carried out, and how it is to be watched in the future. I can only express disappointment with the view expressed here to-day that the Washington Conference settled this whole question so far as naval action is concerned. It seems to me that there ought to be a continual Washington Conference. I had hoped there would be a discussion here this morning as to the further steps to be taken toward the reduction and perhaps limitation of naval armaments.

Then I should like to say one word in reply to our experts generally. I think they, and particularly my friend Mr. Warner, have at times used expressions which created the impression that some of us had in mind a final action that might be taken once and for all in these matters. I believe I am conscious enough of the difficulties to say that no final step can be taken, that a process of limitation or reduction of armaments must be a continuous process, calling for continuous action and continuous conferences. I think the great difficulty about the Washington Conference was that it adjourned; that the delegates went home without making any provision for their meeting in the future. It seems to me that what the world needs, as Mr. Shotwell has so often stated, is some kind of a continuous process for the consideration of problems of disarmament in the light of experiment and trial.¹

¹ For the address which the Chairman, Professor Shotwell, delivered at the conclusion of this Round Table discussion, see p. 79.

DISCUSSION:¹ DISARMAMENT, SANCTIONS AND AMERICAN POLICY

CHAIRMAN, JAMES G. McDONALD:² Dr. Martin pointed out what I suppose nearly all of us have realized—that the League, during its first three or four years of life, tended to develop in practice toward what we called a Quaker League. That was more or less a definite concession to American opinion, or what they supposed to be American opinion. Article X was soft-pedaled. The other sanction articles, XI, XII, and XVI, were little referred to. Various attempts were made to interpret them, to soften them, to modify them.

It is my personal judgment—I may be quite mistaken—that the members of the League desired to conciliate American opinion and to bring us nearer to Geneva. But, as Mr. Martin pointed out, by 1922 or 1923 either they became tired or discouraged about America or their own situation became so acute that they determined to face in a different direction. Therefore you had a consistent policy during 1923 and 1924 culminating in the Protocol and the Locarno treaties.

I might interpose a remark that was made to me by a distinguished Britisher speaking about the Protocol just a few weeks after the discussion in Geneva. He said the Protocol was the lawyers gone mad, meaning that the Protocol, in its emphasis upon logic and upon an attempt to get an absolutely water-tight and fool-proof contrivance against war, was carrying logic to an absurd extent.

MR. H. KALTENBORN:³ I was very much struck by a repetition, in something that Mr. Martin said, of what seemed to be the general line of thought at yesterday morning's discussion on this same subject, namely, that in discussing disarmament we are concerned primarily with economic issues and that, as Mr. Martin expressed it, a mere matter of a hundred or two hundred thousand troops makes comparatively little

difference. And he cited the fact that we could depend upon the opposition in parliaments to hold governments down to a reasonable basis of armament.

My own feeling is that so far as the popular mind is concerned, that is not true. I think it is tremendously important whether the country has one hundred thousand or two hundred thousand soldiers. I believe the impression on the popular mind still is and will continue to be for some time that you must estimate armies largely on their face value. Those who study the question a little more realize that that is not true, but the great public does not realize that and it is the great public that influences parliaments. It is the great public that ultimately, in democratic countries at least, creates armies or reduces them.

So my feeling is that this suggestion, as well as the suggestions that were made yesterday along the same lines, may be rather dangerous if they take us away from a concrete consideration of what can be done in the direct reduction of armed establishments. I feel that for some time that will be the important thing upon which our thoughts should center, even though our economic and naval and military experts tell us it is going to be difficult to arrive at a formula for diminishing armaments.

MR. WILLIAM HOWARD GARDINER: I will take up Mr. Von Kaltenborn's challenge. The suggestion is that the all-important thing is to reduce armaments.

Before we address ourselves to that I think we ought to discuss the question: Do armaments tend to cause wars or to prevent wars? There has been a great deal of talk, covering many, many square miles of paper, to the effect that armaments, of course, cause wars. It is possible, however, to develop a thesis to the effect that, not armaments, but the lack of armaments, the lack of balance in armaments, causes wars. I should like to see some discussion along those lines.

MR. HERBERT C. PELL:¹ It seems to me that there is a great deal in the theory that a reduction of armaments, though it would not end wars, would lessen suspicion in other countries. I have too high an opinion of my countrymen to believe that the only thing that keeps the United States from entering on

¹ Round Table Conference No. 4. For papers read at this session, see pp. 41, 45, 49.

² Chairman, Executive Board, Foreign Policy Association, New York City.

³ Associate Editor, *Brooklyn Daily Eagle*, Brooklyn, N. Y.

¹ Former Congressman from New York.

a career of aggressive warfare is the fear of defeat. I do not think that we are a nation of bullies and cowards. Peace cannot be maintained by the dominance of fear over arrogance. There can be no doubt that very large military armaments in any country are bound to arouse a certain amount of suspicion and fear in others. A war caused by armament will not come from the wild desire of the soldiers and sailors of the well-armed countries to exercise their profession, but from the fear of other peoples. It would be caused by a panic. Disarmament is an agent of peace, not because it lessens one nation's power of attack, but because it decreases the fear and suspicion of others.

ADMIRAL PRATT: I am quite in accord with the speaker that preceded Mr. Gardiner. [The reference is to Mr. Kaltenborn. ED.] As a matter of fact there was a certain amount of tension existing between the United States and Japan before the Washington Conference was called. It was due to naval armament. It was necessary to find a way to reduce that feeling and as a result the Washington Conference did succeed in producing a certain amount of agreement.

There is no question in the mind of every thinking military man that competing armaments do have a very bad effect.

As to the question of whether you distinguish between the amount that you start in with and the industrial factors that come in later, I noticed yesterday a question was asked as to the difference between preventing war and limiting war. Every military man knows what it means to take the initiative. If you have a large force at hand you get the jump, and it can never be overcome by any amount of industrial effort made later; that is what we call limited warfare; that is what Oppenheim describes as the war waged between states by armed forces. If, however, the fire spreads to a conflagration, you then have unlimited war which everybody should stop at all hazards. That is where your sanction comes in. So it does make a difference whether you proceed sanely or, as military and naval men say, "Let's not proceed in an unthinking manner."

CHAIRMAN McDONALD: There does seem to be a general tendency to the French point of view, to emphasize the underlying economic factors. I know you have studied the League

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questionnaire which Mr. Miller discusses so provocatively in the pamphlet which our association has issued.¹ There the question is asked as to the effect of economic resources and potentialities, and I assume that there is at least in France and elsewhere in Europe a strong body of the opinion which would count these underlying potential resources as armament in the same way as others would count the actual armed forces of the country.

DR. E. T. DEVINE:² I had not supposed that there would be such a difference of opinion about the desirability of disarmament.

When Mr. Martin said yesterday in another section that the League of Nations had developed an interest in its social section chiefly because of the abstention of the United States, I felt that he brought forward the best argument I have yet heard in the United States in favor of our abstention. If it is true that the interest in labor and in health and in child welfare has preoccupied the attention of the League rather than agreements as to how to prevent war, that seems to me all to the good. I am inclined to think that if the League is multiplying the points of contact, by dealing with substance rather than machinery—I am thinking particularly of the social section as dealing with substance, dealing with the things that affect happiness and the content of life rather than the formal relationship of nations—the United States is indeed contributing something to making the League of Nations successful by abstention.

CHAIRMAN McDONALD: Dr. Devine is an optimist. He would enlarge and develop the League through abstention. He is optimistic and not particularly flattering.

DR. BRUE: I noticed the description that you made of a certain position as the Quaker view.³ Possibly I ought to say that I am a clergyman. The clergy object to war less as a matter of theory than as a practical thing. We object to war

¹ *Problems of Disarmament*, F. P. A. Pamphlet No. 37.

² Author and lecturer, formerly professor of social economy, Columbia University, 1905-1919, editor, *The Survey*, 1897-1912, and director New York School of Philanthropy, 1904-7, 1912-1917.

³ In summarizing Mr. Miller's paper, the Chairman had alluded to the opponents of sanctions as "the Quaker group".

because we object to letting a child take a box of matches into a room full of gunpowder. We recognize that war is exceedingly contagious, that it spreads with tremendous rapidity, and that the world is now so interdependent that we cannot permit any two nations, however small, to get into a fight without endangering the whole world.

The safety of limiting armament and the degree to which armament is to be limited depends largely upon the amount of armament that somebody else has. At present there is serious danger that seems to come partly, at least, from Russia.

In this connection, may I repeat a little piece of my own experience? I was in Juno, Alaska, thirty or forty years ago and I delivered an address that was exceedingly offensive to quite a number of persons there. The inhabitants were a very rough crowd. As I went down into a store I was greeted with the announcement that I ought to be shot, and when I left the store I was followed by two or three men and they fired three quick shots at me. I stepped behind a large post, drew a revolver, and covered those fellows. They were entirely in the open and I was entirely covered but for my revolver and one eye. The result of being well armed was perfect peace.

DR. WILLIAM MARTIN: My point was not really what the chairman calls the French contention respecting the potentiality of armaments. I refer to protectionism and to the danger which protectionism in Europe, at least, implies in itself where armaments are concerned.

Just before I left Geneva the Section on Disarmament of the League of Nations published the new issue of the big year book on armaments, which is really a very interesting publication and gives some very impressive figures. If you look at this publication very carefully you will see that the armaments are really decreasing in every country in Europe. Of course, in China and certain other places there is an increase, but in all the countries of Europe the armaments are decreasing.

There is much more of a decrease than the figures indicate because in the figures before the war everybody had a tendency to give too low a figure for the army and actually the armies were bigger than they were on paper, but now it is just the contrary—every country has a tendency to announce a big army but in most countries the men on paper really do not exist

in the army. The armies of Europe are really much smaller now than you believe, and that is why we think the danger is no longer really military.

But we are very much impressed by the danger of protection, because protection is, first of all, very expensive—I mean expensive for the people because it raises the cost of living. That is a very big and important aspect of the question, because European people cannot afford to give, for a long time, great sums to support artificial industries, and the day may arrive when the people will say, as they did in 1914, that it is better to have a break than go along in this way for a very long time.

The second thing is the unrest which it is creating in all the people. Every nation is creating new artificial industries to be independent of the other nations, and the other nations do the same. This tends to create a distrust between nations, which is just the situation out of which wars usually arise.

You know, as one gentleman pointed out here a short time ago, that you are not protected unless you are better protected than the other man. So you have always to make your taxes higher in order that your army may be larger than that of the other countries. It must have an end because it is impossible to go to the sky. Nobody knows what the end will be, but I must say we are rather worried about that. We are under the impression that the wars will not come, for a time at least, because we have so many soldiers—but we have not as many as one believes. We are also under the impression that war could come because of this feeling of unrest and the difficulties arising on account of protection, and that is why we lay so much emphasis upon the economic side of the problem. It does not mean, however, that we are paying no attention to the other side.

Just one more word. It has been said the great public does not appreciate the reality of these dangers. I do not think that is true in Europe. Of course, it may be quite different here, because you have a very different situation. But in Europe you will find that armaments are too expensive in most countries, and I think that most of the people realize what armaments mean.

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MRS. ALEXANDER HADDEN:¹ Is there any possibility of having voluntary sanctions instead of enforced sanctions?

CHAIRMAN McDONALD: Mrs. Hadden is raising the point of sanctions, which is the real subject of the morning.

ADMIRAL PRATT: A definite policy of limitation of armament applied to naval ships had a definite effect. We distinguish between protection and security. There was an insecure feeling in regard to naval matters before we did something definite. The problem was put up to naval men and they saw it in a certain way. It had a result. It gave us security. It reduced armaments in a naval sense, and we would like to have seen it carried straight through because we would have eliminated the competition that is going on to-day.

The result was also this: It apportioned automatically the amount of national resources which went directly to armaments. It also enabled us to look forward to making out new rules of international law, looking at the situation broadly, in order to get law once more back to the same basis which it was in before we went to the war. Now we naval men wonder why we can't try a 5-5-3 ratio in Europe with military forces—take a chance at a ratio or something of that sort—and the question will automatically solve itself and that feeling of security will come.

CHAIRMAN McDONALD: Admiral Pratt has not answered Mrs. Hadden's question, but he has raised a point which I think some of the people I see in the audience ought to discuss.

MR. E. W. OPIE:² The questions of security and armament are very closely intertwined, and this paradox of security and armament is reminiscent of a certain type of negro in my part of the country. He will let some one take his gun away from him without much ado but when somebody tries to take his razor he figures that that is an infringement on his personal liberty and his right of security.

Conceding the point that discussion of limitation of armament is helpful in preventing war, it occurs to me that we are in danger of mulling the real basic issue of these discussions. General O'Ryan made the point yesterday that there can be no real disarmament because if we do away with arms and arma-

¹ 67 Park Avenue, New York City.

² Of *The Leader* Publishing Co., Staunton, Va.

ments we still have the fighting instinct left in men, and that unless we change the hearts and minds of men we will not do away with war. To effect this change, he said, agencies must be established which will furnish a means for the settlement of international disputes that are now left to the arbitrament of war, and as confidence is established in these agencies, nations will voluntarily reduce their armaments.

It has been demonstrated by various experts here that there can be no real disarmament without limiting or even eliminating legitimate industrial development. To my mind the real issue was stated by General O'Ryan. To limit war, to eliminate war, you must change the hearts and minds of men. We haven't a great deal of influence on the hearts and minds of Europeans and persons of other nationalities, but we can put our own house in order. When we sit idly by and let the Congress of the United States offer a gratuitous insult to a great nation like Japan and get away with it, we are certainly not putting our own house in order. When we let the United States Government refuse to send a representative to explain the Senate reservations to our adherence to the World Court, we are certainly not meeting the other fellow halfway.

It seems to me that the solution of these problems is around a conference table and the adherence of the United States to conferences toward this end. How we are going to do it is a moot question.

The greatest conferences of today are the conferences of the League of Nations. It has entered into practically every argument before this body. Why blink the issue? The real agency, to my mind, which has been set up and which General O'Ryan said is so necessary if we are to eliminate war, is the League of Nations, and it seems to me that the greatest step that the United States of America can take toward helping in this matter is adherence to the League. I believe that we of the press can help take this matter out of partisan politics by advising people who come within our sphere of influence toward that end.

DR. SHOTWELL: I wanted to say that it seems to me that from the discussion of these two days it is necessary for us to make more precise what we mean when we talk about armament. And the first thing that is clear is that we mean different things.

Europe, by and large, has learned now the actual and potential value of every means of defense because it is straight up against danger. We normally think of the organized striking force. Now let us say when we are talking of the limitation of armaments that we are not talking about limiting the whole productive capacity of the modern nation. We are talking about striking force, as Admiral Pratt has so definitely and clearly stated. Let us say we are talking of the limitation, reduction or control of the existing armaments in that sense of the word. The potential armaments which exist in chemical works or industrial mobilization carry us into an entirely different realm. The solution is not the same in these two realms.

There is a definite matter of arithmetical coefficients to be established as regards the striking force. The Washington Conference showed it was possible in one sphere, although every one had said, when the conference met, that there was no possible formula. But at the same time I do think we have to learn in this country that the potential armaments are much nearer than we conceive to the striking force in nations that are close up against danger.

Then let us bring the pertinent solution to that set of problems. It has been seen already from the discussion that the pertinent solution lies in political solutions which tend toward the elimination of the controversies of war. Even protection may have a military tinge to it in the European situation. Therefore, dividing these two problems very definitely and clearly, let us realize that the problem of the reduction of armament includes such matters as can be handled in relation to war offices and navy administrations or air forces, existing or on paper; then, with reference to the larger issue, turn to the League of Nations, to the courts, to the ultimate means for peaceful solution. Of course, I should like to have more time to go into that.

MR. W. T. ANDERSON:¹ I only make this comment and interpose my point of view at this particular time in order that a sectional view may be presented in contrast, possibly, to an international or a national view, which is probably more conspicuous in this particular section.

¹ Publisher of the *Macon Telegraph*, Macon, Ga.

If a presidential primary may be so interpreted, the State of Georgia gave 48,000 votes in favor of entering the League of Nations. It cast 80,000 votes for two other candidates opposed to the League of Nations.

The matter of armament seems to me, first and last, much like the question as to which came first—the egg produced by the hen or the hen produced by the egg. We find out that the person who is armed is much quicker to fight. We have demonstrated that.

One gentleman made reference to the negro and the razor. I notice if we send out a couple of men and disarm the men going to a negro meeting—have them check their weapons—we never have any fights or arrests in that meeting.

I am unequivocally in favor of the League of Nations on some basis, compromise or otherwise, and the World Court, with a sufficient police power allotted to the different nations to support the verdicts of that World Court.

It seems to me if we were to arrange this police power on a very limited basis it certainly would tend toward the reduction of war. As to the question of sanction or approval, if our particular police power should be loaned to that World Court for the upholding of its decisions, that would be a tremendous compromise; but the whole history of the world is one of compromise, and where you don't get compromise you usually get war.

As I say, just presenting a sectional view and interpreting my own section in so far as I am able to do it, I believe that would be a practical basis and I have advocated it, and although the world hasn't seen fit to follow out my ideas I am still hopeful. The world has been in existence for something like two hundred million years and man hasn't made much progress, but the Creator is still patient. I am hoping that in the next two hundred million years the world may endorse some of my views. But that doesn't discourage me at all. I believe we ought to do the very best practical thing we can and be content to make our contribution to the peace and welfare of the world.

We need take no particular credit to ourselves because ours is such a peaceful country. The other countries have nothing we want, and that is why we are so peaceful. We enjoy

prosperity and have a particularly rich country and we are isolated. I don't fool myself one particle about man. He has a coat of varnish on him about as thick as the thinnest piece of tissue paper, and whenever you scratch through that coat of varnish you have got the animal, the same as they have in any other country.

Education is the cure for this thing, and out of education comes idealism, civilization and soulfulness and the climb to God. I believe that it was intended by the Creator that through spirituality we should get somewhere eventually, for the reason that spirituality is universal. But we have a long fight to make, and I believe education is the thing we have to address ourselves to; and although it may be, as I have said, two hundred million years more, I am still hopeful.

CHAIRMAN McDONALD: I am glad to have an American voice, in the presence of half a dozen or more foreigners, confess that really sometimes we do doubt whether we are so much better than they are. We don't often admit it but we do occasionally doubt it.

I wonder if somebody won't address himself to the technical point on sanctions. We ought to get around to that.

I am looking at a distinguished authority on international law. Dr. Scott, what about the question which was raised here awhile ago as to the possibility of Quaker sanctions or compulsory sanctions?

DR. JAMES BROWN SCOTT:¹ Mrs. Scott has just whispered a word to me to the effect that I am here to listen and not to instruct.

CHAIRMAN McDONALD: Of course we have no desire to have domestic war any more than international war. Under the circumstances we accept Mrs. Scott's judgment.

MR. PHILIP JESSUP:² Perhaps I don't come quite to your technical point, but I think there is a point possibly involving the question of sanctions that is not usually so considered. It is a point which Dr. Martin touched on in his opening speech. I was at the back of the room but I understood him to say in connection with his discussion of the German-Russian treaty

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² Lecturer on International Law, Columbia University

that it was the policy of the League of Nations to increase the number of neutrals.

I have a little question in my mind as to whether it is a policy of increasing the number of neutrals or of eliminating neutrals altogether. That is, whether the point is not to gather all of the nations against a particular aggressor, thereby making them all belligerents and destroying neutrality as a system, and through that abolition of neutrality applying a sanction.

I raise that point in connection with a thesis which has been developed by Professor Hyde of Columbia in an address before the New York Bar Association, which has been reprinted in the *American Journal of International Law*—the question of the relation of international law to disarmament. Professor Hyde's thesis is that if it is possible to get nations to agree in advance to arbitrate differences rather than go to war, it is also possible to get them to agree to limit the methods of warfare which they will employ. He suggests that if you get an agreement, barring, for example, that form of commercial warfare utilized upon the seas in the last war by which the commercial ships of the enemy were destroyed wholesale, and confining your activities to a struggle between the actual belligerent forces, the armed forces, you may in that way be able to find a basis for the limitation of naval armament.

He suggests that the desire to increase forces of auxiliary craft, and perhaps the chief utility of submarines, depend upon whether you can be assured that your commercial craft are not to be attacked upon the seas. The question of establishing more clearly the rules of international law as to the exemption of merchant vessels may have a distinct bearing upon willingness of nations to work out and adopt a formula for the reduction of certain types of naval craft.

CHAIRMAN McDONALD: Mr. Jessup's point is very interesting. My only reaction is that before the war some of us who were teaching in college, used to explain that gradually war was being abolished through the steady expansion of neutral rights and the steady diminishing of belligerent rights. I think everybody agrees that in the fifty or sixty years preceding the world war belligerent rights were more and more narrowed and neutral rights more and more broadened. Therefore we, in our simplicity, said, "This is a process which

has gone on for a long time. It will continue and gradually we will so restrict belligerent rights that it won't be worth while having any war at all."

But we forgot one fact, and one important fact is enough. We forgot that in most of these wars preceding the Great War the bulk of the world had been neutral and therefore the bulk of pressure was to maintain and enlarge neutrality and to restrict and limit belligerents. So we had this very hopeful development. But in 1914 and 1917, and even before we got into the war, the bulk of the world—that is the influential part of the world—was belligerent, and what happened? Our beautiful theory was exploded. Neutral rights! Where were they? Those that the Germans failed to smash up the British took good care to destroy, and so by the end of the war there was nothing left of this beautiful theory.

Now I merely raise the question whether anybody would believe that no matter what our agreement was as to not attacking commercial vessels, it would be safe to rely upon it.

MR. JESSUP: May I just interject a remark, and that is to point out that during the wars of the French Revolution and Napoleonic struggles one of the greatest advances in the law of neutrality came about at that time through the efforts, largely, of the United States, which at that time was an extremely weak and infant nation. In military power, the belligerents were by far the stronger side of the world, and yet the weak neutrals were able to accomplish a good deal and obtain substantial damages in the form of money payment for the wrongs done them at that time.

MR. GARDINER: It seems to me that, speaking as one civilian to another, the thesis of banning any naval action against mercantile shipping overlooks the fundamental main mission of naval power. The main mission of naval power is not to fight other naval ships. They are obstacles that interfere with the execution of the mission of naval power. The mission of naval power is to assure adequate use of the sea channels for our own movements of all kinds and to deny use of sea channels to enemy movements of all kinds—military, and, more particularly, mercantile. There is the blockade. The thesis just suggested overlooks the main central objective of naval power, namely, the "control" of maritime communications of all kinds.

MR. SCHOTTHOEFER: The Russian-German Treaty is something of a surprise and I feel rather inclined to excuse it than to defend it. That treaty, as you know, is born of a political spirit, and even the German Government, if I remember well—I must confess that I have neither the text nor the letters exchanged concerning the treaty—has expressed the opinion that the treaty would never be applied. I myself think the treaty enters into the whole of the European politics. A guarantee of peace is a means of procuring security, and security is a primary condition, from my point of view, for disarmament. I think that the German-Russian Treaty is a step in that direction, in so far as it will aid in maintaining peace in the eastern part of Europe.

If I may be allowed, I would like to answer a question, or rather an idea, expressed by some gentleman who said that the Russians are not in favor of peace, that you must keep your revolver directed against Russia.¹ I am not sure this is really true. I may say that I have visited Russia several times and I think that even Soviet Russia will not be a menace to peace by its own will. On the contrary, the Soviets are interested in keeping peace. They represent another political state, another social system. They are afraid of any intervention that they think is coming from the outside. They are quite sane about their church, about politics, economics and all those things, but if you speak to them about the possibility of uniting the whole capitalistic world against Sovietism they lose every shred of reason.

I think that the spirit of the Russo-German Treaty in the main is to maintain peace—that is to say, by avoiding a war against Russia.

DR. SHOTWELL: This Russian-German Treaty ought, I think, to be considered, at least academically, in line with the other treaties that Germany has made. It is still outside of the League. It has made a number of very interesting treaties with its neighbors. The Conciliation Treaties embodied in the Locarno agreement came from Germany, not from the outside. There have been traditions developed in the German Foreign Office which are a hopeful sign of cooperation for other nations. I take it that our judgment with reference to

¹ Cf. *supra*, p. 100.

the treaty with Russia should be based in some measure on this broader aspect of recent German policy.

The United States, while outside of the League of Nations, has done nothing that bears comparison with what Germany has done in the establishment of compulsory arbitration in this treaty. We are lagging behind. We are unaware of what has been done in Europe toward the establishment of this alternative for potential armament. The German treaty with Sweden is so far in advance of our treaty with Sweden that we may well take the comparison into account in our view of the international situation.

CHAIRMAN McDONALD: May I simply call your attention to the fact that all of these treaties which Mr. Shotwell has referred to, and many others, are incorporated in one of the most convenient books I think the League of Nations has yet issued. It is a very recent publication which they call *Arbitration and Security*, a systematic survey of the arbitration conventions and treaties of mutual security deposited with the League of Nations. It contains the text of all the recent arbitration treaties and I am sure that it also contains our 1925 treaty with Sweden in which we, in dealing with this very dangerous neighbor of ours, have continued to include those exceptions of national honor and vital interest which are, of course, big enough doors to drive anything through.

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PART II

RAW MATERIALS IN RELATION TO INTERNATIONAL PEACE AND ECONOMIC PROSPERITY

THE RELATION OF RAW MATERIALS TO PEACE AND PROSPERITY¹

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AS the economic chaos of Europe continues, there seems to be a tendency for political emotions to subside and for the economic interests of the people to be given a chance to articulate, as witness the proposed economic conference of the League of Nations to be held in Geneva next October. When we call their attention to the economic results in the United States as an example of what one or more customs union groups of European states might in some degree accomplish in increasing their productivity per capita, which is the only source of economic improvement, they are apt to reply: How can you compare your unequaled natural resources of food and raw materials with any possible European aggregation! I am in hopes that the papers to be submitted this evening will throw some light on this delusion.

I have been long since convinced that our so-called advantage in food products and raw materials has been greatly overestimated. We have experienced within the past few years the influence upon the world's food markets through the development of Canada, the Argentine, and other countries, always bearing in mind the potentialities of Russia, and the scientific progress, through the use of fertilizers, in increased acreage productivity. In visiting Germany last year, I was repeatedly assured by German agriculturists that the progress they are making in reducing the cost of nitrates will enable them within a few years greatly to increase the productivity of their soil.

The normal low cost of ocean transportation, as a matter of fact, has practically equalized the cost of imported food to all those Western nations having deep-water ports. Only two or

¹ Address delivered by Mr. Brookings as Presiding Officer at the Third General Session, Wednesday, May 12, 1926.

three years ago we found ourselves unable to compete with other nations in the world's food markets, and the pressure of our rapidly increasing population with the enhanced value of our agricultural lands has a tendency to accentuate this situation. We usually classify the most important raw materials under the heads of textiles and minerals. As our own cotton from the basic markets of New Orleans and Galveston finds its way into foreign ports at about as low cost of transportation as to our New England mills, we seem to have no advantage over other nations in this important commodity; and as we are compelled to import largely of wool for our own consumption, we certainly have no advantage in this commodity over any European nation. The same argument applies to hides and leather. While we recognize the importance of minerals and especially credit steel as being the key to industry, here again, notwithstanding our rich Lake Superior and Alabama ore deposits and our unequaled coal supply all located some distance from the seaboard, we cannot claim to have any special advantage over the balance of the world. We are told that the Bethlehem Steel Company is developing the largest single steel plant in the world at Baltimore, where they use nothing but imported ores, and we have only to glance at the market quotations of basic steel products on the other side of the water to be convinced of our having anything but a monopoly of this important industry.

Any survey of raw material advantage must take into consideration the growing importance of the laboratory. The recent development of artificial silk, and the announcement that similar results are assured in artificial wool, indicate the future influence in this direction. Then again we find that basic or semi-finished products like pig iron float all over the world at a minimum cost of transportation, and can be accumulated with practically no cost of storage or of fire insurance. The pig iron may then be refined without serious handicap in any country which has fuel. In other words, occupation for population is found in the refinement process rather than in the production of basic materials or semi-finished products. It would, in fact, be difficult to name a mineral of any importance that is not produced some place in the world at as low or lower cost than with us.

As we think of the needs of a people in terms of housing, food and clothing, this leaves us only the question of housing, which by necessity is a local question, with seemingly no special advantage in any country. The consumption of our own timber supply has now established our lowest lumber market on the Pacific Coast, and the cost of transporting this lumber by water to our centers of largest demand, or Eastern ports, is practically the same as to European ports where we meet the competition of Canada, Norway, Sweden, and Russia.

In fact, a simple glance at the cost of living in all of the European countries as compared with our own, even after taking into consideration our higher wage, is sufficient evidence that we enjoy no basic or fundamental advantage in housing, food and clothing. If Europe would follow our example of industrial efficiency by adopting labor-saving devices and standardized mass production and our economic democracy of a relatively high wage through which to distribute equitably among the workers the resulting increased production per capita, they would soon find their economic well-being greatly improved.

Finally, if we could only form the habit of visualizing international trade as analogous to double-entry bookkeeping, where each dollar of import must show a corresponding dollar of export (either in commodities, services, or credits which we discuss as visible and invisible items), it would probably save the world a lot of waste resulting from a lack of clear thinking. The seeming wide discrepancy which exists at times between our imports and exports is balanced by such invisible items as our expenditures in foreign travel, alien home remittances, services of various kinds such as insurance and transportation, and the always easy adjustment of credits through international loans. Eventually our foreign loans will either be consumed in travel and other invisible items or come back to us directly or indirectly as commodities, which constitute, after all, the only foreign source of our increased national wealth.

THEORY AND PRACTICE OF NATIONAL SELF-SUFFICIENCY IN RAW MATERIALS

GEORGE OTIS SMITH

Director, United States Geological Survey

NATIONAL self-sufficiency is only a relative term. It is a balance between variety of demand and adequacy of supply that can never be in perfect equilibrium. A new use of this or that material calls for a larger supply, and we have to import what we had previously been exporting. A substitute is developed, and a deficit that had to be met with imports changes almost over night into a surplus. Or some industrial trouble may create a temporary scarcity that draws foreign material to these shores. Fluctuations in market prices commonly mark the ups and downs of this balance, and the ebb and flow of international trade exhibit the needed corrective to its lack of perfect adjustment.

Among the continents, North America has been so richly blessed with natural resources—climate, soil, forests, water power, and minerals—as to suggest that here is a group of Nature-favored nations. This condition is best exhibited in the well-recognized large degree of self-sufficiency of the United States in raw materials—a strategic advantage which is more than an academic theory, for we approach material independence in practice. Yet this highly advantageous situation has its limits, and there is some danger in the psychological self-sufficiency which discounts resource inventories and discourages national cost-keeping. Indeed, we might describe one phase of our national self-sufficiency by saying that it is the alibi promptly set up by the American industrialist whenever it is suggested that we need to take thought for the morrow. Fear of governmental action of some sort immediately arouses vehement assertions that all is well—we have enough of everything, and even if we haven't we will find it.

If we ask ourselves what degree of national self-sufficiency is most desirable, a satisfying answer is not at all easy, since

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international commerce is based on lack of complete national self-sufficiency, and present-day intercourse between nations as we know it rests on this exchange of goods.

One nation may depend upon foreign supplies preeminently for foodstuffs, another may be deficient in fuel, and it is easy to see the advantage of exchange of products—for example, between England and Denmark. The dependence of a nation upon its neighbors or upon more distant countries may even express itself in a considerable variety of goods—foodstuffs, fibers, forest products, the mineral fuels, the metals, and various mineral raw materials.

In the following outline of theory and practice of national self-sufficiency, I shall refer chiefly to the mineral raw materials, for the obvious reason that I have had more contact with mineral resources than with other materials, but also because minerals can neither be made nor replaced by man's agency—they cannot be found or won unless they already exist, and once they are mined there is no renewal of supply. A lack of platinum ore or a worked-out phosphate deposit therefore presents a deficit quite different from a shortage in wool or wheat. Thus it is that minerals can in a special sense place limitations upon a nation's independence.

In both theory and practice the measure of a nation's material self-sufficiency changes as and because the times change. No demonstration is needed of the fact that the complex civilization makes more varied and larger demands for raw materials than the simpler society. We have only to compare the self-contained life of our colonial fathers and mothers on the frontiers with our present urban life, where a single day's stoppage of transportation begins a long chain of shortages in the necessities of life. In early days the communities in northern New England were self-sufficient in their fuel supply; now a coal strike in Pennsylvania subjects them to real hardship. Then a local supply of iron ore and charcoal provided the metal they needed, whereas now several distant states contribute the ore mixture and the coke that make their steel. Still another illustration: A century or more ago, potash from ashes was commonly produced in the newly settled parts of Maine and was one of the few exportable products of home industry, being sent down to tidewater by canoe or wagon;

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now German mineral potash by the carload is shipped in to the potato fields in what was then untouched forest.

It is this ever-changing civilization of ours that makes hard-and-fast inventories of reserve supply and definite estimates of future demand impossible. Practice in such matters is fairly certain to discredit theory, and the way of the estimator is hard. For example, take petroleum: When resolved to something approaching common terms, the estimates of United States petroleum reserves made in the last twenty years have varied at the most only seventy-five per cent, but in the same period the annual rate of consumption has increased more than sixfold. Another item of uncertainty in estimates may be illustrated by copper: In 1900 the outlook for ore reserves was based on a requirement of five per cent metal content, but ten years later engineering advances brought into our reserves ore carrying only two per cent.

In making inventories of present and future reserves, facts of geographic distribution and of distance between centers of supply and demand are of prime importance. Mr. Schwab once referred to this "handicap of distance" and in the mineral industry this handicap has been the hundreds or even thousands of miles separating mine and market. Costs of transportation have to be reckoned with when we figure the availability of a specific deposit as a contributor to the nation's needs.

Our country happens to be of continental extent, with the result that trade between the states possesses a certain similarity to international trade on the Continent of Europe. For example, the movement of Minnesota iron ore to Pennsylvania furnaces and of Swedish ore to furnaces in the German Ruhr means in each case a journey of approximately one thousand miles and a comparable division between rail and water transport. The one outstanding and significant characteristic of these long-distance hauls of ore and coal and metals within the United States comes from the fact that our Constitution prevents the erection of any barriers to commerce "among the several states." The founders of the new nation saw the logical connection between political and economic union, and the interstate commerce clause was their wise recognition of the principle that no state can or should live unto itself.

The country's reserves of one or another mineral are commonly measured in tons, but the dollar mark of price becomes the unknown variable, the presence of which puts wide limits on the tonnage actually available. Those three short words "at a price" will ordinarily warrant the most optimistic estimates. Thus, with respect to most of the metals we may think of goodly reserves being made available by reasonable price increments, though for a few, such as platinum, nickel, and tin, which are very sparsely distributed in the rocks of the United States, this rule would almost certainly fail. On the other hand, with other metals a high price would make available large ore deposits of a grade far too low to be now utilized.

The true measure of any kind of reserve, however, is the rate of consumption. That rate reacts with and upon price, and it advances in response to inventions, whether of new methods of production or of new uses, and declines in response to the discovery or price-lowering of substitutes. Some, perhaps, of these interactions of price and use can be forecast: the use of lead in storage batteries could stand an increased price that would eliminate lead in paints. Or regarding the rivalry between aluminum and copper, for certain uses, interesting conjectures might be made.

In considering the ultimate limits of a nation's wealth in minerals, it is proper to distinguish between minerals that are dissipated or consumed in the using — as, for example, the fuels — and those of which we are accumulating a working capital — as, for example, iron and copper. Even the same metal may be consumed in different degrees: the copper trolley wire suffers an actual loss in use not shared by the copper transmission line not far away. A still greater contrast between the metal which is repeatedly reinvested in new uses and that which is used only once is afforded by the copper and brass used in building construction, practically all of which eventually returns to the furnace, and the brass wire used in making pins, which leaves the brass works by carloads and never reappears in the metal trade.

Adequacy of supply is a concept that eludes definite assertion; at least two variables enter into the equation when we attempt to translate our ideas of national reserves into years.

Even broad classifications of mineral raw materials in terms of international trade are subject to frequent amendment, as is shown by a comparison of such a list given by Professor Leith in 1918 with later lists prepared by a committee of which he was chairman. Yet these very changes have tended to perfect our theories relating to self-sufficiency.

The broadest classification of natural resources is that of energy resources and industry's raw materials, and it is by reason of its wealth in energy resources that the United States stands out among the nations—here we truly appear self-sufficient for a long future. Both in the quantity of power now used and in the energy stored up for future use the United States is preeminent. This abundance of mechanical energy, with which to lengthen and strengthen the arm of human labor, both increases the demand for industrial raw materials and increases our supply of metals, for instance, through reducing the mining and metallurgical costs. Herein lies the greatest stimulus to inventive genius, and the result is to make us not only greater consumers but greater producers. The net effect on our self-sufficiency in raw materials cannot be predicted.

It is this sufficiency in power that makes America's future seem bright. Careful distinction needs to be made between the adequacy of our water power, of our coal reserves, and of our supply of oil and gas, but together these sources of energy have made the people of the United States the greatest power users of the world—roughly we use ten horse power hours each week day for every man, woman, and child in the country—and yet there is a safe reserve for the future in the coal beds and the rivers of this broad land.

Our natural resources warrant this faith in the future of our national prosperity and progress, but our outlook should be broad enough to include the whole world. Past and present experience teaches us that the greater our industrial development the greater need will we find for foreign sources of raw materials and for foreign markets in which to sell our products. American consumption of raw materials, both for our own use and for export products, is already geared too high to disregard or disdain foreign sources. Exchange of commodities thus becomes more rather than less necessary, and

foreign trade is the essential adjunct to the highest development of our domestic industry.

The American corporation in its marketing program has sought to supply the world, even to the point of waging skilful campaigns for creating a demand for the American product, with the result that although the homesick American traveler may miss the vision of his well-beloved flag, rarely is he out of sight of some familiar trade-mark.

The open door in the market sense, as I understand it, means freedom to buy and sell in any country on equal terms with other non-nationals. Whether we can properly ask or expect equality with nationals depends upon our own practice—the test of the Golden Rule.

American labor with its unique endowment of power can be expected to hold its own in foreign markets. A favorable balance of trade, incidental to the exchange of manufactured goods for raw materials, provides new capital, a natural outlet for the use of which, at least in part, is foreign investment, especially in the development of raw-material sources. Indeed, it is essential that American capital take this course to insure the continued prosperity of the home enterprises in which American labor also has so large a stake. And rightly conducted, with the present-day policy of introducing American standards of sanitation along with American methods of mining, the entrance of the American corporation can greatly benefit frontier peoples in connection with the development of their resources. It may be debatable, at present, whether the wide-open door for such development should be regarded as a privilege or a right. The Golden Rule is but another name for reciprocity, and it absolutely determines the inherent equities in any claims we may make for the right to discover and develop the natural wealth in the territory of another nation. Whether or not we accept the doctrine that a Nature-endowed nation should regard itself as trustee rather than owner of its resources, we may see more and more clearly that the common interests in a growing trade tend to bind nations together, and that the ideal is to have the currents of international exchange flow wherever they are guided by the trade winds of supply and demand. Embargoes and export duties at present put some limits on free movement of raw materials, and among

the countries of the world the open door to the enterprise of others than nationals is far from universal.

The extraordinary demands of a war program awakened us from some of our dreams of self-sufficiency. Blockades and shipping shortages were the hard facts that demonstrated inadequate supplies of essentials, and incidentally we learned the radical difference between essential and non-essential uses of raw materials. In time of peace the practical advantages of foreign trade appear to offset the theoretical advantages of independence in raw materials. But when the possibility of war is entertained, at once national self-sufficiency in raw materials assumes largest importance. Any worthy program of preparedness against war must include the possession of reserves of every one of the essential raw materials, in the ground or in stock as the particular limitations of each may dictate. To find the facts and to face the facts, and then to act, is a national duty.

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ECONOMIC RELATIONS BETWEEN RAW MATERIALS, PRICES AND STANDARDS OF LIVING: THEIR INTERNATIONAL EFFECT

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WHEN the angel of peace and plenty deposited her precious cargo upon this earth, the distribution of it was far from uniform. It is gradually becoming evident that peace and plenty may best be obtained by the interchange of essential commodities. Monopolies improperly administered engender reprisals, and their permanency is as impossible as is the permanency of any policy based on military might, upon which attention has largely been focused. Less importance has been ascribed to industrial might, notwithstanding its potential possibilities of defeating that ethical concord which we may term "justice."

Thousands of years have been spent in an effort to seek some measure of ethical concord between the peoples of a race. A famous English rabbi stated recently that whereas the Jews were unable to accept the Christ of Christianity, they might willingly accept the Christianity of Christ. By enlarging this principle to include the ethics of Confucius, Buddha, Mohammed, Moses, and Christ, regardless of leadership, we find an inherent sense of ethics common to all races and to all men which may constitute a basis for the interrelations between peoples as well as between individuals.

We may accept without controversy the feeling that the growing intimacy of peoples has been fostered by this inherent ethical concord and encouraged by communication and transportation. Nations have primarily developed ethical methods in dealing with their nationals collectively as evidenced by the great lawgivers from the dawn of history, but practical existence has prevented the full realization of these ethical hopes.

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We may fairly assume that modern jurisprudence represents the present limits of realizing ethical ambition. Notwithstanding the underlying unity in national ethics, the expansion of these principles to an international basis has been in continuous conflict with national ambitions, national fears, and national policies.

It is singular that the experience of over a thousand years of chaos in Europe has left so slight an impression. Europe emerged only when isolation was broken down, the feudal baron suppressed and the realms of duke and prince merged into kingdom and empire. History, therefore, suggests the advantages of more intimate relationships and the need of some concrete form of international cooperation. This is now being hastened by the growing conviction that industrial might may develop antagonisms and conflicts just as unethical and fraught with just as much danger as conflicts for military supremacy.

National sovereignty is generally admitted and this admission carries the right of any nation to enact such measures as it may deem proper in order to engage in, protect, or expand its national industries regardless of the effect upon any other nation. The act of one nation may naturally force other nations to act in like manner. Such acts may be offensive, defensive, or altruistic, as circumstances may determine, but in the end they inevitably develop measures of retaliation. Practical jurisprudence has, in general, recognized a difference between offensive and defensive, but when governments grant themselves immunity and their national sovereignty is unquestioned, the responsibility for provoking industrial strife is evaded.

If government were to endeavor to ascertain the effect produced upon other nationals by contemplated government measures, the possibilities of industrial strife would be greatly diminished. Governmental forethought of this kind, however, is so rare as to be almost non-existent. We may well ask how such an international situation could possibly have arisen when it is self-evident that the growing consumption of world's goods coupled with the unequal distribution of fundamental raw materials must inevitably lead to competitive conflict. In general, these resources have not been administered by gov-

ernment. The world war forced the various governments to become parties to the development and administration of a great many of these resources. This action definitely crystallized the possibilities of governmental cooperation with industry, not only resulting in increased revenues, but increasing the industrial might of government.

Immunity of government has revived the privileges of ancient feudalism. The feudal baron was essentially a product of isolation and not subject to any particular ethical regulations. He could grant himself immunity from the consequences of his acts. This policy of isolation did not, however, perish when he was suppressed. It has endured and is not confined alone to international dealings, for there is abundant evidence of the practice of isolation reflected in inaugurating national policies based upon isolated or uncorrelated facts. The isolationist, always a specialist, bases his acts on uncorrelated facts as opposed to the scientist who deals with correlated knowledge. Our own nation provides typical examples. One of our isolationists wants to diminish the inbound traffic to this country; another isolationist wants to raise the cost of production which results in a decrease in outbound traffic; a third wants to handle the traffic, but finding a diminished traffic as a result of the efforts of the first two, wants to collect a revenue from the traffic which does not move so that he may be able to transport the traffic which does move. He calls this a subsidy.

The views of the isolationist may be tolerated in his own nation since his countrymen are either too much influenced by ulterior motives or too simple-minded to protest against his policy, but it does not follow that the people of other nations will fail to recognize the motives, or have the same simplicity.

If national sovereignty continues to violate principles of international justice, or adopts a policy of isolation, there must always exist an atmosphere of futility surrounding any international conference.

International barter and trade have existed since the flood, and accepted rules of conduct were developed. The injection of government, with its ambitions of greed and avarice and the sword as the unit of value, has interfered with what might otherwise have been a normal development.

Governments are concerning themselves more and more with matters of trade barriers, with sovereign power to regulate, suppress or prohibit; but with a self-granted immunity from consequence, and assuming no responsibility. Self-granted immunity, however, does not eliminate consequences, and man's fear of consequences is more deep-rooted than his fear of God, if only for the reason that the results are more immediate.

Our own nation is now trying a huge experiment of simultaneously restricting the importation of men and materials for the altruistic purpose of raising the standards of living. This purpose is ethical in the highest sense, but is also a development of war conditions. Our old economic friend, the law of supply and demand, suspended animation under war conditions, when there was a huge demand and a limited supply. Why not perpetuate this idea — shut off supply, up goes demand; and there you are! It should be noted, however, that the standards of living of the world are not included in this program. Our altruism applies to our nationals only.

The economist may gasp a little and wonder whether the standards of living are not interconnected with prices of commodities, and therefore with international money values, and if so, whether government fiat can be maintained. He has heard something of fiat money, and wonders if it can be measured in international units, for he has failed to develop an abiding faith in units of political fear or political ambition. Political units are not correlated internationally and therefore are difficult to measure in equivalents.

Some interesting sociological as well as economic features are included in this attempt to elevate standards by a sudden jerk rather than by an orderly process in keeping with the principles of evolution. Are the standards of living of all workers to be raised? Does it apply alike to the agriculturist; to the brain-worker, and to that great class which cannot respond to a demand for immediate increase of output per man? What are the effects of raising the standards of living? Are we to assume that income is raised and prices remain unaffected? Or are prices to be raised simultaneously with income? If an increased cost of production is not to be reflected in an increased price, it would seem necessary to look

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to science and invention for an increased output per man in order to compensate. That part of industry which cannot respond to an increased output per man will naturally face an increased cost of production. Is there any relation between output and its market? Does a resort to mass production to diminish the cost per unit mean that markets automatically absorb this increased production? Surely, the growth of advertising and installment buying indicate the contrary and few will dispute that limitations of mass production are reached in a saturated market. Must excess output seek international markets, and is this in keeping with the principle of isolation? If we seek international markets, we must use international units of value and the fiat of government terminates at the national boundary.

Let us consider how universal this rise in standards of living is to be. Domestic labor will gravitate to industries that can pay higher wages. Only the inefficient and defective remain. The agriculturist realizes that standards of living are being reflected in the things he buys. When industry raises the price of labor and attracts labor away from the farm, the farmer, facing a turnover controlled by seasons, and expenditures continually increasing, finds his market definitely related to population and therefore restricted. Further, appetites for luxury seem to multiply more rapidly than appetites for the necessities of life, while still another uncorrelated ethical experiment has affected the consumption of his corn, barley, and rye. Shall he, too, seek international markets for his surplus? Must he curtail production, resort to international "dumping", or abandon the unprofitable farm?

If we consider the sociological effects of this raising of standards of living, it is increasingly evident that they do not apply equally to all. As domestic service becomes more unsatisfactory, gregarious habits of living must follow and the individual home be limited to a size capable of being operated by the family unit. If infancy and childhood continue to lack caretakers, children must become wards of the state, or parentage be restricted. We should not be too critical of these sociological influences, for any final measure of beneficence is determined by the effect on general welfare.

We cannot deal too literally with standards of living — as

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though they were measurable quantities which would grade 100% for a cosmopolite and 0% for a Trappist monk. This would be a materialistic rating. From a spiritual standpoint, however, the ratings might easily be reversed. Industrially, at least, there exists a relation between raw materials, prices, and standards of living.

Other nations may take advantage of invention and the teachings of science; for our angel of peace and plenty did not confine these gifts to one nation; they belong to humanity and are the heritage of intelligence and culture. We then face the situation where equality of methods may exist, but with an inequality in the price of man-power. This again points to the necessity of international cooperation. The isolationist is no longer the possessor of an oasis in a desert, for the shifting sands may bury his oasis and he becomes a part of the desert once more.

But, say certain thinkers:

This situation cannot arise because the raising of standards of living is a great ethical principle founded upon the most fundamental belief of evolution—the necessity to survive. Necessity forces management to adopt labor-saving devices; it is not optional. Labor has begun to appreciate and must ultimately accept the principle that it is not hours of work but quality and output that count, with individual skill and efficiency rewarded. Man-power is precious and must not be wasted. The international situation will not reach an equilibrium by dragging down progress, but by uplifting it. It is right to insist on compulsory education and the control of child labor, for this means diminishing illiteracy and developing intelligence, the value of man-power being increased thereby. Mass production can be successfully applied only by intelligence utilizing science and invention, and hence intelligence, and not units of masses of men, becomes the unit of measurement of success. Density of population never has been a measure of progress and cannot be considered more than a symptom of our animal origin, a relic of the days of low intelligence when pestilence and famine, scourges and flood, were attributed to the wrath of God, the only means of meeting these devastations being to beget more victims. Intelligence demands higher standards of living, and only intelligence can produce them. The fittest only survive. Men may be equal, but not in intelligence.

Have these advocates failed to remember that stern necessity is the taskmaster, and that the weak, the maimed and the misguided have found no place? If ethical teachings are to persist, must not society in general assume obligations? All labor must have a minimum living wage and if the standards of

living are raised to a point where many cannot deliver an equivalent value, society must take steps to protect itself or necessity will develop methods of making an easy living without delivering this value. Under such conditions, crime and speculative chance are encouraged.

Foundations are not necessary in our present-day castles of isolation built by popular fancy. This same popular fancy is prone to dwell on Washington's dictum to his countrymen so often quoted with regard to foreign entanglements. Does popular fancy stop to think of what Washington practised? Even he, expediency dictating, resorted to international co-operation when the aid of France was solicited and accepted.

Events are moving rapidly. To feed the maw of this monster of mass production, the world's materials must be available in ever-increasing quantity. As soon as an isolated nation reaches a point where its own materials no longer meet its rate of consumption, it becomes dependent. It must develop substitutes or the national boundary will limit supply. Nations with the available materials have at once the power to determine what the mass production of their less fortunate neighbors shall be and may exact an exorbitant price, possibly by way of retaliation for restrictions in the past.

The situation to-day in certain raw materials is illustrated by rubber, where, consuming some 70% of the world's output, we produce practically none and control in foreign countries less than 5%; newspaper print, where we produce 50% and import 50%; petroleum, where, producing 70% of the world's supply, we are importing some 10%. There is an ever-growing list of these materials, and if we consume them regardless of their origin and continue our policy of isolation, the possibilities of retaliation become immediate.¹

[I have mentioned three raw materials, as they typify three conditions—one in which we consume a large proportion of the world's supply and produce practically none; another in which we produce about one half of what we consume; and

¹ The following paragraphs, here enclosed in brackets, were interpolated by Mr. Summers as extemporaneous remarks, at this point in his paper, and are reproduced here because of the great interest which they aroused on the part of the audience.—Ed.

the third in which we produce a large proportion of the world's supply and yet import about 10%.

At the risk of overstaying my time and your patience, I should like to comment a moment on the international effect of these percentages.

Our distinguished chairman of this evening as chairman of the Price Fixing Board during the war, spent a great deal of time with others on the question of what percentage of a material dominated the price and how this percentage, often a small one, and usually that of an inefficient producer, could be handled. We commonly called this letting the "tail wag the dog." It is illustrated for instance by my war colleague, M. Loucheur, when he states that the 30 million bushels of wheat which France is forced to import fixes the price of the 325 million bushels of wheat which France produces. It is interesting to note that this 30 million bushels of wheat is only a part of the export surplus of Canada and the United States, and the price of this 30 million bushels of wheat is largely dominated by Chicago quotations. You will note that the Winnipeg quotations and the Chicago quotations differ by only a few cents, being in general the same. It has been estimated that the cost of producing a bushel of wheat in Canada is 80 to 85 cents, while it is \$1.30 to \$1.35 in America, and yet the Winnipeg quotation reflects the American cost of production and not the Canadian cost.

With our high standards of living and high price of commodities which our wage rate supports, we are not affected; but when the French farmer can get this high price of the high-cost producer, he is in a very prosperous condition. He does not recognize the financial situation of France nor is he gravely concerned about the problems of balancing the budget. His prosperity is an excuse for his indifference notwithstanding his national patriotism. When we cross the Channel into England and visualize the strike condition now existing, we see the miners offered a 14 or 15 per cent advance on their 1914 wage; that is, a wage of 114 to 115 per cent; but the commodity index of Great Britain is 165 to 170, and this wage rate is therefore inadequate to provide the necessities of life. In general, the farm products reflect indirectly the world prices of wheat and therefore even the meat prices are cor-

respondingly raised as the food fed to live stock in a great measure determines the price of meat. Further, the price of leather is affected very directly by the price of meat, so that in general, in Europe the costs of the necessities of life are reflecting the prosperity of America, but neither their industries nor their wages are directly sharing in this prosperity.]¹

¹ Immediately following this address, the writer was challenged by a number of very able economists who held he was indulging in fantasy and violating the laws of economics. They stated the 30 million bushels of wheat which France imported did not fix the price of wheat in France any more than the 325 million bushels which France produced; that it was the total world's supply and the total world demand that fixed the international price of wheat and that the international market was at Liverpool and not in Chicago or Winnipeg.

A number of spirited arguments were indulged in and I told my critics that they have never known what the world's supply and the world's demand for any year has been. The incomplete figures they collect are secured from twelve to twenty-four months after the wheat has been consumed for that particular year. I beg to challenge the economists in thus rigidly applying the law of supply and demand for in a large number of cases they neglect the element of time. Time enters specifically into the application of the law of supply and demand. One may call this a relativity because it is the relation of the flow of supply to the current demand. My critics' attention is called to the fact that Liverpool does not fix the world prices; it simply reflects the world prices and the world movements of wheat. The deliveries and settlements of the grain exchanges are on a monthly basis and the actual quotations change weekly, daily, and hourly. I compare such economic arguments with the following analogy. All will agree that rainfall is the source of supply of water power. But to hold that this directly controls the supply of power is an obvious fallacy, neglecting other important factors. The engineer must know the height of the dam and the reservoirs that are available to equalize the flow. The levers that control these reservoirs are like the levers that the large grain dealers control. The vast elevator systems of America and Canada are built for the purpose of controlling the flow as well as for storing the supply. The grain dealers must have daily information concerning the visible supply, the cargoes afloat and the arrivals. It is this rate of flow, with the power to augment or diminish it, which affects the world's prices. The mere fact that the American Government has seen fit to interfere with the trading of grain on the Chicago market and in general the blind idea that short selling and large market operations are wrong has detracted from the importance of the Chicago Board of Trade and made Winnipeg the free grain market and therefore the greatest primary market in the world. *Economic dementia* simply causes economic centers to migrate. It does not exterminate them.

As opposed to these efforts to regulate the grain market, it is interesting to point to the Canadian Government's licensing of elevators and fixing

. We cannot fail to observe that the efforts this nation has made to follow a policy of isolation in the restrictions it imposes have already uncovered serious weaknesses — first, because it must negotiate beyond its own borders for essential raw materials; second, because it must go beyond its own borders to market its excess production. Therefore, both in the beginning and in the ending of this policy there appears to be a limit. We have constructed a building, but the foundation appears to be cracking and the roof leaks. We may continue to jazz, but only in parts of the building.

Is there a remedy? It would seem that careful diagnosis of the disease is essential lest some cure may prove only a nostrum. Trade has adjusted its difficulties in the past by means of bargaining. If a rubber grower, for instance, realizes the value of his product which a consumer requires, he has the right to set the price. Is one government to erect trade barriers protecting a wage rate of \$5.00 per day, and deny another government the right to erect compensating barriers, and insist, for instance, that their wages remain at 20 cents per day? It may be claimed that their standards of living are not equal, or that the intelligence of their workers does not warrant an increased rate. This may be true. But we are talking now about one nation assuming a right and denying the same right to another nation. Trade would attempt to solve this difficulty by finding out what the rubber grower

prices for handling and storage, in an effort to make freedom of opportunity, rather than to suppress the freedom of operation when the world situation is in a constant state of flux. I am free to admit that with the return of Russia and Roumania as producers of an exportable surplus of wheat, the world's market will not respond as readily to the levers operated at Chicago and Winnipeg. My critics must bear in mind that demand itself is a variable and is modified by the use of substitutes and when the huge crop of Russia's rye appears on the world's consuming market, another important element in the demand for wheat will again be at work. Just as the substitutes for wheat affect the demand, so the amount of wheat used on the farm for seeding and what is known as the seasonal carry-over, affects the supply; so, of the total crop some 25% never appears on the world's markets. In cases of grave shortage, some of this is coaxed into the world market, but it is these factors affecting both the supply and demand and the impossibility of getting any accurate figures from Russia, China and India which have made it impossible to secure correct figures on the world's total supply or the world's total consumption.

wanted which was difficult for him to obtain. We might trade him containers for his rubber sap or assist him in developing his resources. This might satisfy him, but his government steps in and seeks compensation. Our sap containers may not interest his government. Furthermore, it may not desire alien interests to share potential possibilities, and may desire payments in political units of value. A rubber consumer, however, cannot purchase these political units for purposes of exchange, as this involves the question of bribery. He soon realizes that in dealing with governments, he faces new obstacles. Shall governments adopt the methods of trade and inaugurate a system of bartering? Trade one barrier against another? We must admit the necessity for barriers, whether used to produce revenue or to equalize conditions. The erection of barriers by government ostensibly for the purpose of creating equality often develops inequality by intensifying some natural advantage carrying inherent political possibilities. Governments, as trustees for their people, dare not freely trade in international political possibilities. Ethics and politics are poor bedfellows. Politics shift. Ethics remain.

Justice, more enduring than politics, has introduced reciprocity into international dealings. Reciprocity did not contemplate the reciprocal raising of one barrier to meet another, nor did it contemplate any nation imposing a barrier on commodities not advantageously produced by it, which might seriously affect the welfare of a nation producing them. Rather, reciprocity involves the acceptance of some commodities from nations better qualified to produce them. Reciprocity involves an interchange of selected man-power wherever of mutual benefit. In general, reciprocity contemplates an international correlation of restrictions recognizing that the injuries inflicted require as much consideration as the advantages obtained.

Two courses are definitely indicated—one leading to isolation; the other to international cooperation. The one confines distribution largely to national boundaries and depends upon available raw materials or the production of substitutes. The other contemplates a world market and points to methods which will develop and distribute world materials equitably.

All ships of commerce sail the seas unmolested and unrestrained. Sovereignty and dominion formerly exercised have

now ceased to exist. Gone also are piracy and the fear of might. Dimly we recognize and vaguely we realize an international awakening where, without coercion, might is displaced by voluntary acceptance. In that day of voluntary acceptance, which also means voluntary relinquishment, we place our hope, for it is the day of international justice. We cannot ignore Ethics; or Justice, its offspring; one, the mother of civilization, the other, its sole defender.

ECONOMIC AND POLITICAL EFFECTS OF GOVERNMENTAL INTERFERENCE WITH THE FREE INTERNATIONAL MOVEMENT OF RAW MATERIALS

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AS a background for a discussion of the principles involved in governmental interference with trade in raw materials, it is worth while to present the salient facts with regard to three typical commodities as to which governments are, in fact, at the present time engaging in such interference. We shall take as examples rubber, coffee and nitrates.

The enormous increase in the world demand for rubber, due primarily to the development of the automobile, is familiar to all. World production increased from about 80,000 tons in 1910 to more than 500,000 tons in 1925, and imports into the United States increased from 40,000 tons to 397,000 tons. Consumption in this country during recent years has represented approximately seven-tenths of the total world consumption. Formerly rubber was chiefly obtained from wild trees, largely in Brazil and other tropical American countries. Plantation production, chiefly in southeastern Asia, began on a large scale just before the World War, and is now the dominant factor. Costs of plantation rubber are far lower than those of wild rubber, which explains the fact that during most recent years, until the great advance in 1925, prices have been much lower than before the war.

A dominant proportion of the world's rubber is at present produced in British Asiatic territory, principally Malaya and Ceylon. From 1918 to 1920 output in this British territory was almost three-fourths of the total of plantation rubber, but the proportion has since fallen, and was about 57% in 1925, while the plantation rubber in that year represented about 93% of all rubber produced. The area planted in this region had

increased immensely during the war, throughout which and for two years following high profits were realized. For a single year only, 1921, following the lapse of the post-war boom, United States imports of rubber fell off sharply and the average import value per pound, which had been 43 cents in 1920, fell to 18 cents in 1921. More trees meanwhile were coming to bearing age. Large stocks were accumulated so that although imports rose again greatly in 1922 and much exceeded even post-war boom records, the price was still relatively low. It should have been easy to foresee that United States consumption would continue to increase rapidly and to catch up with productive capacity, but the planters in the British colonies were unwilling to wait for the recovery of the market through normal causes, and a scheme for restricting exports of crude rubber was devised. This became effective November 1, 1922, with the announced intention of maintaining a price of 36 cents per pound (18 pence, London) which was declared to be fair. A "standard production" was fixed, each plantation being given a definite quota, and the percentage of standard production that could be exported (save by the payment of a prohibitive tax) was fixed from time to time according as the price of rubber should fluctuate above or below 30 cents. At the beginning of 1925 the average price in New York was a little over 36 cents per pound, and the percentage of exportation allowed as compared with the standard was only fifty. "Standard production" had been increased somewhat since the initiation of the scheme to take care of the new trees, previously planted, which came into bearing.

As a result of these restrictions in the face of steadily rising demand, the stocks which had been accumulated in London were rapidly reduced: from 72,000 tons at the end of 1922 they reached 29,500 tons at the end of 1924 and only 6,000 tons at the end of 1925. Stocks in America also fell off, though not so greatly. Manufacturers of rubber products, fearing a shortage, scrambled to get supplies. Advantage of the situation was taken by speculators. A runaway market resulted and in the short space of seven months the New York price nearly trebled, averaging \$1.03 for July with a maximum on one day of \$1.21. Of course, the permissible quotas

of exportation were raised, but as the plan contemplated changes only once a quarter the quota was still below standard production, namely, 85%, at the close of 1925, and only in February, 1926, was it raised to 100%.

Rubber imports into the United States in 1925 cost us \$430,000,000, or about \$200,000,000 more than they would have cost at 1924 prices. Had the levels attained during the last half of the year continued through 1926, we should have had to pay several hundred millions more this year. In February rubber imports were valued at over \$70,000,000.

Active agitation in the United States against these exorbitant prices, in which the Department of Commerce took an important part, resulted in curtailment of tire consumption and ultimately, after the expiration of contracts previously placed, in a reduction of imports. The result was a fall in the price of rubber quite as rapid as the advance, although by no means reaching so low a figure as at the start, the prices now ranging between 40 and 50 cents per pound.

Although not a few voices in Great Britain itself have been raised in protest against the continuation of the restriction scheme, it is still in effect. The so-called standard production has been and is considerably less than the actual capacity for production of the British territories, but the exports are still limited to the standard production, and as of May 1st, 1926, a new step was taken aiming even more effectively to maintain prices. It is provided that should the London price of rubber fall below 1 shilling 9 pence (about 42 cents) the exportable quota shall be reduced by 20%, and there is no arrangement for increasing the quota above the "standard production," no matter how high prices may go.

Coffee differs from rubber in that the demand increases only gradually. World production is in the neighborhood of 2,700,000,000 pounds annually, of which Brazil produces about two-thirds and the United States consumes about half. On the average for the last three years the United States has taken about 55% of all Brazilian exports of coffee.

At three different times, about 1908-1909, again in 1918 and again in 1921, the State of Sao Paulo, backed by the central government of Brazil, has bought up coffee at times of

relatively low prices and held it off the market. Since that time the Brazilian authorities have maintained the policy of limiting the quantity of coffee which can move to the ports and thus be exported. It is impossible to trace any such spectacular effects on prices as in the case of rubber, particularly because control in one form or another has been exercised over such a long period of time. It is noteworthy, however, that during each of the last four years the average value per pound of coffee imported into the United States has risen. For 1921 it was about 10½ cents and for 1925 over 22 cents. Coffee shows much greater advance over pre-war years than most commodities; the average import value from 1906 to 1915 was less than 10 cents.

Chilean nitrate is a natural monopoly subject only to the competition of modern nitrate fixation from the air. Practically no nitrate is used in Chile itself. The United States takes nearly half of the Chilean exports, paying in the neighborhood of \$50,000,000 annually. There is an association of the producers embracing all except two companies owned by United States capital. The Chilean Government is a party to the association, having four of the eighteen directors. Output is limited and quotas fixed for each producer. Control of this sort has been practised in one form or another for a long time so that it is impossible to trace through price changes the effects on trade. The Chilean Government imposes an export tax of about \$12.50 per long ton, which adds about one third or one fourth to the selling price. A recent expert investigation by the Department of Commerce indicated that, apart from the export tax, the present price of Chilean nitrates, held down somewhat by competition of artificial nitrogenous products, is not very much above cost of production with reasonable profit to the less efficient producers, but there is reason to believe that the more efficient can produce at a decidedly lower figure.

With these facts before us, and bearing in mind that there are a number of other similar controls of exports of raw materials and a manifest disposition to extend them, let us consider the ethics of such policies and their political and economic effects.

In the first place, it should be noted that we are discussing governmental controls of exportation, not those resulting from purely private combination or association. However indefensible and dangerous may be, at least in some cases, private organizations for controlling domestic and export supplies and prices, they are much less likely to cause grave abuse than when the government steps in. Private organizations are limited by the fear of the secession of their own members or of the entrance of new competitors in the country itself, but governments with their sovereign power are subject to no such brake. Moreover, governments work more ponderously and awkwardly and usually more unintelligently. Their measures may lead to unanticipated and unsought-for results, and the machinery cannot readily and promptly be adjusted to prevent or cure these. The British colonial authorities probably would have preferred to see less vertical advances in rubber prices as a result of their control.

In the second place, the controls which we are discussing go far beyond any mere desire of governments to collect legitimate revenues. There may be exceptional cases in which a government is justified in levying an export tax as the most workable method of obtaining revenue from a given industry. There may be, at least in some cases, no very great difference, in effect on the outside consumer, between a tax on exportation of some commodity of which the local consumption is small, and a tax on the profit of concerns engaged in producing that commodity. A reasonable export tax, however, for revenue purposes is a very different thing from an exorbitant one, or from a tax or any restrictive measure which aims not at government revenue but at boosting prices for the benefit of producers.

Again, governmental controls of raw materials which are at present attracting attention are by no means designed to conserve limited natural resources for the benefit of the people of the home country. No doubt there may be cases in which, to prevent unduly rapid depletion of mineral resources or of virgin forests, a government may be justified in restricting output; though in that case it ought obviously either to hold down prices to domestic and foreign consumers or to take the excess above a competitive price for the general treasury,

rather than to permit excessive profits for producers. While perhaps the highest ethics would demand in such a case that the outside world should be given a share proportionate to its needs out of the restricted production, there is a good deal to be said even from the ethical standpoint in justification of the right of the people of a given country to consider its natural resources as primarily for their own benefit. In the cases at present attracting attention, however, we have to do either with agricultural products in which there is no question of depleting natural resources, or with a product, such as nitrate, which is in little demand in the home country itself.

Finally, it seems to me that a clear distinction may be drawn as respects ethical and economic aspects between government controls of exportation and protective tariffs restricting importation. Whatever one may think of the effects of a given tariff system upon the well-being of the people of the country maintaining it, the foreigner has far less ground to complain of such measures than of restrictions upon exportation of raw materials and the fixing of their prices. If a protective tariff in fact builds up the industries and promotes the national welfare of the country imposing it, the outside world, considered as an aggregate, can scarcely fail to profit. In that case, the country by its greater buying power becomes a better market, not of course for the products subject to high tariffs, but for other classes of products, especially raw materials. Countries producing these gain. I have no occasion here to discuss the tariff question but it is clear that it is an entirely different question from that of governmental control of exports.

With these distinctions thus drawn, the question still remains as to the working of these restrictive policies with regard to exports.

Experience confirms what reasoning would lead us to expect, that government control of raw materials is likely to lead to very serious abuses and injustices. If it succeeds temporarily or permanently in raising prices above a fair cost of production by the more efficient concerns, it works obvious injustice to consumers of other countries. There is a great difference in moral principle between measures which seek to promote the welfare of the people of a country with no deliberate intention of injuring other people (even though inci-

dentally some little damage may result here and there to others), and measures which aim directly to exploit the foreigner. The injury has wider repercussions than are obvious on the surface. If country "A" by its action injures the consumers of country "B", it also indirectly does damage to producers of other commodities in still other countries whose well-being depends upon their trade with country "B". There is danger too of competition in the business of "spoiling the Egyptians," to say nothing of reprisals by the Egyptians. If all over the world countries engage in a scramble, the one to exploit the other, there is simply no limit to the economic harm which is bound to result, as well as no end to the ill-feeling and friction.

Government restrictions on exportation of basic materials are all too likely to go farther in boosting prices than originally contemplated. No doubt in some cases these policies have been initiated under strong pressure, where abnormal conditions had brought prices temporarily to an unreasonably low level. There was a powerful temptation not to wait for things to adjust themselves through recovery and growth of demand or through elimination of an undue number of producers by competitive processes, but to devise some means of immediate relief. No doubt most of those favoring such plans have contemplated at the outset only such a moderate advance in prices as would prevent loss. But once such a policy is entered upon and some success achieved in advancing prices, producers and government authorities are all too likely to become greedy and to push the limitation of output and the advance in prices to wholly inordinate lengths. The sweets of power once tasted, the appetite grows apace.

It must be borne in mind too that the producer of a basic raw material is not dealing directly with the final consumer, or even, ordinarily, with the manufacturer. It passes through the hands of middlemen. Where normal laws of supply are abrogated so that the course of prices cannot be forecast, speculation is bound to become rife. Under the influence of excitement and uncertainty prices may jump far higher than even the restricted supplies available justify in relation to demand. The advance in prices may by no means all go to the producer; the greater fraction may redound to the benefit of the fortunate speculators. There is no doubt that such was

the case in connection with the recent astonishing advance in rubber prices.

Government control of supplies of commodities is likely to lead to heavy fluctuations in prices. A runaway market is almost sure to react violently. It is bad enough for legitimate dealers and manufacturers handling or using a given raw material to have to guess at the changes in supply and demand due to normal causes, without having to guess at what governments may do—governments of producing countries and of consuming countries alike—or as to how prices will react to these abnormal interferences with supply and demand. The risks of doing business are enormously increased under these circumstances. In the case of rubber, for example, it is necessary for manufacturers to buy their supplies long in advance of the sale of finished products. If prices of raw rubber rise sharply, the manufacturer is likely to be criticized if he at once puts up the prices of tires and other finished products into which is entering rubber bought some months before at lower levels. But if he fails to do so with sufficient promptness, he stands to be caught in heavy losses later on if raw material takes a tumble, since public opinion and competition of other manufacturers are almost sure to force rapid reductions in the prices of finished products. In other words, violent fluctuations of crude rubber prices involve very grave risks to rubber manufacturers and legitimate dealers.

Apart from the injury to the interests of other countries which tends to result from government interference in the exportation of raw materials, there is in many, if not in most cases, a probability that the country undertaking such measures will ultimately find its own well-being harmed.

In the first place, it is likely in the long run to lose, relatively and perhaps absolutely, in volume of business. If the controlling country has no absolute monopoly, the restriction of export and the boosting of prices furnishes a powerful incentive to the development of competitive production in other countries. This may readily go so far as ultimately to break down all possibility of control by any single country or group of politically affiliated countries, and to leave their producers with but a small share of the world market. It is noteworthy that production of plantation rubber has increased far more rapidly in non-British than in British territory during the years

since restriction was begun. The British share of total plantation rubber output in 1922 was 72%, in 1925, 57%. Output in the Dutch East Indies had increased more than 85% during this period. The great advance in rubber prices in 1925 even stimulated wild rubber production in Brazil, although wild rubber cannot hope to compete with plantation rubber when prices are moderate. There are large areas in the world where rubber can be produced, and while it takes some years to get it under way, it is obvious that continued high prices would be bound gradually to bring such areas into competitive use.

Moreover, extortionate prices cut down demand, and it is impossible to foresee how much in any given case this reduction may become, especially when national feeling is brought into play as well as purely economic forces. Reference has already been made to the manner in which American consumers of rubber met the situation during recent months. Encouraged by exhortations and suggestions as to methods from organizations of manufacturers of rubber and of automobiles, and from the Department of Commerce, automobilists cut down sharply their demand for tires, using their tires more carefully, repairing instead of scrapping them, making them last longer. From October, 1925, to March, 1926, it is estimated that sales of automobile casings by dealers were about 25% less than during the corresponding period the year before. The quantity of crude rubber used for manufacturing tire-repair materials increased from 2,908 tons in 1924 to 4,319 tons in 1925, and during the last quarter of 1925 the consumption for this purpose was more than 70% greater than in the corresponding period of 1924. There was also a powerful impetus to the reclaiming of old rubber. Shipments of reclaimed rubber by American plants were 55% greater in 1925 than in 1924, and during the first quarter of 1926 more than one fourth greater than during the corresponding period of 1925.

Over-grasping boosting of prices of raw materials also puts the world on its mettle to find substitutes, and in this modern day of rapid progress in physics and chemistry, there is no knowing what may be brought forth to put out of business the producers of present commodities.

Finally, to my mind the most fundamental objection of all against the policy of restricting exports of raw materials—an

objection both from the standpoint of the outside world and from the standpoint of the country maintaining the restrictions—lies in its tendency to check progress in efficiency of production. It is a damper to enterprise and to ambition. The great merit of competition in industry is that it eliminates the unfit and lets the fit survive and grow. It not only permits progress but tends to compel it. Even a private combination of producers, aiming to restrict output and prices, is likely within itself to give some chance for the more efficient producer to get a bigger share of the business as time goes on. With a government control of output, all is different. Subject to the political influence of producers—an actual majority of whom are often more or less inefficient while only a smaller number can produce at reasonable cost and can make progress in methods—the government tends to perpetuate the inefficient and hold down the efficient. It must give quotas for production or exportation to the high-cost producers at the margin, and in order to do so must restrict the quotas of the low-cost producers. There is no politically feasible way of eliminating the incompetent, and consequently no way of giving adequate incentive to the more competent to improve their methods. Nothing can be more stultifying to progress in industry than government interference with the expansion of the fit. If the world is to move forward it must be free from swaddling bands of this sort.

This is far from being an ideal world. It is vain to hope that in the near future the political and economic relations among countries will become altogether amicable. The lion will not lie down with the lamb, to say nothing of the elephant or the bear. But the people and the statesmen of the various nations of the world do have it largely in their power to refrain from adding to the causes of friction among them as well as gradually to wipe out some of the present causes of friction. There is grave danger that further extension of the recent tendency toward the establishment of government controls of exportation of raw material will go contrary to all the hopes and aims of those who are seeking world peace, economic and political. Discriminatory measures breed retaliation, and interferences with the normal laws of economics tend, once started, to pile up like a rolling snowball and to pile up at the same time international ill will.

THE CONCENTRATION OF POPULATION AND THE DISTRIBUTION OF RAW MATERIALS

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THE importance of raw materials in modern life may be brought out in a number of ways. Suppose that we take for our first illustration the significance of the subject to the modern city. Approach a non-industrial town on the fringe of settlement and even though it contain but ten thousand people it makes a rather impressive sight. Such a town, for example, is Copiapó in Chile. Riding toward it from the adjacent hills by mule trail one sees it spread out widely through a fertile valley giving the appearance at a distance of a powerful city. A closer inspection shows it to be a one-story town. Very few buildings in it have two stories and I believe there are none that have three. Compare the population with that of a crowded city block in New York and its impressiveness is gone if one is thinking in terms of world trade and international relations.

It is worth our while to ask what New York City would be if we spread it out in the same fashion as Copiapó; that is, if we distributed the population in one-story houses. We find that New York City would fill about half of the state of Connecticut. If we go farther and spread out the city so as to put small gardens between the houses and thus give its population the same *spread* as that of Copiapó we find that it would take about eight thousand to ten thousand square miles of area and possibly twelve thousand square miles; that is, an area as great as that of the state of Maryland or of New Jersey.

I was interested in reading the other day in a paper by Chisholm, an economic geographer, that someone has recently made a similar calculation for the city of London and finds that it would fill an area about seventy-five miles in diameter. The figure I have given you for New York City spread out in that way is from sixty-five to seventy miles in diameter.

Now just as soon as you begin to take hold of the idea of

a city spread out as a one-story town with gardens in between—only tiny gardens at that—and appreciate its enormous expanse, you discover how impossible is such a city. It just won't work at all, because you can't bring machinery to bear upon it, to run its life, to make it work smoothly, to make it do its business. The distances that you have to travel are too great; distribution is too costly and the number of miles of street car lines, telephone lines, etc., that you have to put into such a town in order to give it the facilities of trade would be absolutely beyond any economic possibility. So you could not possibly have a city like New York functioning except by concentrating its population. It could not exist if it had to live spread out like Copiapó.

To put the conclusion in another way, we may say that what New York City offers to the United States in the way of facilities and power as a modern commercial center it is able to do because it is concentrated, in population, in wealth, in power. It seems to me that this is a point of view worth keeping in mind when we deplore the concentration of population in cities and point out the advantages of a more scattered distribution. It is no doubt true that a certain amount of decentralization would be an improvement, but the process is a slow and difficult one, because the modern city is an organism of rather definite character to which we have become accustomed. We know how it operates; we know what we can do with it to serve the ends of manufacturing, of commerce, and so on.

It is just here that the subject of raw materials is interesting to us not only from the standpoint of city living but from the standpoint of national and international living. If it is true that the city is an organism with definite characteristics and functions, then it is vitally true that food and other raw materials upon whose supply the industrialized city depends are worthy subjects of intensive study.

It is not my purpose to discuss the details of any one of the raw materials of commerce but only to present some broad aspects of the subject that may be of interest to you and that may serve to stimulate discussion later in the session. To take a standard of importance, suppose we look at those raw materials each of which may be measured in terms of a billion dollars or more of total world movement. We can agree that

these materials must have a dominating effect upon organized city and national life to-day. The moment we do this we arrive at some very interesting facts concerning the fabric and, as one might call it, the geography of civilization. The list includes: wheat, oats, sugar, rice, potatoes, cotton, iron, coal, and petroleum. That is substantially the list, and if you group the items you will find they consist of food, fuel and clothing and the iron that is needed in this industrial civilization. Just as soon as you step outside of that very short list you take in general a marked drop down to the half-billion and the quarter-billion and to the hundred-million list.

Now, it is a striking fact that the greatest production of those things that are in the billion-dollar class, as a rule, with very few exceptions, is in the concentrated belt of the world. It is not in some mysterious out-of-the-way place; it is found in the places where most people live. Take, for instance, the interesting fact about wheat. We are accustomed to thinking of Argentina as a country that produces enormous quantities of wheat because it exports so much. As a matter of fact, the production of wheat in France is quite substantially greater than the production of wheat in Argentina, only France has a large population and eats up its wheat, while Argentina has a small population specializing in wheat production and does not eat it all up. It has some to export. We think of Argentina in terms of wheat and forget all about France.

So in the first place, the outlying parts of the world, the fringe of production, the low-grade civilizations, may produce things that are of vital importance in trade and in civilized life because of the fact that it is that margin over and above what the civilized or highly-cultured nations produce that they desire most to have, but in terms of the total its loss would not paralyze—could not paralyze—the life of the world. That life would certainly require some rebuilding, to be sure, if remoter sources of the *leading* materials were withdrawn, but their loss would not paralyze the organized world.

I do not want to minimize the importance of those more remote areas for life as it exists to-day, for welfare as we think of it to-day, but it is important to recall first of all, when we consider the billion-dollar class of raw materials, the fact that the civilized, the highly-cultured nations of the world, are the

chief producers. It happens also—and here is where the problem takes on political interest—that it is just those countries that import most or that use the greatest quantities of raw materials that produce in value several times more in manufactured goods. I mean to say that the manufactured goods of those same countries are several times in value the raw materials that they produce, so that not only are the great concentrations of population in the world the populations that produce the raw materials of the world in greatest amounts, in the significant amounts, but in addition to that it is they themselves who produce the manufactured goods in such quantities that you would have to multiply the value of their raw products by two, three, four or five to arrive at the value of their manufactured goods.

With that fact before us, we are at once interested in the question as to which of those things that are most important to civilization are on the wane, which of those classes of raw products are diminishing in quantity; and second, where in the world is the deficiency to be made up. Where in the world must man extend his activities in order to get hold of the resources that are waning? Finally, who owns them, who controls them? Are they politically inert or are they politically active? Are they areas in which European nations and the United States have a moderate interest, or are they areas in which the European countries and the United States have a very keen interest? And are they things that are really vital to civilization or only desirable for civilization?

Mr. Durand, who is going to discuss the subject of cotton later on in this session, has emphasized the fact that American trade is increasing in importance among non-European regions where political power is in the competitive stage. This at once raises the question of political ownership or at least control, for, if this means a corresponding increase in the investments of the United States or its citizens in the countries of origin, we shall inevitably be interested in their political status. All merchants are striving for cheap sources of goods and all governments desire independent sources. In the United States we have reached a point of acute interest in these matters through the rapid and great increase in our city populations and our corresponding increase of demand for imports of raw

material. We have not yet reached the point where our increasing export of manufactured goods has brought us acute problems of international importance. This is partly due to specialized products and partly to the natural character of our exports and the equally natural markets to which they flow. In other words, our export system does not rest upon an artificial basis, but artificial qualities will inevitably be introduced as time goes on and our foreign business increases in percentage of the total.

The present world situation as to the flow of exports and imports challenges production practice and manufacturing practice in every center of concentrated production of either raw materials or manufactured goods. Undoubtedly the convergence of mercantile interest upon the more acute problems will produce important changes. The drought-resisting qualities of cotton will undoubtedly drive its production ahead in the dry farming areas of the Southwest and upon land that may be irrigated to produce a crop. As a bulky and relatively cheap product, alfalfa in our Southwest has the handicap of being a long distance from the leading markets. Were labor available on irrigated land, cotton, if adapted to a particular site, would be a much more sensible crop to raise. Some very interesting general economical conditions are thereby brought into the discussion. If such cotton growing takes place in thinly-populated regions like our Southwest, there is still ample soil upon which to grow food, for the import of food would be so expensive as to make reserves of food-producing land desirable. On the other hand, if dense populations like those of China turn to cotton growing, it would be hard to furnish cheap food for them. If unused cotton lands near a dense population can be brought to productivity, as in large parts of East Africa, a great and natural extension of cotton production might be brought about without producing revolutionary changes in the production and exchange of food crops. Perhaps we have said enough to indicate the lines of future research in the production of raw materials of particular kinds. While the Joshuas and the Calebs have spied out the earth in a general way, there is a vast amount of research still to be done on the potentialities of specific regions and on the changes in economic balance that will be brought about when such producing regions come into play.

Closely related to the cheap producing regions of raw materials are the regions of possible power development. In a sense, power is raw material and it becomes a manufactured product when we turn coal into the energy of steam or transform a mountain torrent into an electric current capable of doing work. In any event, the distribution of power is of great interest to the economist, the geographer, and the statesman because it is unequally and uneconomically distributed. Take Iceland as an illustration. With a mere handful of people and an almost negligible quantity of resources so far as world trade goes, it yet has an enormous endowment of power. On account of its position in the north Atlantic Gulf Stream drift it enjoys a mild winter climate. Its streams flow in adequate volume throughout the year. Were it endowed with some important mineral resource, such as bauxite (aluminum ore) we should soon have there one of the most concentrated populations in the world. Norway has advantages of a similar sort and is using them in the production of artificial nitrate. Germany is manufacturing artificial nitrate on a surprisingly large scale but using as cheap fuel peat deposits of almost unlimited extent. Here is a happy combination of cheap power, a vast resource, the nitrogen of the air, and cheap need close at hand in large areas of relatively sterile soil.

So much technical skill is expended to-day upon the machinery of production and exchange that we may be said to have passed the point of empirical experimentation. The great concentration of the rubber industry in the East Indies where cheap labor is available is an example of the triumph of modern technique when applied to the solution of this problem of unequally distributed resources of soil, climate, power, and the raw materials of commerce. We shall see that technique at still closer grips with the problem of unequal distribution of resources when some of our essential minerals enter upon a stage of waning supply. The distribution of the remaining reserves will be a matter of the greatest importance not merely to science, which it challenges, and to modern business, which must look to practical relationships and objectives, but also to political or international relations, which cannot fail to be profoundly affected by each succeeding new situation. The question of cheap coal is imminent now. Our annual produc-

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tion and consumption doubled in the twenty years before the world war. How long will cheap coal continue to be produced, and where? With changes in its flow, what corresponding changes will be brought about in the flow of raw materials?

I have touched upon a number of questions that deal with the fringe of settlement to-day, the outer marches where experiments are being worked out with respect to the development of land. Some of these are of extraordinary importance—East Africa, for example, with its white man's lands at moderate elevations and its great capacity for the production of raw materials of commerce and especially cotton at lower elevations where cheap black labor is available. I have called such areas the pioneer belts of the world and in closing I wish briefly to sketch their position and how they affect the questions of raw material supply. It would be possible to show on a map of the world the various belts lying at or beyond the fringe of settlement. These we may call the pioneer belts. They are either underdeveloped or not developed at all, but they are capable of development. At the present time they are of importance as an outlet for settlement, and just on their border development is taking place through the pastoral industry chiefly. The further development or the swifter development of these pioneer belts would have an important effect in the first instance upon the meat supply and upon the supply and the price of leather. We are all acquainted with the world fact that the price of meat and the price of leather continue to mount to higher and higher levels as the grazing lands are constantly narrowed in extent. What we overlook is the fact that a tremendous acreage of grazing lands lies beyond the present fringe of development and has never yet been occupied. Some of it is not occupied because it is too far from means of transportation. This is true of a considerable part of Matto Grosso. Another part has its use limited because of insect pests. Large parts of the Gran Chaco suffer from this condition, and we know to what an extent the tsetse fly has restricted the range of African herds.

If we are thinking of the extent to which raw materials may be still further developed in the world, we cannot fail to see how important is research upon the pioneer belts and their

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specialized problems. Here is the widest possible scope for modern science and for business elements that themselves are controlled by the pioneering spirit. It is true that the best places in the world have been taken. It may also be true that in a broad way production of raw materials has been generally well adapted to this physical earth, that man is fairly well adjusted to the controlling conditions of climate, soil and transportation. It is surely not true that the finer adjustments have been made or even that all of the important adjustments have been made. The solution of some of the problems indicated above in the pioneer belts of the world would at once release large areas for occupation and development. They would in time throw upon the world's markets a vastly greater quantity of raw materials out of proportion to the populations that produce them.

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THE WORLD'S RUBBER SUPPLY

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RECENT intemperate discussion of the rubber situation has obscured certain fundamental and comforting facts. One is that the country has obtained, taking the last five years as a whole, an adequate and cheap supply of crude rubber. For these five years the New York price averaged 32½ cents a pound. In the five years before the war it averaged about \$1.50. We have had our rubber during the past five years at only one-fifth the pre-war cost, and this despite an enormous expansion in consumption of the commodity. Production of automobiles has increased from a few hundred thousand a year before the war to 3,500,000 a year during the last three years. Output of trucks has grown from a few thousand to 400,000 a year. Registrations have risen from 1,250,000 in 1913 to 20,000,000 at present. Rubber consumption has expanded from roughly 100,000 tons in 1913 to about 500,000 tons in 1925. Under the circumstances, and bearing in mind that the same size tire that cost a dealer \$21.30 in 1913 costs him \$9.90 now, and is twice as good a tire, it will be agreed that we have been served extraordinarily well with regard to both supply and price of rubber during the past half-decade.

In 1925, to be sure, the average price rose to 73 cents a pound. However, too much weight should not be given to a single year's price for any agricultural commodity — and especially to that of rubber in which there is a seven-year lag between planting and production. If the price of rubber averaged high last year it is well to remember that we had our supply in 1921 at an average cost of 16.3 cents and in 1922 at 17.5 cents. For those two consecutive years America obtained its rubber at less than the cost of production. The bitter must be taken with the sweet. One year of high prices to four of low represents better than a fair run of luck.

No good purpose is served by exaggerating the importance

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and effects of the so-called Stevenson Act for restricting exports of rubber from the British plantations in the East Indies. This scheme was conceived in weakness. Two years of profitless business had left the British growers in a state approaching desperation. They saw their huge investments jeopardized. And there is this to be said in extenuation of attempts to control rubber exports: Because a rubber plant requires five years to come into production and much longer to reach full output, the functioning of the economic mechanism by which prices automatically control production is imperfect. The temptation to reenforce the law of supply and demand is great. How great this sort of temptation may become, we know from the attempt made a few years ago to persuade Cuba to cut sugar production 1,000,000 tons in order to improve prices in this country.

In any event, the Stevenson Act went into effect in November, 1922, and failed to have any clear-cut effect on the rubber market in the ensuing two years. True, the price averaged 29½ cents in 1923 and 26½ cents in 1924. But this was no remarkable result during a period in which general business had become more active, consumption of rubber was increasing and commodity prices in general had risen. Not until the summer of 1925 did the price of rubber rise rapidly to high levels, and that was after two years of unprecedented consumption based on such factors as enormous automobile production and the introduction of the balloon tire. One is led to the conclusion that the Stevenson scheme was effective only when the supply and demand situation had changed so as to favor higher prices. If, however, the scheme actually did start prices upward earlier than otherwise would have been the case, it performed a useful service. What is most to be feared is an extended period of low prices during which planting is discouraged. Such a period stores up trouble in the form of shortage and high prices later on. The most important thing is to assure an adequate future supply of rubber.

Nor is last year's range of prices as extraordinary as might be imagined. The spread was between 35 cents and \$1.21. Rubber always has been a widely fluctuating commodity; because of the inherent inelasticity of its production it probably will remain so. In 1913 the price of plantation rubber varied

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between 48 cents and \$1.00 a pound. In 1910 the range was between \$1.30 and over \$3.00. And there was no restriction scheme in force then. Some critics of the Stevenson Act have maintained that last year's run-up was due merely to restriction plus speculation. Our rubber-consuming industries were not, however, blameless. By showing little indication to accumulate rubber or to contract ahead when rubber was low, they intensified the inevitable advance when it did come. In fact, the Stevenson Act might never have come into existence at all if our tire manufacturers had been more cooperative. In 1922 the British growers offered our manufacturers a five year's supply at 35 cents a pound. But our people were interested in obtaining the lowest possible prices at the moment and the offer was refused. In addition, the tire makers seem to have overbought the rubber market last winter and to have embarked on too ambitious production schedules. Inventories of tires in the hands of manufacturers and dealers on May 1st probably approximated 20,000,000, or enough for three months' consumption at the heaviest rate. These tires were made with high-priced rubber and represent a very large potential loss irrespective of whether tire prices are reduced further or not. The tire manufacturers apparently failed to realize the full significance of Mr. Hoover's conservation campaign, which aroused the consumer's combative instincts and built up an expectation of lower prices; in any event the tire manufacturers seem likely to be the chief sufferers from it.

As economists, we are all prepared to condemn restriction schemes such as the Stevenson Act, principally on the ground that interference with the normal working of the law of supply and demand defeats its own purpose in the long run. William Graham Sumner used to argue with much force that attempts to secure an economic result through legislation end by making the condition worse. We are happy to see the administration at Washington subscribing to this sound doctrine. However, there are times when the vehemence with which some of its members denounce the Stevenson scheme persuades one that they lack the courage of their convictions. If our economic dictum is sound, the Stevenson scheme will defeat itself. In that case we may leave it to the inexorable workings of economic fate. We need not disturb ourselves too greatly by trying to combat it with interferences of our own.

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And there are signs that the Stevenson scheme has serious drawbacks from the British producers' standpoint. Certainly it has benefited the Dutch growers at the expense of the British. Under restriction the British proportion of plantation production fell from 72 per cent in 1922 to 53 per cent in 1924. Meanwhile the Dutch proportion rose from 27 to 45.3 per cent. In 1924 the British furnished only 48.7 per cent of the world's supply. Dutch output rose in absolute figures from 102,000 to 175,000 tons—a pretty clear demonstration of the gains they were making at British expense. Besides, if we are willing to assume that last year's high prices were the result of restriction, then restriction obviously was tending to attract additional capital to the business; and the investment of American capital in rubber production is one of the things that the opponents of the Stevenson Act most earnestly desire.

Probably the healthiest thing that can happen to the rubber-consuming industry is to have rubber prices hold relatively high for some time. American capital cannot be attracted to rubber growing by a weak and fluctuating market. Already, with prices back close to forty cents a pound, recent American enthusiasm for rubber growing is cooling. Our manufacturers are likely to reflect again that the grower has to take large risks, tying up large sums for years against a market whose character cannot be forecast closely. One suspects that it is not by accident that American capital has preferred to stay at home in comparative safety and with generous returns rather than to take long-pull risks on the other side of the globe. Meanwhile the serious character of the problem of our future rubber supply has been emphasized in a study published by the Rubber Association of America. Plantings have been light for some years; they have fallen, in fact, from 400,000 acres in 1918 to 40,000 in 1923. Consequently the study estimates little gain in production between 1926 and 1930. Consumption is expected to pass production in 1928 and to run some 60,000 tons ahead in 1930. If such a situation materializes, the Stevenson scheme automatically will pass out of the picture. To avoid a continued and worse shortage beyond 1930 high prices and renewed planting are needed now.

Fundamentally the rubber problem is an economic one that will be solved by the natural interplay of economic forces.

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The Stevenson scheme was devised as an emergency measure to save the growers from disaster and not to exact exorbitant prices. Of doubtful value when the economic tide did not run in its favor, it should be discarded now that the industry is reaching a better basis. As matters stand it serves principally to ensure for the British the criticism of the rubber-consuming world without reference to the merits of the question. The Act probably is a passing phase in the industry.

Similarly, interferences of our own with the natural operation of the law of supply and demand are to be deprecated. Too high prices bring their own remedy in reduced consumption and increased use of substitutes. These are the natural checks; given time they are effective. The danger of attempting to bring in other forces is illustrated by the recent rubber conservation campaign. The corrective reaction has been exaggerated, with unfortunate results for the tire manufacturers. Price itself could have been depended on to produce a proper adjustment.

Much solicitude has been expressed, and properly so, over the injurious effects on international commercial relations of restriction schemes. In a recent address, Dr. Julius Klein of the Department of Commerce summed up the matter in this fashion: "And so it is that in protesting against these foreign price controls we are acting not only in our own immediate interest but are endeavoring to establish high commercial standards and to remove permanently a threat to international trade relationships and good will."

That is an excellent sentiment, excellently expressed. International good will should be very precious to us all. It follows that we should conduct our side of the argument in the best of tempers and with every desire to do justice to the other fellow's point of view. Certainly the cause of international friendship and cooperation is not served by representing a plan designed to save a depressed foreign industry as a "trade war" being made upon us. War implies a desire to injure the other party. Surely no one pretends that the Stevenson Act was devised with the object of injuring us. Similarly there has been much loose talk of the Stevenson Act being a crafty plan to make our rubber consumers pay the British debt to America. This notion is disposed of when one

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notes that the Stevenson Act was put in force before Stanley Baldwin funded the British debt to this country. The normal desire to earn profits is all that is needed to explain the motive behind the Stevenson Act. Surely the matter is difficult enough without adding the friction generated by misunderstanding and suspicion, and by imputing bad motives. Under these circumstances the part of statesmanship should be to allay rather than foment public prejudices and passions, and to diminish rather than increase the distrust between peoples.

Taking the broad view, the important problem for the rubber-consuming world is the assurance of an adequate supply of rubber during the next decade. The Stevenson Act is a mistake, the kind of ineffectual mistake that all peoples make when they try to tamper with the law of supply and demand. Its importance, however, is passing, and if our friends of the Rubber Association are correct, the Act will pass out of existence during the next few years in the face of a world shortage. Under the circumstances it is clearly unprofitable to indulge in recriminations over the genesis and operation of the Act. A more practical procedure will be to face the problem of providing for our needs in 1930 and 1935. To this task we should bring quiet confidence in the value of trusting to the operation of the law of supply and demand, willingness to see the other fellow's side of the argument, and a desire for accommodation and cooperation. We can do this knowing that, after all, the best way to cultivate international good will is to show good will ourselves.

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THE PETROLEUM RESOURCES OF THE UNITED STATES

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THE world's production of petroleum to the end of 1925 was practically thirteen and one half billion barrels of which the United States had produced over eight and one half billion barrels or sixty-three per cent of the total. For the past three years the United States has produced over seventy per cent of the world's supply.

The production of the United States for the last five years (3,220,000,000 barrels) was more than that for the previous ten years (3,052,000,000 barrels). The production for 1925 (759,000,000 barrels) was more than that of the first thirty-six years of the industry, from 1859 to 1895. It was more than double that of 1919, only six years ago, and was more than the production to 1926 of Rumania, Italy, Canada, Galicia, Borneo, Japan, India including Burma, Trinidad, Peru, Argentina, and Germany. The production of Russia to the end of 1925 was only $2\frac{3}{4}$ times, and that of Mexico only $1\frac{3}{4}$ times that of the United States for 1925. The Dutch East Indies have produced less than one-half as much as the 1925 production of the United States. The magnitude of the present demand upon our petroleum resources and the vital importance to other industries of an ample supply of petroleum products make some sort of understanding of the probability or possibility of our maintaining this supply of prime importance.

The outstanding effort at presenting a complete view of the industry was the report of the Committee of Eleven to the American Petroleum Institute which was prepared as the reply of the Institute to the questionnaires of the Petroleum Board appointed by President Coolidge.

In considering the future supply of crude petroleum, the Committee estimates a reserve of 3,210,000,000 barrels from present producing wells; 1,441,000,000 barrels from proven undrilled acreage under present conditions; and 670,000,000 barrels from proven undrilled acreage available at some price; a total known reserve of 5,321,000,000 barrels. These esti-

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mates are probably optimistic, but are not seriously so. The staggering thing about the estimate is the smallness of the supply in relation to the demand since it represents less than seven years' supply at the present demand rate. Owing to the nature of petroleum production, this supply cannot be made available in seven years but will be produced in gradually decreasing quantities over at least fifty years.

This known reserve may be increased or supplemented by five methods:

1. Use of substitutes for petroleum products such as alcohol, benzol, oil shale products, or coal tar products.
2. The increased recovery of petroleum from known fields.
3. Increased efficiency in the utilization of petroleum and its products.
4. The discovery of new fields.
5. Imports.

(1) *Use of substitutes*.—Organic substances, such as alcohol and benzol, are already used to some extent as motor fuels either alone or mixed with gasoline. We have enormous reserves of oil shale which will supply vast quantities of substitutes for petroleum if that supply should fail. Some aid in supplying the motor fuel demand may be had from the products of the coal tar obtained in the processing of coal. There are the gravest sorts of economic difficulties in producing alcohol or benzol in sufficient quantities to supplant even a small part of our petroleum demand. Some oil shale in the most favorable localities could be utilized at a price of \$3.00 to \$5.00 per barrel for average Midcontinent petroleum but the replacement of a great part of our petroleum supply by oil shale products means the establishment of a new industry, which will require time and money, both in great quantities. If all the coal now being mined in the United States were processed, and the motor fuel extracted from the coal tar, it would supply only three per cent of the present gasoline demand, and the plant investment required would be in the trillions of dollars.

All these substances may be regarded as substitutes which may come into extensive use in the event of a drastic and continued shortage of petroleum, but barring revolutionary discoveries in winning and utilization, they can be of very little assistance in postponing or preventing such a shortage.

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(2) *Increased recoveries*.—It is well known that much oil remains in the sands after they are exhausted by our present methods of operation. The Committee of Eleven estimates a reserve of 26,000,000,000 barrels left in the ground in known fields after exhaustion by present methods of flowing and pumping, which they believe can be recovered by improved methods of operation, including the mining of the sands and extraction of the oil. The estimate of the amount of oil left in the ground is conservative but the amount which can be recovered is wholly problematical. Water flooding and air or gas drive have been used with some success in shallow, consolidated sands where there was little or no water in the sands originally. The use of these processes at great depths, in water-flooded or unconsolidated or lenticular sands is very questionable and if they can be used at all the price for petroleum must be much higher than it is at present to render them profitable. Much more than one half of the oil left in the ground by present methods is in areas highly unfavorable for the use of water or gas drive.

Mining the sands and extracting the oil appears impossible on any extensive scale. The costs of mining the quantities of sand estimated to contain a barrel of oil, varying from three to ninety tons per barrel in different fields, under the conditions to be encountered, appear absolutely prohibitive except in a very few highly exceptional cases. Mining by shafts and lateral tunnels driven below the sands, from which small openings can be driven upwards into the sand, is somewhat more feasible. At great depths and in unconsolidated materials, where most of these reserves lie, the process would be too expensive to deserve serious consideration under present conditions.

All the methods mentioned will have some application, but at best they are means of alleviating rather than preventing or greatly postponing, a shortage of petroleum.

(3) *Increased efficiency in the utilization of petroleum and its products*.—In the refining of petroleum the sought-after product is gasoline. Lubricating oils are also essential but the yield of lubricants could be so greatly increased that there is no danger of a shortage for a long time to come. The demand for gasoline has increased and is still increasing so

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rapidly that the petroleum question is really a gasoline question. The yield of gasoline from petroleum has already been nearly doubled by the introduction and use of "cracking" processes. Without the use of cracking, the yield of gasoline already would be far too small to meet the demand. The use of cracking processes can be greatly extended. So far, only the gas oil, a heavier product than kerosene, is being cracked extensively and the process can be extended easily into the fuel-oil fraction.

So long as only that part of the fuel oil which comes into direct competition with coal is affected, this can be done with no important effects on the petroleum or other industries. There are many uses for fuel oil, however, which are not competitive with coal and as soon as the substratum of such use is encountered further cracking can be done only at considerably increased prices. This point will not be reached for some time under conditions approaching the present.

Unquestionably great economies in the use of gasoline can be brought about by more efficient motors, and estimates have been made that the average mileage per gallon of gasoline can be doubled by the use of a different type of motor.

The use of a motor of this type, however, requires the use of lighter and lower-speed cars which are not demanded by the public and which probably will not be demanded until a shortage of gasoline brings about much higher prices. The change to such motors would be gradual, in any event, and no great diminution of the demand for gasoline on this account is in the immediate prospect.

Increased efficiency in manufacture and use has already operated to prevent a shortage of petroleum, and there is room for further improvement in this direction. These factors have not operated as yet so as to overcome the continual increase in the demand for petroleum and there is no prospect of their doing so in the immediate future. Radical changes in manufacture and utilization will be brought about only by high prices which will follow rather than precede a shortage of petroleum.

(5) *Discovery of new fields*.—If we assume that there will be no great reduction in the demand for petroleum in the near future and that the United States should maintain its present

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independent position as a producer, the necessity for the discovery of new fields becomes evident.

The accompanying chart presents the situation graphically for a 25-year period. This shows the demand rate of 1924, an average of the Committee of Eleven's maximum and minimum demand curves, the production curve of our present known reserves under assumption of very rapid drilling, and the production of Pennsylvania and Kansas to the end of 1924, as well as the yield of the Cushing, Oklahoma, field as produced and as if produced in one year. The area between the heavy horizontal line at 750 million barrels and the production curve represents the amount of new petroleum or substitutes which must be obtained on the assumption of constant demand at the 1924 rate. It should be noted that the 1925 demand was in excess of that for 1924, and that a further increase is indicated for 1926.

The task of filling in the blank area from new fields in the United States within the twenty-five-year period is certainly no mean one. Even if we consider a shorter period than twenty-five years the problem is still difficult. We should probably maintain our stocks which, though large, do not represent an unreasonably large working margin for a business which has the magnitude of the petroleum industry, which has its enormous responsibility toward other industries; and whose source of supply is so uncertain. To maintain our stocks and meet the 1924 demand for a ten-year period we must produce five sixths of the estimated reserves of known fields available under present conditions; receive imports equivalent to our imports from 1914 to 1923, inclusive; and produce from newly discovered fields a quantity of petroleum equivalent to the production to 1925 of New York, Kentucky, Montana, Kansas, Louisiana and Arkansas; the Bradford field in Pennsylvania and New York; the Cushing, Burbank, Glenn, Tonkawa and Carter County fields in Oklahoma; the Electra-Burkburnett, Mexia-Powell (deep sand), Spindletop and Luling fields in Texas; the Salt Creek field in Wyoming; and the deep fields of the Los Angeles Basin and the Sunset-McKittrick district in California.

Certainly no man nor group of men in the petroleum industry has any definite, concrete idea of where to go to dis-

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testing the known sands. Greenwood County has 600 dry holes.

In Oklahoma, Carter County has 267; Okfuskee County, 429; Kay County, 229; and Okmulgee County, 2,643 dry holes. One township in Creek County has 50 dry holes into the "Wilcox," the deepest known productive sand in the area.

The situation as to new fields may be summarized by saying that there is no doubt as to the discovery of new fields, but a very reasonable doubt as to their being discovered at the right times and in numbers and of size sufficient to prevent a more or less stringent shortage of petroleum at almost any time.

(6) *Imports*.—The imports of petroleum and its products into the United States during 1925 amounted to 78 million barrels, a decline of over 50 million barrels from the high point of about 129 million barrels in 1921. During the same period the exports have increased from 67 million barrels to 107 million barrels.

It will be noted that the imports during 1921, the height of the Mexican development, amounted to about one-sixth of the present annual demand.

If our domestic supply should fail to meet our demand, we would have to depend on imports for some time until we could utilize our oil shale deposits in a large way, or until we could adjust ourselves to the smaller supply by using different motors, etc.

The problem of a dependable source of supply for foreign oil for the United States also appears somewhat difficult. Mexico's production has declined from 193 million barrels in 1921 to 113 million barrels in 1925 and a further decline is in prospect. Much territory, however, remains untested and the future cannot be foretold. Venezuela is producing about 100,000 barrels per day and is handicapped by lack of transportation facilities. Colombia has one field of considerable importance which is just being made available by the completion of a pipe-line, which will carry about 35,000 barrels per day. Argentina produced about 7 million barrels in 1925. There is little prospect of the supply filling the local demand for some time to come. Peru is producing about 10,000,000 barrels per year.

In Africa, small production has been obtained in Egypt and Algeria. Exploration is being carried on in these countries

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and in Angola, Portuguese East Africa, and Madagascar. Considerable testing has been done in South Africa but without success. There is no prospect of Africa becoming an exporter of petroleum in the near future.

In Europe, the Russian fields are still beating back after the injuries suffered during the war. Their production in 1925 was about 50 million barrels compared with a peak 73 million barrels in 1916. There are enormous undeveloped possibilities in Russia but the general conditions are such as practically to preclude the entrance of American companies.

The fields of Poland and Rumania are being actively exploited. The Rumanian production is about the same as before the destruction of the industry during the war (about 15 million barrels), while Poland has not reached its former production.

In Asia, Persia produced about 35 million barrels in 1925, and has a considerably larger potential production. This production is entirely under the control of one British company. American companies recently secured a fourth interest in a concession in Iraq (Mesopotamia) where excellent indications are reported. No production can be expected for at least two or three years.

India and the Dutch East Indies produce together about 30 million barrels per year with no indications of notable increase.

In general, the foreign situation may be summarized by saying that, while there are many remote possibilities, the geographical, geological and governmental conditions are such that there are no immediate prospects of a sufficient supply easily available to the United States to seriously affect our domestic situation. If the economic conditions of Europe, Asia, and Africa improve as is hoped and expected, the foreign markets can easily absorb any additional production of petroleum which may reasonably be expected from our present knowledge of the situation.

That this is the view of the major refining and marketing companies of the United States may be inferred by the great mergers of the past few months. In every case an important refining and marketing company has obtained control of a company which was primarily a producing company with important reserves of crude petroleum.

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THE WORLD'S COTTON SUPPLY

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I DO not claim to be a cotton expert by a great deal, but I have conferred with more or less expert persons on the subject and am fairly familiar with statistics, most of which I shall not inflict upon you.

I have thought quite a little about it and it seems to me that the cotton situation of the world offers no serious, long-time, general problems. We have to anticipate, I suspect, rather irregular production in this country in the next few years on account of the curious habits and unforeseeable actions of the boll weevil and consequently, perhaps, fluctuations in prices which are disturbing and unfortunate; but those are problems of the immediate present and in my opinion have nothing to do with the long sweep, which I think is a matter of greater interest to those present.

There are those who suppose that the demand of the world for cotton is going to fall off gradually and that the United States as a cotton-producing country will suffer from that effect. It seems to me that is highly improbable. The fear that is expressed in some quarters that the world will substitute rayon or some fiber made from wood or from other very common materials I believe to be unfounded. It is true that wealthy countries like our own are using more and more silk and more and more rayon. Rayon is growing with amazing rapidity as a textile material, but so far from reducing the demand for cotton it seems, at present at least, to have the tendency of increasing that demand, at least among populations than can afford to spend liberally for textile articles. If, instead of wearing one cotton garment a season, a woman thinks it is attractive and pleasant to wear half a dozen charming garments made of cotton mixed with rayon, you get a variety of consumption which actually increases the demand for cotton. That seems to be a conspicuous tendency at the

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present time—the mixture of silk and rayon with cotton, creating a more attractive fabric, the quantity of which consumed is much greater, simply because it is attractive. There may be no great object in having a variety of garments if they are none of them as attractive as they can be made by the use of these mixtures.

Substitute textile materials made from wood and other fibers are not less but very much more expensive than cotton at the present time, and they are likely to continue rather more expensive, so that the question of cost competition is not likely to enter in.

On the other hand, there is likely to be a steady increase in the demand for cotton on the part of the poorer populations of the world, who perhaps cannot afford these more expensive textile materials. As countries like China and India grow in wealth—as we all hope they will and as on the whole they are tending gradually to do—they will consume much more textile material. They at present do without garments of cotton and other textiles they would like to have. If their per capita consumption in the slightest degree approached that of the more advanced countries, the world demand for cotton would be much greater than it is at the present time.

At the present time the world production is considerably greater than it was before the war and while the prices of cotton are not so high as they were a couple years ago, they are still higher with reference to pre-war levels than the prices of most commodities. In short, it does not seem probable that immediate demand is going to fall off, or that looking ahead for a long time, there is going to be any decrease in demand; on the contrary, there will probably be an increase.

There are some people who have looked forward to a time when America could not produce a great deal of cotton and when we would perhaps have a world shortage of cotton because of the growth of population in this country and the demand for the use of the land for other purposes—for feeding the population. That again seems to me a rather far-fetched forecast, though no one can, of course, tell what may happen two or three hundred years from now. The rate of growth of population in the United States, so far as one can foresee for some decades to come, is not likely to be such as to put grave

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pressure upon our food-producing resources. We shall be able to develop our agricultural methods, able to get more from the land, without necessarily decreasing the production per person working on the land, and we shall be able to keep on devoting a great deal of our land to cotton. Even should it prove necessary for the United States to import certain kinds of foodstuffs which now it is entirely able to supply for itself, we should probably import them and produce cotton rather than devote a larger part of our land to foodstuffs at the expense of cotton acreage. Of course, all that depends upon the probable future development of cotton production in other parts of the world, but so far as our own ability to produce cotton is concerned, it does not seem to me that it is seriously limited. It would certainly pay the United States, if conditions in cotton production in other parts of the world remained the same as at present, to import great quantities of wheat rather than to forego the production and export of cotton, because certain parts of our country are so admirably adapted to that particular crop.

As regards the boll weevil, that, of course, is a biological question. I have no expert knowledge about it. All that one can do is to observe the actual tendencies of cotton production in the face of the boll weevil in this country. The boll weevil unquestionably reduced greatly the yield per acre in large parts of the cotton-producing regions and it did look for a time as if we should never be able to maintain our cotton production, but the boll weevil apparently does not like dry climate, nor does he like very cold weather, and the farmers have learned by adjusting the time of planting, by some adjustments of methods of cultivation, but especially by shifting the location of the cotton crop, to meet the problem pretty well.

There has been, as you all know, a rapid increase in cotton acreage in this country the last few years, extending especially toward the west, in the central and western parts of Texas and in Oklahoma. Production has more than kept pace with this increase of acreage, as we are getting now rather higher yields per acre than we did a few years ago. We had last year, 1925, a crop second only to one or two previous years—16,000,000 bales, a very large crop of cotton. It is, of course, impossible to forecast exactly what the wicked little weevil will

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do, but if we can succeed against him as well in the future as we have in the last few years, there seems to be no great danger that we cannot produce cotton.

Then comes the question: What are other countries likely to do in the production of cotton, and is there danger from the American point of view that the demand for American cotton will fall off? No doubt there will be—as there has been in the last two or three decades—a gradual increase in cotton production in other countries. There has been a great deal of effort in that direction, especially on the part of the British. They have an association for promoting cotton production in the British colonies and possessions, an association supported by collecting practically a tax from the spinners of cotton; and they have been very active in pushing the production of cotton, not however, except in Australia, going to the extent of granting subsidies, but rather investigating climatic and other soil conditions and giving advice as to methods of producing cotton and otherwise promoting it by an educational campaign. This movement began before the war, before the boll weevil commenced to show his head, but has been very much more active in recent years. I think the reason has been primarily not the desire to free Britain from dependence on the United States, but the actual fear that the United States might not be able to supply the cotton required. Of course, also, there was a desire to increase the prosperity of British possessions by giving them an additional form of production of a profitable kind.

I do not believe that the British feel that the United States is a wicked monopolist of the cotton business trying to hold up the British spinners. Their activity has been based on quite different motives. It would obviously be a benefit to the British and other European consumers and mill operators if there were more widely distributed sources of cotton supply, because the ups and downs of production would be ironed out to a large extent in that way. Any one country like the United States is naturally threatened with unfavorable weather conditions or pests that greatly affect the crop for the year or even for a series of years; and the resultant sharp variations in the price of cotton, such as we have witnessed all too often in the past, are not to the advantage of the cotton spinner.

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Now, how much has been accomplished by these organized or unorganized efforts to increase the production of cotton in other countries? After all, not a very great deal as yet. India, which is by far the largest producer other than the United States, has increased its production something like thirty per cent, I believe, as compared with pre-war. The greater part of the increase has gone into Indian consumption by the establishment of local mills. The export has increased materially. The demand for cotton in India on the whole is a gradually growing one; the additional production in India is more or less absorbed by the Indian population.

China is raising a good deal more cotton than a decade or so ago, is becoming able more nearly to supply its needs, but when you remember that China has 400,000,000 people against our 100,000,000, roughly speaking, and that our production of cotton is eight times that of China still, you can see that China has got to go a long way before it is likely to be able to supply its own requirements and at the same time be an exporter.

Egypt comes third, not very much below China. Much of the Egyptian cotton, you know, is of a special quality which we, ourselves, import in very great quantities. Americans are as anxious, I think, as anybody else, to see the production of those special grades increased rather than diminished and have protested at times against certain policies of the Egyptian Government in attempting to curtail the output of Egyptian cotton. The area available for production of crops of any sort in Egypt proper is so extremely limited, the population so large, that there seems no probability that Egypt proper will be able to increase its cotton acreage very greatly. They need the land to raise enough to feed the people. There may be some increase, but not a great increase, in cotton production in Egypt.

The efforts of the British at increasing cotton production have been most active in East Africa, a territory which has a very extensive area capable of cotton production. It will, however, be a long time in my opinion before East Africa will begin to approach the United States in magnitude of cotton production, because you have got to educate the natives to plant, or you have got to send in a great deal of European management and European labor, in order to succeed in that

business; this will take a long time. Moreover, the rather dense populations of this region need to devote a good deal of time and soil to raising food for themselves.

The most important thing of all, I think, is habit—the natives' habit of raising what they have been accustomed to raising, of doing their agriculture in their own particular way. It takes a very long time indeed to change the habit of the people and develop a new type of production on a large scale. Of course, if you talk in terms of percentages, the rate of increase of cotton production in Africa, outside of Egypt, is very great. Before the war the production was something like 30,000 or 35,000 bales in all Africa except Egypt, and now it is something like 250,000 bales (last year). I have the figures here if you are greatly interested, but the total production outside of Egypt is a bagatelle as compared with the 16,000,000 bales produced in the United States and in my opinion it will be a long time before African production becomes really important.

More rapid is likely to be the increase in production in South America. The production in Brazil and Peru had become considerable even before the war, several hundred thousand bales, and recently there has been a gradual development and a rather rapid percentage increase in production in Argentina. The amount of land that is capable of producing cotton throughout that part of South America is great, but they have not, of course, a very large population to work the soil, and at present it pays them better with that meager population to raise grain and livestock. The production of cotton in South America is still less than a million bales, 900,000 bales last year, by no means twice what it was before the war. The rate of increase is rapid in Argentina but only moderate in Brazil and Peru.

Broadly speaking, therefore, it is my opinion that the production of other countries of the world is not likely to increase faster than the world demand increases; that the United States can continue to find demand for as much cotton at least as it is producing at the present time for a number of decades to come; and it is quite possible that the world's consumption may increase so much that even greater quantities could be profitably raised in this country.

Cotton is different from oil and some of the other things that will doubtless be discussed here in that it is not a mineral deposit liable to depletion. It can be raised on land indefinitely by the aid, in some places, of fertilizers; it can be raised in a great many places and for that reason there seems to be no possibility of any monopoly on the part of any country. This country, of course, in the past, if it had seen fit, could have exercised some kind of control over the cotton supplies of the world. It could have limited production or regulated exports, but the possibility of any such control is gradually diminishing with the expansion of production in other countries and this country, fortunately, has never shown any particular disposition to monopolize the supply. Still less, of course, is any other country in any position to do anything of the sort.

In a general way, the situation appears to be normal or natural. We have to do with a competitive business conducted by millions of small-scale producers in several different countries, confronted with a gradually increasing demand and with the possibility of a gradually increasing production. As far as I can see, therefore, there are no grave problems involved for the indefinite future, but the only unfortunate thing to my mind is the probable irregularity of the production from year to year in the United States, resulting from the curious action of the boll weevil.

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CANADIAN PULP WOOD AND THE AMERICAN PAPER INDUSTRY

FREDERIC W. HUME

Director of Public Relations

I MUST say that I came somewhat unprepared as I expected a much better informed speaker would be here to discuss the subject of wood pulp. On the program the subject appears as wood pulp, but I would like very much to confine my remarks to pulp wood from which our wood pulp is obtained.

Undoubtedly one of the most important questions to be considered to-day by the paper industry of our country, and by this body, is that of an uninterrupted and permanent source of supply of pulp wood or wood pulp, or both, sufficient to provide adequately for the needs of the country to-day, not only for newspapers, but for magazines and the greatly increased use of wrapping, kraft and boxboard papers. The situation has not received proper serious thought and consideration by those in the industry until quite recently, but the industry is fast awakening to the fact that an economic condition has developed which may become a matter of great and troublous moment, not only to the manufacturers of paper throughout the country, but to the vast army of paper users, unless drastic and efficient steps are taken now to effect a remedy.

The magazine and book paper industry to-day has a total investment of more than a billion dollars, and employs some hundred and fifty thousand people with an annual payroll around the two hundred million dollar mark. It is very closely allied with the electrical industry, using about two million horsepower of electric energy per year.

Here, then, is an industry well worthy of every ounce of effort which may or can be expended to insure a permanent supply of its raw material, pulp wood, without which the paper industry never could have attained its present world growth. It is a well known fact that wood pulp, and wood pulp alone,

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is responsible for the great upward strides made in the use of paper throughout the world to-day, and any altered condition which would necessitate the use of other raw materials, such as we know them to-day, would be disastrous to the paper industry from an economic standpoint.

When we talk of pulp wood in this country we naturally link ourselves with our neighbor to the north—Canada. Here we find a nation blest with a superabundance of natural resources, both forest and water power—the very life of cheap paper production—and populated by an aggressive and resourceful people. In 1911 the duty was removed from newsprint imported into the United States and almost immediate advantage of this economic favor was taken by Canada, with the result that newsprint mills in abundance were built across the border, almost ninety per cent of the output of which is exported to this country. In fact, Canadian production of newsprint has doubled itself in the past eight or nine years, and since September, 1925, with but one exception, the monthly output of Canadian newsprint mills has exceeded that of the United States. This development, of course, can be considered as a mutual advantage to both countries.

With her vast forest resources, Canada permitted the unlimited exportation of raw pulp wood for a time, but soon adopted a policy of prohibiting the export of raw pulp wood cut from Crown lands, whether leased or not. This condition has existed in full since 1910, and as some 92 per cent of all Canadian lands containing the pulp wood stand are vested in the Crown, the only raw pulp wood obtainable from Canada must be cut from the remaining 8 per cent, or freehold lands. Wood cut from Crown lands must go through at least one process of manufacture before it can be exported, which means wood pulp, as this is the first step in transforming pulp wood into paper. These export restrictions were of serious moment to many American companies which had leased Crown lands in good faith with the avowed intention of exporting the wood cut therefrom, and forced many of the companies to build pulp mills on the Canadian side of the border so that they might avail themselves of their leased wood lands.

It will probably interest you to know, at this point, that Canada's total exports of newsprint and other paper, pulp

wood and wood pulp, totaled \$168,724,886 for the year 1925, and that of this amount \$151,210,257, approximately 89 per cent, was exported to the United States. The major portion of this item, of course, is newsprint, which aggregates almost a hundred million dollars, while the different grades of wood pulp account for some forty-three million dollars. The fact that Canada exports so large a quantity of newsprint is not surprising, however, when we realize that because of her abundant forests, her wealth of water power and cheaper labor she has a distinct advantage over this country, her newsprint production cost being somewhat less than the production cost in this country.

It is quite evident that, so long as newsprint is permitted to come into this country free of duty, Canada will continue to hold its newly acquired supremacy in the production of this commodity, and will increase its excess over the United States' production as time goes on. As to this, the American mills have adjusted themselves somewhat by converting machines formerly applied to newsprint production to the manufacture of the finer papers.

When we consider the tremendous investment American paper mills have in this country, and on the Canadian side of the border too, and when we consider how essential the American market is to Canada as an outlet for her pulp wood, wood pulp and paper products, it seems the most logical condition in the world that friendly business relations shall continue uninterrupted. However, there are times when the agitation for an embargo on pulpwood exported from Canada brings forth something which is food for thought on the part of the American companies; for instance, at a recent gathering of Canadian Pulp and Paper Manufacturers in Canada the Premier of Quebec, referring to the proposed embargo on pulp wood export, said, "If America does not want an embargo or export tax on pulp wood, let her take the duty off of all grades of paper." Of course, there could be but one result if any such drastic action were taken. A removal of the duty on all grades of paper would throw the American market open to world-wide competition, bringing a deluge of paper of all kinds, not only from Canada, but from Sweden, Norway, Finland and other foreign countries economically favored to produce paper

cheaply and in great volume. This, of course, would affect the price of paper both in the United States and in Canada.

It seems difficult at times to understand just why an embargo on pulp wood export is looked upon as so vitally important by some of our Canadian neighbors—especially in the name of conservation of their natural resources, which is their only claim for its necessity—in view of their enormous stand of soft woods and their infinitesimal annual cut, in comparison with the whole. The report of their Royal Pulpwood Commission (1924) showed a total stand of almost one and one half billion cords of pulp wood, of which more than six hundred million cords were available, or accessible, as they put it. In 1925 the annual cut of pulpwood in Canada reached its greatest total, and is estimated to be some five million cords. Of this amount, 1,430,250 cords were exported, all to the United States. In fact, all pulp wood exported from Canada during the past decade has come to the United States and the increase in annual cordage of this item, during the past ten years, has been small compared with the yearly increase in the amount consumed in Canada. The amount of pulp wood imported into the United States from Canada represents about 25 per cent of the total amount consumed annually in this country, our consumption for 1925 being estimated at somewhere between five and one-half and six million cords.

In spite of the fact that we have been standing still for many years, so far as newsprint production is concerned, the total production of *all* paper in this country has increased steadily. Last year we produced about 8,500,000 tons of all classes of paper—newsprint, magazine, wrapping, boxboard, etc. It is quite evident, therefore, that the paper industry has reached proportions which justly entitle it to be termed a tremendously important industry, and it is well, indeed, that we give serious thought to the problem which confronts us, that of insuring a reasonably cheap and a permanent supply of wood with which to manufacture the wood pulp so vitally essential to the industry.

Wood pulp, as you undoubtedly know, is manufactured in three different grades—groundwood, sulphate and sulphite. The first is used primarily for newsprint and like grades of paper and the latter two for the better grades. The principal

woods used are spruce, balsam, hemlock and poplar, though there have been some recent successful experiments made in using jackpine and one or two other grades not heretofore deemed practicable for making wood pulp.

It may not be amiss to mention, in passing, that other and varied uses for wood pulp in the development of commercially feasible products other than paper have reached a stage today where the inroads they may make on the supply of raw material are bound to be felt. I have in mind, particularly, artificial silk, rayon, a product almost wholly dependent upon the cellulose base of soft woods. This industry is advancing by leaps and bounds and has taken the public by storm. If the increase in annual output of rayon continues over the next decade in the same ratio as has been the case during the past ten years—and everything indicates that it will—the amount of wood pulp required to produce this artificial silk will be considerable. Here, then, is another factor to be considered in the economic study of wood pulp and the permanency of its supply for the paper and other industries.

I want to thank you, gentlemen, for your kind indulgence this forenoon, and perhaps it is in order that I should offer you my apologies for dwelling so much on the subject of pulp wood rather than wood pulp, but the question of our pulp wood supply is a paramount one in the paper industry.

RAW MATERIALS AND IMPERIALISM¹

PARKER THOMAS MOON

THE relation of raw materials to imperialism is really an illustration of the profound principle that Mr. Summers developed last evening when he was speaking about the attempt to impose the fiat of government upon the economic world.² This is a peculiar and a peculiarly important attempt to impose the fiat of government upon the economic world. Imperialism, as I see it, is one of the most important characteristics of this generation in which we are living. I suspect that some future historians, when they come to write their textbooks labeling each period with some appropriate title, may select "The Era of Imperialism" as a description of this age of ours, for I doubt whether in the long run many contemporary events will quite so significantly affect the history of humanity as the extension of the power of civilized nations over the so-called backward nations. No empire-building in all history can compare with it. The conquests of Cæsar and Alexander were trivial as measured against the achievements of our supposedly prosaic times. The quest for colonies and protectorates, for concessions and spheres of interest, that has played so tremendous a rôle in the history of the international alliances and ententes and rivalries of the period from 1870 down to the present, is perhaps the gravest world problem with which we are faced, and we are not done with it. It was prevalent before 1914; it is acute now.

Take the case of Italy. There is now in power in Italy an administration that zealously believes in colonization. Benito Mussolini has even spared a little of his very much demanded time to take a trip to Tripoli, and to call popular attention to the Italian colonies. The Facisti have established a National Colonial Day as part of the agitation for the exploitation and enlargement of Italy's colonial empire. One even begins to hear suggestions to the effect that Italy has not enough of North Africa, and that possibly some day she may need French

Tunis or some other part of the Mediterranean world as an addition to her colonial realm.

In France flourishes a veritable school of imperialist propaganda, devoted to the idea that France needs colonies for her economic welfare, to provide her with raw materials and food-stuffs and markets for her manufactures. Perhaps in no country is the philosophy of economic imperialism being so systematically developed as in France.

In Germany there is an agitation on foot in favor of the restoration to Germany, as one of the great civilized and civilizing powers, of some of her lost colonial empire in the new form of a mandate.

Russia in becoming Communist has repudiated imperialism in theory, but in practice Bolshevik Russia stands heir to the imperialism of the Czar and still pursues an imperialist policy in Central Asia.

Little Belgium is developing the Congo with an intense zeal. King Albert himself has made the amazing remark that Belgium's future lies in the Congo.

Great Britain built up a great empire "in fits of absence of mind," so they tell us, and she still continues to be somewhat absent-minded.

The United States, of course, has never been imperialistic. We have never desired to conquer territory. We have taken territory such as the Philippines, Porto Rico, or Hawaii only when Providence thrust it upon us. Since 1897, and even since 1915, Providence has been singularly considerate of our welfare, and, if Providence lagged, we could count on the State Department and the marines to assist in its beneficent operation—in Haiti and Santo Domingo.

This is not the place to dwell on the general significance of imperialism in international relations. We can agree here that it is a challenging problem, in which raw materials are a very vital factor. It was not always so. A generation ago, the more potent motive was the search for markets for surplus cotton and iron manufactures, and for the cheaper grades of intoxicating liquors. These were the big items for which markets were sought, but to-day raw materials have become a dynamic factor of prime significance.

You can see the raw-materials factor operating in several

¹ Opening remarks at Round Table No. 9, on Political and Financial Control of Raw Materials, May 13, 1926.

² See p. 126.

ways. Sometimes it provides the motive or the argument for acquiring colonies. Spokesmen of Japan are constantly telling us that Japan, with her dense population, needs iron and coal and other raw materials in order that she may develop the industries which will enable her to support a "surplus population." Italians are constantly pointing to their emigration figures. They explain that Italy, being poor and overpopulated, needs industrial development, and for that reason needs raw materials from her colonies. If Mussolini recently obtained from Great Britain, and set great store by obtaining from Great Britain, that strip of territory in East Africa known as Jubaland, it was because Italian imperialists felt that in Jubaland they had another Nile, a region like the Nile Valley that could be converted by irrigation into a vast cotton field.

To go back to the Philippines. You remember that Providence entrusted the Philippines to us without, on our part, an intent of conquest. Annexation was caused by the fortunes of war and the march of events, as our Presidents have said. But remember also that before we actually acquired the Philippines American officers were instructed to report on the raw materials and other economic potentialities of the Philippines. It was on the basis of this fuller information about the economic value of the Philippines that President McKinley changed his original instructions to our peace commissioners and insisted that we must have the whole archipelago from Spain.

In the Philippines we are faced with the problem of Nationalist agitation. President Coolidge has said that we cannot emancipate the Philippines just yet, because they do not understand and recognize the principle of the separation of the legislative, judicial and executive powers in government. Some of us have a shrewd suspicion that, not the doctrine of the separation of powers, but the question of rubber and other raw materials is likely to be the important factor in our continued retention of the Philippines and in the postponement of the fulfilment of our promise to grant them independence as soon as they showed a reasonable ability to govern themselves.

Take the case of Liberia. If Mr. Firestone's project of turning Liberia into one great American rubber plantation

succeeds, it will make Liberia very much more definitely an appanage of the United States. It will mean the extension of United States imperialism, whether we call it that or not, whether we allow the Liberian flag to wave or not.

The French have some colonies which are a constant drain on their national treasury—French Equatorial Africa, for example. On what basis do French imperialists justify the retention of such unprofitable colonies? Simply, that they are so abundantly stored with raw materials. That is the plea you hear or read over and over again.

It is unnecessary to elaborate this point. Illustrations could be multiplied endlessly. I intend only to bring out some salient features of the problem. And a most interesting feature is the optimism which so typically accompanies imperialism. We are often, I dare say, a little bit like the little boy who looked at the mince pie and found it much more attractive before he ate it than it proved to be afterwards. We are all somewhat like those Australians of whom Dr. Bowman spoke in his very interesting and informing talk yesterday morning: We get patriotism mixed up with rainfall and other things. We are incurable optimists, and especially when we are acquiring colonies. The reports on the possibilities of the Philippines were much more optimistic in 1897 than they were after we had acquired them. The Italians get cotton mixed up with patriotism. I saw an international colonial exposition at Lausanne last summer and in the Italian part of that exposition they had a room devoted to the Italian colonies in Africa. In the center of the room they had a huge pillar of raw cotton. You would think the Italian colonies were producing stupendous quantities of raw cotton. Yet the sad truth as revealed by statistics is that they produce very little indeed. Nevertheless the Italian imperialists have a sublime faith in the cotton-producing qualities of their colonies.

Mr. Firestone has great faith apparently—at least he gave out to the press the most optimistic estimates—as to his ability to turn Liberia into a rubber plantation that would produce a large part of the world's rubber. There are many practical difficulties in the way of such a project—scarcity of labor and other difficulties—but we rarely take those things into consideration in advance. The British press, before Great Britain

took Rhodesia, spoke of the fertile wheatfields, and of gold; yet the first settlers encountered hardships that caused them to despair, and now the British Government has to inform prospective pioneers that they must have considerable capital before they venture into that land of milk and honey.

A very good example of this imperialist optimism is found in a little book I picked up last summer in France, entitled, "What Every Frenchman should Know about Our Colonies." It is for propaganda purposes, as you will easily imagine, and it is a popular work. The authors describe Morocco in these terms: "It is a magnificent jewel which has been the object of envy of all the powers." It is well they put that sentence in the past tense. I dare say Morocco is less coveted now, with the Riffian trouble, than formerly. You remember all the discussion there was about the iron in Morocco. That was an important item in the Morocco crisis. You remember that when Germany finally agreed to let France have Morocco they put in a special stipulation that there was to be no differential tariff duty on the export of iron ore from Morocco. But try to look up the statistics as to the export of iron from Morocco to-day, after France has had it for fourteen years, and see how large that export of iron ore is! It does not figure among the substantial items on the French list.

Take French Equatorial Africa again. It has been called the Cinderella of the French Colonial Empire—Cinderella in the pre-pumpkin stage, before the fairy godmother arrived. French Equatorial Africa still sits in rags, so to speak. It has been a great burden and its commerce has been slight. Yet French imperialist propaganda reiterates that French Equatorial Africa is teeming with natural resources, with rich and abundant lands, with copper mines 350 kilometers from the coast, with wonderful potentialities for transportation; that French Equatorial Africa will ultimately justify the fondest expectations, will be a true Cinderella. That optimism compares badly with the present facts.

The French have been eager to develop a colonial supply of cotton and many of them have been optimistic about it. They have spent a great deal of money in developing cotton cultivation. They do produce some cotton, not a large amount as world trade goes. The disheartening fact about it is that

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more than half that colonial cotton goes to foreign countries, not to France. The reason is that most of it is grown in French Indo-China, and that three-fourths of the raw cotton produced out in Indo-China goes to Japan and China. The tricolor may wave over the cotton fields, but the raw cotton shows no loyalty to France.

I could give a good many other cases of that sort, but perhaps it would be futile to fatigue you with examples. One more illustration, however, may bring out a different point. France owns New Caledonia, and on that island there are found certain relatively rare minerals, but the cobalt from New Caledonia all goes to Belgium, and two-thirds of the nickel from New Caledonia goes to Belgium rather than to France. The small and weak nation of Belgium is able, because of certain economic facts, to triumph over the imperial greatness of France.

The rubber situation that we have discussed so much is a case in point. The British own the rubber plantations, but we get the rubber. The graphite of Madagascar goes to England, not to France. The phosphate of Tunis has been much spoken of by French imperialists, but if you look at the Tunisian export figures you will see that less than half of the phosphate and other mineral produce of Tunis goes to France. The point is that raw materials, in a general way, are color blind—they recognize no national flag. They follow economic rather than political facts.

Some of you will say, "But that is not quite true. We can control them politically by means of export taxes and monopolies." Some of you will recall Mr. Hoover's nine monopolies. You will think of rubber. It is true that political control is exercised in a few cases, but it is not general and there is a very good reason why it is not general. If France should forbid the export of phosphate from Tunis to other competing countries, it would ruin the prosperity of Tunis. If Great Britain should forbid all export of rubber from British Malaya to the United States it would depress that colony into a state of desolation and poverty. Such measures are impossible because of economic facts.

What I have been trying to bring out here in a roundabout fashion is that factory and finance are more significant than the flag in the control of raw materials.

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There is another slip between the cup and the lip in this question of colonial raw materials. It is illustrated by Indian cotton. India grows much cotton, but in the course of time factories have been erected to use that raw cotton on the spot. The same thing is happening with other raw materials in Canada, Australia, New Zealand and South Africa. Factories are springing up like mushrooms in these colonies. Just the colonies that one expects to be, and are, the most important producers of raw materials, are precisely the colonies which refuse to remain colonies in the economic sense, which refuse to remain hewers of wood and drawers of water for the industrial nations, and insist on becoming industrial nations on their own account, in the course of time.

I have been playing around the fringes of this subject so far. The heart of the subject is the question whether self-sufficiency is to be obtained by imperialism. That is the argument that is used recurrently. If you dropped that argument out you could look at colonies as business propositions, and ask whether this colony pays or that colony is a loss. We cannot do that at present. We look at colonies through a patriotic haze, through a mist, and the mist is the idea of national self-sufficiency.

Can self-sufficiency in raw materials be secured through imperialism? The United States gets sugar, tobacco, bananas, hemp, gold, copper and cocoanut oil from its colonial domain, but it does not get the Malayan rubber, the Indian jute, the Japanese silk, the British tin, the Russian platinum, and the Canadian nickel that are needed.

France affords an illustration, although you might take any nation that you choose. Two thirds of the imports of France are raw materials; but one tenth of these raw materials comes from her colonies, whereas the other nine tenths come from Great Britain, the United States, Germany, Belgium, the South American countries, and others. If you told a French imperialist that the important colonies of France, the genuine economic colonies of France, were the United States, Germany and Great Britain, he would probably gasp, but it is true. The important providers of raw materials for French industry—colonies in that economic sense—are these three Great Powers. The moral is obvious, is it not? If these are the economic facts, it is absurd to let the imperialistic desire for

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colonies interfere with the international reciprocity and good will that are necessary if France is to draw the bulk of her raw materials from other Great Powers.

You can look at it from a different angle. The feudal state and the city state of the middle ages proved too small for economic facts; they were united in the national state. The national state found itself too small to include the raw materials it needed; and it expanded into the national empire. All the Great Powers of to-day are national empires rather than nations, with the single exception of Germany, and Germany is a nation against her will. Now the national empire finds itself inadequate. It can not include the raw materials it needs. It is too small. The next step seems to be world-wide international cooperation, reciprocity, and control. We are hesitating to take that next step, inevitable as it is, because public opinion and public sentiment generally lag about a generation behind the facts—behind the economic facts especially. We were very slow to accept the gospel of imperialism which a few professors, business men, and journalists preached back in 1870 and 1880 as their solution of the economic problems of their day, but in the end we were converted. Now, in the twentieth century, we are trying to apply that mid-Victorian policy to a "mid-Coolidgean" epoch. Is there any reason for astonishment if the results are not all that could be desired?

What I have said so far is largely negative because the other speakers are going to develop the constructive aspects of the topic, and because, as I see it, imperialist sentiment is the greatest obstacle there is to any clear-cut constructive thinking on the subject of raw materials. Once we can rid ourselves of the delusion of imperialist self-sufficiency, once we can face the fact that Great Powers and small powers alike do depend and must depend chiefly upon other powers rather than upon their colonies for raw materials, then we shall be free to face the problem with constructive intelligence. Then we shall be able to set about the task of establishing international standards of fair competition and of business ethics. One prime prerequisite for such thinking is that we should cease to pursue the mid-Victorian mirage of self-sufficient imperialism, and open our eyes to the realities of the international age in which we are living.

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INTERNATIONAL FINANCIAL CONTROL OF RAW MATERIALS

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I HAVE a feeling that there are a number of persons in this group far better qualified than I to discuss this particular phase of the situation. I hope that Mr. Summers, with his ever-watchful eye, will guard carefully against my sins of omission and commission and correct any misapprehensions for which I may be responsible.

An analysis of the export and import trade of the United States from 1850 to the present time reveals the fact that the percentage of our exports consisting of raw materials and food stuffs has been going steadily down, and that the proportion of our exports devoted to manufactured articles has been going steadily up. On the other hand, the proportion of our import trade consisting of manufactured articles has been going steadily down and the proportion of our imports devoted to raw materials has been going steadily up. This is simply another way of saying that the United States has become industrialized and that the international problems of the United States are the problems of an industrial nation.

In the next place be it pointed out that in so far as the problem of raw materials has become an acute problem for the United States, it may be said to be a development of the period since 1910. This same period has been marked by the growth of American foreign investments. These coincidental developments are not to be wondered at because of the obvious fact that one of the purposes of foreign investments is to secure certain, cheap, accessible and independently controlled sources of raw materials.

In a sense, therefore, the problems of the United States during the past two decades have been very similar to the problems of Great Britain throughout the nineteenth century. There is a striking similarity between the British cotton industry of Lancashire and the American rubber industry of

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Ohio. The British cotton industry of Lancashire consumes a very large proportion of the cotton crop of the world, none of which is grown in Lancashire or any other county of Great Britain. Similarly, the rubber industry of the United States consumes a very large proportion of the crude rubber of the world, none of which is produced in Ohio or any other state of the American Union. It was the American Civil War which awakened Great Britain to the imperious necessities of this question of supplies of raw cotton and which led to the organization of British cotton manufacturers for the purpose of developing sources of supply under British control. It was the Great War and the financial uncertainty following upon it which aroused the American government and the American rubber manufacturers to seek independent American supplies of crude rubber. It might also be pointed out, by way of following the analogy a little farther, that the British throughout the nineteenth century clung rather tenaciously to a policy of splendid isolation and were eventually obliged to abandon it by reason of imperious economic necessities. The United States continues to cling to its policy of splendid isolation, and it would be a wise man indeed who would prophesy how long the policy will remain within the realm of practicability.

Before 1914 there was a considerable amount of American capital invested abroad in sources of supply of raw materials—principally minerals in Latin America. Of these petroleum stood out conspicuously, but other minerals in Mexico, Chile and elsewhere were also concerned. Then came the war, which in a very real and effective way served to expedite the development of American foreign investments in sources of supply of raw materials.

In the first place, the war itself interfered with the normal flow of commodities as between nations and immediately raised the question whether political control exercised by belligerents during war time might not be projected into peace time by all great industrial nations. The war also brought about the evils of speculation and of fluctuating exchange rates, which made every manufacturer, in varying degree, a speculator in the commodities which went into his finished product. Manufacturers dislike to be speculators in raw materials in addition

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to being manufacturers of the finished product, and so you found a tendency to evade the evils of speculation and of fluctuating exchange rates by independent control of sources of supply of raw materials. A very homely illustration in this connection was the acquisition of large Cuban sugar plantations by a certain popular chocolate manufacturer in the United States who had no concern with the international implications of such investments but who knew he was being gouged by sugar speculators and who wished to manufacture chocolate and not engage in the ramifications of speculation in the sugar market. The consequence was that purely war-time conditions tended to accentuate the development of American investments in raw materials.

Simultaneously came a consciousness on the part of the American government that there was a very close correlation between industrial welfare and national defense—a fact which no government can afford to ignore under present conditions. The consequence is that not only during the war but after the war there has been a conscious policy on the part of the government of the United States—and I am concerned principally with that government for the moment; most of us are kept so thoroughly alert by the public press and by our own government officials to the sins of other nations in this respect that they need not be emphasized here—to urge the investment of American capital in independent sources of supply of raw materials, purely because of the national interests which are supposed to be involved.

This has not been a partisan matter by any means. During the last years of Mr. Wilson's administration the government at Washington was very actively concerned with the question of American supplies of raw materials. It was under Mr. Wilson's administration that the Anglo-American controversy regarding petroleum in the Near East reached fever heat.

The Democratic Party platform of 1920 contained the following statement:

The Democratic Party recognizes the importance of the acquisition by Americans of additional sources of supply of petroleum and other minerals and declares that such acquisition both at home and abroad should be fostered and encouraged. We urge such action, legislative and executive, as may secure to American citizens the same rights in the acquirement

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of mining rights in foreign countries as are enjoyed by the citizens or subjects of any other nation.

The Democratic party was defeated, as you know, in 1920, but the Republican party has executed that plank of the Democratic platform as faithfully as the Democrats could have executed it themselves.

It is with the name of Mr. Hoover that this policy of the active promotion of American foreign investments in raw materials is principally associated. In 1921 Mr. Hoover is reported to have said to a gathering of American oil producers in his office at Washington: "Unless our nationals reenforce and increase their holdings abroad, we shall be dependent upon other nations for the supply of this vital commodity (petroleum) within a measurable number of years. The truth of the matter is that other countries have conserved their oil at the expense of our own. We must go into foreign fields and in a big way."

In 1922 Mr. Hoover was responsible for obtaining from Congress an appropriation of five hundred million dollars to determine to what extent American interests were being squeezed by foreign monopoly. In 1924 Mr. Hoover urged upon Congress the desirability of permitting American manufacturers to enter into combinations, anti-trust legislation to the contrary notwithstanding, for the purchase of raw materials from abroad. Then came Mr. Hoover's rubber outcry of 1925-1926, with which you are familiar. But it was not alone Mr. Hoover who was thus concerned. An attempt was made to have the Tax Bill of 1926 contain a provision exempting income derived from American investments abroad. The State Department has been supervising foreign investments with a view to considering the national interests involved. Presumably American investors could have investments diverted to channels which, in the opinion of the Department of State, might be more important from the point of view of the national interest.

In spite of the conditions of war time, in spite of the financial conditions surviving war time, in spite of the active program on behalf of foreign investments which has been carried on by governmental and other agencies, only a comparatively small

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proportion of American foreign investments at the present time is to be found in American-controlled supplies of raw materials. That is largely because of the heavy demands upon American capital which come from other sources and which are much more attractive to the investor, as, for example, the huge reconstruction loans in Europe. However, the proportion of certain vital raw materials which are now in the hands of American investors has been growing larger. For example, the nitrate supply in Chile is now about fifteen per cent in the hands of American capital as compared with only about two per cent before the war, and American capital is still buying its way into Chilean nitrate fields. The same thing is true of tin in Bolivia, vanadium in Peru, and sugar in Cuba.

The question as to whether the future will bring increased investments in sources of supply of raw materials is a difficult one to answer. It consists of prophecy which at the best must be undertaken with very grave reservations. There are those who believe that the falling demand in Europe for reconstruction loans and the increased accumulation of "surplus funds" in the United States by reason of superior industrial efficiency will compel capital to find its way in increasing degree into sources of supply of raw materials. If the governmental policy of encouraging such investments continues, there is perhaps reason to believe that such will be the case. On the other hand, there is the fact which Mr. Schneider emphasized last night, and that is that American business men are exceedingly hard-headed. In some cases they do not conceive the national interests to be quite their own interests. They view independent sources of rubber supply, for example, purely from the point of view of the return they may expect upon their investment, not from the standpoint of control of such materials during time of war.

There is, however, something to be said of another aspect of the question which is not so prophetic and not so problematical, and that is this: If it be true in the future that increasing amounts of American capital will find their way into sources of supply of raw materials controlled largely or exclusively by Americans, it will certainly be true that such investments will meet with powerful resistance from a variety of sources. In the first place you will have politically weak

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countries like Mexico which, fearing the international complications of foreign investments within their borders, will proceed to adopt legislation hostile to such foreign investments. Indeed, as far as Mexico is concerned, such legislation is no longer a probability; it is a fact. And Mexican nationalism will be heightened in proportion as American capital with governmental support finds its way into Mexico.

Politically developed countries, like Canada, fearing the depletion of their natural resources by American investors, will proceed to adopt legislation in the form of export taxes or embargoes upon the shipment of such raw materials outside their own borders. Indeed, as far as Canada is concerned, that is not a supposition; it is already a fact. If such a policy be pursued by Canada and other nations, it will involve not the importation of raw materials into the United States from abroad, but the migration of American industry from the United States to the foreign countries concerned.

In the third place there will be resistance from highly industrialized nations like Great Britain with colonial empires from which they wish to draw their supplies of raw materials. Such resistance will not be without justification. The British may argue that if it is legitimate for us to keep British goods out of our market by a protective tariff, it is proper to keep American capital out of their territories by any legislation which they may see fit to adopt. And if they do adopt such legislation it will become increasingly difficult for American capital invested within the British colonies to carry on its work successfully.

Even in those areas which are under American political control powerful resistance will be felt. It was discovered, for example, by American rubber manufacturers that the proposal to turn the Philippines into a source of supply of rubber was one which the Filipinos were not prepared to accept. American investments in rubber plantations obviously would constitute a reason why the Philippines should not be released from American economic and political control. In addition, such rubber plantations would involve breaking down, first, land legislation designed to protect the Filipinos from foreign ownership and, second, labor legislation designed to protect the Filipinos from coolie labor.

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This will leave to the United States as a free field only those areas like Liberia, which can forcibly be brought under American control if necessary. This, after all, is the problem of imperialism which Professor Moon has been discussing.

How are you going to approach this problem of raw materials if it cannot be successfully approached on the lines which have been suggested? It is trite to say that this is an economic rather than a political problem. But it is true nevertheless. In proportion as this is made a political rather than an economic problem it becomes impossible of solution. The policy which the Great Powers have been pursuing up to the present time is not merely a problem of imperialism, narrowly defined; it is a problem of mercantilism. It is a needless complication of international politics which distributes around the world a considerable amount of political dynamite likely to go off at unexpected times and with disastrous results.

An experiment of some interest is the development of international consortiums for the exploitation of raw materials. There has just recently been consummated one of these international organizations under the name of the Turkish Petroleum Company. After deliberations extending over several years the Turkish Petroleum Company is now definitely established. It was organized as a British corporation but is hereafter to be an international corporation in which British, American, French and Dutch capitalists are to be interested. Twenty-five per cent of the capital of this corporation is to be in the hands of the Anglo-Persian Oil Company; twenty-five per cent in the Royal Dutch Oil combine; twenty-five per cent in the hands of sixty-seven French companies operating as a unit; and twenty-five per cent in the hands of six large American corporations. This international consortium will take the oil out of Iraq and deliver crude oil to the Mediterranean seaboard, where it will be taken up by the respective companies and refined under their own auspices. It is not an exaggeration to say that an international consortium such as this will operate on behalf of political stability in the Near East and will tend to make the American government less critical toward the British administration in Iraq than heretofore. The settlement of this controversy will doubtless bury the bog of

a secret British or Anglo-French conspiracy to keep American oil prospectors out of the Near East.

In a sense, of course, the problem of raw materials is not peculiarly an international problem. It is a domestic problem as well. Every manufacturer in the United States is concerned with a cheap, a secure and a steady supply of raw materials. Occasionally a manufacturer, charging discrimination, is obliged to build up his own independent sources of supply of raw materials. Mr. Ford is, of course, an outstanding illustration; he has built up an industry which is substantially self-sufficient.

But the domestic problem of raw materials is never a problem involving civil war. It is controlled by laws which define unfair competition. There is adequate machinery to enforce those laws and to inflict punishment upon those who flagrantly violate them. There is, of course, a striking difference between the domestic problems of raw materials and the international problem of raw materials. Whereas the domestic problem is defined by well-established ethical and legal standards, the international problem and its political implications, without such ethical and legal standards, are distinguished by a total absence of agreement and law. In the domestic sphere, to be sure, you have frequent departures from the standards of fair competition, but you do not have to resort to economic and political barbarism in the solution of difficulties or in the punishment of the offender.

Mr. Culbertson, in his book on *International Economic Policies*, has suggested that it is quite within the realm of possibility to develop a code of international economic practice which will define unfair competition; that ultimately it will be quite possible to establish international judicial machinery through which manufacturers, regardless of nationality, may appear as individuals and not as representatives of a particular country for the purpose of enforcing their rights and for the purpose of protesting against discriminatory treatment.

To all of this objection will be raised that it is very well in time of peace but that all standards will break down in time of war. Such an objection is an example of that reasoning in a vicious circle which is a principal obstacle to international

progress. It fails to take into account the fact that competitive striving for sources of raw materials is, in turn, one of the prolific causes of war. So you come back to the fundamental proposition, that in so far as we predicate international policies upon the war system we may as well reconcile ourselves from the start to self-inflicted defeat. Unless we are courageous enough to strike out upon the supposition that law can be substituted for the war system we certainly shall get nowhere.

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POLITICAL CONTROL OF RAW MATERIALS IN WAR AND PEACE¹

L. L. SUMMERS

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SINCE the addresses of Dr. Earle and Dr. Moon have so thoroughly covered the general aspects of raw materials, and so many of the details have previously been discussed at this round table, I hope you will permit me to comment on some of the points raised, rather than bore you with repetition.

I was impressed with that expression of Dr. Earle's—"pathological nationalism"—which seems to cover a great many things, good and bad, and is epigrammatic. We inherited a maternal grandmother—very wealthy—and the grandchildren were very daring. They had inherited a great deal of grandmother's wealth. Some of those grandchildren belonged to a very hardy race, the Scotch race. The Scotchman is the greatest colonizer the world has even seen. The principal fact about the Scotchman was that, while he was loyal to Scotland and to the British flag, he went into every country of the world and he didn't try to make Scotchmen out of the natives. He married a native woman; nothing in the society that he went into disturbed him in the least. He proceeded along his own way and modified, just as he wanted, the things he wanted, and left everything else alone.

A most conspicuous illustration of that is the Hudson's Bay Company of Canada. You did not have Indian warfare in the Canadian Northwest, because the Scotchman was there. He treated the Indians honestly and won their confidence. We had our wild western situation with its desperadoes, its bandits and its train robbers. Why did not these men, after perpetuating some crime, cross the border and go into the great wilderness of the Northwest? A man could not enter that

¹ Informal address delivered at Round Table No. 9.

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wilderness without his movements being known within forty-eight hours. If the Northwest police wanted a man they sent out a call for him—every guide, every trapper was a part of that system. It is a most astonishing example of policing a wilderness with a small number of very efficient men. It was a case of pathological nationalism. It was utilized in another country. It is an outstanding example of peaceful penetration.

The subject assigned me is "Political Control of Raw Materials in War and Peace." In peace there is a greater production than can be conveniently utilized, while in war you are unable to meet the demand for those same materials. That makes a very fundamental difference.

We have talked much of government in business. The war developed some very peculiar sociological tendencies. The man-power of the nations at war was assembled. Those who went to industrial works received large wages and indirectly got their money from the government. A large part of the population was represented in some war activity involving a remittance from the government treasury. This support developed unconsciously a form of paternalism, a reliance on the central government and a tendency to appeal to that government for every kind of domestic difficulty. Unfortunately the political elements in a nation are usually not familiar with the practical limitations of paternalism. We face therefore an era of subsidy-seeking and some peculiar interpretations of fundamental economics.

The statement I made last night in regard to the price of wheat was challenged.

In general the peace-time movement of raw materials involves some interesting phases of the law of supply and demand. Take cotton for instance. Galveston is the great cotton port of the world. The exports from Galveston exceeded those from New York, and for the past years about five hundred and fifty to six hundred millions of dollars in cotton annually left the port of Galveston for foreign ports.

Manchester and Bremen were the two great central buyers' markets before the war. The cotton quotations of Liverpool reflected the world prices, and estimates were made of the amount of the cotton crop, the acreage planted, the condition of the crop and hence the possible supply for the year. Prob-

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able consumption was also estimated and endeavors were made to study what the future prices—technically termed "futures"—would be. It is unwise for a great consumer in Manchester or a group of consumers to allow fluctuating prices in a world market to entirely determine the cost to them, though they realize the crop of the year and the estimated market for the year will govern the price.

Let us see what industry does to step in and modify, as far as possible, the law of supply and demand. Mr. A's bank at Galveston—he was the agent of the Manchester buyers—would start the early spring planting season by asking for a remittance in advance from Manchester. The local banks through Texas, Oklahoma, and the great cotton region would receive deposits from Mr. A. The local bank would go out to the cotton grower, the small grower, and in some cases to the local storekeeper, and say, "Jim, you advance money to these fellows that we bought from last year. Here is a list of fellows; we know they are reliable. If they want any money or if they want stores and supplies, furnish them with what they need and take their notes and charge it against the crop."

Consequently, Manchester owned cotton in the ground before it was grown. The price was agreed on in advance so that the consumer was independent of the eventual figures of supply and demand and of the world quotations. He was buying his cotton below the market price and at a fixed price.

You can see, therefore, that there are ways of tempering and regulating supply and demand. Those are actual expedients that are resorted to. The rigid economists cannot see details; they are gradual developments. They are not planned by any one man. They are the outgrowth of necessity.

That method of purchasing would indicate that America had a chance to protest against British capital coming in here and controlling a portion of our cotton crop, over which we had no say. Probably if any one had thought that it was possible for a foreign power to come in here and control some of our planting and control what should be done, a hullabaloo would have been raised. But the system created no disturbance. It was a godsend to everybody. If some of these growers had gone to the local bank and asked to borrow money, they would have been told, "Your credit is no good."

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or, "We will charge you twenty-five per cent interest and take a mortgage on everything you have." They had a gold mine! Their beneficent grandmother was including them in her remittances. That was a very charitable thing to do for the poor planter. It was a very effective thing to do for the Manchester and the Bremen cotton manufacturers; and yet it would have met with very serious objection had political Washington thought of it.

We used to get our rubber from Brazil. The Pará rubber carried the highest quotation in the rubber market. The native went out into the forests, into the jungle, on his own account and located his rubber trees, tapped them, collected his sap, evaporated it and carried it to the nearest trading post, where he negotiated. They would reduce the price of his rubber because of impurities—mud and bark and various impurities—and the post trader would bargain in that way. Then the products would be assembled at shipping ports and go down the river.

Some of the natives would be disgusted and decide it was easier to lie around in the sunshine than it was to go off into the jungle. Moreover, when they got prosperous they decided they would not go out because they had made enough. It occurred to some wise men that that was not an infallible supply. It was courting disaster. At that time rubber and hard rubber were used in toilet articles and instruments, but the greatest use was for the insulation of electric wires and cables. As that developed, Pará rubber sometimes reached the price of four dollars a pound. But we did not hear of any international agitation.

Then there came a great industry—the making of automobile tires. There was a question as to whether horse-drawn carriages would ever be supplanted by horseless carriages. But the industry grew and grew and great manufacturers decided to embark in it.

The most singular thing is that no industry in the world with which I am familiar would have invested hundreds of millions, even billions of dollars, and not have provided itself with an adequate supply of raw materials. One of the first things an engineer does in investigating an industry is to study the natural advantages and see whether you have everything that

is required—where you are going to secure it, how you are going to transport it, what the present rates are, and what the chances are of the rates changing. But here was an industry that just kept growing, and growing, seemingly indifferent. The automobile industry could not possibly have been developed except for the foresight, the originality and daring of a lone Britisher off there in the jungles of Brazil.

He said, "Why this is perfectly hopeless! They are laying the Atlantic cables and they used up everything we took in last year. If the natives don't go out the supply will be so uncertain we won't be able to provide it again." So he began to assemble the seed of the rubber plant of Brazil. He knew if the government were informed there might be a question as to whether that seed would ever leave Brazil. But he succeeded in getting his precious seed to England, and in the botanical garden of London the rubber tree of Brazil blossomed and they took some of the seed to Holland for the botanical gardens there. One day it dawned on some one to take some of this seed from London and plant it in Malaya. And there started that rubber industry.

It takes six or seven years to develop a rubber tree. Probably in five years you may get about a ton of rubber to fourteen or fifteen acres. After maturity that figure is reduced to something like a ton of rubber to four or five acres.

Remember that in this daring move Americans took no part.

The automobile industry had a sudden collapse in 1921. The rubber plantations of the Malay Straits recognized that a great slump had come and the British Government planned the restriction known as the Stevenson Act. But they made an offer to our manufacturers on a five-year contract, hoping that would average up and enable them to keep the cream of their plantations in production, because plantations return to the jungle very rapidly. We declined that offer for the simple reason that our shrewd traders said: "Rubber is falling and falling rapidly. We can buy all the rubber we want".

But the situation continued only for about two or three years. The huge demand for rubber, when the automobile industry came back, caused a large advance in price, and the international speculator, always present, seized the opportunity and that created the international situation.

Turning to war control of raw materials you are faced with some peculiar problems. From an economic point of view, some of the situations involving the purchasing power of gold and the necessity of resorting to barter were particularly interesting.

On the advice of Gustav Cassel, the great economist of Stockholm, the Swedish Government took a very unusual stand. They embargoed the importation of gold. They wanted no more gold in the country because it became a basis for expanding credits. The American dollar was worth only fifty cents in Sweden, Holland and Spain, and for anything you purchased you just paid double. It was impracticable to deal with these neutrals on this basis. It was decided that the simplest thing to do would be to petition the Swedish Government for a loan, as they had a surplus of funds. So the United States Government borrowed five million dollars from the Government of Sweden for five years, payable in gold. Sweden seemed to ask no questions. They supposed we wanted a loan because we needed money—everybody else did—but we did not wish the money for that purpose exactly. It was deposited in the Bank of Sweden and everything purchased in Sweden was paid with a Swedish check at par.

We wanted mules from Spain. Pershing needed some forty thousand mules for artillery. The Germans were very strong in Spain and the small Spanish farmer who owned the mules did not want to part with them. The embassy and the military attachés found it impossible to deal with the Spanish farmer. We had heard rumors that the olive orchards were suffering from lack of fertilizer. They needed some nitrate and we controlled the nitrates. The Spanish orchards were gradually fading away and so our emissaries entered Spain and traded sulphate of ammonia for Spanish mules, and those mules started moving over to the French front. Gold was useless but sulphate of ammonia was a crown jewel.

In dealing with South America a number of years ago, we had a very shrewd sales manager. He took from Cuba a Spanish-American of charming presence and of good birth and education, and after a number of conferences he said he would like to spend three or four months with letters of introduction in the territory that this American corporation was to

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enter. So he went down and with his letters of introduction he visited through the country. He went in and visited as a guest. Then he sent in a request for the best salesman we had who could speak Spanish. He took this salesman with him and returned to the houses where he had been a guest and introduced his friend who was representing an American corporation. The gentleman who first was a guest at the house was, you see, an employee of the corporation. His method of approaching these Spaniards was to meet them socially and not on a matter of business. He could guarantee the friend he was introducing—he would personally guarantee him. The friend was very solicitous as to what these people wanted and consequently the orders came to this country for so many baby carriages and baby cradles, and so on, that the purchasing department of the corporation had to open a new department to deal with domestic articles in order to sell machinery in South America. I doubt if a government, looking only at the sale of machinery, would ever realize that baby carriages and comforters and family clocks and articles of that sort might be more effective than gold in some cases.

Industry readily adopts systems of bartering, recognizing that gold is not the only medium of exchange. It is less easy for governments to barter, and, in general, government control, whether in war or peace, lacks the flexibility and adaptability to which industrial control is accustomed.

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DISCUSSION:¹ POLITICAL AND FINANCIAL CONTROL OF RAW MATERIALS

DR. E. E. SLOSSON:² As Professor Moon³ has said, there are different angles from which you can discuss this question of imperialism. I look at it from a different angle because I was born in a place in a country that was one of the products of imperialism.

I was born in Kansas, in what the professors of that time put down as the "Great American Desert" and what is now a great harvest field. I was born in a territory acquired by the Louisiana Purchase, which was opposed by the economists and the financiers and the statesmen of that day. William Cullen Bryant attacked the proposed purchase of this territory as absolutely worthless—William Cullen Bryant who was afterwards editor of the New York *Evening Post*.

Each step in the extension of the United States has been carried in opposition to the "down-Easters" who have exercised all the power of commercial interests, all the power of political interest, and the power of professorial classes to check it.

From my viewpoint, much of what seems to some people imperialism, seems to me merely gumption. I am afraid I shall have to confess I come of a race of practical imperialists. They used to be called pioneers in other days. My grandfather came into this New York wilderness and chopped down the trees to make a farm here. And he and his fellowmen established a little community, in the same way that my father forced his way out upon the prairies of Kansas, for two reasons: One was to make that a free soil, and the other was to make a home for a New York girl that he loved. He and the other young men of that type of practical imperialists accomplished their purpose, and I am glad they did.

¹ Open discussion following presentation of papers at Round Table No. 9, May 13, 1926. For papers at this session see pp. 180, 188, 197.

² Director of Science Service, Washington, D. C.

³ See p. 180.

So when I hear my friends in New York talking about the congestion of the slum district, I point out to them, or try to point out to them, that the difficulty is simply that the slum-dwellers prefer the slums instead of the abandoned farms that are lying all about them. There are lands to be given away. They do not have to be cleared as my grandfather had to hew them out by hand from the primeval forest. A man has only to go out and take them if he is willing to work hard enough to make a living there.

I am sorry this is a personal talk but I have some personal feeling when imperialists are attacked as conspirators against the peace of the world. Some of my ancestors came across in the Mayflower. They were not real-estate speculators. They were not subsidized by the government. In fact, the government tried to keep them out. You will find the same thing all the way through. I am surprised Professor Moon did not mention Alaska in his list of the unsuccessful speculations of imperialism, that being almost as good a speculation as the purchase of Louisiana. Alaska pays every year four times its original cost.

I do not want to flatter the Australians, but I venture to say that Melbourne and Sydney are better places to live in than any that the blackfellows could construct.

I hear in the East a good deal of criticism of the way in which our western coast was obtained, criticism of the Mexican War. I do not find, even in the most pronounced anti-imperialists of your section, any objection to inhabiting a bungalow in California, or to looking at the motion pictures that are produced in Hollywood; whereas some of my ancestors who were Abolitionists refused to eat sugar and refused to wear cotton clothes because they were produced by slave labor. I should like to call upon those persons who criticize the method of the spreading process they call imperialism, and those who wish to put a stop to this moving tide at the present time, to show some of that self-denial and sincerity that was shown by the early Abolitionists. Let them stop eating pine-apples that come from Hawaii and listening to the ukelele!

Hawaii is not the result of a real-estate speculation. The missionaries who went there first were not subsidized by the government or by the capitalists. They were sent there by

the pennies of Sunday school children. Liberia was another philanthropic enterprise. I do not know whether Mr. Firestone is going to make any money out of his rubber plantations in Liberia—I do not know whether he will benefit by it—but I know Liberia will benefit by it, and I know the entire world will profit by it, because, as Professor Moon very properly said, whatever may be the motive, however ruthless may be the means by which imperialism is carried on, the benefit does not go to a single nation but goes in the future to the entire world.

That is a fine thing about what is called imperialism. I don't exactly like the word. I cannot remember at the present time who is the Emperor of the British Empire, but the same processes, as Professor Moon pointed out, are common to republics and monarchies, to democracies and soviet governments. It is, as I see it, more a process of cleaning up waste places of the earth—the same sort of process that takes place in a certain stage in the development of a municipality where the people realize that there are a lot of vacant lots in the town that are not growing anything and look very bad, and that there are certain slums that are centers of disease, and they clean up these slums and convert the vacant lots into parks or gardens and make them productive of good to everybody in the community.

That is what is going to be done, in spite of anybody, for this world as a whole. The vacant land is going to be cultivated for the benefit of the entire community, and the plague spots—like Panama which was a center of disease for the entire world, spreading yellow fever—will be cleared up.

So what is called down East "imperialism," or the "conspiracy of capitalists," looks to me like the age-long struggle of the pioneers against the politicians, the professors and the plutocrats.

DR. ISAIAH BOWMAN: While agreeing entirely with the whole philosophy of Professor Slosson, I can yet differ with him on one preliminary detail that he mentioned. In his opposition to the theories of the professors he was led so far as to say that it was they who wrote the term, the "Great American Desert," across the map; and I rise to the defense of the pro-

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fessors, one of whom I once was but now am not. It was Colonel Fremont, explorer and soldier, who wrote that historic phrase across the map, and if the professors had anything to do with it, it was only to perpetuate that name.

MR. BENJAMIN B. WALLACE:¹ I will try to be very brief, but we ought to have some of the American side of the rubber situation. The British side has been rather fully and ably presented. Even a group of intellectuals, trying to be perfectly fair to foreign countries, should also consider the point of view which is apt to become dominant among the consumers, among the people as a whole.

The British rubber control is defended, first of all, on the ground that the rubber industry was about to disappear. Industries seeking special favors are apt greatly to exaggerate their difficulties. The rubber companies had been making profits of about twenty per cent on the average for fifteen preceding years. They had, or should have had, abundant reserves. They knew too much rubber had been planted in and after the boom of 1910, and that overproduction was sending the price down in 1919 when other prices were shooting up. The *Daily Telegraph*, of London, has brought out the fact that there had been no failures among the rubber companies before the restriction scheme went into effect. There were a few consolidations and reorganizations, but the rubber companies were not so desperately off as they have been represented. Their great prosperity before the war had naturally resulted in considerable laxness, and they were able to cut down their costs of production very materially. Department of Commerce figures show average costs of production in 1922 as only three-fifths of the costs in 1919, that is, economies amounting to forty per cent. Language such as we have heard, for instance, that the planters "hoped to keep the cream of the plantations in production" and "they saw their huge investment jeopardized," is quite unjustified. The Annual Financial and Commercial Review of the London *Times* for February 10, 1925, reviewed the situation in part as follows:

When restriction was introduced, a number of companies—forming a comparatively small percentage—were on the point of falling out of pro-

¹ Institute of Economics, Washington, D. C.

duction, owing to the unremunerative price of rubber. This group was comprised of the smaller and less efficient, badly financed, and economically weak companies—largely the inevitable legacy of “boom” conditions come to an end.

The flexibility of the scheme has been put forward constantly as justification for it. It was a moderate plan. The price was to be stabilized around thirty cents, with thirty-six cents perhaps as a sort of maximum, but the flexibility of the scheme was criticized at the time it was put forward. Our business men went over and tried to obtain a greater degree of flexibility. They pointed out that there was no guaranty that a sudden increase of demand would not send the price up, since the quantity exported could only be increased slightly every three months. The British seem to have been satisfied that the flexibility was sufficient for plausible argument; at any rate, they knew there was a large supply on hand, that there was likely to be no immediate shortage. They may have foreseen a shortage a couple of years later, they may have hoped for it; they certainly did not take the trouble to put in two or three more lines in their legislation, such as, “If the price goes to two shillings, the amount released shall be increased by twenty per cent.” A few strokes of the pen would have made the provision flexible enough to meet the demands of American consumers, but it was not done.

It is said that the rubber control is justified because we are faced with a future shortage of rubber. The shortage is quite speculative. All of the estimates which I have seen, if adjusted on the basis of the economies that have been effected in the last year, of the increase in the use of reclaimed rubber, make this prospective shortage, this terrible bogey, disappear entirely.

We are told that the scheme is an ineffective scheme, that it has been beaten by natural forces, as is shown by the fact that the Dutch percentage of the total plantation rubber output has increased and the British decreased from seventy-two per cent to fifty-three per cent, and so on. Of course, if you limit your output the other country's percentage goes up. Some even talk as if the Dutch percentage had gone up only *because* of the present scheme. They do not say, when they call attention to the fact that rubber is a seven-year product, that the in-

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crease of the Dutch production, except for a limited amount that was due to increased tapping, was due to plantings which were made before the scheme started, whose product would have come on the market in any event. So far as I can see, the scheme has been a great success.

I think you will find that the next time—if there is another time, and there probably will be—when the rubber growers are in relative distress they will resort to restriction of output more quickly and less reasonably. I think there is some chance that the next time the Dutch will cooperate in the restriction scheme. It seems to me that it is a conspicuous example of successful exploitation by one government of the consumers in another country—primarily in another country—and that it is one of the chief object lessons which will contribute to the progress of the development of monopolies, national and international, private and governmental.

DR. WILLIAM MARTIN: ¹ There has been, this morning, a good deal of talk about imperialism, and especially French imperialism. I am not here with the thought of defending France. I am not French myself and I belong to a country which is not suspected of having any kind of imperialism. But I would like to ask the Chairman whether he does not think, under the present circumstances, some kind of colonization is necessary for Europe, because Europe is very much indebted to other countries, and especially to this country; and I think the debts can be paid only if a country has a favorable balance of payments.

As Europe has, on the whole, very few raw materials, she must import a great part of them. The only way to increase, to better the balance of payments, seems to be to have raw materials, and for that purpose to have some colonies and some resources in other continents.

That is why, not being a colonist at all as a Swiss, I think that the present moment is perhaps not a very good one to criticize the colonial policy of some European countries. I think it has become, in the last year, a vital necessity for them.

CHAIRMAN MOON: If I may be permitted, I will take just a minute to reply to that. I have looked at the colonial figures

¹ Editor, *Journal de Genève*, Geneva, Switzerland.

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with some interest, with just that point in mind. It is a contention that is made frequently in French circles as well as in others. It has been made in British circles. If you look at the balance of trade between France and her various colonies you will find it is by no means the general rule that the balance is favorable to France. The colonies do not all contribute to a favorable balance of trade.

As for helping to pay the debts, there is not only the question of that balance of trade, but there is another very important question. The essential thing is that France has been investing huge sums in the French colonies, and the very imperialism to which they are now looking as an aid in paying their debts really constitutes a tremendous demand, if it is properly met, upon their reserve of capital. Instead of increasing the capacity of France to pay her debts, it operates in just the opposite fashion, so far as I can see.

If I may take just a minute more, Dr. Slosson compels me to vindicate my ancestors. My great grandfather lived in a log cabin on the frontier, where the chief cause of baldness was the tomahawk. Like Dr. Slosson, he later returned to the effete East. Owing to that circumstance I was not born out in the "Great American Desert," as otherwise I probably would have been. But, being descended from these "gumptions" Westerners, I think we can agree that "gumption" is a good thing, and that imperialism has accomplished some admirable results.

I did not mean to imply for one minute that it is not a great boon to have the reserves and the resources of the world increased. The only question is how you do it. My point is that the present sentimentality about imperialism has led us to try to get the things we want in ways which were not effective. We have gotten too much of war, too much of navies, too much of high taxes. We have laid waste the garden spots and industrial centers of Europe in our rivalry to clean up jungles in Africa. In some of the colonies in Africa, let me add, populous villages have been wiped out of existence by ruthless exploitation.

The attitude toward imperialism that I wanted to advance was simply that we should look at the facts and choose intelligent means to get precisely the things we want instead of the things we do not want.

MR. SUMMERS: I should like to interject just a word. I happen to be the ninth generation in America from pioneering gentlemen. I have not entirely forsaken the gumptious West, though fortune has led me rather far away from the place of my birth.

I think Mr. Slosson agrees that in these statements regarding imperialism we do not in any way cast any reflection upon peaceful penetration. The pioneer is the artist of peaceful penetration. I cited the Scotchman as an example of that. He is not alone. He has forebears in this country and they are very active and have inherited many of his traits.

I take exception to the governmental attitude, the attitude of the Department of Commerce and its distinguished Secretary, on this situation of rubber. I think I have heard more economic fallacies, or what I consider economic fallacies, emanate from the defenders of that government policy than I have ever heard emanate from the government before.

I heard last night that the distinction between the Stevenson Act and the protective tariff of America was that America excluded Great Britain from the markets of America but not from the markets of the world, and the British could therefore dispose of their excess products in the other markets of the world. I have not heard that Great Britain has endeavored to prevent the planting of rubber in the Dutch East Indies, Liberia or the Philippine Islands. I think she recognizes that there are other growing regions of the world that you are free to enter. I fail to see the analogy.

I beg to say that I, for one, couple the restriction act with the increase of production of the Dutch East Indies in the same sentence. The Malay pirate has become a rubber bootlegger. A great deal of increased output now coming from the surrounding regions was grown in the Malay country and was shipped from the surrounding regions much as we get Scotch whiskey into this country. That one element alone would indicate that the sudden growth of the Dutch production is impossible to reconcile with the time required for the maturity of the rubber tree. So much for rubber.

On the general subject of raw materials, both speakers have indicated that it is necessary to have vast financial support in developing a new region. You heard Mr. Brookings say last

night that pig iron from India was coming to this country. The Bethlehem Steel Company is bringing the greater part of their iron ore from Chile, while in Nevada there are vast deposits of iron ore which are practically inaccessible to transportation. Transportation, then, is the fundamental element in connection with the production of raw materials. But there is a second element which has to do with science and which is leaving a deeper impression on the whole subject of raw materials, to my mind, than any other. It is the fact that very ingenious means are being developed to concentrate these raw materials.

We have heard much about the phosphate rock of Tunis. The phosphate rock, you understand, carries a very large percentage of ordinary limestone. It is not all phosphate. In order to release that phosphate they employ the electric furnaces or treatment with sulphuric acid. There is only about sixteen or seventeen per cent of the plant food available after treatment with sulphuric acid. The difficulties with the Tunis phosphate are becoming more definite because of the fact that Americans are more and more concentrating the phosphoric content of their phosphate rock and shipping to Belgium from the western phosphate deposits a concentration of forty-two to forty-eight per cent, where it is only possible to obtain seventeen per cent in the ordinary treatment such as they use in Belgium.

Is that true of most of our raw materials? Chile has become a tremendous producer of copper by utilizing low-grade ore and concentrating it into copper metal. As you are able to treat these lower-grade materials and to concentrate them, the distances are diminished and you are able to put them in the markets of the world, where, if you tried to ship in the crude form, you would not be able to find a market in any place, local or otherwise.

MR. CHARLES C. BATCHELDER:¹ I was in the Far East at intervals from 1916 to 1923 and I happened to be on the spot when the acute period of depression was in existence. The facts are these: In the first place, twenty per cent profit is not

¹ Lecturer on International Relations, New York University; Secretary, the American Asiatic Association.

a high return for the Far East — thirty would be relatively small. There were no reserves of capital. Perhaps they should have had large reserves, but they did not. In order to keep the plantations in bearing you must continually cut down the weeds and vegetation. You must cut out the diseased trees. There is a great deal of labor that must be used all of the time. The plantations did not have the funds to pay their labor. Whether they should have had is another matter, but they did not. They were faced with the prospect of having their labor desert them. I was in one plantation after another where the labor—Chinese and Indian—was actually leaving. The planters could see no reason for prices to go up. There was on hand in various places about a year's supply. They were faced with a perfectly definite crisis with no reason for supposing there would be any improvement.

The Stevenson Law was passed to prevent the utter wreck of the rubber industry, not only in British Malaya but in the Dutch East Indies and other places. The object was to raise the price to a point where the production could continue. It was quite evident that otherwise not only no new plantations would be laid out, but the old plantations would go out of bearing, because they would not be tapped and because they could not keep down the weeds. As a matter of fact they have not secured what you would call a fair average rate of return for fifteen years, and the recent high prices did not go to the planter but to the speculator.

DISCUSSION: THE SITUATION AS REGARDS RAW MATERIALS¹

MR. L. L. SUMMERS: It is interesting to me to discover that the pulp men, the newspaper men, the newspaper print men of this country are departing from a spirit of isolation. Throughout this country we hear this doctrine—we want nothing to do with international relations—and their own door is being caved in as a result of that spirit.

We speak of the attitude of retaliation on the part of Canada. For years and years we have practised exclusive tariff protection, practically having the effect of embargoes. I am not speaking in a spirit of controversy, for I care nothing about the tariff regulations except the injustices that are perpetrated under that name. We suddenly find that we are dependent utterly on foreign countries for the necessities of life and we sit here and plan some measure of retaliation on them. It is their retaliation on us and I am very glad to see them exercise it. We have tried for many years to awaken a spirit of cooperation, to anticipate this and avoid the situation that has now developed. Our words have fallen on deaf ears. I speak very familiarly on the pulp situation. As an engineer I have built pulp mills, both chemical and wood pulp and for print purposes.

A natural situation is that when you create in this country a standard you are up against a very severe proposition. The idea that Canada should throw her crown lands open and allow you to rob them as you have robbed the forests of this country (and at the same moment you have taxed the land that you have denuded at such a rate that you can not reforest it) is utterly impossible. It is simply insane economics! If any industrial leader endeavored to run his business the way we are running our government he would face ruin and would liquidate in bankruptcy.

Now it is pretty nearly time that people awaken. I hope

¹ Informal discussion at Round Table No. 6. For papers presented at this meeting see pp. 145, 159, 168, 175.

they put the screws on the newspaper men until the newspaper men will wake up and decide whether they want to remain isolated or whether they believe they have some relation to this world. The four hundred millions that you are shipping to Canada is not an iota of what you are going to ship to the other countries of the world, and they have got fifty years to reckon for—back interest and back capital that you have extracted from them. They are perfectly justified in the attitude they have taken, only I hope they will continue their measures until we wake up in a spirit of cooperation.

It is utterly insane to denude the Canadian forest, the last reserve of forestation on this continent in the same insane way that we have denuded our own forests. The bonfires! I am a mill man and I have lumbered also and we have burned stumping. We make no adequate provision for forest fires; we have amateurish protection. The airplane is doing some work, but millions and millions of our northwest lands go up in smoke every dry season and we consider it an act of God or some catastrophe like an earthquake; it just has to be.

The previous speaker¹ has my sympathy, because I am frank to admit the pulp situation and the print situation is very desperate. But it is childish to sit up here and shake a rattle and talk about it, when you have been the instigators of it; you have been the perpetrators of it; it has been plain to you for twenty-five years. I have made it plain before boards of directors of our paper mills, and all one gets is a laugh. You cannot talk of retaliation from our standpoint. You must talk of retaliation from the Canadian standpoint.

I do not feel that the situation is so desperate as the speaker has indicated. We try these ethical experiments in America. We calmly close down a whole industry. It doesn't make any difference what it costs; that is immaterial. We decide to go on some wild campaign here shutting down the pulp industry and shutting down the newspaper industry. It means nothing from a governmental standpoint; the politicians are not fundamental economists. You must consider that the first step of putting pulp wood through a process of manufacture in which you make your wood pulp is only a step. The first step has not only been the migration of the mills to Canada; we still

¹ Mr. Frederic Hume, see p. 175.

have a great deal of our chemical pulp wood here. But you have got a second step—converting pulp into newspaper print. There is no reason why you should not go a third step—do the printing in Canada. You face that just the same as you face these other steps and your only remedy is to wake up and declare whether you believe in international cooperation or whether you are going to practise isolation. You cannot pyramid the restrictions of this government and create an oasis here and expect it to continue to bloom if the other fellow has the water that you need. It is useless, also, to prate about going to Washington and say you hope that you will not have to raise the tariff. There are other people in this country who are going to wake up and tell you that there is a limit to these restrictions and there are greater industries than the pulp or the newspaper print industry that will suffer.

I am not speaking in a partisan sense. As I say, I extend to the wood pulp industry my deepest sympathy. I have cooperated a number of times in trying to work out their difficulties. But the situation requires a cold-blooded analysis and not partisanship or rushing to Washington to get a further subsidy and a further protective tariff on a fundamental thing that all humanity requires. That is not a solution. So much for pulp.

You may think I am spreading over a great deal of territory, but my esteemed colleague¹ and I were on the War Industries Board together and I have spent many years dealing with the raw materials of the world. That is my profession.

I will touch upon petroleum. I think it was Bret Harte who said, "In tricks that are dark and ways that are bland, the heathen Chinese is peculiar." Our petroleum industry is not godless entirely, but there is a fundamental joker in the petroleum situation. I agree with all of Mr. Snider's paper;² it is statistical. Is the question, though, how much crude oil we take out of the ground? It becomes a question of what you do with it after you have taken it out of the ground. Formerly we simply put that petroleum into a still and put heat under the still, and the molecular particles passed off and condensed. That gave the light product which we now know as

¹ Mr. Brookings.

² See p. 159.

motor fuel. Formerly it was a drug on the market. Each of the oil fields produces a type of petroleum that differs in the amount of material you can get off in this process of taking off the light top. The general average would be about twenty-two or twenty-three per cent of the petroleum of this country, so that it would represent probably not over a sixth of the motor fuel that we really consume.

Now you can subject petroleum to controlled heat under certain conditions, and you can convert a very large percentage of the entire fuel oil into a light motor fuel. There is no reason to-day, if we were put to it, why we could not easily make eighty-five per cent of the ordinary fuels into a motor fuel. My own laboratory has run as high as ninety-two out of the best fuel oils. The general average of the Sinclair Company is sixty per cent. The Mid-Continent rose in six months to forty-four per cent. So we are facing no shortage of motor fuel, but it is very disastrous to the pocketbook of a petroleum company to admit that you could take crude that you sell in competition with coal and convert it into a product that you sell in competition with gasoline. If this were done, one might overload the gasoline market and bring gasoline down toward the fuel-oil level. That is not desirable from the dividend standpoint. There you have the reason why the government has been forced to take up this issue.

That document which Mr. Snider quoted, the American Petroleum Institute report, could not be put before the public because it was so openly challenged, and it was not used as an official document. I am prepared to challenge that document myself.

We must depart from partisanship. The laws of fundamental economics are immutable; the laws of politics are not. They change with every campaign. So it is probably desirable to stick to fundamental economics and to be dispassionate and nonpartisan. When we become internationalists I hope that will be the fundamental basis from which we will work, because from any other basis we might slip off into space and never get back to earth.

The whole question, then, of whether we face a real shortage in petroleum, is dependent entirely upon how large a percentage of crude oil we wish to convert to motor fuel. It is

not probable that fifteen or twenty years will see a disastrous shortage in motor fuel. But there is another situation which is very probable. Producing seventy per cent of the world's petroleum and importing some ten or fifteen per cent—that fluctuates—we are actually consuming upwards of eighty to eighty-five per cent of the world's petroleum. It is very desirable, from the dividend standpoint of an industrialist, to face the day when the fifteen per cent of importation may take a price dependent not on its cost of production, but possibly on export taxes or similar regulations, and when the eighty per cent produced in America will be sold to our people at the price at which the fifteen per cent is imported. That is the serious joker in the game. The petroleum companies have all been challenged now openly and definitely to state whether that is so. Is this great campaign to put in house heaters and substitute oil locomotives in place of coal intended to hasten the day when you will get this higher price for your petroleum without necessarily increasing your cost of production? Then you will be able to inflict upon the consumers of this country a very much higher price than you are to-day. My esteemed colleague worked for many weary weeks and months to discover how you could prevent the tail wagging the dog when you came to the discussion of these materials and their prices. Moreover, one has to consider the inefficient producer, the uneconomic producer. You need his production and you can not force the big fellow to sell at what would be a favorable profit to him if the little fellow cannot live at that profit. He has got to have more and the big fellow is very generous; he is willing to take the higher price for his product.

MR. L. C. SNIDER: ¹ The point I wish to make is simply that to my mind the ideal situation would be for the United States to be able to keep up its present production of oil in proportion to its consumption, so that the price of gasoline will not have to go up until it becomes a burden on the public. There is no danger that we shall not be able to go from New York to San Francisco on gasoline for many years, but there is a big question of what it is going to cost.

¹ Geologist, Henry Doherty & Co., New York City. See also Mr. Snider's paper, p. 159.

MR. SUMMERS: The president of the largest company in America was forced to admit before the government that it would cost about five cents a gallon to convert the fuel oil into gasoline. Really it would be about seven cents.

MR. SNIDER: The point is that as soon as we get into the uses of fuel oil which are not competitive with coal, the user of fuel oil will pay more for fuel oil.

MR. SUMMERS: You will admit that he has first got to take the fuel oil away from the places where it is not essential.

MR. SNIDER: Oh, yes, certainly. I concur with that.

MR. FREDERIC W. HUME: ¹ I quite agree with what Mr. Summers says. It may appear a selfish and isolated policy, but the newspapers of this country, I think, did a great favor to Canada when they took the duty off newsprint, and I think they are suffering from it now. I cannot agree with Mr. Summers that we are going to move our American spirit and our American newspapers—the life of the nation—across to Canada because the wood is there. We certainly would then be internationalists and lose our identity from the standpoint of publishing. I am not discussing the attitude of Canada to-day. What the Canadians have done is perfectly within their rights and should be done for the conservation of their resources, but I do say that it is not an international spirit to tax private property, property on the other side of the line, that we have paid for. Then you might as well drive American capital out. We went up there in good faith and bought those lands and leased them. Now isn't that a confiscatory attitude?

CHAIRMAN BOWMAN: Tax in what way, Mr. Hume?

MR. HUME: An export tax on the wood which we own, or an embargo.

MR. SUMMERS: You do not attempt to dispute for a moment the right of a sovereign government to levy taxation in the form that it requires?

MR. HUME: It has a perfect right to levy taxes on that which it owns, on that which it controls. If I went there as

¹ See Mr. Hume's paper, p. 175.

an American citizen and bought a thousand square miles of land to which I was given a title, I contend that I bought it in good faith and that any tax added to it would be a confiscatory tax on my rights.

MR. SUMMERS: And if you came to America and established a mill and were importing your raw materials, you would feel that your property was confiscated if the tariff was raised to a point where you could no longer import your raw materials?

MR. HUME: I do not look at it from the standpoint of the tariff.

MR. SUMMERS: But that is a tax in the broadest sense. We have shut down industry after industry that came to this country in good faith and started under existing laws, and we amended the laws, and they could no longer operate, and they shut the doors and went home.

MR. HUME: Don't you think, Mr. Summers, it would lead to a trade war?

MR. SUMMERS: My dear sir, I am a firm believer that we are in a trade war today; that industrial might is being usurped in just as fraudulent a manner as ever military might was, but the other nations are not the primary offenders. We are the aggressors in every phase, and we have been for years, and we sit here with this beautiful moral doctrine and practise every immorality under disguise. I am deeply sympathetic. I know the Canadian atmosphere. I worked in Canada, and I will say frankly that they never perpetrated even a worse thing than that in the original days of the war. I happened to be the autocrat on coal and the raw material of that date, and we promptly notified the Privy Council of Canada that if they cancelled their contracts on Niagara, as they had served legal notice of their intention of doing, the day that decision went into effect we would embargo the shipments of coal to Canada. She responded in twenty-four hours that she knew nothing of it. They rescinded the order and asked for the utmost cooperation with us. You could get a release by telephone and get your documents through three weeks later, but

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the traffic—that is the essential commodities and the materials of war—moved back and forth because men had the power and the conscience and the integrity, and there were personal guarantees that everything that passed would be duly explained in full compliance with the laws of either country. But those laws with all their red tape did not interfere with daily transportation across the border because men whose judgment and integrity were unimpeachable were detailed to watch the traffic.

I am not partisan. It makes no difference to me about the tariff. If I see a tariff coming, I get out of that industry—get my money out, anyhow. You are unfortunate in not having done that.

Do not go into a foreign country and presume that that country has no right to legislate or to change the existing laws as it may see fit, unless you are willing to cooperate in international relations. That spirit is something that is totally lacking in our international affairs. In this respect we, beyond every other nation on the earth, are the primary offenders. We consider nobody.

Poor little Italian straw hats were coming in here. They advanced the duty here the other day to eighty per cent because somebody might wear an Italian straw hat. Who would they injure with their Italian straw hats? We have not a firm in this country that can make a decent straw hat.

It is not that Canada is confiscating property. I have talked with Canadians and I do not think that anyone is calmly trying to club us over the head.

Look at the situation in wheat—where it is to-day. A fellow that lives along the border has to go all around Robin Hood's barn to get his wheat to market, because there is an invisible barrier inflicted by government edict not considering his rights.

We might very well remodel many of our laws. There are certain fundamental tariff laws that are absolute fallacies. We speak of a bilateral tariff treaty, which in its very definition means reciprocal obligations admitted. Now we do not practise them at all, and our bilateral tariff regulations, therefore, cease to exist. We forget about them when the Democratic party comes in or *vice versa*, or somebody gets on the

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Tariff Commission that needs some more protection, and if he has some friends he gets it. The economics of the thing are not considered.

So I dislike—and it is only my personal feeling—to hear an American speak of confiscation after the years that we have practised it. I say that you have nothing to complain of unless you want to appeal to the sword again, and there are a great many who will differ from you in that. You can assume a by-your-might attitude and go over there and take the Canadian pulp lands, and it might be successful, but not for many years. There is the same thing on the Mexican border. There are vast quantities of very desirable products down there that a lot of our people would like to own. A group of Westerners were in my office a couple of weeks ago and they said the United States should enter Mexico and give them a good government with the sword. I said: "That is a fine idea, gentlemen, but down here just a couple of blocks there are some very large safes and a lot of money in those safes. Why not organize an expedition here to go to Wall Street and get real money?"

COMMANDER HUGO W. KOEHLER:¹ To go back to Australia: It happens that I have just been down in Australia and so I saw something of what you described.² The immigration problem is not exactly what it seems. The Australians say they want a white Australia; what they really want is no immigration. Of course, this is when the Labor Party is in control. I talked to a good many of the Labor leaders, and they said quite frankly that Labor based its policy toward immigration on the single fact that when there is a shortage of labor the men get high wages. So every immigrant that comes in means there will be less of a shortage, and that therefore labor will get a smaller wage. So quite frankly, they do not want any more.

Now the agreement that you speak of was put through quite recently. The New South Wales Government then cabled to London that they did not want any more English immigrants;

¹ Naval War College, Newport, R. I.

² Dr. Bowman, in his opening address at this Round Table, had alluded to the problems of population and rainfall in Australia.

that the New South Wales Government was not prepared to go through with its commitment of advancing loans to stock farms etc. This action was based simply and entirely on the theory that they did not want any more competition for their own labor. The margin in labor, just like the margin in any other commodity—we will call it commodity for the moment—is very small. Any increase in available supply would send the prices up or down.

There is another question very closely related to this. The Australians cannot settle their continent with the people they have there now. They are not going to let anybody else come in. How long is the rest of the world going to stand for such a policy when there is a pressure of population?

Then comes the question Dr. Bowman brought up about patriotism being mixed up with rainfall. I think that is an exact description of it. Of course, Australia really lives now on a sheep's back, as they say themselves. They have other industries than stock-raising but many of them are working on a subsidy. As you all know, of course, the railroads are entirely government-owned. Besides, the government owns all manner of industries from brick works to sugar mills. If you visit the ministry of mines, for instance, they will tell you that the mines are making a profit of five per cent. If you ask to see the figures, you will find that the government has built the tracks up to the mines; that the government gives these government-owned mines better freight rates than the privately owned mines; that the government gives all the miners who work in the government mines free passes once a year to any place they want to go for their vacation. There is no charge on the books of the government for any of these services. They are not added to the book cost of producing coal, but are paid out of taxes. I think that is similar to the point you made that there is a great sociological experiment going on there. The Labor people agree that that is the best thing for them and so very naturally they go in for it. It has not, however, been an extraordinary success.

I think the first speaker on oil¹ was a little pessimistic about production. He knows a great deal about oil and I know nothing except the few things I have seen. However, he

¹ Mr. Snider, see p. 159.

spoke of the Colombian and Venezuelan fields. It happens that I have been down there very recently and the people on the ground there have an entirely different idea of their production. For instance, in Colombia they have built a ten-inch pipe, 391 miles long, and they have seventy wells up there tapped, so they are going to produce a great deal more oil, I think, than Mr. Snider figures. It is the same in Venezuela. One field I think he did not mention is the Brazilian field, about which they are very hopeful. In fact, they have wells there now, but they are not producing because there is no transportation yet.

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PART III

THE FAR EAST

CHINA AND THE TREATY POWERS

J. F. OIESEN

Late Danish Minister to China

IT has been represented to me that there exists a considerable degree of misapprehension or lack of comprehension with regard to the points at issue in China's claim to restoration of national sovereignty in relation to existing treaties with foreign powers and to foreign communities residing within her borders, and I have been asked to state the main points on which China bases her claim, what may be said for or against it, what is the attitude of the Treaty Power Governments concerned and of their subjects residing in China, what is the present status of the negotiations on the subject, and what are the prospective results of these negotiations.

Considering the wide scope of the subject, it will be impossible within the limits of a short paper to give much more than a mere outline of the principal features of the case, so far as *all* Treaty Powers collectively are concerned. Bearing this limitation in mind we may state the major contentions of the Chinese as follows:

The existing treaties entered into prior to the Great War are unilateral, oppressive to China and discriminating in favor of the foreigner. Specifically, resentment is specially felt against the following treaty provisions: (1) the fixed customs tariff which cannot be revised or increased without the unanimous consent of each and every one of the Treaty Powers concerned; (2) the extraterritoriality of foreigners, placing them under the jurisdiction of their own national authorities and thereby impugning the sovereignty of the Chinese Government; (3) the foreign residential Concessions and self-governing Settlements at Treaty Ports, where, although a great part of the taxpayers may be Chinese, these have hitherto had no part or voice in the administration.

Another cause of special resentment among the younger Chinese who have been educated abroad or in the universities

and mission schools in China is that the Maritime Customs Service is under foreign administration. For even though the bulk of the employees are Chinese, the fact that the senior appointments are held by foreigners and that the control of the revenue has been handed over to the foreign Inspectorate for the liquidation of China's external and internal loans appears to be particularly unpleasant to the youth of China.

Other sources of umbrage or grievance there are to which the Chinese attach great importance, but being either of a nature that calls for direct negotiations between China and one or another single government, or appertaining to the pursuits of individuals or groups of foreign residents in China, they do not come within the purview of general international diplomatic negotiation and can not be fittingly regarded as having a place in this paper. I shall therefore confine myself to the major heads already mentioned.

Tariff Autonomy. First of these, the fixed customs tariff, has for a period of upwards of eighty years deprived China of tariff autonomy. This is most assuredly a just and serious grievance. Not alone because the rate of duty, being only a nominal 5% *ad valorem*, has been insufficient to meet the growing needs of the government—needs growing directly out of the impact of foreign intercourse—but because it left China without the means of protecting her home industries. This has now been recognised by all the Treaty Powers concerned, for the first thing that happened in Peking last October after the opening of the Tariff Conference, called in pursuance of the provisions of the Washington Convention of 1921 to increase the tariff from 5% to 7½% on ordinary imports and to 10% on luxuries, was that the Chinese demand for tariff autonomy was almost precipitately accepted in principle and is scheduled to come into effect in 1929. In the meanwhile a tariff far exceeding the 7½% and 10% accorded in 1921 has been virtually agreed to by all but one or two of the Powers, who have entered into separate negotiations for provisional mutual rates. This long-standing grievance may therefore be regarded as disposed of in a manner that transcends all expectations that the Chinese negotiators could have brought to the Conference.

Extraterritoriality. The second grievance, the extraterri-

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itoriality of foreigners in China, is now in the hands of another international commission, likewise called for by the Washington Convention. The object of this commission is to find out whether Chinese laws, courts of justice, and prison conditions accord with Western standards and to report to their respective governments there anent. It will therefore devolve upon the foreign government to decide whether or when they will relinquish jurisdiction over their citizens or subjects resident in China. Thus far nothing has transpired as to the deliberations or opinions of the commissioners, nor is it likely that anything will until their reports come to be dealt with by their respective home governments.

At one time all foreigners in China enjoyed the privilege of extraterritoriality; even citizens whose own countries were not Treaty Powers would be taken under the aegis of one or another Treaty-Power consul's protection. But such is no longer the case. Several of the large nations of Europe have lost the privilege: Germany and Austria when China joined the Allies in the Great War, and Russia when China denounced her treaties with that country after the fall of the Kerensky Government. The new nations that arose in Europe after the Great War, such as Czechoslovakia, Poland, Yugoslavia, etc., are without the pale of extraterritoriality, as China has firmly refused to make new treaties conceding the privilege, while Germany, Austria and Soviet Russia have made new treaties formally renouncing it. Thus a very large number of Europeans are now already under Chinese jurisdiction. It is significant, however, that German residents in China have combined to settle all questions in dispute amongst themselves by arbitration, thus avoiding recourse to Chinese law courts, though being, of course, answerable to these for any breaches of law or for claims upon them from subjects of China or other nations.

A large number of American and British Protestant missionaries have publicly declared themselves willing to forego the rights that extraterritoriality confers, though dissentient voices are also heard amongst them. But among the other sections of foreign residents, who still enjoy the boon of their own country's jurisdiction, the opinion is virtually unanimous that so long as China remains in her present chaotic state, and until

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order is restored under a thoroughly established government, the question of extraterritoriality should be left in abeyance.

I think it should be emphasized in this connection that the belief held by the young patriots of China, that extraterritoriality was extorted by force, is not borne out by the records. On the contrary, it would appear that it was due to the reluctance of the Chinese authorities to have anything to do with the troublesome and, in the case of sailors ashore, often turbulent foreigners. Long before the first treaty was made the Chinese authorities had segregated the foreign merchants who were permitted to trade at Canton and had placed them and their ships under the supervision of the so-called Chinese Hong Merchants who were responsible for the good conduct of their foreign charges. When treaties came to be made the foreign consuls simply succeeded to the functions of the Hong Merchants in so far as the conduct of their nationals was concerned. And while it may be assumed that the foreigners preferred to have the benefit of their own laws and usages, there is no evidence to show that the Mandarins were not equally pleased with an arrangement that absolved them from unwonted cares. Indeed, it is only of recent years, since the younger generation of Chinese students have come to realize that the principle of sovereignty is involved, that the question has been raised and has become an acute issue.

Foreign Settlements. The third grievance we have to consider refers to the self-governing foreign communities in the so-called Concessions or Settlements at a number of the Treaty Ports. The difference between a Concession and a Settlement is this, that in a Concession the consul of the nation to which the ground was originally ceded for residential purposes is the local overlord, responsible only to his minister at Peking and his home government, though the work of administering the area is delegated to a Municipal Council elected by the land renters who hold their titles on long lease. Other foreigners can acquire leaseholds on equal terms with the citizens or subjects of the nation owning the Concession, but Chinese can hold property only in the name of a foreigner, and in some cases, where the ground is very limited, are entirely excluded from residence or occupation. In the Settlements, on the other hand, the Municipal Council functions under the Court

of Consuls of all nationalities, who on their part are responsible to the Diplomatic Corps in Peking. Here again all foreigners can register ownership of land and Chinese can only register their property in the name of a foreigner. All, however, are subject to equal taxation for the maintenance of police, roads, fire brigade, and public utilities generally.

The foreign countries holding Concessions are Belgium (one), France (four), Great Britain (five), Italy (one) and Japan (two). Austria, Germany and Russia also held Concessions formerly, but forfeited them when their treaties were denounced as already mentioned with respect to extraterritoriality. America also at one time held Concessions at Shanghai and at Tientsin but voluntarily relinquished them, the one at Tientsin being virtually merged in the British Concession, while the one at Shanghai was joined to the British Settlement and the two converted into what has since been known as the International Settlement.

Originally these Concessions and Settlements were set apart by the Chinese authorities, usually in an isolated locality and at some distance from the Chinese town, apparently with the object of segregation and of obviating friction between foreigners and natives. But the growth of trade following upon the opening of a port to foreign commerce naturally drew into or around the foreign Concessions and Settlements vast numbers of Chinese, with whom trading instinct and capacity amount to positive genius. The result was that in some places, Shanghai for instance, the Chinese population of the foreign Settlement outnumbered the foreign element by about a hundred to one.

Naturally, the ground set apart for the occupation of foreigners was not of the most valuable. In most cases its intrinsic value was next to nothing. Taking Shanghai as the most conspicuous example, the Settlement area consisted of low-lying swampy ground barely raised above ordinary tide level and intersected by noisome drainage canals. But flanking the river front it was most suitable for shipping purposes. The foreign settlers set to work and raised the ground, built roads, and, as time passed, introduced every form of modern improvement, and by their enterprise, untiring energy, wise government and the investment of billions of money in build-

ings, factories, wharves, docks and shipping have created a city ranking with some of the largest in the world and promising before many years to stand with the very first. That this phenomenal progress is directly due to the foreigners cannot be controverted, but it must also be emphasized that indirectly a large share of the success must be credited to the Chinese: the integrity, solidity and trading genius of their merchants, the sobriety, docility and tireless industry of their workmen, the stolid reliability of their seamen, and so on throughout the whole range of trades and occupations. And for the defrayal of the enormous municipal expenditure it must be borne in mind that the Chinese contribute from eighty to ninety per cent of the taxes.

For many years the Chinese dwellers within the foreign settlements were quite content to follow their various trades and avocations without thought of sharing in the cares and responsibilities of administration. They enjoyed the peace and prosperity, the security of life and property and the freedom from illicit taxation afforded by a well ordered régime. But with the fall of the Imperial Government, the establishment of a Republic and the awakening of national consciousness, voices began to be heard calling for representation in the governing body, the Municipal Council, and these voices continued to grow in volume. The cry was taken up by the energetic and vocal student organizations, who have made it one of the leading items in their agitational campaign for restitution of national sovereignty. No longer content with mere representation in the council, many of the students now clamor for the total abrogation of foreign-governed Concessions and Settlements. This applies more particularly to the International Settlement of Shanghai, which is by far the most populous and important, but also in general, *mutatis mutandis*, to the foreign Concessions and Settlements at other ports. The minimum of their demands now is that Chinese landowners and taxpayers shall be represented in proportion to the amount of taxes paid by them. This would mean the virtual if not complete elimination of foreign participation in the control and administration of the great city the foreigners have created and would place in jeopardy the vast commercial, banking, shipping and industrial enterprises in which for-

eigners have invested such enormous sums of foreign capital. Such a course would be most unreasonable and unjust and would surely not be backed by the more sober and substantial sections of the Chinese business men or by sage and enlightened Chinese statesmen, who would discern in such a measure, both directly and indirectly, untold injury to both individual and national Chinese interests.

But that the Chinese are justly and reasonably entitled to a fair share of representation is now generally admitted and proposals to that end in respect of Shanghai have already been submitted to the Chinese Government for approval and acceptance. And the Shanghai example will doubtless be followed at the other ports. It may therefore be hoped that this thorny question will soon be laid at rest and this virulent source of irritation thereby permanently removed.

In connection with the Shanghai International Settlement should be mentioned the subject of the Mixed Court. This court for the trial of Chinese delinquents, the adjudication of claims of foreigners against Chinese, etc., has, since the Revolution of 1911, functioned under the auspices of the foreign Municipal Council, the Chinese judge being appointed and paid by the Council, instead of being appointed by the Chinese Government, as had previously been the case. This usurpation caused great dissatisfaction among the local Chinese. But since it has been announced that the wish of the Chinese to have the court restored to Chinese control has been agreed to, it seems unnecessary now to dwell further on the subject.

Foreign Administration of Customs. With regard to the Chinese Maritime Customs the younger generation of Chinese clamor for the dismissal of the foreign administration claiming that the customs have been "seized" by, and the revenue subverted to the uses of, foreign imperialistic powers. It may be said at once that nothing could be farther from the fact. In 1859 the customs at the three or four ports then open to foreign trade came under temporary foreign supervision for the collection of a war indemnity which the Imperial Government could not pay in cash. When at the end of a year or two the indemnity had been collected, the Imperial Government was astonished at the celerity with which so large an amount had been received from foreign trade, and having thus had its

eyes opened to this new means of replenishing its exhausted exchequer, the government invited the temporary foreign supervisors to continue the collection of revenue. This was the inception of the Foreign Inspectorate General of the Chinese Maritime Customs which has continued to this day. From 1860 until sometime in the nineties the Chinese Government was free at any moment to dispense with the services of the foreign Inspector General and his staff but found it profitable to retain a service which for integrity, efficiency, zeal and loyalty to its Chinese employers has ever challenged the admiration and unstinted approval of all who are acquainted with its manifold and beneficent activities for the furtherance of friendly international relations, commerce and navigation, the publication of trade statistics and other useful knowledge concerning the resources and industries of China. But perhaps first and foremost it is valued because it has ever been the chief, and to-day remains the sole bulwark of China's national credit. It is not too much to say that without the guarantee of the Foreign Inspectorate General of Customs the bond issues of the Chinese Government, instead of being held as gilt-edged securities, would hardly be worth the paper they are printed on.

When in the nineties the Chinese Government began to seek loans in foreign markets the customs revenue was pledged as security, and the loan contracts stipulated that, pending repayment, the foreign administration of the customs should continue to function, and this contractual stipulation was renewed on the occasion of every new loan until the customs revenue was pledged up to the hilt. It is therefore the bounden duty of the Chinese Government to maintain the Foreign Inspectorate until its pledges are redeemed. It was by the government's voluntary desire and acts that the foreign Inspectorate has been sustained. Furthermore, in 1913 the new republican government placed the foreign Inspector General of Customs in sole charge of the customs revenue for the purpose of amortization and ultimate liquidation of China's outstanding foreign loans, and in 1921, when the revenue showed a surplus over and above the requirements of the foreign loans, the government entrusted to him all future surpluses to be used by him for the service of Chinese internal loans.

China could therefore not now denounce these obligations without hopelessly discrediting herself in the eyes of the world. She would by such a step declare herself irretrievably bankrupt. And I feel sure that neither her sober senior statesmen, her bankers nor her substantial merchants would for a moment entertain or countenance such a step. The clamor on this subject of the young, inexperienced and irresponsible patriots may therefore safely be left to wear itself out.

It thus appears that of the four major grievances I set out to discuss, two are in a fair way of being satisfactorily settled, the third is under investigation and will also undoubtedly in time meet with a just and even generous solution, while the fourth is seen to be unfounded, the cause for complaint being the handiwork of the Chinese Government, both during the Empire and the Republic. Concerning the other grievances earlier referred to as requiring negotiation with individual governments and not coming within the scope of general international treatment, it may be hoped that these may find a solution in the near future to the mutual satisfaction of those concerned.

Throughout the Western world has sprung up of recent years a widespread interest in and sympathy for China; for her age-long history, civilization and culture, her lofty philosophy, exquisite poetry and literature, marvelously beautiful and unendingly manifold arts, her genial, gentle, friendly and smiling people, whose quick intelligence, phenomenal industry, trustworthiness, frugality and cheerful acceptance of any and all vicissitudes have endeared them to all who have lived among them. What is more, all civilized governments have come to evince a spirit of real friendliness for China, of helpfulness, tolerance and forbearance in her present state of political travail. A chivalrous spirit of "sweet reasonableness" now inspires the attitude of the powers towards her and should eventuate in redressing so far as possible any just grievance and in assisting her to a rebirth worthy of her glorious past.

BRITISH RELATIONS WITH CHINA

H. WILSON HARRIS

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UNLIKE Mr. Oiesen, I was not in China in 1879. Indeed so far as I was aware, I was nowhere in particular at that slightly remote date. Even if I had been, even if I had possessed anything like Mr. Oiesen's encyclopædic knowledge of conditions in China, I possess none of the ability he has shown to present the facts in the remarkably comprehensive and entirely objective and dispassionate survey to which we have listened with so much interest.

My task here, at any rate my task as I conceive it, is something entirely different from his. We are dealing to-day with the situation in China, and under the heading of "International Problems of the Powers Facing the Pacific Ocean." That seems to imply that it is not our business to deal with China's extraordinarily complicated and extraordinarily interesting internal situation at the present moment. We are concerned rather with China as an international problem, and I assume that if there is any purpose at all in inviting an Englishman to address this audience, which I take leave to doubt, it is that he might endeavor to explain something of what British policy in regard to China is, and it is merely as a very modest student in British policy that I endeavor to add anything to what has been said. I feel under a particular debt to Mr. Oiesen because it seems to me that the comprehensive, general survey he has given us provides an admirable framework into which to fit a more specialized address on the aims individual countries are pursuing in regard to China.

Now British relations with China have consisted of commercial relations, financial relations, and military relations going back over a lengthy period of years, and I should be the last to claim that they have at all times been uniformly creditable to my country. I do not think they have been. No Englishman to-day looks back with anything except a feeling of something like humiliation and remorse to the opium

wars of 1842 and 1847. Those wars indeed are a little unhappily named. The so-called "Opium War" of the thirties and forties, as distinguished American authorities have been the first to point out, aimed at opening the doors of China to foreign trade in general, though it happened unfortunately that one of the staple articles affected was opium from India.

Our military relations with China, I trust, came to an end in the year 1900 when England had, in common with other nations, among them the United States, to take armed action in face of the Boxer Rebellion. That is now past history. If I can confine that part of the subject to this very imperfect summary, it is because the question that really interests us is the question of the situation in China to-day, and of the aims of certain European and American powers in regard to that.

Here, again, I think the British attitude is not peculiarly distinctive. We are not playing a lone hand in our relationship with China. On the contrary, we are cooperating to the extent of our ability with various other powers who have to face the problems raised partly by the present conditions in China and partly by their own relationship with China in past generations. We were fellow signatories with the United States and six other powers of the Washington Conventions. We were co-signatories with other powers of the earlier treaties which created Treaty Ports, and we are co-signatories with other powers of the later treaties on the question of extra-territoriality, and our bankers take part unofficially with the bankers of other countries in the so-called Consortium, which I think has distinguished itself so far by not having conducted a single operation of the loan for which it was created.

I do not want, therefore, to stress unduly the attitude of Great Britain. I think it would be a great misfortune if we had before us nothing but a collection of distinctive national views. We want rather to evolve some constructive international policy. At the same time, it is my business to try to present, so far as I can, the general attitude of Great Britain in regard to China. In regard to that one may say at once, that so far as the average man is concerned, his feeling toward China is one of conspicuous friendliness. That is due to some extent to the activity of the British missionaries in China, whose work, I think, attracts more attention than it

otherwise might, because in China it has developed more than in other countries on educational and medical lines rather than purely evangelical. But apart from that, it is a fact that the average Englishman, and I suppose the average American, back from a visit to China or a prolonged residence in China exhibits feelings far more marked in cordiality and appreciation of that country than is the case of visitors to almost any other country in the world.

The average Englishman likes the average Chinaman and entertains for him a feeling of friendship and sympathy. But of course the average Englishman is entirely ignorant as regards any details of Chinese life and Chinese national policy, and it is not the advice of the average Englishman that determines the policy of the government in regard to China. That policy is determined, as is the case of the diplomatic policy of any country, largely by the views of the diplomatic representatives in the country, and also to a large extent by the view of foreign residents and traders in the country. That, perhaps, in regard to China, is more important than it is in regard to many other nations in the world.

I feel, myself, perhaps wrongly, that in regard to China we are in danger of making the mistake of taking far too slight account of the psychological elements in the situation. One endeavors to visualize concrete facts, and they are important, but I believe they have less influence on the relationship between two nations than the state of mind which the rank and file of the two nations maintain in regard to each other. After all, the relevant fact in regard to Chinese and British relations is not the question of whether the British attitude (and this could all be said of the American, the French, or the Italian attitude) in regard to those questions which Mr. Oiesen has explained, the Treaty Ports or extraterritoriality and so forth, is reasonable and logical. What really matters is what the Chinese do in fact think about that attitude, and that is why it seems to me that Mr. Oiesen has performed so valuable a service in showing what effect these existing arrangements do actually have on the Chinese people.

But our policy does tend, of course, inevitably, to be influenced largely by the men on the spot. The evidence of the man on the spot and the view of the man on the spot ought to

be taken into account. But they ought invariably to be corrected by persons of recognized wisdom and experience who view the situation from a distance. After all, if you are living in the middle of a wood, you do see only the trees, and those who stand a little farther off and who bring reasonable qualities of mind and of spirit to bear on the situation may be capable of seeing the wood as a whole, and therefore discovering elements of fact and putting those elements of fact in relation to larger facts outside to an extent quite impossible for the people directly interested, living in the midst of the forest.

Therefore it seems to me that in regard to the attitude of any nation to China, the views of the traders must be given weight, but they must not be given undue weight. I should be disposed to say in regard to the British attitude to China, that there has been danger of giving undue weight to a particular section of British community, British financiers and traders in China, and persons at home directly interested in China.

The British interests in China are of course very extensive. They are much larger than the interests of any other European power and I think (here I speak subject to correction) they are greater than those of any other non-Chinese power. That relationship has not worked out for the benefit, as Mr. Oiesen pointed out, of British trade alone. Commercial relationships are, after all, not conducted on that basis. If there has been a certain measure of British prosperity there has been equally a certain measure of Chinese prosperity. We can point to the development of some rather important industries in China almost due entirely to foreign investment and foreign enterprise, in which British investments and British enterprise played no small part, and we would be disposed to claim, as Englishmen (I am glad the claim has been advanced already by Mr. Oiesen), that British administrators have been able to do a real service to China in regard to the maritime customs, under men like Sir Robert Hart, and in regard to the salt gabelle, under men like Sir Richard Dane.

At the same time (and here the psychological element enters in) undue difficulties between my country and China have been created by the attitude, perhaps the unconscious attitude, perhaps the inevitable attitude, if you will, of a large section

of British residents in China. They have adopted the appearance of a certain superiority and a certain cynicism which must by the nature of things be irritating even to a comparatively unsophisticated Chinese, and nothing less than galling to the younger generation who have studied in American and British universities and who are naturally the more sensitive to what may be regarded as slights on their national culture. I think it is doing no injustice to British papers published in China, in Tientsin and Hangchow to say that they have, possibly unconsciously, adopted an attitude which has not made for cordiality between Great Britain and China.

All that is a matter for unconcealed regret. I think it can be explained. I do not think it can be entirely explained away. There is in the British character a certain strain of love of efficiency. I don't mean efficiency as shown by your American standards of efficiency, for we bow to you there, but at any rate, efficiency as shown by the standards common in China. Certain enterprises have been built up and have attained a certain degree of efficiency. I think it is the mere love of efficiency in itself which has led certain sections of the English in China to compare the way their own enterprises are run with the way certain Chinese enterprises are run, and the way their own enterprises have been conducted with the way Chinese enterprises are conducted. But that has produced a certain attitude of mind which appears to an entirely detached and unqualified observer to bear rather too much resemblance to the attitude of British colonists who have gone out to strike a new line in a territory of uncultured people. They have regarded the Chinese a little as a British settler would regard the negroes on the east or west coast of Africa.

I believe there is an element of that in the situation, and if so it explains the resentment which the Chinese feel in regard to the attitude of the British. As a result of both of which, it cannot, I think, be claimed that my country at the moment enjoys a high degree of popularity in China.

But there are more definite reasons for the views held by a great many Chinese regarding British aims and policy in relation to China. The Anglo-Japanese Alliance was unpopular, incidentally, and although it was brought to an end by the Washington agreements of 1922, the fact remains the alliance

did exist for twenty years, and sentiments which have had twenty years in which to mature and flourish are not easily eradicated.

During the war, Great Britain, under stress of exigencies presented by the war, joined with other powers in at any rate countenancing the notorious Twenty-one Demands of 1915, and Great Britain has not increased her popularity by taking her share in the Consortium which had for its original aim the proper desire to regulate loans to China, which if not properly regulated might be used for non-productive purposes and undermine further Chinese credit.

At this moment there are three questions in regard to which Great Britain has to face difficulties in regard to China. The opium traffic, of course, is a serious matter of contention. The record of Great Britain in regard to opium has been steadily improved. The agreements which were concluded largely by the good offices of a man who has done more than any single man to keep our relationships with China on a sound basis, the late Sir John Jordan, in 1907, for the abolition of trade between India and China in opium were entirely successful, and that traffic was, in fact, brought to an end not in 1917 as was originally planned, but in 1913. Since then not an ounce of Indian opium has gone into China, and so far as that is concerned, a considerable improvement has resulted in the relations between China and Great Britain. But the attitude of Great Britain at the opium conferences at Geneva was a source of serious dissatisfaction in China. If we had time to discuss that question in detail I could show that there was much to be said on either side, but we have not unless we initiate a discussion quite out of proportion to the relation of this to other questions. I would have something to say in explanation of Great Britain's attitude and something in criticism of it, but that is really a matter of detail into which we cannot enter.

There remain the questions which Mr. Oiesen has so clearly mentioned in regard to tariffs. I think—and I must think so because he has said so—that this matter is virtually cleared up since. There is to be complete tariff autonomy in China in 1929. The subject of extraterritoriality is more difficult. Great Britain's position is determined by the clause in the

Mackay treaty of 1902, which was designed to make provision for the ultimate abolition of extraterritoriality, which declares that Great Britain agrees to give every assistance to such reform (of the Chinese judicial system) and will also be prepared to relinquish extraterritoriality rights when she is satisfied that the state of Chinese laws, the arrangement for their administration and other conditions, warrant her in so doing.

Now some progress has been made toward the realization of those conditions. I believe it is held that the state of Chinese laws has nearly reached the point at which it would constitute no obstacle to the abolition of extraterritoriality. But when it comes to the question of the administration of those laws, particularly during the chaos prevailing in China at the present time, then I think the government of Great Britain would have to give great weight to the residents in China who protest that their interests must not be exposed to a system of laws which may have much value on paper but which cannot be guaranteed just execution under the conditions at the present time prevailing.

In Great Britain various proposals for the gradual modification of the system of extraterritoriality are under discussion. It has been suggested, for example, that it would be a valuable step forward if instead of many consular laws of different countries there should be administered under the existing judicial system the Chinese system of law. That would pave the way to a gradual replacement of foreign judges by Chinese judges, with possibly some ultimate appeal which would guarantee against miscarriages of justice. Here we are leaving the general question and depart into the matter of detail. I only mention it to show that the matter is not being lost sight of in Great Britain but is being given serious consideration.

Finally, and speaking very generally, the policy of my country, as I understand it, is almost identical with the policy pursued by America in regard to China, and that means, quite frankly, that British policy is being concerned to-day in supporting a more liberal view than it has in the past. There is a change in the attitude not only of the British people—that I have tried to indicate—but there is a certain modification and development of attitude on the part of the government and

foreign office officials. There is (and this seems to me an encouraging symptom) a tendency to pay greater regard to those psychological elements about which I tried to indicate my own opinion a few moments ago. British policy is not being guided solely by tangible political factors. Account is being taken of the rise of nationalism in China. The young China movement is not being derided and decried to-day as it was disposed to be five years ago. It is recognized as a factor of tremendous importance in the situation. There may be no government at Peking which can see for the country as a whole, but in a vague, intangible way there is a Chinese voice. The views of China as a whole on certain great questions of foreign relationships are not in doubt, and foreign officials have got to take account of that expression even though it does not come from diplomatic channels. I believe there would be a surprising readiness in Great Britain to consider to-day the claims China is putting forward for a non-permanent seat on the League of Nations' Council. I am not speaking of the Peking government, the position of which at this particular moment no man in this room is in a position to indicate. But China's relation to Europe, China's relation to the League of Nations, is something far different from the question of a mere ephemeral government at Peking, and we should not fail to recognize what is undoubtedly a true and sincere and valid expression of a great national will.

At the present moment there is a British commission in China endeavoring to settle the question of the Boxer indemnity. There is no particular merit in that. America preceded us there by many years. But the composition of the commission is important. We have chosen Lord Willingdon, who is just back from India, with a long record of successful administration there, as chairman of the body arranging the disposal of the remitted portion of the Boxer indemnity. He is charged specially with exerting every endeavor to cement friendship between China and Great Britain. Along those lines, I believe our present diplomatic policy is endeavoring to take account partly of the sentiment in Great Britain and partly of the new manifestations of Chinese nationality, and therefore, though I have not attempted to stand here to-day as an apologist for British policy—I would far rather be consid-

ered a liberal critic—nevertheless, it is my conviction that we are setting our foot with some firmness along a road which shall lead to ultimate full restoration of Chinese sovereignty and a cementing of closer relationship between a great country in the East and a country which, rightly or wrongly, still believes itself to be a great country in the West.

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ECONOMIC RESOURCES AND CONFLICTS IN THE FAR EAST

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A NUMBER of students of international affairs think the most serious threat to the peace of the world lies in the economic situation in the Far East, and I shall endeavor briefly to outline to you what the situation is and to offer one possible solution.

There is a general impression that the Far East is an extremely rich country, that it has natural resources of various kinds which make it a treasure house for the world. Nothing could be more contrary to the facts. The Far East is relatively poor. It is strongly asserted by those who have made careful investigations that if the resources of the Far East were fully developed and divided equally among the inhabitants, with no deductions for rent, superintendence or interest, there would not be enough to maintain the population even in relative comfort. Under these circumstances, there will necessarily take place in the Far East a struggle for the possession of the existing resources in order that the more advanced countries may maintain their standards, perhaps at the expense of the less progressive nations.

As you all know, our Occidental civilization is based upon importing large quantities of foods and raw materials and paying for them with manufactures which we sell in the undeveloped countries. The Far East exports large quantities of food and raw materials, but it is only able to do so because its industries are backward and the people are underfed. The system is the same as that which forced the Phoenicians and the Greeks to colonize, explore, and carry on their trade. It is as inevitable as the forces of gravitation. It will be most interesting to watch in the future and see whether our altruistic influences are able to modify the natural laws which have acted in the past without variation.

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It is necessary for me to abbreviate on account of lack of time, and so my discourse will be a little disjointed.

There is a tendency to underestimate one of the fundamental causes of unrest in China to-day. Most speakers stress the emotional and political aspects, but to my mind the principal reason is the attempt of the Chinese people to throw off the pressure of Occidental civilization. Some of them have expressed themselves to me by saying that they were in the coils of a boa constrictor which was gradually crushing them to death.

Most of the leaders in China seem to be entirely ignorant of this aspect of the situation, but, if I had time, I could show you that the opposition to foreign control, to extraterritoriality and to foreign settlements, was largely economic in origin. The people seem to understand it better than the leaders, and you can find it out if you take pains to go among them yourselves, especially in the more remote regions. The great tragedy is that the leaders of the Chinese seem to fail to comprehend both the causes and the results. They are still influenced mainly by the ancient literary culture of China.

The Japanese, however, understand the situation and they have acted in accordance with natural laws. The Japanese cannot support their existing population with Japanese resources. They must pay for imported foodstuffs by sending out manufactured goods. Japan is in a different position from England, which can pay for its imported foods and the raw materials needed for its manufactures largely by exports of the products of its own mines and other natural resources. Japan is poor in mines and all other natural resources and must pay for imported foodstuffs with exports of manufactures only. Thus the principal exports are really Japanese labor, skill and brains.

In other countries industrialism and the imperialism which grows from it are largely for the improvement of conditions and for extending foreign trade, but in Japan it is a question of national existence. If the Japanese do not maintain their present economic structure, the Japanese nation cannot continue to exist on its present basis.

The Japanese nation received a shock which gave a great stimulus to the so-called imperialistic policy when the rice

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crop of 1896 fell short nine million koku. (A koku is about five bushels.) At the ruling prices of the time it would have taken sixty-two million dollars to pay for the amount of rice which it was necessary to import, and the total exports of Japan in that year were only fifty-eight million dollars. I don't mean the excess of exports over imports, but the total exports.

The population of the principal islands is now about sixty million on an area of 110,212 square miles, an area smaller than that of Arizona, 113,810 square miles, or 485 to the square mile. We can compare it best with Germany, which has a population of about the same number on 182,213 miles, or 323 to the square mile. It is generally admitted that Germany cannot feed its population and must import food, and Japan is in even a worse condition.

The Japanese Government has been doing its best for many years to remedy the situation. The figures which will be given are unpublished. They were prepared as a result of some years of labor by Mr. R. B. Pendergast.

A large part of Japan is composed of mountains, rocks, swamps, sand, gravel and forest land which it is not possible to cultivate. Only about 17% of the total area of the main island is cultivated, and probably not more than 24% could be cultivated under any circumstances. To show what the Japanese Government has been doing, the increase in acreage in 1922 over the five-year average for 1885-89 was 18%. The increase in production per acre was 41%, and the total of those two factors was 66%. As the population had only increased 50%, the problem seemed in a fair way to be solved. It seemed as if Japan could feed its own population. Unfortunately, however, the consumption per head had increased 25%. Thus the net result did not enable the population to be fed from Japanese soil. The people were underfed and the first result of industrialization in Japan was to give them enough to eat. At present Japan must import about thirty-five million bushels of rice besides other foods.

In Japan the average farm per head is less than one fourth of an acre. In the United States it is five and a half acres. The Japanese have done their best to solve their problem and have failed, because it is impossible. Not only have they culti-

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vated every possible field with rice, but in addition half the area under rice is in wheat, rye, barley and other grains.

It is absolutely necessary for the maintenance of its national existence that Japan should import foodstuffs. That was realized at an early date. Japan first annexed Korea and Formosa without success, because the populations of these countries were increasing rapidly and they worked harder than the Japanese and had lower standards of living. So portions of Manchuria were leased and its agriculture was stimulated. The food problem is being solved to-day by importing foods from Manchuria and other countries.

But now we come to the really serious situation. Japan must import foodstuffs and she must pay for them by exporting manufactures. The foundation of all industrialism is iron and steel, and Japan is so poor in iron and steel that it is impossible to maintain its national existence without importing them. It has some coal but it has exhausted a larger share of its reserves than any other country and must now import Chinese coal to mix with its own.

The total known available iron ore of good quality amounts only to about thirty-five million tons and the total amount known of workable lower-grade ores is only about forty-five million tons more. Hence Japan must get its iron supply from other countries. The most obvious source is China, which has 950,000,000 tons in sight of iron ore of different grades. Owing to the distance which most of it would have to be transported and the poor quality, only about one hundred million tons is really available under present conditions. Three-quarters of this is along the Yangtze River, and the Japanese obtained control of this through lending money to iron works which are paying in iron ore and in pig iron. The Japanese now control about ninety per cent of all the iron ore at present available in China, although they are unable to make good use of all of it, owing to the fact that some has to be concentrated before it can be used, and contains a large percentage of silica and other minerals.

A new factor, however, is gradually entering into the problem. The Chinese are more and more impatient of the control of the iron supplies of China by the Japanese. The Chinese are making strong efforts to make arrangements to have Japa-

nese economic dominion and also political control removed from Manchuria. It seems probable that, in the near future, the present Japanese economic structure will have to be seriously modified, because as soon as China becomes even moderately industrialized, it will require for its own use all its coal, iron and all other resources, which are now used for the maintenance of the existence of the Japanese nation. It will probably not be able to export any foodstuffs and perhaps no raw materials.

The large immigration of Chinese into Manchuria is making it increasingly difficult for the Japanese to maintain their present control. Formerly there were from two to five million Manchus and Chinese in Manchuria. Now there are between fifteen and twenty million, and it is quite evident that the present situation cannot long continue.

There are, however, certain other sources of iron and coal which might be available to the Japanese under certain conditions. The Philippines have in one mine four hundred and thirty million tons of excellent iron ore on the seacoast of northern Mindanao. Further, in the islands of Celebes and in Southeast Borneo there are eight hundred million tons of the same kind of ore near the seacoast, easily available.

The ideal situation for Japan would be to build up a great iron and steel industry by importing Chinese coal from Northern China and Manchuria, and iron ore from the Philippines and Dutch East Indies, using Japanese plants, brains, labor, and skill. There are, however, great obstacles to the realization of that ideal.

The Japanese are thoroughly familiar with the situation and have considered it from every angle. Their various difficulties in Korea, Manchuria and Formosa have convinced many leading business men that it is a mistake to base the Japanese economic structure upon the political control of Manchuria or any other foreign country; and that the best method is to secure supplies of raw materials and foodstuffs by purchase in world markets. The only source of these substances at present available is Manchuria and the rest of China. If these countries were under a strong government which could guarantee safety for life and property and the normal functioning of commerce, there would be no need for either Japa-

nese political or economic control. But so far, the Chinese have been unable to organize sufficiently to develop their own resources or those of Manchuria, Korea or Formosa. If there were a strong government in China equal to developing these resources, many problems would disappear and peace would be maintained in the Far East.

That brings us to the final conclusion. The Japanese must be assured definitely of adequate supplies of food, raw materials and markets if the present balance in the Far East is to continue. You could not expect them to give up the certainty which they now possess for uncertainty. It seems extremely probable that the Japanese would fight rather than give up Manchuria entirely and thus jeopardize their whole national existence as far as food and coal and iron are concerned. They could not afford to do so.

On the other hand, if some system of international rationing could be arranged by which the Japanese would be assured of adequate supplies of imported food and raw materials, not only in peace but also in war, we should be in a fair way to solve the dominant problem of the Far East.

There is one question which I must mention in closing, and that is the question of Philippine independence. It is often stated that if the Philippines were given independence the Japanese would have no desire to annex them. That may or may not be true, but I am only going to call your attention to a few economic facts. If the Japanese possessed the Philippines their problem would be solved for about one hundred years. There is iron ore, coking and bituminous coal, and vast beds of lignite in the Islands. They could obtain from the Philippines rubber, rice, sugar, oils, starches and fibers of different kinds including cotton—in fact, practically all they need to maintain under their own control their economic structure.

The problem is perfectly clear, but the solutions are only theoretical. At present political considerations make it impossible to carry out the solutions which are indicated by the economic situation.

A clear statement of a problem often contributes greatly to its solution.

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THE INTERNATIONAL ASPECT OF CHINA'S EDUCATIONAL PROBLEM

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THERE is at present in the moral preparation of modern Chinese youth a great issue which has some sort of international aspect. As you know, in the past all Chinese youths were educated along a very definite line, being guided by what originally was called the Confucian ethics. Now the country is faced with an invasion of foreign ideas and has shown a tendency to abandon what has made the greatness of Chinese civilization in the past. Practically speaking, I think we must do our utmost to modernize the education of Chinese youth, without utterly discarding old ideals. That is to say, those ethics of the race which are just as good as the ethics of any other race must simply be more or less simplified in harmony with modern life. At present, a fair proportion of the Chinese students who go abroad are not very well acquainted with their past and some of them are rather prone to make light of it. On the other hand, I doubt very much that we can bring from the outside any moral guidance which can lead the nation along its new path.

I cannot, at this time, discuss at length the problem of Christianity and missionary work. I do not believe that Christianity can replace the ancient Chinese ideals. Not that I mean the effort of the missionary in China has been a waste of time! Not at all. I do strongly believe it has been most useful in many respects. Much good has been done by its medical, hospital and sanitary work. Christian ideals are such that they can be taken up only by a minority. It may take centuries to convert China to Christianity. In the meantime, it is indispensable to the nation to have moral guidance.

Moreover, I am of the opinion that in the near future the Western missionary will practically almost disappear from China. In the future, Chinese Christianity will be more and

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more in the hands of Chinese missionaries. In twenty, thirty, forty years the Western missionary will have done his work, and everything will be in the hands of the natives, practically.

The natives, whether they be Christian or non-Christian, have to be prepared for the kind of moral action which they must exert in China. Is it a good thing that a great many of them should come abroad to be educated, for the maintenance of Chinese ideals and for the evolution of these ideals to fulfil the requisites of modern life? Is it better that so far as possible the youth of China should be educated in China? I think that, on the whole, the young Chinese who go abroad to get the last touch of education should be only an élite. It would be a mistake to try and train too many of them abroad. That is a topic which might lead to a discussion when discussion is open. I think—and as regards some parts of China, at least, I know—there is a tendency to replace much of the education which is given abroad by education given under good teachers in China. This applies to purely Chinese universities and to some institutions which are more or less run by Western missionaries. It will be to China's profit if she can more and more do what she wants in her own country with the cooperation of Westerners.

Of course, I am an old friend of China's. I hope for the best in China. Regarding the present political conditions, I am among those who are perfectly certain that after perhaps some twenty years, the country will emerge and play the part in world affairs which she is due to play. In the meantime there is a state of uncertainty, much of it being an aftermath of the revolution, and we must all help in putting China on her feet. In the field of education, I think what we can do best is to help her in settling educational problems at home, not by bringing abroad too many Chinese students, but by bringing about a sort of a fusion, a harmony between those eminent Confucian ethics which have been the backbone of Chinese civilization and the best of what we have been able to give China.

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AMERICAN POLICY IN CHINA

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WHEN Professor Lindsay asked me to speak to-day, I asked him what he would like to have me talk about. He said there were going to be five or six speakers, and when they had finished I might "fill in the interstices." The subject of China usually has a vast number of interstices, and certainly one of the most prominent of those left this morning is the question of American policy in the Far East.

If you talk with some of the business men who have large interests in China, either commercial or industrial, or some of the bankers who have financial interests in China, you meet some such expression as "Our State Department is in full retreat. We are backing down before the Chinese and giving up all our rights and properties. Disgraceful!" On the other hand, a few weeks ago, a dozen or so missionaries served a sort of ultimatum upon our minister in Peking and informed him that in their opinion we had joined the imperialists and were setting about the ruin of China. So far apart are the differences of opinion as to what American policy *is* in China, that it may well be guessed that the opinions differ even more widely as to what it should be.

We have ourselves no great outstanding issues with the Chinese beyond the question of Oriental immigration. May I suggest a word on that as a fundamental part of our policy not only toward China but the Far East in general? It touches upon Mr. Batchelder's statement of the living conditions in Japan.

According to statisticians, the world is able to support two and a half billion people on the Japanese standard. Founded upon that estimate, there is a certain opinion in Japan that the disposable parts of the world should be turned over to support this larger population. The same statisticians figure that on the American standard the world is capable of supporting

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aggressively or just as aggressively as ever did the old Czarist Russia, and the United States is asked by some to give up its position in China and "turn it over to the Chinese," a euphemism under such circumstances for "turning it over to the Russians."

Japan and Great Britain since the Washington Conference have observed a very correct attitude toward China. The old tendency to take a bite here and a bite there and expand and grab has shown a marked decline since the time of that Conference. Possibly the chastening of the war had something to do with it, at least in the case of Great Britain, and unquestionably the extreme isolation in which Japan found herself placed after the war and her reception back into the family of nations on the terms of the Washington agreements has had its effect there. But Japan and Great Britain to-day are playing fair with China. Russia has not been. What, then, should American policy be?

We first want to give China all that China can take, all that China is ready to take. But we can't simply throw it at China and turn our backs and go, because we have Russia standing there ready to grab, and we don't know what the result of such a course might be. If Russia did start in, we don't know but that British and Japanese imperialism might experience a revival. Therefore, we want first to give China all she is entitled to take; second, we want China to be able to keep that when we do give it to her. These two desires determine our policy. It must march along the narrow path which I have suggested even though it cause the criticisms of the government's recent course in the Far East. We want China to get all she is entitled to and we want to keep those things for China when she does get them.

China has asked for various things to be returned to her, among them her national sovereignty. Very good, but national sovereignty is a function of an organized state. Nobody but an organized state can exercise the powers of sovereignty. Until the Chinese people, great as they are, do organize their national power and national spirit into a modern state which can live in this modern world, there is nothing to exercise the powers of sovereignty. There is no place it can stay, no one to assume the duties and obligations that appertain to sov-

ereignty. Therefore, the United States cannot simply withdraw and say, "Here are your rights; now get others from Russia, and Japan, and the rest." China couldn't do it. She would disappear in the debacle which would follow. We must at the same time we say we are willing to turn over these things to China, say to China, "You must on your side organize your people in such a manner that you will be able to take and keep these things."

DISCUSSION: THE FAR EAST¹

MR. VINCENTE VILLAMIN:¹ The most significant political fact touching the Pacific international situation is the passing away of the Anglo-Japanese Alliance. This has made for the crystallization in spirit of Anglo-American *rapprochement*, the strongest of the forces, in my humble judgment, that supports the political stability of the Pacific. It was the Four-Power Pact negotiated at the Washington Conference on the Limitation of Armament that scrapped the Anglo-Japanese Alliance on the formal representation that the reasons for the alliance had ceased to exist.

The Philippines are the chief political inducement and the territorial stake on the part of America in becoming a signatory to this pact. It stands to reason, therefore, that the withdrawal of America from the Philippines would amount to a denouncement by America of further participation in the pact.

The lapsing of this quadrilateral arrangement would result naturally in the establishment of the *status quo ante* in the Pacific. Anglo-American accord would have to give way to Anglo-Japanese coordination, and the sequel would be a political realignment in the Pacific.

An analysis of the interests and purposes of the powers in the Pacific tends to the conclusion that, under the reconstructed political alignment, America's stabilizing influence in Pacific affairs would inevitably suffer appreciable diminution. The possible revival of the Anglo-Japanese Alliance is fraught with fundamental significance to America and will render improbable any attempt looking to reduction of armament on the part of America.

These considerations affect world peace. Truly America's course in the premises is of immeasurable consequence to the maintenance of peace. Not that Anglo-Japanese collaboration would not uphold a Pacific equilibrium but that Anglo-American — and better still, Anglo-American-Japanese — co-

operation would be a much more formidable guarantee against any alteration of peaceful conditions in the Pacific region.

May I interject right here that I am profoundly impressed with the discussion relating to the natural resources of China and Japan and the relation of these resources to population problems. I am fully persuaded that Japan has a tremendous problem of adequately feeding her fast-growing population. It is to Japan a life-and-death struggle, a matter of national self-preservation.

As a Filipino I want the Philippines preserved for Filipinos. As a nationalist I want the juridical identity of the Filipino people permanently conserved. As an internationalist, in the sense of the universality of human interests, I decry racial combinations and intellectual alignments predicated on anthropological theories. And as a citizen of the Philippines I should express preference, if I must, for that country as an associate which could bring most tranquility and contentment to my native land.

MR. SIN LEY CHANG: I must say I have appreciated immensely the attitude of the various speakers in regard to the problem of China. I am a Chinese student at Columbia, and I would like to say a few words in behalf of the Chinese youth, who has been mentioned by several speakers.

The point of view taken by foreign residents in China may be divided into two extremes: the one taken by the residents, that is, the merchants and the traders, and the other taken by the missionaries. The truth, perhaps, lies between the two extremes. The missionaries are more likely to take a very emotional attitude and say everything good about China and that China should have everything she wants. On the other hand, the merchants have interests in China and want to hold what they have.

I have heard many comments made on the attitude of the Chinese student recently. There seems to be a general feeling among the American public that the Chinese students have gone to the extreme. They tend to demand everything that China wants without dwelling on facts. Now the reason why they take such extreme attitudes is perfectly clear. It shows how deeply they feel toward the national problems. On the

¹Mr. Villamin is a Filipino lawyer whose address is 4996 Broadway, New York City.

other hand they really want to be perfectly fair. Some of them do not say very many good things about America or other countries. It is because they take it for granted these things are understood. But we want to be perfectly fair and want it realized that there are two sides to every question.

Take, for instance, the question of civil war in China. That is one of the arguments against granting China tariff autonomy or the abolishment of extraterritoriality. We admit all these civil wars in China are senseless and that they constitute an obstacle to unification. But on the other hand we want you to understand that back of every general overturn there is some one nation who is supplying munitions. That is the thing we want you to see on the other side.

You also see the Chinese political criminals escaping from justice unpunished. Where do you find them? You find them in foreign settlements, and that is one reason why we demand the abolishment of extraterritoriality, so criminals will be punished and civil war will end.

Take the customs administration: We admit the perfectly efficient administration and we appreciate what the foreigners have done for us. Then, on the other side of the question, we want you to understand that China has a right to demand that China administer her own customs because it is a national institution, no matter how efficiently the foreigners may run it.

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PART IV

THE DANUBIAN AND BALKAN STATES

PROBLEMS OF EASTERN AND SOUTHEASTERN EUROPE¹

EDWARD MEAD EARLE

Associate Professor of History, Columbia University

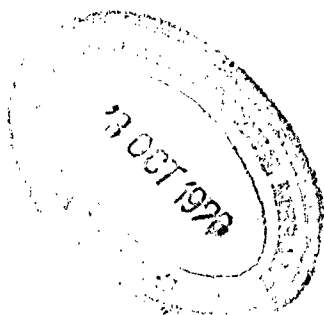
IT is perhaps wise in opening this Round Table to make a general statement of some of the problems which face all of the eastern European and Balkan states in varying degree. I shall therefore make a brief preliminary statement of some of the more important issues of eastern European politics, allowing the several speakers to develop in greater detail the particular phases in which they are interested.

If you take the vast region of the Danubian and Balkan states and consider their political and economic problems, you base much of your discussion upon the premise that these countries represent succession states of three great empires which existed in eastern and southeastern Europe before the war: the empires of the Romanovs, the Hapsburgs, and the Ottoman Sultans. Although the Ottoman Empire almost disappeared from the Balkans before the outbreak of the Great War, it is not unfair to say that the dead hand of Ottoman rule is still resting in some degree upon the Balkan Peninsula.

The striking thing about this change from control in eastern and southeastern Europe by three great imperial systems to control by a group of national states, is that although these great empires were ethnically heterogeneous, they were economically homogeneous. They were unified economic systems, whether they were politically unified or not. Their disruption, therefore, was certain to cause a variety of economic and political problems to be solved by their heirs, the national states of eastern and southeastern Europe.

In general, the map of eastern and southeastern Europe was remade on the principle of nationality. But ethnic frontiers, national frontiers, do not of necessity coincide with economic frontiers. Hence certain ports, such as Trieste and Saloniki, for example, which before the war served a fairly extensive hinterland within common imperial boundaries, now

¹ Introductory remarks made by Professor Earle as Chairman of Round Table No. 7.



serve a hinterland which is sharply split up by customs frontiers and by international complications. The railways of eastern and southeastern Europe were built with some reference to imperial purposes and are not necessarily adapted to the international purposes of the present states of eastern and southeastern Europe. There is also the problem of river navigation, of which you will hear something. The great Danubian river system before the war was largely within the domain of the Austrian empire. It now cuts across a number of national frontiers and lies within the territories of a group of national states. In some cases frontiers departed from nationalist lines and were redrawn on the basis of strategic or economic considerations. Here in serving strategic and economic purposes the peace-makers frequently violated nationalistic aspirations. The consequence is that you have throughout eastern and southeastern Europe the very important problem of minorities which, according to some students of European history, has been responsible for erecting in this region a group of potential Alsace-Lorraines and which will require, of course, a considerable amount of farsighted statesmanship to avoid Irredentism and the type of minorities agitation which characterized the pre-war period.

Journalists are likely to describe these phenomena which I have been mentioning under the general term Balkanization—a term which, stripped of its invidious connotations, simply means that regions formerly under imperial rule have been divided into small national states, each fearful and jealous of its sovereignty, each surrounded by a tariff wall, each tending to rely for defense upon its own military and economic resources or upon a system of competitive diplomatic alliances.

However, not all of the problems of eastern and southeastern Europe arose as a result of Balkanization. There is, for example, the problem of economic reconstruction growing out of the war. It is perhaps difficult to make clear to Americans who have concentrated their attention upon the problems of France and Belgium that there are in eastern and southeastern Europe vast devastated areas. There was a time, as you know, during the war when Poland and Serbia were literally wiped off the map by reason of the goings and comings of contending armies. You will recall, of course, that certain of the

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eastern and southeastern European states were inherent parts of the central empires and as such during the war period were subject to the economic and physical consequences of the blockade. Furthermore, within some of the succession states there has existed since the war the perpetuation of problems raised by the blockade during the war. In the case of certain of the Balkan states there has been not merely the problem of the Great War but of the wars preceding the Great War. In reality you may say that there have been fifteen years of almost uninterrupted war in the Balkans beginning with the Young Turk revolution of 1908 and continuing through the peace of Lausanne of 1923.

Then there is the problem of militarism in eastern and southeastern Europe. While I do not propose to spend any considerable amount of time on this problem, it might perhaps be summarized in this way: There are probably in Europe no nations which can less well afford to disarm than the nations of eastern and southeastern Europe; and, on the other hand, there are certainly no nations which can less well afford not to disarm than the nations of eastern and southeastern Europe. With that statement I leave the case for development by subsequent speakers.

In the next place there is the problem of the vast movement of populations within this region, particularly in the case of Macedonia and Thrace, where it was impossible to draw boundaries strictly upon nationalistic lines, strictly upon strategic lines, or strictly upon economic lines. In the Balkans there have been interchanges of populations, some of them informal (as between Bulgaria and Greece) and some of them organized and formal (as between Greece and Turkey)—movements of populations on a scale such as perhaps the world has not seen before, certainly not in modern times.

Another major problem which has been raising its head in eastern and southeastern Europe since the termination of the Great War is the conflict of radicalism versus conservatism. You may state it another way, if you will, as the problem of the maintenance of western European systems of government and society as compared with the Bolshevik experiment and its challenges to capitalism and democracy. In the case of some of the eastern and southeastern European countries the problem of radicalism versus conservatism has assumed the

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extreme form of civil war, with the result that precious resources of money and property and life have been squandered in fratricidal struggles.

May I perhaps just suggest that there are some exceedingly hopeful signs in this situation. The problems of eastern and southeastern Europe are in a measure the problems of all Europe. They are the problems of nationalism, the problems of adjusting economic frontiers to nationalistic considerations or nationalistic frontiers to economic considerations. They are the problems of reducing armaments. They are the problems of economic reconstruction. In so far as Europe concentrates its combined resources and intelligence upon their solution, eastern and southeastern Europe will of necessity benefit. On the other hand, be it noted that many of the most striking contributions toward the solution of these problems have originated with the statesmen of eastern and southeastern Europe.

Another hopeful sign is the very potent fact that if nationalism is rampant in eastern Europe, as it is rampant throughout all of Europe, there are exceedingly encouraging indications of the willingness of the eastern and southeastern European peoples to cast in their lot with a broader system of European statesmanship based upon international cooperation and international law. Fresh in the minds of all of you is the very salutary incident of the adjustment by the League of Nations of a serious controversy between Bulgaria and Greece. The border war which broke out in connection with that controversy created a situation which ten years ago would almost certainly have precipitated a Balkan war if not a war involving all of Europe.

Finally, be it said that although the above-mentioned imperial systems were economic units and although their break-up into national states has of necessity created serious economic problems, at least the present situation is one in which the peoples of eastern and southeastern Europe are free to work out their own destiny in their own way. They are free peoples; and as free peoples relieved from the deadening influences of imperial rule, they will almost certainly be able, not merely to solve their own problems, but to contribute powerfully to the solution of those problems which in a wider sense are European and in a still wider sense are world problems.

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REMARKS BY THE CHAIRMAN¹

H. WILSON HARRIS

WITH regard to the topic of our meeting which has been so ably introduced by Professor Earle, under the general head of the Danubian and Balkan States, I think it is just as well that we should define the geographical limits of our discussion. It is rather a pity, I think, that we haven't a map behind here in the place occupied a few days ago by Admiral Pratt's very interesting summaries, but we have not, and we must assume that each of us carries a clear idea of the geographical conditions in that portion of Europe in his head.

The two divisions of our subject will hardly stand. Professor Mises is going to speak immediately about "The Economic and Financial Prospects of Austria", not of Hungary as stated on the paper. That heading, of course, holds the field. With regard to "The Economic Frontiers in the Balkans," which is to be dealt with by Mr. Fierlinger, I think we must amend that title a little. I have never yet heard Czechoslovakia referred to as a Balkan state. The Balkan states are commonly regarded as four—Yugoslavia, Greece, Albania and Bulgaria, with a very small portion of Turkey, although Turkey is, of course, now an Asiatic state. Rumania is occasionally referred to as a Balkan state but she does not appear to welcome that appellation. She prefers to regard herself as belonging to the Little Entente and forming part of a Central European group rather than of a Balkan group.

We in Europe regard the Balkan states as constituting the danger zone of Europe and those who are accustomed to demonstrate the increasing stability of Europe, a stability increasing, I think, in spite of certain appearances, usually point to the fact that notwithstanding all the many incentives to war in the Balkans, there has in fact been no war in the Balkans

¹ After Professor Earle's introductory address at Round Table No. 7, Mr. Harris was prevailed upon to take the chair, while Mr. Earle spoke at Round Table No. 9.

since the Great War ended in the year 1918, and on the only two occasions when the sparks of war began to fly, namely between Albania and Yugoslavia in 1921 and between Greece and Bulgaria in 1925, the League of Nations was fortunately able to take the matter in hand and damp those sparks out before they grew into any flame at all. If that flame had sprung up, no man after July 1914 can say to what distant regions it might have spread. It might as before even have reached to this side of the Atlantic.

But the great virtue of the position I hold today is that I am relieved of the responsibility of making any address and therefore I will curtail my remarks forthwith.

Our first definite paper or address is by Professor L. Mises, Professor of Economics, University of Vienna, and Secretary, Vienna Chamber of Commerce. He is to speak on "The Economic and Financial Prospects of Austria" and of course, that subject has a very special interest to us. An economic experiment without precedent in the history of the world has been in operation in Austria for the last two years. It has come to an end because the objects for which it was instituted have been achieved, in the opinion, at any rate, of the financial experts primarily responsible for the formulation and administration of the scheme. In Austria—I think I am right in saying—more than one opinion is held as to the benefit of the scheme to Austria itself. Therefore, it is with very great pleasure that we shall hear an authoritative statement on that subject by Professor Mises.

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THE ECONOMIC PROSPECTS OF AUSTRIA

L. MISES

Professor of Economics, University of Vienna, and Secretary of the Vienna Chamber of Commerce

IN the first years after the armistice the Austrian Government found it impossible to cover its expenditures by the proceeds of taxes. The state bought foodstuffs abroad and sold them to the people of the towns at a price lower than they were purchased for. As the amount was not sufficient, the inhabitants of the cities starved. Private enterprise was not able to supply their wants as the legal limitation of prices made business unprofitable. Another source of the government's financial distress lay in the unfavorable results of the management of such governmental enterprises as railroads, forests, telegraphs, salt mines.

The reform was inaugurated by the discontinuation of the government's food purchases. As a consequence of this decision it was made possible to stop the further issue of paper currency. The old Austro-Hungarian Bank was dissolved and the new Austrian National Bank, which began its operations on Jan. 1, 1923, issues notes only to meet the demands of business. For four years the treasury has not received any loan from the National Bank. On the contrary, an important part of the government's debt to the bank was paid back.

By a radical reduction of expenditure in every branch of governmental activities it was possible to balance the budget. It was not even necessary to touch an important part of the loan granted by the League of Nations for other purposes than for investments.

It would perhaps not be correct to say that the Austrian budget is already absolutely stabilized. An important reform of every branch of the governmental enterprises must be accomplished before this end is definitely attained. But it cannot be denied that Austria's financial situation is constantly improving.

The commercial outlook may be less favorable. The draw-

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backs resulting from the trade barriers erected by the several European states are too well known to be mentioned explicitly. Yet I must call attention to the fact that since 1925 Austria's trade balance, although still unfavorable, has been gradually improving. As a further pleasing feature, I should like to note that in the last weeks unemployment figures are decreasing.

In conclusion we are entitled to hope that Austria's economic and social development will continue to progress. What our country needs most of all is peace and good will among the nations.

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REMARKS BY THE CHAIRMAN

H. WILSON HARRIS

PROFESSOR Mises, as is very natural, has dealt only with the subject of Austria. It is rather unfortunate that we have no one here qualified so far as I know, to deal with the kindred problem of Hungary. The problem of Hungary—or rather the treatment of that problem—is in some ways even more instructive than the treatment of the economic problem in Austria because, though Austria had the honor of being the pioneer as a subject of experiment, in the case of Hungary it was possible to profit by the experience gained in the working of the Austrian scheme and therefore, successful as the Austrian scheme has been—as Professor Mises has very clearly shown—the Hungarian scheme has been much more strikingly successful. Certain political difficulties in the way of launching that scheme were in some respects greater, because, while no one ever suspected Austria of any malign intentions against its neighbors, there were states which rightly or wrongly did entertain that suspicion in regard to Hungary and they were therefore less willing to make the arrangements necessary before the financial reconstruction of Hungary could be undertaken.

There is another reason why I wish we had had an account of the Hungarian scheme here and that is that as everyone knows, I suppose, the League of Nations, when it had to find a high commissioner to administer the scheme at the Hungarian capital, Budapest, came to this side of the Atlantic to find him, and appointed Mr. Jeremiah Smith, Jr., of Boston. I am speaking subject to no correction whatsoever when I say that no man who has served the League of Nations in one capacity or another has served it with more unqualified success than Mr. Jeremiah Smith. He has discharged his rather delicate duties with all the delicacy that they required; he has obtained the good will of the Hungarian Government and on the practical side he has shown evidence of all the ability that is necessary in a position of that sort. If I may just mention

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one single factor before sitting down, when Mr. Jeremiah Smith gave an account of the first year's working of the Hungarian scheme, he had a very remarkable result to report. In Hungary as in Austria, the experts who planned out the scheme had to face the problem of how expenditure and revenue could be balanced. Expenditure had to be reduced by cutting down superfluous civil servants and superfluous costs of one kind or another; revenue had to be raised by gradually increasing the taxes, and it was estimated at the outset that after one year's working, the deficit on the Hungarian budget ought to have been brought down to a figure of 100,000,000 gold crowns. When Mr. Jeremiah Smith came to Geneva to report on the first year's working, he was able to tell the Council of the League of Nations that not only was there no deficit at all in the Hungarian budget, but that instead of the expected deficit of 100,000,000 gold crowns, there was an actual surplus in hand of 63,000,000 gold crowns, so that instead of the external loan which was raised for the purpose of balancing the budget having to be used for that purpose it was possible to divert some of it to constructive expenditures such as improving the postal and telegraph systems and the electrification of some of the railroads, etc.

I think perhaps that brief reference to Hungary is justifiable, seeing that we had on our paper the title "The Economic and Financial Prospects of Austria and Hungary."

We will now pass to the second section of our subject which is called—or I venture to say miscalled—"The Economic Frontiers in the Balkans." The first address on that subject is to be given by Mr. Fierlinger, Minister to the United States from Czechoslovakia.

I remember hearing the other day that the factor mainly responsible for the success of Czechoslovakia in making a good impression abroad is the astuteness of Dr. Benes, the foreign minister of Czechoslovakia, whom I have the privilege of knowing well and who always seems to me better worth talking to than any other single man in Europe. When Dr. Benes first took office, I believe it is a fact that he found in various capitals many estimable but elderly gentlemen who did not fulfill his ideals of diplomatic representation, and he very dexterously invited them back to honorable positions in his own country

and substituted for them young and able men who have, in almost every case, discharged their duties with conspicuous ability. I know that the Czechoslovakian ministers in London and in Paris and in Berne certainly answer to that description perfectly and I have not the very smallest doubt that this meeting will feel, when it has heard Mr. Fierlinger, that he belongs to one of that very distinguished category.

CENTRAL EUROPE AND THE BALKANS

ZDENEK FIERLINGER

Minister to the United States from Czechoslovakia

I WAS asked to say a few words on Central Europe, and particularly on the relations of Central Europe to the Balkan States. At least, I understand that question in this sense. Professor Earle and Professor Mises developed here very interesting ideas which certainly would lead to a very useful discussion, should we have the necessary time at our disposal. I should like, however, to use the few minutes during which I will trespass on your patience to add a few remarks from a general point of view.

Public opinion here in America has been very unfavorably impressed by the different disquieting symptoms which, exist in Europe to-day. The political antagonism of the different European states, the economic disturbances of all kinds connected with social unrest, the conflicting interests of agriculture and industry which developed in many countries in consequence of high protective tariffs accorded to the latter after the war, the different racial and religious problems, and last but not least the recent difficulties at Geneva—all these symptoms seem to confirm the pessimistic opinion which prevails here in the United States and it is not astonishing that some very dark views have been displayed about the near future of Europe. The Locarno Pact prepared by the Dawes Plan and by the gradually changing mentality of the people in Europe shone bright for a moment through these clouds and was accepted everywhere and by everybody as a sure token of a new epoch. We all know that it is a great achievement and all our hopes are attached to its final realization, and we are ready to make all sacrifices to attain it. However, there have been many who from an exaggerated optimism have fallen suddenly into a dark pessimism, seeing the difficulties at Geneva, and various conjectures have been made as to a complete failure of the League.

Professor Mises showed us what are the prospects of Austria.

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We are hopeful that the situation in Austria will improve. It has already improved considerably and we must sincerely congratulate Austria on her splendid effort towards economic recovery.

As to Czechoslovakia and Austria, there have been recently wild rumors circulated and new political alliances in Europe have been predicted. I am mentioning this quite incidentally because not so long ago I was obliged to deny categorically similar rumors. Of course, it was quite easy for Austria and Czechoslovakia to disperse these rumors by pointing to the arbitration treaty which was signed recently at Vienna, and the growing friendship between Czechoslovakia and Austria, confirmed by the reciprocal visits of Mr. Ramek and Mr. Benes. Indeed any other policy would be absurd. It would mean the destruction of the whole constructive work which has been done since the armistice in this direction.

As to the Balkan States, the situation has grown much brighter in the last few years. Of course, the Balkan States have still very difficult interior problems, but their mutual relations have grown more satisfactory. It would be, of course, premature to speak about a new Locarno treaty while the first one is not yet ratified but it is significant that there have been discussions which show that similar tendencies exist elsewhere and that especially the Balkan States are ready to enter upon such a policy as soon as special, technical, may I say, problems in connection with the free outlet of certain states to the Aegean Sea are definitely settled.

Then and only then, when the political status in Europe is definitely settled, we shall be able to study seriously the various economic problems. I do not believe in the possibility of radical change in the European economic and commercial system. Europe has her traditions; she is profoundly individualistic. The different states are too jealous of their independence. There are too many prejudices to be overcome. That there will be a sensible amelioration in this respect I do not doubt, but the creation of the perfect economic entity, although desirable, as shown by your great country, is scarcely possible in the near future. The reduction of the different protective tariffs before the war progressed always very slowly. Thanks to commercial treaties, thanks to the most-

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favorable-nation clause, which is a most powerful instrument in reducing the Chinese walls of protection, Europe gradually made progress on a path leading to a more liberal commercial policy. This automatic process was interrupted by the war; it has been resumed since but we must carry it on more effectively, more energetically. I personally believe and am confident that the work which is being done by the Economic Committee at Geneva is most important and most useful. Certainly the scope of this work is still very narrow. It was limited so far to the discussion of various passport and customs formalities, but I am sure that with a greater authority it will be able to attack more serious problems and especially the tariff problem in Europe.

Serious economists in Europe, as well as in the United States, recommend close economic union between the various Danubian states—a sort of Danubian Zollverein. Experience shows that customs union means always, more or less, a political union. This would hardly constitute a practical program for these states which found such a union so difficult in the past. Furthermore it does not seem feasible on account of the fact that the rest of Europe would be hostile to such a union and would not accept it. The different European states today are bound together by a great number of commercial treaties and conventions. Czechoslovakia, for instance, would be obliged to denounce about thirty-five commercial treaties before she could change her commercial system, before she could enter on a new path in this direction. It is very significant that special clauses of the treaties of St. Germain and Trianon giving to the Succession States the possibility of interchanging special economic advantages, which should not be claimed by the Great Powers, have never been utilized. We became a part of the whole European system and we, of course, must conform our interests to this new situation. I personally am not seriously afraid of the splitting up of Europe into too many small economic units. Experience shows that a smaller state can indulge in a more liberal commercial policy than a larger state where a great variety of interests claim protection. Countries like Holland, Sweden, Norway, Denmark, Switzerland, in pre-war times always had a lower tariff than the other larger states on the continent.

The economic separation of the Succession States—I mean separation of industrial countries like Czechoslovakia, for instance—from the other countries which constituted the territory of the former Austro-Hungarian empire has, of course, various and manifold drawbacks. Typical in this respect are the relations between Czechoslovakia and Hungary. Somebody figured out that our present exports to Hungary have fallen to about seventeen per cent of the pre-war commercial traffic between Czechoslovakia and Hungary. Hungary after the war, in order to develop her industry, increased her tariff considerably, and consequently we are losing our market there. However, studying statistics carefully we find that on the other hand our exports to Yugoslavia, to Rumania, and especially to countries with a good currency like England, France, Spain, the United States, increased considerably. The partial loss of our immediate markets is compensated by the increase of our exports to other countries. Of course, in order to judge quite well all factors which created this situation we must at the same time take into account the depreciation of the currency in the different European states, and the general impoverishment of the population in Central Europe, which lowered its buying capacity.

As to the Balkan States, I am confident that we shall very soon arrive at a very close economic collaboration with them. The Balkan States having an eminently agricultural basis are ready to collaborate economically with the more industrial Central European States. It would be, however, a great mistake to try to impose upon them a determined policy in this respect. We must not forget that the high protective tariffs are chiefly due to budget difficulties, and in less degree to a legitimate desire to protect their special industries which suffered by the war and are in need of capital. Only by a policy inspiring confidence, by giving financial help and assistance, shall we be able to adjust the present situation in a more favorable sense toward a close collaboration with these states.

It would be therefore very difficult to speak about the Central European States, or about the Balkan States, as of a determined geographic, political or economic system. Of course, the Danubian States are most exposed, on account of their central

situation, to any disturbance which may arise anywhere in Europe. The characteristic feature of the Danubian basin is the fact that it has always been the meeting place for different races and religions and consequently the different elements there are far more intermingled than elsewhere. Vain has been the effort of the Hapsburgs to create there a vast economic and political unit with an artificial naval base on the Adriatic. This undertaking failed on account of the political and economic interests which had not been taken sufficiently into consideration. We must now try to solve the problem, but we can do it only by a mutual respect of individual rights and liberties, by developing the true international spirit and cooperation; and by treating the problems of minorities in a calm and scientific manner.

The Secretary of State, Mr. Kellogg, in addressing newspaper men recently at New York, said that Americans are practical idealists, that they will strive only for ideals which they can realize, which lie within the limits of possibility. I fully agree with him.

In fact, in every undertaking and so also in politics it is necessary to have a clear, firmly defined program which takes realities into consideration. The authors of the Locarno Treaty followed this program. It is based on a true international understanding and cooperation, on a mutual confidence, on a gradual development of international law and ethics, on arbitration and international jurisdiction. This program is a necessity, not only for Western Europe; it is a necessity for Central Europe as well as the Balkan States, and all others.

I listened yesterday with great interest to the discussion which took place in the Round Table on Disarmament and especially Mr. Schotthoefer's and Mr. Martin's remarks. Mr. Martin, speaking of disarmament, argued to the effect that the present exaggerated mercantilism and economic particularism is one of the profound psychologic causes of the antagonism of the different states in Europe and one of the many aspects of the present deadlock in the problem of disarmament which cannot be neglected by those who study the problem of disarmament. I quite share Mr. Martin's opinion but I am hopeful that the result of the Locarno Treaty will be not only a

better international understanding in general but at the same time a better international economic cooperation. What Locarno means for Europe was eloquently portrayed by Mr. Briand when he defended the Treaty in the Parliament. It has become the creed of everyone who sincerely desires peace. I feel confident that it has gained so many adherents that we are after all not entitled to be pessimistic about the future of Europe, although there are still many serious obstacles which we must overcome.

ECONOMIC FRONTIERS IN THRACE¹

SIMEON RADEFF

Bulgarian Minister to the United States

THE outlet to the Ægean Sea promised to Bulgaria by the treaty of Neuilly is a problem closely connected with the general question of the economic frontiers in the Near East.

At the beginning of the World War Bulgaria was in possession of a considerable seacoast on the Ægean. By the Treaty signed at Neuilly, November 27, 1919, she had to give up this seacoast in favor of the Allied and Associated Powers, i. e. Great Britain, France, Italy, Japan and the United States. The latter on their part pledged themselves to guarantee to Bulgaria an economic outlet to the Ægean.

A little later these powers with the exception of the United States transferred to Greece the territory taken from Bulgaria. But in fulfilment of the obligation assumed under the Treaty of Neuilly, they worked out a plan at the Lausanne Conference. Bulgaria considered this draft insufficient as it did not conform to the given promise and she refused to accept it. The matter has been left at this point.

From that time on the question has come up on various occasions, but no serious steps have been taken for its solution. Bulgaria is constantly looking forward to the realization of the solemn pledge assumed in her favor.

It has been asked at times whether Bulgaria, having the Danube on the north and reaching the Black Sea on the east, has really any imperative need for an outlet on the Ægean Sea. We must bear in mind in this connection that the middle Danube is not open to navigation for a part of the year and that the Black Sea ends with the Straits. It is true that the Lausanne Convention of 1923 proclaimed the freedom of the Straits, but who is in a position to guarantee this freedom? We remember that in 1912 during the campaign in Tripoli the Sublime Porte decided to close the Dardanelles in order to insure the safety of Constantinople. There is no reason to

doubt that in a similar case the present Turkish Government may take the same measures of precaution. I have just spent two years in Turkey and I can strongly testify to the fact that the Turkish Government is inspired by a genuine peaceful policy, but I must say at the same time that the rulers of Angora, who are even more solicitous of the safety of the state than the Sublime Porte of yesterday, would hardly hesitate for a moment to close the Straits in case of a menacing sign on the horizon or any cause of alarm that may arise in their minds.

This uncertainty with reference to the freedom of the Straits would fully explain Bulgaria's need for an outlet to the free waters. In view of this necessity, therefore, the Principal Allied and Associated Powers took the obligation towards Bulgaria as given in the Treaty of Neuilly.

It was said above that at the Lausanne Conference Bulgaria was made an offer by the Powers who had an interest in the question. Why then did the Bulgarian Government refuse to accept it? The answer to this question has been given many a time. The refusal was due to the fact that the draft offered to Bulgaria an outlet which would run through Greek territory and would pass through a Greek port. I have no intention of saying anything here that would be apt to touch the sensibilities of the Greek people. It has nothing to do with any reflection upon their qualities. But historic rivalry, the memory of past wars, the continuous grievance of the Greeks because of the presence on their territory of an important Bulgarian minority which claims the use of its language and the freedom of its national culture, make it rather precarious if not impossible for a Bulgarian to keep his home in Greece. The uninterrupted exodus of Bulgarians who are obliged to leave Greece and who increase the number of refugees in Bulgaria every day is sufficient illustration of this condition of things. And it is not necessary to go into the details of other grievous inconveniences which an outlet to the Ægean Sea through a Greek territory might cause to Bulgaria. Suffice it to say that the Bulgarian merchant does not feel and could not feel at home under a Greek administration. The Lausanne Conference took up only the technical aspect of the question. It is, however, the psychological side of it which is decisive in

¹ Read by Mr. J. P. Doycheff at Round Table No. 7.

this case. Commerce without security is not known, and has never been possible.

But then we have been asked: What kind of an outlet do you claim? Is it a territorial corridor leading from your border to the port of Dedeagatch on the *Ægean*? This claim would certainly not be illegal. A glance on the map will convince any one that both geographically and economically the port of Dedeagatch belongs to Bulgaria. It is only twenty miles from our border. And no one would maintain that to separate a port from a big hinterland lying in such proximity to it is a sound and normal situation. Besides, the statistics compiled in 1919 through the efforts of General Charpy, the French commander of the Allied troops in Western Thrace, have proved that when the *Ægean* coast was taken away from Bulgaria there were more Bulgarians than Greeks in that province. Consequently, Greece has no ethnic rights over the territory which the victory of the Allies gave to her. However legal the claim for a territorial corridor to the *Ægean* Sea from all points of view might be, we do not maintain it. We do not want a modification of the Treaty of Neuilly; we simply claim its loyal application. What does the Treaty of Neuilly provide in article forty-eight? Two things: first, that Bulgaria should cede Western Thrace, i. e. the *Ægean* Coast, to the following Powers: Great Britain, France, Italy, Japan and the United States; second, that the same Powers should guarantee to Bulgaria an economic outlet on the *Ægean* Sea.

We should not consider these two paragraphs of the same article separately. They are linked together. They supplement each other, they explain one another, and one is conditioned by the other. What is then the real meaning of article forty-eight of the Treaty of Neuilly? It is the following: An outlet to the *Ægean* Sea was promised to Bulgaria. This outlet should be an economic outlet and it should pass through an Allied territory. The Treaty of Neuilly does not presume a Greek Thrace. Thrace was offered to Greece later on. The Treaty of Neuilly provides for a Thrace ceded by Bulgaria to the five Great Powers, so that it is a question of an Inter-allied Thrace.

When we concluded the Treaty of Neuilly we had no reason to believe, neither did we have any ground for suspicion, that

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the coastal region taken away from Bulgaria was to be given to Greece. We ceded our *Ægean* coast to the five Allied and Associated Powers with the firm and legitimate conviction (which was not denied by them at any time) that this territory was to remain in their hands and that it was to receive an international administration. We have the right to believe that at the time when the Treaty was signed the five Allied and Associated Powers did have the decided intention to keep Western Thrace in common and to administer it in a mandatory fashion. If anybody should assume that at this time these Powers already had in their minds the idea of renouncing this territory in favor of Greece, he would thereby admit that Bulgaria had been abused, for we would have never signed a treaty that would have placed Greece between us and the *Ægean*. There would hardly be anyone in Bulgaria who would for a moment cherish the idea that the five Powers had been guilty of this lack of good faith. Our conviction is that while Greece was given the Bulgarian seacoast, Great Britain, France, Italy and Japan reserved to themselves the right to guarantee to Bulgaria a free exit to the *Ægean* Sea. It was under these conditions that they received Western Thrace from us and they might only transfer it to Greece under the same conditions.

The four Allied Powers, therefore, have the right to dispose of the formerly Bulgarian *Ægean* coast in such a manner as to assure an exit for Bulgaria. How may this exit be guaranteed?

If we discard the question of the territorial corridor there remains only one satisfactory solution, and that is the political corridor. If an international zone, administered directly by the League of Nations, is actually established from the Bulgarian border down to Dedeagatch, including the port, we would feel that our transit has obtained the necessary guarantee and security.

If such a solution acceptable to us is realized, will it in any way be injurious to Greece? I do not think so. On the one hand, the satisfaction given to Bulgaria would do away with the grievous litigation between us and Greece and would put an end to the present order of things both contrary to the treaties and abnormal from a geographic and economic point

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of view. On the other hand, such a mandate entrusted to the League of Nations, making that body more closely interested in the Balkan problem, would furnish to Greece a new element of tranquility and to the Balkans a new pawn for peace.

Scrutinizing the problem a little further, we might arrive at the conclusion that Greece may be in a position to raise some objections on points of law pertaining to her right of sovereignty. But is the sovereignty of Greece over Western Thrace from a legal point of view strong enough to be placed in opposition to a solution beneficial to all? It is to be doubted. What is in point of fact the situation in Western Thrace from a legal point of view? We have already mentioned that this territory was ceded by Bulgaria to Great Britain, France, Italy, Japan and the United States. The first four Powers renounced their rights in favor of Greece, but no one may give more rights to another than he possesses. The four Powers gave to Greece just their part of the sovereignty over Thrace. What has then become of the part that belonged to the United States? They certainly have no right to keep it because the Senate has not ratified the Treaty of Neuilly. To whom will that part of the United States refused by her at a later time revert? Will it fall back to Greece? There is no reason for it. Logically, the part belonging to the United States in the condominium created by the Treaty of Neuilly should revert to the original owner of the territory, i. e. to Bulgaria.

I would not dwell longer on this very embarrassing question. It is a question of law and should be left for the time being to the jurists. I would like only in passing to point out that the Greek sovereignty over Western Thrace might be contested from a legal point of view also, and therefore it should not stand seriously in the way of a sincere and useful solution of Bulgaria's issue with reference to the *Ægean Sea*.

Leaving aside the objection on grounds of sovereignty, it would not be to the best advantage of Greece to oppose the acceptance of the Bulgarian demand and that is the reason why Bulgaria hopes that a satisfactory solution both for her and for Greece might be obtained from the interested powers. I call them interested because they have taken an obligation towards Bulgaria and the Bulgarian Government has always referred the question to them.

THE BALKANS AS AN ELEMENT OF EUROPEAN PEACE

ADAMANTIOS TH. POLYZOIDES

Editor, *Atlantis*, New York

ONE of the strongest, if not the strongest, indictment against the peace settlement of 1919 is that it has brought about the Balkanization of Central and Eastern Europe. The commonest meaning of this word is the splitting up of large state bodies into smaller political organisms, mutually opposing each other, and continuously fighting the battle of political supremacy at mutual expense.

We were told at the time that such an arrangement by which new national states were created at the expense of the overthrown monarchies of Germany, Austria-Hungary, Turkey, and last but not least, Russia, was based on such lofty and honorable principles as the right of self-determination, the right of nationality, and the right of political freedom. We were also told that the existence of imperial states in the heart of Europe ruling by sheer force a number of peoples who at one time or another of their history fell under the domination of their mightier opponents, was a challenge to our spirit of Democracy, and almost a denial of our twentieth-century civilization.

And yet, not a decade has passed since the establishment of peace, and what we hailed in 1919 as a triumph of Democracy is now curtly denounced as the crowning achievement of a policy of Balkanization.

The authors of the peace settlement naturally protest against this characterization of their handiwork; and they are right. What they did in the case of the new European states that arose from the overthrow of the three, or rather four European Empires—assuming that Turkey as the possessor of Constantinople still remains a European power—was simply to repeat the process inaugurated a hundred years earlier by those statesmen who helped create the original Balkan states. If Greece, Serbia, Rumania, and Bulgaria, and very recently

Albania, were helped to become independent states, why should the creation of the Baltic and Central European states not be hailed as a triumph of the principle of nationality and as a lofty expression of the right of self-determination?

To this there is an answer, based on the profound and radical changes that have taken place in the political, social, industrial and economic structure of Europe in the last sixty or seventy years.

The erection of the original Balkan states has not created one tithe of the problems which the splitting up of the Austro-Hungarian Empire has precipitated. The political evolution of the original Balkan states was a much easier process than the development of the present political life of the new European states created after the Great War.

Leading the people a hundred years ago was a much easier task than doing the same thing in our day. A few strong men appealing to the fancy of the populace a hundred years ago could do as they pleased. There was no such thing as an enlightened opinion in those days; there were no newspapers with the tremendous circulation of to-day. There was no parliamentary freedom compared with what we see to-day. There was no radio. And last but not least there was nothing like the Second and the Third International. So with all due respect to the memory of the great men of the past, we must confess, in all candor, that theirs was a comparatively easy task in comparison with what, say a Woodrow Wilson, to cite but one example out of many, had to go through.

The original Balkan states were intensely nationalist and they have remained so till recently. Nevertheless they settled their problems of tariffs and minorities in a much easier way than the present new states of Europe have settled theirs. The few strong and efficient men of Athens, Belgrade, Bucharest and Sofia made a very good job in starting their countries on the way to political, constitutional, parliamentary and economic life.

At the same time we must not forget that when the first Balkan states were created, Europe was at peace, and not only willing, but also able to look after the welfare of this or that particular Balkan state; whereas, in the case of the new states of Europe, the victorious alliance to which they owe their new

independence not only was dissolved after 1919, but also overwhelmed by its own problems and manifold troubles.

Contrary to prevailing opinion, it is well that America should be informed that in this year 1926, the often maligned Balkans, the variously and widely advertized witches' cauldron, of the Near East, the powder magazine of Europe, constitutes an element of stability and peace in the old continent.

This may sound strange especially in view of the political turmoil going on at this time in all five capitals of the Balkan peninsula. And yet, one who follows rather closely the life and the political events in that part of the world cannot reach any other conclusion after he has read the numerous papers of Athens and Bucharest and Belgrade and Sofia and Tirana, not to mention Angora and Constantinople. Nowhere is the spirit of peace more prevalent to-day than in the Balkans. And there is a very good reason for this in view of the fact that the Balkan peoples not only went through the Great War, but they had two additional pre-war Balkan wars, while poor Greece had the Asia Minor expedition thrown in, as if for good measure.

For us who have lived through the bitterest days of the inter-Balkan struggles, it is something of a miracle to read in an Athens daily a Bulgarian contribution on the necessity of better railroad communication between the two countries. It is just as surprising to see an Athenian newspaper man touring Bulgaria, while at the height of the Greco-Serbian controversy a Serbian football team was crowned with Olympic laurels after a brilliant victory against their Athenian opponents. But the climax of all this is the news coming from Athens that a group of Turkish university youths on their return from Cairo to Constantinople not only made the pilgrimage to the Acropolis and the Parthenon, but were welcomed and fêted by a group of their Greek colleagues.

What is the explanation of this striking phenomenon which has changed so radically the face of the old Balkans?

Hard as it may seem at first, this curious Balkan cross, or rather, kind words puzzle is very easy to analyze.

Previous to the Great War, the entire foreign policy of each and every one of the Balkan states was centered around a single factor, namely the liberation of their nationals still

remaining outside the political frontiers of these states. Rumania looking beyond the Carpathians, Serbia casting longing eyes to Croatia and Slovenia and Dalmatia, and Greece and Bulgaria battling for supremacy in Macedonia and Thrace. Meantime the common enemy of all these state units was the Turk, as it was only at his expense that their immediate national needs could be satisfied. The idea of an Austrian and Russian breakdown seemed too remote and too preposterous in those antediluvian days of 1900.

Then all of a sudden the Great War came and changed everything. I will spare you a repetition of what happened in the Balkans during and after the great conflict. I will only call your attention to the positive and actual fact that the Great War has radically changed the Balkan popular psychology. Having no problems beyond their enlarged frontiers, the Balkan states devoted themselves to international politics, and also to domestic strife. Their peace problems became much more serious and infinitely more complex.

Just to give you an illustration of what happens to-day in the Balkans, we will briefly examine the existing conditions in each of these states.

To begin at the top, Rumania which previous to the war was a racially homogeneous country with an area of 53,000 square miles, found herself increased after the war to an area of 122,282 square miles. While her population formerly was around eight million souls, at present it hovers around seventeen million. Leaving aside the fact that nearly five out of the eighteen millions of Rumania's population are not Rumanian at all, we find that those Rumanians who were recently liberated from the foreign yoke not only lack in admiration for the racial stock of the mother country, but think themselves highly superior in culture, in organizing ability, and in matters of government. They claim that they came out of the Austro-Hungarian imperial state school, and therefore they have nothing to learn from the lesser political lights of Bucharest. The old Rumanian element naturally resents this attitude of the newcomers, and there the trouble starts, that still continues.

We see a repetition of the same conditions in Serbia, where the Croatian and Slovenian elements play the same rôle of as-

sumed superiority in comparison with the rude and hardy peasants of the old kingdom. Naturally Mr. Pashich, the old patriarch of all Balkan politicians, frowns upon this ascendancy of the newcomers, and the Rumanian situation is again repeated.

Greece has not annexed any territories since the war, with the exception of a small strip of land in Thrace, but she received two millions of refugees, who, fortunately for the Hellenic State, do not claim any superiority in political and governmental matters, as their Turkish state from which they were transferred to Greece was very far from being a model organization patterned on the lines of Austria-Hungary. Bulgaria likewise has not annexed any additional population since the war, but she annexed the Macedonian elements who seem to have raised the craft of political job-hunting to the state of a science. To complete the picture we will say that even in little Albania there are two factions bitterly opposing each other for supremacy. For those who like statistics it may be said that the Kingdom of the Serbs, Croats and Slovenes covers an area of 96,133 square miles with a population of a little over twelve million people; while Greece accommodates nearly seven million people within a territory of roughly 42,000 square miles; Bulgaria, with an area of a little over 40,000 square miles, has a population of five million; and finally Albania, in her 17,374 square miles, is having a gallant struggle towards reaching a million inhabitants.

Regarding the internal conflicts and tribulations of these Balkan states, there is little that might interest American opinion. There is a strong opposition to Bratiano in Rumania, and a stronger one to Pashich in Yugoslavia; the present Bulgarian Government has quite a few enemies in addition to its staunch supporters; and the Greek military dictatorship has more opponents among the Hellenic people than the outsider realizes. And naturally what is true of the larger Balkan states cannot but hold in the case of little Albania.

All our information from the Balkan Peninsula agrees on one thing—that, following the Great War for Democracy, a state of dictatorial autocracy has been established in Bucharest as well as Belgrade, Athens and Sofia, and even Tirana.

Now I share the healthy American opinion against all forms

of political dictatorship. But whether we like the present Balkan governments or not, the fact remains that more or less they have stood the test, and their existence to-day, illegal, unconstitutional and unpopular as it may be, still apparently responds to the necessities of a particularly severe and serious situation. To mention but one factor of strength of the present Balkan dictatorships, I would say that they are all active in opposing the most extreme agitation that comes from the outside and finds very fertile ground among the manifold popular, political and economic disappointments of a considerable mass of people who either long for the good old days or, failing that, are turning their hopes to the coming of the Red Millennium.

I may add that these dissatisfied elements, powerful as they are, do not make up the majority of the people whose entire outlook of politics has changed since the war. Possibly, it is this popular apathy that is responsible for the maintenance of the Balkan dictatorships. Be that as it may, the large masses of people throughout the Balkans are to-day less eager for war than for the good things of life.

There is no gainsaying the fact that all Balkan States are to-day suffering economically. Rumania, for instance, during the war not only lost heavily in men and material but also had to destroy her oil wells, some of which have not as yet been put back to use. In addition, Rumania at the time of the German advance early in 1917, had the unlucky inspiration to send all of its gold in reserve, amounting to \$200,000,000, to Moscow, so that when the Russian revolution came, the Bolsheviks found that money quite handy and have kept it ever since, all the Rumanian protests notwithstanding. As if these two calamities were not enough, Rumania during the German invasion was flooded with German marks that Germany to-day positively refuses to redeem at any rate, claiming that the Dawes Plan takes care of those obligations along with the others.

Coming to Yugoslavia, that country suffered severely during the war, as its territory was invaded and held by the enemy for four years, and when after the war the former Austrian provinces of Croatia, Slovenia and Dalmatia were added to it, the result was an unforeseen economic confusion which is all the more complicated by the abnormal internal political situation.

Greece's disastrous war in Asia Minor, the war losses of her merchant marine amounting to 65% of its total tonnage, and subsequently the losses from its American immigrants on account of the restrictive immigration act, resulted in throwing the entire economic mechanism of the country out of balance. The added burden of nearly two million refugees on the impoverished country made its position still more difficult while the political aftermath of the war did the rest.

Bulgaria naturally suffered from the results of its share in the military and economic defeat of the Central Empires whose camp she joined during the war. Notwithstanding all this, the Balkan countries are making a constant and gallant effort for political and economic reconstruction.

The Little Entente, originally formed to oppose the restoration of the Hapsburg Empire, was the first move towards some sort of Balkan federation. The results have not been very encouraging so far and it is doubtful whether such an Entente confined to strictly political lines would accomplish much in view of the fact that such states as Greece, Bulgaria, Albania and Turkey are left outside of it.

What the Near East needs to-day is more a series of customs and economic adjustments than a number of political and military groupings and alliances.

Greece has proposed a Balkan Locarno in which Turkey, in addition to the countries of the Peninsula, would also be asked to share. This Balkan Locarno should take care of the political side of the Near Eastern question. In the economic field, the most advisable thing appears to be a customs union if such an arrangement could be divorced from politics. Greece's growing merchant marine, now happily past the million tonnage mark, and her industrial potentialities can be made to fit in with the agricultural expansion of Bulgaria, the development of the animal industry of Yugoslavia, the mining activities of Albania, and the increase of oil, timber and other products of Rumania. A better net of rail and water communications among the countries involved will strengthen the mutual economic ties and work for peace and prosperity in the Balkans; and severe restrictions of armaments reducing the Balkan armies to the minimum, either by the adoption of the Swiss militia system or by some other method, will greatly help

the economic restoration of those countries. The imperialistic tendencies of Fascist Italy are viewed with some alarm by all Balkan countries and there is no doubt that should Italian policy become more aggressive in the Balkans it will find itself opposed by all the strength of fifty million people, firmly convinced that the Balkan Peninsula should remain a unit for the Balkan peoples.

As regards the other danger, coming from the North, an economically sound Balkan Federation can always oppose it with success.

This is, in short, the situation in the Near East, and it is pleasant to remark that the new spirit of democracy and co-operation is making good headway in a spot which for generations was considered a political volcano. The fortunes of those countries are in the hands of new people. The old die-hards, who preach hatred and who keep on acting as vestals of the sacred fires of Hate, are daily becoming a more impotent minority. The spirit of "live and let live" has entered the Balkans. And the best that the rest of the world, and particularly America, can do towards this new orientation of the Balkans is to encourage those elements who think and act in terms of friendly adjustments, in terms of peaceful solutions of their problems, and finally in terms of Peace.

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DISCUSSION: ¹ THE DANUBIAN AND BALKAN STATES

CHAIRMAN HARRIS: ² The many interesting—and some surprising—statements we have heard are now open for discussion. The meeting is scheduled to close at one o'clock, and it is my experience of luncheons at this hotel, as elsewhere, that those who arrive last wait longest. I would therefore emphasize the fact that these discussions are conducted under the five-minute rule, which it will be my pleasure, as well as my duty, to enforce. I may add that I am equipped with two watches in case one of them fails.

MR. CHARLES F. SCOTT: ³ The papers to which we have listened this morning, able and interesting and illuminating as they have been, have yet failed specifically to discuss some questions which have been lurking in my mind a long while. I can think of no one in the room better qualified to answer these questions than our chairman, who, much to the disappointment of all of us, has taken advantage of his executive position to escape the address for which he was scheduled, and so I venture to put these questions in the hope that the chairman will take a few minutes to discuss them in the light of the experience he must have had in connection with his work at Geneva.

The first of these questions is whether there is a feeling throughout Europe that the boundaries fixed by the Versailles Treaty are likely to be accepted and to become permanent. The second question is whether there is any considerable sentiment, as indicated by conversations that may have come to the chairman at Geneva, in support of the working out ultimately of an economic United States of Europe, the purpose of which, primarily, of course, shall be to eliminate the troubles that arise on account of the numerous customs tariff boundaries that now are proving to be so troublesome to European trade.

¹ Open discussion at Round Table No. 7, May 13, 1926.

² Mr. H. Wilson Harris, of the *Daily News*, London. See also other remarks by Mr. Harris, pp. 269, 273.

³ Of the *Iola Register*, Iola, Kan.

CHAIRMAN HARRIS: I know of no rule to preclude the chairman from answering questions if he is capable of answering them. If he is not, they will be ruled strictly out of order.

With regard to Mr. Scott's point: Is there a feeling that boundaries as fixed by the Treaty of Versailles are likely to prove acceptable? I think it would probably be too much to say that they will be found generally acceptable by those states which have suffered some deprivation of territory as a result of them. At the same time, it is my personal feeling that there has been a great deal of loose talk about the Treaty of Versailles.

It was said by Professor Gilbert Murray, I think, that out of the 440 clauses of the Treaty of Versailles, at least 400 were open to no kind of criticism whatsoever, and though many of the boundaries drawn in Europe are open to criticism, in almost every case it would be found, I think, that if you drew a different boundary the ground for criticism would be quite as great, if not still greater. Therefore my own feeling is that perhaps with one exception, possibly two, it would be extremely unwise to attempt to change the political boundaries of Europe, at any rate at the present time. As a new spirit grows up through the work of the League of Nations and other factors, it may be possible to get changes effected by agreement. They certainly cannot be effected over the heads of the nations that have signed the treaties.

That carries us straight to Mr. Scott's second question. I feel very strongly that there is a great desire felt by people of reasonable foresight to create what may be called an economic United States of Europe. The Economic Conference which is being prepared for already by a commission, on which the United States is represented by Professor Allyn Young and Mr. Houston, the late Secretary of Agriculture, is aiming at laying the foundations for something like an economic United States of Europe. I would add that, as things stand at present, I think the process would only be hindered by any serious talk about a political United States of Europe. We are not ready for that, but I do not see why we should not be ready for progress toward an economic United States of Europe on the lines suggested by the speaker.

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MR. JONES: I would like to ask if it is possible to have an economic United States of Europe without a political United States.

CHAIRMAN HARRIS: That question is very nearly out of order, I think. At any rate, it seems to me a little too suggestive. I think the speaker must explain why he thinks that the one is impossible without the other. It is after all, is it not, largely a question of terminology?

What I have in mind is some arrangement effected by commercial treaties between individual countries, possibly to some extent by a general treaty, to which all shall subscribe, which shall prevent the erection of tariff barriers detrimental ultimately both to the countries who raise them and to those who suffer for them. In particular—to take what seems to me to be in some respects the most urgent economic problem in Europe—the arrangement should enable us in Europe to meet the challenge of the mass production which you practise so successfully in this country. Our economic frontiers prevent us from developing this mass production, and unless we do develop it we shall certainly not be able to hold our own in competition with you, and we do not want to suffer too much economically at your hands.

MR. SCOTT: I should like to ask Prof. Mises, if he cares to answer the question, what his judgment is as to the ultimate outcome of the situation in Austria, with respect particularly to the great city of Vienna. We all understand that a city of 2,000,000 people, organized and built as the commercial and political capital of an empire of 40,000,000 people, must undergo some marked and radical changes if it is to remain as the capital, commercial and political, of an empire of only 8,000,000 people. I am wondering whether Austria expects to maintain its present importance through extending or holding the place that it has held in the economics of eastern Europe, or whether it is the belief and fear that it will have to reduce itself in size and importance to correspond with the present realm of Austria.

PROFESSOR MISES:¹ I wish to avoid every political statement. It is rather difficult to speak about these questions with-

¹ For Professor Mises' address, see p. 271.

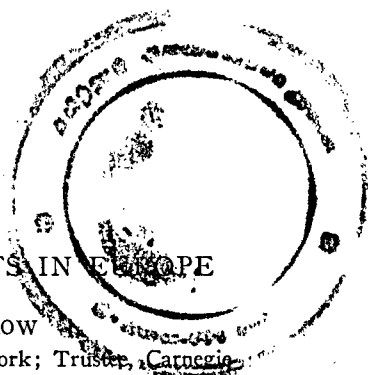
out mentioning the most important Austrian political problem. It is the problem of union with Germany.

I think there is a general misunderstanding of the economic position which Vienna had in pre-war times. It is true Vienna was the political capital of Austro-Hungary, but Vienna was not supported by taxes or by tributes paid by the peoples comprised in the former Austro-Hungarian empire. It is true there were in Vienna not more than some hundred officials who, with the Vienna ministers, were engaged in administrative affairs affecting Bohemia and even Hungary. There were in Vienna some hundreds of Czechoslovaks, for instance—it may be that there were two or three hundred, surely not more—who were in the different departments of the Vienna ministers. All these people—it may be a few thousand if you wish—went home and are now working in the government offices in their homes. But generally, from the standpoint of finance, the Austro-Hungarian empire was not a source of income but a source of expenditure for the people now forming the new Austrian state. Many parts of the old Austrian empire received more from the government expenditure than they paid as taxes to the Austrian government. Merely from the financial point of view, Austria did not lose anything by the dissolution of the old empire.

It is not true that the population of Vienna in pre-war times consisted of officials ruling and administering other parts of the empire. The people of Vienna were working very hard in commerce, in trade and in finance. It may be true that to-day the importance of Vienna as a financial center is less than it was in pre-war times, but there is no doubt at all that Vienna as a center of commerce is now more important than it was in pre-war days or at any other time. The pre-war commerce of Vienna was not very important. Vienna was a financial and industrial, but not a commercial center. Trieste, for instance, or Budapest, was more important than Vienna. Now for Vienna the consequence of the dissolution of the old empire is that the importance of Vienna as a center for trade among the new states is increasing from day to day. By way of illustrating this fact, I may only mention that many important trade concerns which formerly were in Budapest now have their headquarters in Vienna.

PART V

ECONOMIC ADJUSTMENTS AND THE FRENCH DEBT



ECONOMIC ADJUSTMENTS IN EUROPE

DWIGHT W. MORROW

Member, J. P. Morgan & Co., New York; Trustee, Carnegie
Endowment for International Peace

I WAS told by Dr. Lindsay that any well-brought-up presiding officer should say a few words to his audience before he began the introduction of the speakers. I haven't come with any address or with any special message to this distinguished company of students from various countries of the world. I have thought that in lieu of an address I might read you just a few words, less than a half-page, of something that was written seventy-five years ago.

Four years ago, Europe was in a ferment with the newest ideas, the best theories, the most elaborate, the most artistic Constitutions. There was the labor, and toil, and trouble of a million intellects, as good, taken on the whole, perhaps, as the world is likely to see,—of old statesmen, and literary gentlemen, and youthful enthusiasts, all over Europe, from the Baltic Sea to the Mediterranean, from the frontiers of Russia to the Atlantic Ocean. Well, what have we gained? A Parliament in Sardinia! Surely this is a lesson against proposing politics which won't work, convening assemblies that can't legislate, constructing executives that aren't able to keep the peace, founding Constitutions inaugurated with tears and eloquence, soon abandoned with tears and shame; beginning a course of fair auguries and liberal hopes, but one from whose real dangers and actual sufferings a frightened and terrified people, in the end, flee for a temporary, or may be a permanent, refuge under a military and absolute ruler.

Mazzini sneers at the selfishness of shopkeepers—I am for the shopkeepers against him. There are people who think because they are Republican there shall be no more “cakes and ale.” Aye, verily, but there will though; or else stiffish ginger will be hot in the mouth. Legislative Assemblies, leading articles, essay eloquence—such are good—very good,—useful—very useful. Yet they can be done without. We can want them. Not so with all things. The selling of figs, the cobbling of shoes, the manufacturing of nails,—these are the essence of life. And let whoso frameth a Constitution of his country think on these things.

That sounds somewhat cynical. It is the letter written by Walter Bagehot when he was watching the *coup d'état* in Paris following the fair hopes of the revolution of '48, four years before. Bagehot of course realized that there were

things in life much more important than those things of which he spoke; but he also realized that those more important things were difficult of attainment unless the practical things of which he wrote were attended to by somebody.

When we read in the evening papers of the revolution in Poland, of the coal strike still going on in England despite the settlement of the general strike, of the difficulties in Russia, of the uncertainty as to the value of currencies in one country or another of Europe, I think that those of us who are inclined to be discouraged and pessimistic might well recall the words that Walter Bagehot wrote three-quarters of a century ago.

We meet this evening to talk about the economic readjustment of Europe. What about the selling of figs? What about the cobbling of shoes? What about the manufacture of nails? What about all of these things without which a people cannot do?

The first speaker of the evening is a distinguished French official. Someone said, when asked how France gets along with five finance ministers in nine months, that France is still run by the civil service which the first Napoleon founded. No one would more earnestly deny that statement than the next speaker. Mr. Robert Lacour-Gayet, a distinguished French civil servant who has been in this country as Financial Attaché of the French Embassy at Washington, will speak to you on "France's External Debt and Burden of Taxation."

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FRANCE'S EXTERNAL DEBT AND BURDEN OF TAXATION

ROBERT LACOUR-GAYET

Financial Attaché, French Embassy, Washington, D. C.

I WOULD like first of all to thank the Carnegie Endowment for International Peace and the Academy of Political Science for the great honor which they have done me in asking me to present, in the course of this conference, certain aspects of the financial problems of France.

You have fully realized that meetings such as this are becoming more and more indispensable in the contemporary world. The time has come when it is impossible for any nation to remain isolated. A reciprocal knowledge of the problems which they must face is necessary in order that the nations may together seek a common solution of their difficulties. It is more true in the economic world that anywhere else that the misfortune of one has never meant good fortune for the other. The war increased this economic interdependence and this solidarity which is one of the most characteristic traits of the present era. The United States, more than any other nation, is forced to keep in touch with the questions which interest the rest of the world. Your country represents, at the present time, the only great financial power remaining entirely intact after the events which upset the world from 1914 to 1918. She is interested in the definite restoration of Europe not only because she has at her disposal immense forces, but also because she is creditor of most of the European countries. It is, therefore, at once her interest and her duty to offer her help to the peoples whose resources are exhausted because of the war. The economic and financial collaboration between the American continent and the European continent has thus become the indispensable condition for the reestablishment of the economic equilibrium of the world. Without this definite restoration, there is conceivable neither financial restoration nor a lasting peace between the nations.

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Your President has asked me to set forth various facts concerning the external debt of France and the French burden of taxation. There is no better subject than this to show to what point the effects of the war have been prolonged in France and will continue to prolong themselves for a long time to come.

Before 1914 my country had no external debt; on the contrary, she was creditor to the rest of the world. The weight of taxes was, at the same time, easily borne by a population whose wealth increased regularly, thanks to its talents for labor and economy. This situation is to-day entirely changed. France has become debtor to the great financial powers of the world. In order simultaneously to meet her obligations and to repair the devastations which the war caused on her territory, she has had to levy taxes to such an extent that no country at the present time can lay claim to a fiscal burden equal to that which weighs upon the French taxpayer.

Whatever these burdens may be, the French Government has always considered that the reimbursement of its external debts constituted for France a sacred obligation. France has just given conclusive proof of her good will by settling, under conditions with which you are acquainted, her debt to the United States. She has thus put an end to the only cause for misunderstanding which too often in the course of the past few years has obscured the horizon between our two countries, linked by a traditional friendship which both wish eagerly to maintain. The settlement of the external debts does not constitute merely a duty for France. It is, in her eyes, a necessity. A definite agreement with her creditors appears, in fact, as the indispensable preface to any monetary stabilization, without which a country is condemned to live in uncertainty and without which budgetary equilibrium can never be definitely realized. That is why, after having entrusted M. Bérenger, Ambassador of France to the United States, with the task of reaching a settlement with the American Debt Commission, the government of M. Briand has now the intention of arriving, as soon as possible, at a settlement with Great Britain.

Once these two settlements are concluded, France will know exactly what her external charges will be. Her debt abroad is really composed of two distinct elements. One part repre-

sents the obligations to foreign countries. There is, first, the debt to the United States which, on April 15, 1926, amounted to approximately \$4,350,000,000. Then there is the debt to Great Britain which represents nearly £700,000,000. To this debt must be added the various loans contracted by France abroad, especially the three loans of 100 million dollars each made in the United States in 1920, 1921 and 1924. At the average rate of the dollar during 1925, the external debt of France was approximately 153,000,000,000 francs, that is, about 35% of her total debt.

In the future, what will be the burden of this debt on the French budget? The budget for 1926 provides for the service of this debt, without taking into account the settlements which have been effected or are to be effected with the United States and Great Britain, an expenditure of 1,405,000,000 francs. It is impossible to foresee under what conditions the settlement of our debt to Great Britain will be made and in what proportion it will increase our burden. But from this time forth, it is possible to state that the agreement which was signed in Washington on April 29th last will not greatly influence, at least for the first years, the total of the expenditures which we have to make externally.

The first five annuities of this settlement are equal to \$30,000,000, \$30,000,000, \$32,500,000, \$32,500,000 and \$35,000,000. As we have been paying America \$20,000,000 a year as interest on the commercial debt, this schedule represents an increase of 10 millions for the first two years, 12½ for the next two, and 15 for the fifth. But this slight increase of our charges is not obligatory. The agreement, in fact, gives us the right to defer for three years that part of the payments above twenty million dollars. For this reason, until June 15, 1930, that is until the payment by Germany of the first full annuity provided under the Dawes Plan, we remain free not to pay to America more than we now pay as interest on our debt for stocks, that is, twenty million dollars.

The agreement signed with the Debt Commission takes into account therefore—and this is essential—the future decrease of our external debt. The payments which France has to make externally amount, in 1926, to 114 million dollars; in 1927 to 96 millions; in 1928 to 86 millions; in 1929 to 117 millions,

but do not exceed 50 millions in 1930. From that year on, they do not reach more than 25 millions (with the exception of the years 1934 and 1941) and decrease regularly until 1949, when the entire external debt should be amortized. This decrease of our debts from 1930 on coincides with the increase of the sums which Germany is to pay to the Allied Governments. It goes without saying that in promising to pay to the United States annuities which increase rapidly from 1930, and in estimating her capacity to pay, France has taken account of the sums which she is to receive from Germany. In signing pledges to which it expects to remain faithful and which it wishes to execute scrupulously, the French Government does not doubt that its debtors will show the same care in fulfilling treaties and existing agreements as it intends to exercise toward its own creditors.

The burdens imposed by the external debt of France represent, it is true, a small part of the French budget, in which the service of the internal debts occupies a much larger place. It is nevertheless one of the reasons why the French taxpayer is at the present time subject to exceptionally heavy imposts.

No story is more widespread abroad than that the Frenchman does not pay taxes. Until lately, it was possible to find in the foreign press, and especially in the American press, a large number of articles trying to show that there was no more enviable position in the world than that of the French taxpayer. A certain number of American documents have themselves done justice to these accusations. Before giving detailed statistics on this point, I will content myself simply with recalling the studies published by the National Industrial Conference Board and by the Institute of Economics, which fully recognize the fiscal burden which exists in France.

In order to appreciate clearly the characteristics of the French fiscal system, it is always necessary to bear in mind its extreme complexity. The income tax which was created in France in 1914, and put into application in 1917, furnishes only a part of the tax receipts. To this must be added a great number of indirect taxes on many products, such as alcohol, tobacco, salt, sugar, matches, vinegar, oil, colonial products, etc. One must also take into consideration the custom duties, the taxes on luxuries and the registration fees. At the present time, the division of tax receipts in France is as follows:

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Income tax—27.9% of the total receipts.
Tax on wealth—stamp taxes—24.7%.
Luxury taxes—3.7%.
Indirect taxes—43.7%.

As a result of this division of taxes all classes of the population are reached. The extreme division of wealth in France and the large number of lesser fortunes have rendered necessary a very flexible and greatly variegated fiscal system.

It is always difficult to make comparisons between the fiscal burdens borne by the various countries. It is from the total revenue of a country that one must start, if one wishes to appreciate exactly the tax burden, that is, the portion of the national revenue which is levied by the government in order to meet the expenses of the community. No subject is more debatable than this. Nevertheless, from very careful studies which have recently been made by official French services, it appears that the French national revenue may be calculated as follows:

Income from land taxes	15,300,000,000 francs
Income from securities	22,000,000,000
Income from salaries and wages	55,500,000,000
Commercial revenues	14,000,000,000
Income from agricultural pursuits....	22,500,000,000
	129,300,000,000 francs

These same calculations show that the revenue of England amounts to approximately 3,800,000,000 pounds sterling and that of the United States to \$67,000,000,000. By comparing the total amounts of taxes collected in these three countries in 1924 and 1925, it may be ascertained that in 1924 the fiscal burden represented 23.8% of the national revenue in France; 22.3% in England and 11.5% in the United States. In 1925, the percentage for France amounted to 26.2%. Consequently, the tax burden in France represented more than one quarter of the national income and more than double the fiscal charges in America. Since that date the law of April 4, 1926, has created new taxes in France and has increased once more the rate of a certain number of existing taxes. At the same time a new reduction of the income tax rates has been voted in America. It is therefore undeniable, after this increase of

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taxes in France and this reduction of rates in the United States, that the fiscal burden in France will be three times the fiscal burden in the United States.

A few examples will best serve to show the obligations which a French taxpayer must meet. A bank established in France must pay the following taxes:

- (A) Real Estate Tax—12% on the renting value of the buildings owned and used by the company.
Tax on Property in Mortmain.
Tax on Doors and Windows.
Apprenticeship Tax of 0.20% on the amount of salaries paid.
- (B) Tax on Patents, including:
A fixed amount per employee, which in Paris may reach 1200 francs per head, for a bank having more than 1000 employees.
An amount proportional to the renting value of the premises occupied which in large cities may exceed one-half of such value.
- (C) Annual stamp duty of 0.12% on the nominal share capital.
Tax of 12% on income from shares.
Annual transfer tax of 0.8% on the market prices of bearer shares.
Proportional stamp of 0.20% on the nominal amount of fixed maturity notes issued by the bank.
Tax of 12% on income from such notes.
- (D) Tax of 1.30% on turnover, that is, on the total amount of brokerage, transfers, interest, discount, commissions, etc.
Special and progressive tax from 1.20 per mil to 6 per mil on turnover.
Special income tax of 12% on interest received.
Tax on stock exchange operations.
Tax on exchange operations.
- (E) Tax of 12% on income from stocks and bonds owned (French securities and foreign securities with government tax subscription).
Tax of 18% on income from foreign government securities and foreign company securities owned.
Annual transfer tax of 0.85% on the market price of stocks and bonds owned (French securities and foreign securities with government tax subscription).
Tax of 12% on the exchange premium of foreign securities with government tax subscription.
- (F) Proportional stamp duty of 0.20% on bills of exchange.
Stamp duty of 0.20% on checks and clearing house transfers.
Receipt stamp.
Fixed stamp duty on storage receipts, powers of attorney, etc.
Stamp on posters.
- (G) Tax on industrial and commercial profits of 9.60%.

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Furthermore it should be noted that:

- (1) The majority of rates indicated above were subjected to very important increases under the law of December 4, 1925.
Income taxes with a rate of 12% became 18%.
The rate of 18% was raised to 25%.
The tax on industrial and commercial profits was raised to 14.4%.
- (2) The bank is furthermore charged with the collection from its patrons for the account of the government, and without compensation for itself, of a whole series of taxes (tax of 12% on income from credits and deposits; tax of 18% on foreign securities; all taxes on French transferable securities; tax on stock exchange operations; tax on exchange operations, etc.).

I ask your pardon for quoting so many figures. I fear they justify the reputation for severity, rather well-earned I admit, to which fiscal science is entitled. Therefore I hope I may take advantage of your indulgence, for it is extremely difficult to make financial points without the aid of some figures.

The fiscal burden is particularly hard to bear for those taxpayers whose incomes have not increased in proportion to the depreciation of the franc, that is, bondholders and public officials. A public official earning 25,000 francs in 1913 now earns 34,000. In 1913 he paid 293.75 francs in taxes. He now pays 3,160.87. Likewise, a public official earning 9,000 francs in 1913 now earns 17,000, but he pays to the government 1,055.67 francs instead of 168.75 in 1913.

On the other hand, the exemptions existing in France for small incomes are very much lower than those current in Great Britain and the United States, and because of this a greater number of taxpayers are reached by the tax. A taxpayer having a salary of \$1,000 a year is not taxed in the United States or in England. In France he pays in taxes the equivalent of \$153.

With an income of \$4,000 an American pays \$22; a Frenchman pays \$712.
With an income of \$10,000 an American pays \$207.05; a Frenchman pays \$1,963.
With an income of \$50,000 an American pays \$6,137.05; a Frenchman pays \$18,870.
With an income of \$500,000 an American pays \$19,961; a Frenchman pays \$265,700.

I hasten to add, however, that I do not think that the French,
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Treasury has very often the good luck to find itself in the presence of a taxpayer having an income of \$500,000.

The tax rates have reached such a point in France that there can be no further increase without the risk of a diminution instead of an augmentation in the receipts. A time comes in every fiscal system, as the American Treasury very well knows and often proclaims, when it is dangerous to increase the fiscal burden and when, on the contrary, it may be advantageous to reduce it, in order to encourage production and in that way increase the taxable powers of the country. The fiscal effort accomplished in France during the last six years is all the more meritorious for having taken some time. It is only, in fact, since 1920 that the tax rates have increased in any appreciable manner. But in order to understand, with fairness, this delay, it is always necessary to take into account the fact that until that time the reconstruction of the richest region of France had hardly been started and that the government could not hope to recover any appreciable amount from those departments which in normal times furnish a very large part of the tax receipts. The prompt reconstruction of these departments was therefore not only a national duty for all the French people, but it was a necessity from a fiscal point of view.

I beg pardon for having insisted somewhat at length upon the question of taxation in France. But it was necessary in order to show plainly the great effort which has been exerted by my country.

The French Government fully recognizes the very grave difficulties which it has to face and the nation admits that these difficulties cannot be surmounted save by great patience and tenacity of purpose. But in presence of the long road which still remains to be traveled toward definite financial restoration, it is good to remember, from time to time, the road which has already been traversed. At the present time, after a war which cost France almost 1,400,000 men, that is one man killed for every twenty-eight inhabitants, and which caused on its territory damages which, according to the official valuation placed thereon by the Reparations Commission, amounted to more than 136,000,000,000 francs, France has succeeded in paying more than 100,000,000,000 francs for the reconstruction of her devastated regions, in balancing her budget for the time being, and in meeting her external debts.

Such a result allows a faith in the future, whatever may be the obstacles of the present. Those who would doubt our ability to triumph over the present crisis, I would simply advise to review their history of France and to re-read the account of the crises which we have met in the course of centuries. They will find therein, I am sure, as I myself have found, many definite reasons for confidence.

THE PROGRAM AND COST OF POST-WAR RECONSTRUCTION IN FRANCE

GEORGES LECHARTIER

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I AM not going to present you once more with the tragic picture of our devastated regions after the war. It has been done and overdone. Moreover, many of you have seen it through your own eyes and no description is equal to personal experience.

I need hardly recall that the area of ten departments, among the richest of France, was so thoroughly ruined during the four years of war as to make its future restoration, as it seemed, wholly chimeric. The villages had been destroyed and burnt to the ground, the arable ground was so thickly inlaid with shells, bombs, steel and fragments of steel of all kinds, it was so overturned with trenches and underground constructions in concrete, that it seemed beyond human power ever to restore it. The whole of eastern and northern France was made a desert and worse than a desert: it recalled to the mind that description of the ancient poet speaking of the ever-desolated plain where the dark shadows are wandering and where no plant grows but the pale and lifeless asphodel, the flower of despair and death.

France, however, in spite of the discouraging aspect of the task, in spite of the dire deceptions she first met, immediately started it. During six years, without any foreign help, even deprived of the annuities on the debt which Germany had recognized in signing the peace treaty, she worked relentlessly and has found in her own and exclusive resources and in the energy and will of her men, the ways and means for her restoration. To-day, after a period of long and strenuous labor, her desolated regions—except for the region of Verdun, which has been kept untouched as a souvenir lest the generations to come forget too rapidly the sufferings of those who prepared the way for them—are almost repaired, her mines are reopened, her fields are cultivated, her factories and plants are

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in full work. Of course, this achievement was not obtained without faults and mistakes. No great work was ever achieved without some failures in programs or in men. But the results now obtained permit us to overlook the mistakes and to forget the temporary failures.

The first task was to estimate as accurately as possible the amount of the damages which had been suffered and to examine the claims presented by those who suffered them. Some local committees were instituted to that effect and they proved so efficient—unlike other committees—that at the end of the year 1924 no fewer than 2,932,000 claims had been examined as compared with a total of 3,013,700 which had been presented. Only 2.7% remained to be decided upon, so that almost all the first committees could be dismissed in 1925 and a few only were left to settle the 82,114 remaining claims. This was almost achieved during 1925.

The following figures will give an accurate idea of the work accomplished. At the armistice in November, 1918, there were 741,993 houses destroyed. By the beginning of 1925 some 600,999 were reconstructed and only 136,000 were still to be restored. Of course, among those, the workers' houses and quarters were the first to be cared for.

In November 1918, 330,000,000 hectares (one hectare is approximately 2½ acres) of the soil of France had been entirely devastated; in 1925 only 342,488 hectares remained to be restored. In 1918, some 330,000,000 cubic meters of trenches were to be filled in; only 40,000,000 remained untouched in 1925. At the armistice, 375,000,000 meters of barbed wires covered the ten devastated departments; only 80,300,000 meters were still to be removed in 1925.

In November 1918, 1,923,480 hectares of arable lands were devastated and inlaid with shells and bombs, useless for agriculture. By 1925, 1,890,900 had been leveled, the shells being extracted, and were again fit for agricultural use.

During the war 834,900 cattle, 375,300 horses, mules and donkeys, 890,700 sheep, and 331,600 pigs had been killed. Thanks to the help of the Americans, there was a greater number alive in the same regions in 1925. Millions of fruit trees had been replaced.

Of the 22,900 big factories and plants which had been de-

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stroyed, only 2,028 were still to be reconstructed. All except 120 of the 4,800 kilometers of railroads that had been destroyed had been restored by 1925. Only 2,075,000 inhabitants were living in the devastated regions at the time of the armistice, but there were 4,300,000 in 1925.

At the same time 3,252 public schools had been reopened out of 3,255 which had been forcibly closed during the four years of war. And those schools were frequented by 497,477 pupils.

In sum, at the date of the most recent statistics, for January 1925, 81% of the houses and 91% of the factories had been rebuilt. Because of the necessity of a rapid economic restoration the factories and agricultural buildings were naturally first attended to. At present almost all the work for reconstruction has been achieved. More than 78% of barbed wires have been removed and 93% of the arable land has been restored to agriculture. This effort has insured the rapid revival of agriculture in the devastated regions and many industries are now just as prosperous as they were before the war. Some of them are even more prosperous. The crops—wheat, oats, potatoes—show a considerable increase.

In order to achieve such a formidable task, considerable resources were, of course, needed. The peace treaty provided that Germany should pay the necessary amount. But until 1925 she had paid nothing. France could not wait for starting the urgent restoration of her devastated region. She therefore had to find the money among her own people and through loans and taxes. The amount which was needed for the reconstruction of private properties alone totaled 60 billion francs at the beginning of 1925. Moreover, 13 billion francs were spent on restoration of public properties and railroads. The pensions and bonus cost 36 billions. And the interest to bondholders amounted to 19 billions. This brings the general total of the money spent for restoration up to 129 billions.

Of course these expenses, which were mainly due to the fact that Germany did not meet her obligations according to the peace treaty—whatever motive she had for that—increased considerably the burden of the public debt and contributed, for a large part, to drive the ship of French finances into the rough sea and into the narrow and most dangerous strait,

where it is now desperately struggling against tide and wind, with no real haven in view. The acceptance of the Dawes Plan, however, and its execution by Germany, may be regarded as a faint ray of hope. The program of reconstruction being achieved, the German annuities, if regularly paid, will enable the Treasury to repay the advances it has made and thus progressively to extinguish the debt it has contracted.

However, the damage which has been caused on the market by repeated issues of bonds, coupled with the new difficulties which arise with the problem of the foreign debts, and, more than that, the extraordinary somersaults and incoherence of the men who are in charge of the political destiny of France, still cause anxiety and will long continue to do so. The activities of politicians seldom prove very inspiring in any country. The least severe and most polite remark that can be made respecting the conduct of French politicians at present is that it is most disconcerting.

There can be no doubt that France, relying only upon herself and being governed, not by politicians, but by real statesmen, would face and meet all her financial obligations, either foreign or domestic, and would progressively restore her finances. She has already achieved more difficult tasks than that in other fields. But will she, under the momentous circumstances of the hour, be strong enough to react against the narrow views, the ignorance, the thoughtlessness, the quarrels of partisans, the rivalries of groups, the carelessness and indifference about the true interests of the nation, on the part of her politicians? This is the anguishing, the tragic, question of the moment. Nobody having any political sense in France, and I less than anybody else, would venture to answer it.

THE ECONOMIC PROBLEMS OF FRANCE

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THE present economic position of France is a matter for the gravest concern and sympathy on the part of all those who are friends of our former ally. The franc, which at one time seemed to have reached a stable level, is once more depreciating; prices are rising; and the equilibrium of the budget, although it is now nearly eight years since the armistice, is as yet by no means definitely assumed. Even the recent conclusion of the debt negotiations at Washington, which puts an end to a period of threatening uncertainty, will place a tax on France's external financial capacity that for a time may be very dangerous. It is true that the general internal economic condition of the country, considered apart from the public finances, is at first glance reassuring. There is almost no unemployment, production is expanding in many lines, and an at least moderate degree of prosperity seems to be very widespread. But the situation contains elements which are ominous, and which at any moment may prove catastrophic. The gradual but inexorable increase in the note circulation since 1922, and in the various forms of government borrowing, are merely symptoms of a profound maladjustment in the economic organism. Until the budget is unequivocally stabilized further increases in the note circulation and a further depreciation of prices and the exchanges are always imminent. But each new depreciation itself throws the budget once more out of balance, and thereby renews the vicious circle, while at the same time creating additional disturbances in industry and commerce. That vicious circle must be broken if France is not to go down the dark path of repudiation already traversed by Germany. Yet it can be broken only by a sustained effort more arduous, and more universal, than any which France has hitherto been able to make, great though her efforts have already been.

Other speakers on the program this morning are to discuss particular parts of the problem of France in detail. It will

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be worth while, as an introduction to their observations, to indicate briefly the general course of economic events in France since the Armistice, and to trace the successive steps which have finally led her to her present perilous condition.

At the end of the war the position of France was difficult, but it was by no means beyond remedy. The public debt had increased nearly fivefold since 1913, and the note circulation a little more than that, but prices had risen only three and a half times, and the exchanges were virtually pegged at a few per cent under par. The degree of financial disturbance was of at least the same general order of importance as that which was to be found in England at the time. Then in 1919 and the first part of 1920, the violent psychological reaction from the war and the resulting widespread optimism produced a period of rapid business expansion and credit inflation, both private and public. A new currency depreciation followed, so severe that in the spring of 1920 the index number of prices, which had been around 350 at the end of 1918, was nearly up to 600. At the same time, the exchanges, with the peg removed, dropped precipitously to less than a third of par. But France faced the task of currency restoration aggressively, and by the end of 1921 had apparently gotten the situation well under control. The price index actually fell below the level of 1918, to nearly 300, and the exchanges improved markedly. As in contemporary England, this drastic deflation was explained in the first instance by the contraction in *private* credit, in consequence of pressure applied by the Bank of France. But the deflation of private credit could not have exerted more than a temporarily corrective influence, if it had not been generally expected that the budget would soon be balanced. An actual equilibrium was not achieved at the time, but in 1921 equilibrium seemed only a short distance ahead, and the direct effect of this anticipation was enormous.

To this point the course of events in France was closely analogous, in its general terms, to the developments which were then taking place in England, and on a smaller scale in the United States. But by 1922 the French Government proved to be definitely unable to balance its budget. In default of German Reparations payments, and in anticipation of their later receipt, France had undertaken immediately after

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the war to begin the work of reconstruction herself. This load, when added to increased outlays in other directions, was too great for the budget alone to carry. The government resorted to still further borrowing, on a large scale, and the juggernaut process of depreciation was renewed. This depreciation has continued steadily, without an important break, from the spring of 1922 until the present time. The public debt is now more than twice its size at the end of the war; the note circulation stands at over fifty billion francs, whereas in 1918 it was about thirty billions; the foreign exchange index is at nearly 600; and the price index, with 1913 as a base, is distinctly over 600. The drastic collapse of the exchanges since last October, involving a fall of thirty per cent in seven months, is only one more chapter in an unvaried story that has extended through four dark years.

On the face of it, the way to stop the depreciation is evidently to impose heavier taxation, thus restore the budget to equilibrium, and thus remove once for all the motive for the widespread bear movement against the franc. But France is already paying very heavy taxes, far heavier than those paid in this country, and probably exceeded only by those of England. It is at the least debatable whether further substantial increases will not, by drying up the sources of revenue, themselves defeat their own purpose. Moreover, each new step in the depreciation increases the price that the government must pay for goods and services, without immediately augmenting its revenues to correspond. The budget deficit thus tends constantly to grow rather than to diminish; and equilibrium, like an oasis in a desert mirage, is pushed farther away as the effort to reach it increases.

This, then, is the economic problem of France: to achieve an equilibrium in the budget, and to achieve stability of the currency. To equilibrium and stability all other questions are subordinate, for to build without them is to build on shifting sands. They will not be achieved easily, and perhaps not quickly, but there is not one of us who does not ardently hope that France can perform the task which still remains to her; and I believe that she will succeed. She has risen in other years from the ashes of catastrophe: may she once more rise, to take her rightful place among the nations of the world!

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FRENCH TAXATION AND ECONOMIC RECONSTRUCTION

ROBERT LACOUR-GAYET

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ON November 11, 1918, after the signing of the armistice, the French Government found itself in the presence of one of the gravest problems that any nation has ever been called upon to solve. Since 1914 ten of the richest departments of France had been invaded. The mighty struggle which took place on this territory left most of the villages destroyed, the fields laid in waste and the roads, canals and railways useless. At the same time, the financial resources of France were practically exhausted after four years of an unprecedented effort.

The first question to solve lay in deciding whether we were to wait for the German reparation payments before undertaking the definite work of restoration of the devastated regions, or, on the other hand, try with our own resources to re-establish activities in the richest part of our territory. Both the patriotic solidarity and the economic interests of the nation bespoke the second solution. The Government and the French Parliament understood only too well that potent reasons of morals and justice made it imperative for them to put an end as quickly as possible to the suffering endured by those of their countrymen who were victims of the invasion. They realized also that it was impossible to consider a real increase in taxable resources without increasing France's capacity to produce, that is, without restoring the agricultural and industrial riches of the North. My compatriot, Mr. Lechartier, will show you tonight under what conditions this program has been carried out, what expenditures it entailed and at what point of reconstruction we have arrived.¹

I would like only to tell you briefly how from 1918 to 1926 the French Government has on one hand constantly increased

¹ See M. Lechartier's address, p. 312.

the taxes which weigh on the country and on the other hand reestablished and increased the economic activity of the nation.

The increase of taxes in France has taken the following course. In 1913 the taxes collected by the government amounted to approximately 4 billions, and they were maintained at this figure until the end of the war. Since then they have increased, in round figures, to: 5 billions in 1918, 8 billions in 1919, 15 billions in 1920, 18 billions in 1921, 19 billions in 1922, 21 billions in 1923, 27 billions in 1924; and they finally reached almost 32 billions in 1925. If there should be added to these figures the taxes which are collected by the departments and the municipalities, it would be apparent that in 1925 the French nation paid more than 36 billions of taxes, as compared to 1913 when they paid less than 7 billions.

This increase of taxation has, however, not hindered a very great development of economic activity. A little later I will show in what measure this development is, in part, at least, artificial, since it results to a great extent from the depreciation of the franc. But it is none the less true that as a whole, according to recent statistics, the economic activity of France is, at the present time, about 15% higher than it was in 1913. For example, the coal mines produce a daily average of 141,638 French tons representing an increase of 5,500 tons over production in 1913. Likewise, the production of coke averages from 260,000 to 270,000 tons per month, instead of 245,000 tons in 1913. One of the most striking features of post-war France is, in fact, the development of industrial production. Until 1914 France was principally an agricultural nation and industry played a relatively unimportant part in her economic activity. To-day, the modernization of her reconstructed factories in the devastated regions and the improvement of natural resources as represented by the use made of water power have given a new scope, heretofore unknown, to the industries of France. It is still too soon to foresee what influence this new economic development will have, but at this point one may presume that it will certainly influence the distribution of wealth and perhaps even the characteristics of the race.

It is none the less true, however, that agriculture will always remain the backbone of France. There was no more touching spectacle after the war than to note the return of the peasants

of the devastated regions to their villages. With an unequalled determination they resolved to reconstruct their houses and farms on the very spots they occupied before their destruction. With a tenacity ingrained by the traditions of centuries, they set themselves to their task of working the fields which they found unrecognizable upon their return and from which all signs of devastation and death have now been cleared away to make place for the harvest. The results of this effort have been most gratifying. At the end of 1925 wheat fields once more covered 85% of the land which they occupied before the war, barley was grown in a proportion of 94% as compared with pre-war figures, and oats 88%.

This joint development of industry and agriculture has had as a result a steady increase in commercial activity. This growth has been facilitated in the interior of the country by the relatively low prices of railroad transportation—which are at present only $3\frac{1}{2}$ times as great as in 1913—and externally by the depreciation of the franc. In 1924, for the first time in eleven years, the commercial balance of France was favorable, and the exports reached more than forty billion francs.

Is one to conclude from the facts previously noted that the wealth of France has increased? In my opinion such a conclusion would be most premature. It will, in fact, be impossible to appreciate the real economic situation of France until the return to a gold standard permits the reestablishment of monetary stability. The economic activity existing to-day is due, to a great extent, to the depreciation of the franc which stimulates production and creates a veritable premium as far as exportation is concerned. If this question could be more thoroughly examined, it would be ascertained that French business at the present time realizes a percentage of profit much lower than that of 1912, because of the rise in salaries and in the cost of raw materials which must be imported. It is also to be noted that the fall of the franc has had as a consequence a devaluation of securities which corresponds to a genuine impoverishment. It is thus that holders of government bonds have lost more than two thirds of their capital and other bondholders have suffered the same loss. Likewise, for stocks, the market price to-day expressed in dollars is almost always lower than the price of issue, also expressed in

dollars. It would therefore be absolutely incorrect to believe that the apparent growth of French economic activity necessarily entails an increase in capacity for external payment.

Long years will probably have to pass before France draws any real benefit from the effort undertaken since the war. But if nothing occurs henceforth to trouble a peace which the French people value more than any other people, since they suffered more from the war than any other nation, it is to be expected that, thanks to the improvement of her great natural resources, as represented by hydro-electric power, and thanks to the rational exploitation of her colonies, with the help of foreign capital, France will, in the future, be called upon to take a place in the economic world worthy of the capacity for work and the energy of her inhabitants. She does not doubt that in order to help her develop these resources she will find in America the assistance and cooperation which the United States have given and will give more and more regularly to European nations.

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THE FRENCH BUDGET PROBLEM

HAROLD G. MOULTON

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IT is a very complicated problem with which we are concerned, and one cannot open up the question at any particular spot without very soon running into other phases of the problem. However, I shall try to focus my discussion around the French budget situation.

Both of the preceding speakers have referred to the persistent decline of the franc, and there has been a good deal of discussion as to the causes of that decline. Now there might be two possible explanations of the phenomenon, or a combination of these two explanations. On the one hand, the decline might be due entirely to an unfavorable balance of trade and accounts; on the other hand, it might be due solely to budget conditions.

The fact is that up until 1923, France had both an unbalanced budget and an unbalanced international trade and financial position. So both factors were operating to depress the exchanges. Since 1923, however, it has only been the budget deficit that has borne upon the exchanges, because France has had a favorable balance on international account. In the year 1924, France had a favorable balance of payments, that is, including trade and the invisible items, of approximately 6.6 billion paper francs. Translated into gold, at the rates of exchange then prevailing, this means about 1.8 billions of gold francs.

You will be interested to know, I think, that had a debt settlement been in operation with France in the year 1924, similar to the one made with Great Britain whereby interest was paid at 3 per cent, France would have been able, so far as the transfer problem was concerned, to have met the entire amount of the annual payment due. The same is true for the year 1925.

These trade figures of 1924 and 1925 cannot, however, be regarded as normal, and, as the preceding speaker showed, the

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favorable balance in the trade account has been changed during the current year from a favorable balance to a deficit. In the first four months of 1925, the excess of *exports* was 1,541,000,000 francs, while during the first four months of 1926 there was a deficiency of exports amounting to 2,252,000,000 francs. It is difficult to know at this moment just what the total deficiency for the year will be, but one thing is perfectly clear, and in this I am in entire accord with the preceding speaker, namely, that when France effects a stabilization of her currency, she will have to expect a trade situation different from what has recently prevailed. Nevertheless, by virtue of her very large invisible earnings, chiefly from the tourist trade, I think it is reasonably safe to predict that France will have a favorable balance of payments of moderate proportions year in and year out. Therefore, I do not see that the transfer problem in the case of France is a primary difficulty.

The budget problem is a very different one, and to this I wish now to address my attention. I was much interested in what the preceding speaker said about the attitude of foreign countries, particularly the United States, with reference to the French tax burden. His general position is undoubtedly correct.

It was only back in 1921 and 1922 that the outside world, without knowledge of the facts, was saying that Germany was not taxing herself in the slightest degree. The evidence that was perfectly available to anyone who was willing to take the time to collect it showed that in 1921 and early 1922, before the terrific decline of the mark completely demoralized the fiscal system, Germany was paying very heavy taxes. Since the Dawes Plan has completely modified world psychology, we have shifted our attention from Germany to France, and it is an interesting fact that many of the very people who in 1922 and 1923 were violently anti-German and pro-French are now just as violently anti-French and are just as far from the truth in their general statements about France as they previously were in their statements about Germany.

It is perfectly true, as the preceding speaker has pointed out, that the French tax burden, if not the highest in the world, compares favorably with that of any other country. As nearly

as I can estimate it by taking the actual collections of French revenues and comparing this sum with the French national income, France takes about 20 per cent of her national income in taxes. The United States takes, according to estimates of the National Industrial Conference Board, which I think are reasonably accurate, about 11.5 per cent, including federal, state, and local taxes. That in itself is significant, but the full significance cannot be appreciated until it is borne in mind that the national income per capita in the United States is well over \$600 and in France in the neighborhood of \$200. Although this evidence has been readily available, irresponsible people have repeated so many times the statement that the French do not pay taxes that it has come to be an almost universal belief.

What now is the true situation as regards the budget? Here I find that I must criticize French fiscal administration. I understand quite well how the existing situation has developed. It is a long story finding its beginning many years before the war. I say I understand the origin of the present system, but I cannot defend it nor should any Frenchman attempt to defend the fiscal methods now in use.

First, we must consider the budget proper. The budget proper is merely a definition, and it does not include everything. It has never included everything, and when they say the budget is now almost in balance or about to be balanced, that may be technically true, but it does not mean that the French government is raising from its people sufficient revenues to meet all of the expenditures of the French government. Many of these things are handled outside of the budget proper.

There are some French economists who attempt to defend the practice. They point out that the treasury accounts ought not to be included in the budget, because the expenditures are often for capital purposes which will in due course bring in revenues that will liquidate the outlays. That is good enough theoretically, but the habit has been formed of putting all sorts of things in special "treasury services" which have no possibility whatsoever of ever paying themselves out. The whole system promotes deception as to the true situation.

It is a very difficult matter to find out what the total of government revenues is as compared with the total of govern-

ment expenditures for all purposes. A year ago, when working on this problem, we found it necessary to devote at least six months of the most intensive research to finding out how much the French deficit really was, when one had included all of the items of expenditure and all of the items of non-borrowed revenue. We finally arrived at an estimate of approximately 16,000,000,000 francs. Even now we are not sure whether this figure is two or three billions too high or possibly two or three billions too low. The figures were for 1924. It was not until May, 1925, that sufficient data were available to warrant even this preliminary estimate. We may then be wrong about this estimate of 16,000,000,000 francs, but if we are wrong, it is not because of any lack of diligent research.

I have been studying this French situation almost continuously since 1919. Finance minister after finance minister at the beginning of the year presents a very optimistic report as to the situation. If the budget is not entirely in balance it appears to be so nearly balanced as to be the occasion of genuine satisfaction, "but," as a deputy only recently pointed out, "our joy is of short duration, for in the course of the fiscal year this same minister of finance invariably finds it necessary to appear before Parliament to request a grant of supplementary credits."

It is true that there has been considerable reduction in the amount of the budget deficit during the last few years, but the budget is still far from balanced, and it is for this reason that the public debt has steadily increased and that the franc has continued to decline.

I must now direct your attention to the connection between the budget deficit, the bank of France, and the foreign exchange. When the budget is unbalanced there are two possible means of procuring the funds required with which to meet the operating expenses. The first is to borrow the money through the sale of securities to invest^{and} and the other is to borrow it from the Bank of France by ^{just as} issuing government time obligations (that is, treasury bills)^{since} the bank's demand obligations (that is, bank notes). ^{During} the war and the inflation period of 1919-20 the government was not able to borrow all of the required money through the sale of securities at home and abroad. The amounts borrowed directly from

the Bank of France reached a total in 1920 of 26,600,000,000 francs. During the next three years, however, the government found it possible to market sufficient securities to cover the annual deficits and to repay about four billions of the advances received from the Bank of France. But since 1924 the government, notwithstanding the diminishing size of the annual deficit, has been obliged to renew its direct borrowings from the bank, thereby entering once more upon the road of direct inflation and currency demoralization.

It is a very interesting phenomenon indeed that during the deflation and depressed period from 1921 to 1923 the government should have been able to find a ready market for its securities and that in the prosperous years since 1923 it has again had to have recourse to the Bank of France. Concretely in 1922 the government was able to float enough securities in the domestic market to cover a deficit of approximately 25,000,000,000 and to repay about 2,000,000,000 francs of the outstanding advances from the Bank of France. But in 1925 it proved impossible to market enough securities to meet a deficit of something like 14,000,000,000 francs. What is the explanation of this phenomenon?

A period of deflation involves a liquidation of bank loans and a return flow of funds from industrial and commercial channels to the money markets. So long as these funds are not required for ordinary business purposes they are available for the purchase of government securities. In the United States and in England, as well as in France, the deflation period of 1921-23 proved a boon to the treasury. The accumulation of funds in the financial centers resulted in creating a market for government bonds at reduced rates of interest. The huge flotations of government securities in France during the years in question were purchased mainly with funds released from commercial channels.

With a return of inflation in the autumn of 1923, however, the whole current of events was changed. An ever-increasing quantity of funds was being absorbed in taking care of a growing volume of business financed at ever higher price levels, with the result that the market for government securities was steadily diminishing. It was apparent by the early summer of 1924 that before the end of the year the govern-

ment would again have to borrow direct from the Bank of France the means with which to cover its operating deficits. As a matter of fact it turned out that only about one fifth of the loan floated in November, 1924, was absorbed, even though the effective rate of interest was approximately 9 per cent. It was the failure of this loan which necessitated the renewed advances from the bank. So long as the commercial inflation continues there will be little market for government securities, and the government will have to resort to the bank continually for the notes with which to cover budget deficiencies. A new period of commercial deflation would, however, be accompanied by easing money markets and a strengthening of the government's borrowing position.

In the long run there is no way out for France unless the budget can be balanced. Further borrowing, whether at home or abroad, is at best but a temporary expedient. France is now paying the penalty of continued borrowing and there can be no final solution of the French problem until real revenues can be made to equal expenditures.

The deficit—including both the budget proper and the treasury accounts—still ranges around 14 or 15 billion francs. Mr. de Sanchez's figures, which are for the treasury accounts alone, do not reveal the real gravity of the French fiscal situation. Nor has Monsieur Lacour-Gayet indicated to you the full extent of the deficit. While showing that French taxes cannot be further increased nor expenditures appreciably reduced, both speakers attempt to create the impression that France is nevertheless in a sound position.

Theoretically it is an easy matter to eliminate a budget deficit. It can be accomplished by simple expedients like increasing revenues, reducing expenditures, or working from both ends toward the middle. Unfortunately, as Mr. Angell has pointed out, there comes a time when higher taxes will not yield higher revenues. While nobody can precisely say when such a moment is reached, I share the belief of Monsieur Lacour-Gayet that France cannot further materially increase her tax receipts. While my investigations have not led me to believe that the French tax burden is equal to as much as 27 or 28 per cent of the national income, it is, I think, now above 20 per cent.

Although expenditures, on the one hand, may be somewhat reduced, there are very definite limits to what may be accomplished by ordinary fiscal expedients. Military expenses comprise only about 15 per cent of the total, and a deficit of something like 15,000,000,000 probably cannot be reduced by more than one or two billions as a result of curtailed military outlays. Reconstruction expenditures, that is, outlays chargeable against Germany, will not automatically disappear with the completion of the work of physical reconstruction. In 1924 a total of about 16,000,000,000 out of 45,000,000,000 of expenditures were chargeable against Germany, and of this total about 8,000,000,000 is of a permanent sort. This sum is made up chiefly of pensions (which under the treaty were chargeable against Germany) and interest on the unpaid charges that have been accumulated. To a minor extent it represents relief work which will be of a continuing nature. These charges, amounting approximately to 8,000,000,000 francs at the present time, must be borne by the French people permanently, except in so far as they may be offset by future reparation receipts. Such reductions of expenditures as can be confidently counted upon in the near future will therefore fall far short of eliminating the complete deficit. The situation is further complicated by the fact that a rapid decline of the franc disrupts the fiscal administration.

I have elsewhere suggested that from an economic point of view it would be possible for France to bring her budget in balance by reducing the interest rate for a period of years, say from 5 to 2 per cent. Such a suggestion, however, is naturally objected to on the ground that it makes certain classes suffer, and that it is particularly unfair in that it places the burden upon a single class. The truth of the matter is, however, that there are three great classes of French bond holders: (1) the farmer or peasant, (2) the middle class—people in moderate circumstances, (3) financial institutions. Everyone admits that the agricultural class has not contributed as much to the support of the government in proportion to its income as other classes; and nearly everyone admits that the same is true of the financial institutions. There would, of course, be a heavy burden upon the middle class, but not so heavy by such a plan as they will have to bear if matters are allowed to drift. In-

deed since that plan was suggested in September, 1925, the bond-holding classes had already undergone sacrifices, as a result of the fall of the franc, almost equal to the burden which would have been entailed by a cut of the interest rate, and meanwhile the whole financial and economic situation has been placed upon a worse rather than upon a better basis.

It is easy enough to understand, however, why so courageous a measure as a cut in the interest rate is not acceptable in the world of practical affairs. On the one hand, there are those who cry that such a measure is repudiation, and that it would prove a great shock to government credit. In view of the fact that allowing things to drift is rapidly destroying French credit such an argument does not seem important, particularly in the light of the fact that a reorganization procedure of that sort would stabilize conditions. Nations have many times undergone such reorganization procedure and come through with restored credit. Bankers who hold to the view that a financial reorganization of a government, with a view to reducing interest charges, will destroy the credit of that government, seem to me to have become merely academicians.

However this may be, it is clear enough that the politics of the French situation is such as to render any heroic remedy out of the question. France, like other countries, is made up of many special groups. It is only natural that a remedy which affects so many groups adversely as would a cut in the interest rate would be unacceptable. It means sacrifice, and the French people are apparently still unwilling to face the fact that drastic measures are necessary. The leaders of the French public still conceal the true gravity of the situation by refusing to present a unified budget, which he who runs may read.

It is partly because of this concealment of the true situation that the French people and the French financial leaders as well still think that the way out for France is by further borrowing. While some additional borrowing may be necessary as a part of the program of financial stabilization, it is indeed difficult to believe that the way to make a sick nation well is to give it more of the medicine which has made it sick. France has borrowed at home and abroad so long that the accumulated

interest rate now threatens the whole stability of the country. While the decline in the franc might be temporarily arrested by further borrowing, additional credit is not a real remedy. Internal fiscal reforms of one kind or another constitute the only solution of the French problem.

DISCUSSION:¹ ECONOMIC ADJUSTMENTS: THE ECONOMIC PROBLEM OF FRANCE

MR. FERNALD: I had hoped that Dr. Moulton would continue his analysis of the expenditures, because that is the aspect of the problem which is less often presented—I speak as a friend of France and one who has lived there and studied there—and most difficult to answer. There is in America a general public impression which is more adverse to France as regards expenditures than as regards taxes. Americans generally hear of French governmental expenditures in Africa and in Syria and in other regions, and military subventions to various countries, and propaganda expenses that are encountered even in the United States. Under such circumstances Americans are inclined to wonder whether as close a study of the absolute reduction of expense has been made as might perhaps be the case if there were a French Mussolini—which God forbid! If no reduction can be made in the debt service—and I agree with Mr. de Sanchez's conclusion on that—is there a possible reduction in other items?

DR. H. G. MOULTON:² The total of French expenditures, as I say, runs about 45,000,000,000 francs. In 1924 the military expenditure was 7,500,000,000 francs. I assumed a reduction of twenty per cent there. That is just an assumption. You may think that they can get rid of the whole item. If so, then you can see big prospects, but if you think twenty per cent is an exaggeration, then you will think that I have been too optimistic. When it comes to the civil administration, the expenditures are surprisingly low. Perhaps these gentlemen can give the figures more accurately than I can, but they are not as high for the ordinary civil administration in my judgment as they ought to be in view of the great increase in the cost of living; and just as it was found in Germany that it was impossible to reduce the expenditures for civil administration, I think, this will be found to be the case in France.

¹ Open discussion at Round Table No. 8, May 13, 1926.

² For Dr. Moulton's address, see p. 323.

Another possibility is in curtailing pensions. Theoretically, one can propose that the pensions be cut off. I think they would have a very difficult if not an impossible social situation on their hands, if in a period of rising costs of living they attempted to reduce pensions. No serious thought is given to this idea.

Now we come to the interest on the public debt, and I want to say just a word about that. Of course, I realize quite as well as anybody that people do not like to have the interest on the public debt cut down, but to call this open repudiation seems to me to be utterly absurd.

Mr. de Sanchez is a representative of J. P. Morgan & Co. And, I venture to say that Morgan & Co., when a financial corporation in which they are interested finds that it can not make earnings because its interest charges are too high, face squarely a reduction of the interest charges. We never attempt to put an insolvent financial corporation upon its feet by any other process than that of reducing the fixed charges, and we do not call it repudiation; we call it common-sense financial reorganization. Nor does the corporation lose its credit as a result of such a reorganization process; on the contrary, it regains its credit.

To argue that the French Government would lose its credit if the French people through their elected representatives should agree to a temporary reduction of the interest rate as a means of balancing the budget and stabilizing the franc is to ignore the results of experience both in the fields of public and private finance. On the other hand, allowing things to drift as they have been drifting for several years means even heavier losses to the bondholders than under a plan of reducing interest rates. The French bondholders, both public and private, are rapidly losing their property and French credit is being destroyed in the process.

Mr. de Sanchez and M. Lacour-Gayet show that French revenues cannot be increased appreciably, if at all, and they show that expenditures cannot be reduced appreciably, if at all. At the same time they would have us believe that France is in a sound position. They have fallen into the typical French Finance Minister's habit of greatly minimizing the amount of the deficit. Mr. de Sanchez confines himself to the

treasury deficit, which he admits is something like six or seven billion francs, and he quite ignores the budget deficit.

Each year, from 1920 on, the statements at the beginning of the year have indicated that the deficit would be relatively small, and then at the end of the year it was relatively large. The sort of optimism which shows neither how one can reduce the expenditures materially nor how one can increase the revenues materially does not seem to me to be getting us very far on the road toward a solution of this problem. It is that sort of hopeful attitude, if I may speak perfectly frankly, the hope that somehow or other these things will solve themselves, that has brought France to her present sad plight.

As Sir Josiah Stamp said the other night, in this whole problem of European reconstruction, the first requirement for improvement is *realization*; and France has not yet fully realized the gravity of her situation. Until that is fully realized, you will continue to hope that this year things will be better, and meanwhile the franc will go lower and lower. And, as Mr. Angell points out, the more rapidly the franc declines, the greater becomes the difficulty of effecting fiscal stabilization: one has to shoot at a moving target. German finance reached its demoralized stage just because of the impossibility of fiscal administration in a period of rapid currency decline.

I find that the chief difference between people who have been optimistic on this French situation and those who have been rather pessimistic about it, is a difference due to the fact that some have the evidence as to the full amount of the deficit and as to the extent of the burden of taxes, and others do not. If I believed the current statements emanating from Paris to the effect that the deficit would be only 2,000,000,000 or 3,000,000,000 francs, I would be reasonably optimistic. That is why I think that something in the way of a major financial reorganization is required.

M. LACOUR-GAYET:¹ I would only answer very briefly to the remarks which have been made by Dr. Moulton. I think that the remarks he made about the possibility of cutting down the internal debt in France might be true if France were a financial concern.

¹ For M. Lacour-Gayet's addresses, see pp. 303, 319.

cern having trouble would try to cut the interest on its debt; but will you allow me to point out to you the situation is entirely different when we are considering not an industrial concern but a nation. Politically and psychologically, the solution presented by Dr. Moulton would be most dangerous for the future of a great nation.

This solution was adopted only once in the history of France. It was adopted in the Revolution, and then for a long period the credit of the state was entirely ruined.

As Mr. de Sanchez points out, most of the bonds are held by peasants, by middle-class people, by retired people who have confidence in the state. I think that nothing could be a harder blow to the credit of France than for the interest on these bonds to be cut.

Furthermore, I must say that at least in principle I quite agree to what Mr. de Sanchez said about the possibility of coming back to a gold basis, taking into account such depreciation of the franc as has occurred. You must never forget that, with the depreciation of the franc, the French internal debt has been cut six times. By the way, I point out that the French debt to the United States has been cut only half, so the French bondholders see their bonds now at a value of only one sixth and the American debt at a value of one half.

But what I wanted to say is only that with the depreciation of the franc, I quite agree, the burden of the internal debt expressed in gold is not such that it can not be borne by France. The only solution of our difficulties that I can see is: first, a stabilization of the franc (I should not quote of course any figures), and secondly a return to a gold basis. It seems to me that cutting the internal debt would be unwarranted, and according to what I know of French people, most dangerous for the future of France.

PART VI
INTERNATIONAL PROBLEMS OF
LATIN AMERICA

AGRARIAN REFORMS IN MEXICO

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THE Mexican Revolution which began in 1910 has been almost entirely socio-economic in character. Its chief aims have been to effect agrarian reforms, to nationalize subsoil deposits, to curb the acquisition of property, particularly agricultural property, by foreigners, and to effect religious and educational reforms. Constitutional provisions embodying these revolutionary aims have been illogically arranged and crowded into Article 27 of the Constitution of 1917. The enforcement of each of these constitutional provisions since 1917 has constituted, in its turn, an individual problem for the Mexican Government, and has been the occasion and basis for strained relations or diplomatic controversies between it and the government of the United States.

Mexico's most urgent need in 1910 was agrarian reform. In the latter year, at the close of the Díaz régime, ninety-six per cent of a total of two and a quarter million heads of rural families in Mexico owned no real property.¹ Of that in the possession of the other four per cent, the greater part was held by 834 powerful land barons² whose haciendas varied in size from 21,945 acres to 6,000,000 acres. Furthermore, as a result of the unwise policies and unjust methods of Díaz, approximately 10,000,000 Indians or Indian-like people, who lived in villages which had owned from time immemorial communal lands known as *ejidos*, had not only been dispossessed of their communal holdings but were in a state of revolting from medieval serfdom.³ Such a situation in itself made a revolution in Mexico inevitable.

¹ See statistics compiled by McBride, G. M., *Land Systems of Mexico* (American Geographical Society Research Series, No. 12, New York, 1923), p. 154.

² Phipps, H., *Some Aspects of the Agrarian Question in Mexico* (University of Texas Bulletin, Studies in History, No. 2, Austin, 1925), p. 127.

³ *Ibid.*

For various reasons, namely, the default of Madero, the Conservative counter-revolution under Huerta, and the civil war among the revolutionary leaders after the overthrow of Huerta, nothing was accomplished, or seriously attempted, in the way of agrarian reform until the early part of 1915. In January of that year, Carranza, as First Constitutionalist Chief, issued his historical provisional agrarian decree.¹ Briefly summarized, this decree alienated village communal lands, waters and forests that had been illegally disposed of, "invaded," or "occupied" in the past. Such alienation automatically restored titles to lands to the villages which had once held them. Second, it provided for endowment of *ejidos* to villages which could not show titles to such communal lands once held—this to be effected "through expropriation by the National Government of the land indispensable for this purpose, taken from that which borders upon the towns concerned." Third, it set up the machinery, consisting of various Agrarian Commissions, for putting the decree into effect. Later, when the Constitution of 1917 was adopted, the provisional agrarian decree of 1915 was substantially incorporated into Article 27, along with provisions embodying the other chief aims of the Revolution of 1910. Since 1917, the agrarian provisions of the Constitution have been put into operation by the laws of December 28, 1920, and December 10, 1921, and by the Obregón Regulations of April 10, 1922. Since the latter date the agrarian law has undergone no material change.

Under the authority of the above-cited laws the division of haciendas has progressed steadily, the owners, according to González Roa, one of the United States-Mexican Commissioners in the conferences of 1923, being paid in bonds at the rate of about \$20 per acre. Up to September 1, 1921, a total of 413,123 acres of land had been transferred by way of restitution and a total of 1,462,293 acres had been transferred by way of grants. This seems to indicate that it was more difficult to restore lands to villages than to make a donation of land to them. It is a fact, however, that at first "most of the requests which the various agrarian commissions received were

¹ An English translation of this decree is in *The Mexican Year Book, 1922-24* (Los Angeles, 1924), pp. 228-232.

for restitution, not a grant of *ejidos*."¹ Up to last August, according to Secretary of Agriculture León, the total of land theretofore assigned to villages, either as an endowment or by restitution, was approximately 19,760,000 acres, or one third of that to which he claimed that they are entitled.²

From the outset of the Revolution of 1910 the agrarian problem has been the most serious one in Mexico and the one which has most urgently demanded the attention of the revolutionary leaders. This was asserted as late as 1923 by the Mexican Commissioners in the joint conferences of that year.³ Also, it was officially claimed in 1923, that the carrying out of an agrarian program had alone had the effect of restoring peace throughout Mexico. At the same time Foreign Minister Pani frankly admitted that there had been many excesses and illegal acts committed under the color of granting *ejidos* to villages.⁴

Not only has the agrarian problem been Mexico's most serious one, and the one which has most urgently required solution, but it has been responsible for the most serious of the differences between the United States and Mexico since 1915. The agrarian problem was to a limited degree responsible for the strained relations between the Carranza Government and that of the United States prior to 1920. It was in large measure responsible for the diplomatic *impasse* between the two governments between 1920 and 1923. In May of the latter year, President Harding, "in an effort to reach an understanding with Mexico respecting the questions at issue" between the two governments, appointed two Commissioners, Messrs. Charles B. Warren and John B. Payne, to meet two Mexican Commissioners, Señores Ramón Ross and Fernando González Roa, appointed by President Obregón.⁵ According to Secretary Hughes, in the instructions given to the United

¹ Phipps, *op. cit.*

² Hackett, C. W., "Mexico and Central America," in *Current History*, Vol. XXIII, No. 1 (October, 1925), p. 110.

³ *Proceedings of the United States-Mexican Commission Convened in Mexico City, May 14, 1923* (Washington, 1925), p. 31.

⁴ Excerpt from Foreign Minister Pani to the American Chargé d'Affaires, Mexico City, March 31, 1923, in *Proceedings of the United States-Mexican Commission* . . . p. 28.

⁵ *Proceedings of the United States-Mexican Commission* . . . p. iii.

States Commissioners when they proceeded to Mexico, it was pointed out that:

The fundamental issue between the United States and Mexico was the safeguarding of American property rights in Mexico, especially as against a confiscatory application of the provisions of the Mexican constitution of 1917, and that the principal questions arising from this issue related:

First: To the restoration or proper reparation for the taking of lands owned by American citizens prior to May 1, 1917.

Second: To the obtaining of satisfactory assurances against confiscation of the subsoil interests in lands owned by American citizens prior to May 1, 1917.

Third: To the making of appropriate claims conventions.¹

At the first conference on the agrarian problem on June 1, 1923, the United States Commissioners disclaimed any intention on the part of the United States to enter into a discussion with respect to the policy of the Mexican Government to provide *ejidos* for villages. They did register vigorous protests, however, against the methods employed to carry out the policy. They cited "some specific cases of excesses in respect of American property," and stated that in the possession of the Department of State and of the United States Commissioners there "was ample evidence of the taking of property, both buildings and land, contrary even to the provisions of the laws and decrees of Mexico, without any reference to the acquired rights of American citizens under international law." They then set forth the following official position of the United States Government, namely, that

... The United States maintains that under the rules of international law there can be no taking of lands, water rights or other property of American citizens, in whatever form their interest may be held, legally acquired prior to May 1, 1917, under the laws of Mexico and the Constitution of 1857, without indemnification in cash at the time of the taking for the just value thereof.²

In short, as far as the agrarian problem was concerned, it was not the taking of lands for *ejidos* by the Mexican Government under the right of eminent domain, but it was the in-

¹ Secretary Hughes to Senator Lodge, Washington, Jan. 15, 1924, in the *Congressional Record*, Vol. LXV, Part II, Jan. 16 to Feb. 7, 1924 (Washington, 1924), p. 1325.

² *Proceedings of the United States-Mexican Commission* . . . pp. 25-29.

demnification by the Mexican Government of owners with bonds, and at prices not regarded as "a just value thereof," that brought forth a protest of the American Government, in behalf of its aggrieved nationals.

The Mexican Commissioners made an able rejoinder to the point of view of the United States Commissioners. They upheld the constitutional requirement that the Mexican Government treat foreign residents in Mexico in the same way that Mexican citizens are treated; they defended the policy of granting *ejidos* to villages on the ground that it was designed to meet a national emergency; and they defended the actual methods being employed to put the policy into operation, stating that the Mexican Government "had always endeavored by all means within its power to comply with the law." They admitted that in ordinary cases of expropriation the Mexican Constitution provides for expropriation on the basis of immediate compensation in cash. Under the pressure of a national emergency, however, the payment of lands expropriated for *ejidos* was being made in twenty-year bonds bearing five per cent interest. These bonds the Mexican Government was willing to accept at par value in cases such as the payment for public and national lands and the payment "for interest or for the purchase price of lands granted to villages and sold to the residents." In view of these facts, and because of the efforts of the Government to negotiate a loan to redeem all outstanding bonds for lands expropriated for *ejidos*, the Mexican Commissioners stated that they felt that the bonds should have a cash value and should yield an income greater than rent of the expropriated lands.

Finally, the Mexican Commissioners indicated the basis for establishing the value of expropriated lands, namely, from the declarations made by the property owners themselves. Since property owners had repeatedly been given the opportunity to rectify the fiscal value of their properties since 1914, the Commissioners asserted that "the Mexican Government believes that the owners have had the opportunity of placing themselves in a position not to suffer damages, and if any of them have not wished to take advantage of this opportunity granted them by law, it is their own fault."¹

¹ *Ibid.*, pp. 31-34.

In the final conferences on the agrarian problem on July 19 and July 20, mutually satisfactory understandings were reached with respect to it by the two groups of Commissioners. These understandings may be summarized as follows: The United States Commissioners, in view of Mexico's abnormal condition as the result of "revolutions and consequent disturbances," agreed that if the Mexican Government would make "a statement that its claims to expropriate lands of American citizens . . . for *ejidos* . . . for towns and villages now existing . . . does not constitute a precedent for Mexico entitling her to expropriate any other kind of property . . . for any purpose except upon indemnification for the just value thereof at the time of the taking having been made in cash," the United States Government would take under consideration "the question whether under the circumstances it will be willing to accept for its citizens who are owners of lands and claimants . . . federal bonds of Mexico . . . in payment for land at the just value thereof at the time of the taking, granted for *ejidos*," provided that the *ejidos* did not exceed a specified area of 1755 hectares (4335 acres).

In this connection the United States Commissioners specified that it was understood that from no property of a citizen of the United States, or property in which a citizen of the United States had an interest, could an area greater than approximately 1755 hectares (4335 acres) be expropriated for an *ejido* unless all such land in excess of 1755 hectares (4335 acres) were paid for in cash for the just value thereof at the time of the expropriation. A further condition was that "any citizen of the United States whose lands have been taken or are being taken" would have the right to present to a proposed Joint Claims Commission "his claim for loss or damage for any injustice arising from acts of officials or others acting for the Mexican Government."

With respect to the method of arriving at the true value of expropriated land, the United States Government did not "consider it fair, just or legal" for these lands to be paid for on the basis of the assessed valuation, "either as fixed after a declaration by the owner or without a declaration by the owner," and maintained the position "that the owner was entitled to compensation, no matter how paid, for the just value of the land at the time of the taking."

Finally, the United States Commissioners stated that the Government of the United States reserved "its rights . . . to make claims for any losses or damages to its citizens by reason of any injustice" by the national or state governments of Mexico, and in general reserved "under the same conditions all the rights of whatever nature of its citizens under international law, equity and justice, except as limited by any arrangements that may be hereafter concluded . . . in respect of accepting bonds for *ejidos* of the area specified and under the conditions specified."¹

The following day, July 20, the Mexican Commissioners agreed that the Mexican Government would not maintain that the acceptance of federal bonds in payment for lands expropriated for *ejidos* of the specified area should be "regarded as an acceptance on the part of the Government of the United States of the principle that payment in bonds can be made for the expropriation of lands or other property for any other reason." Other satisfactory assurances of the Mexican Commissioners were to the effect that "the Mexican Government has ordered the restitution of all property and rights confiscated or wrongfully taken from their owners during the revolution." At the same meeting the Mexican Commissioners in behalf of their government "stated that they recognize the right of the American Government to reserve the full rights of its citizens . . . to present claims brought about by expropriation to the commission to be hereafter constituted under a general claims convention."²

On the basis of the above statements, the United States and Mexican Commissioners, without receding from their original positions with respect to the agrarian problem, recognized the right of the governments of both the United States and Mexico to make any representation in behalf of their nationals as they might see fit before the Claims Commissions as at present constituted.

Such is Mexico's agrarian program and the difficulties encountered in connection with it. The chief criticism against practical agrarianism is that at present Mexico has to import more corn and grain than was the case before the revolution

¹ *Ibid.*, pp. 37-40.² *Ibid.*, pp. 41-44.

under the large proprietor system. That is true, but it is also true that land has been and is being restored to the liberated peons. The following conclusion was reached in 1923 by George McCutchen McBride: "The term 'agrarian revolution' is justified by the results being attained. . . . Land is being given to the people. . . . Pastor Rouaix and Villareal have tried . . . to carry forward the program. De la Huerta, General Calles, and Obregón include this in all their important declarations of purposes, and under their direction progress has been made toward a real agrarian reform."¹

¹ McBride, *op. cit.*, p. 159.

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LATIN-AMERICAN COOPERATION FOR INTERNATIONAL PEACE

ALFRED HOLMAN

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FROM personal contact and observation I can speak only of the several Latin American states that lie in South America below the equatorial line. Within the current year I have gone quite thoroughly over this whole region and have come into association, more or less intimate, with practically all the personalities potential in political, military, or commercial life. The South Americans, if I may speak of them collectively, are descendants of a warlike stock, and they are in a stage of social development not yet purged of the military spirit. Nominally a group of free peoples, the Latin Americans in their political institutions and practices are still under the rule of Force. Of them all there is no government that is not in its essence a dictatorship; and in each the powers that be are, or deem themselves to be, dependent for sustained authority within, and for protection from without, upon military organization.

I found an interesting illustration in Peru. Augusto Leguia, President of Peru, is one of the most interesting men I have ever seen. He speaks English idiomatically. His manners are those of a gentleman. He is courteous and gracious, short in stature. He came into the presidency originally fifteen years ago by the methods that are pretty general in South America, in Peru at least. He served one term and was beaten, then went to live in England but kept his hand on the pulse of politics there.

Some six or seven years ago he was reelected. He reached Peru several weeks before the constitutional date for his taking office and found that the president was conspiring with his enemies to keep him out of the office to which he had been elected. So with his friends he walked into the palace and lifted the president out of the chair, sat down, and as-

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sumed the office three or four months before the official time and has stayed there ever since. The Constitution had previously prohibited successive terms, but through his influence upon the legislature he managed to have that law nullified, so he was again elected two years later and has been elected ever since.

If anybody in Peru does anything that Leguia thinks is not good for Peru, he calls him to his office, tells him he is overworked and ought to take a vacation. He tells him that he can have a wonderful time in Paris, or if he does not like that, there is an island about ten or twelve miles from Callao where he can be maintained in comfort, with golf links and tennis courts. He pursues no man to the hazard of his life. He does not confiscate property. He permits the exile to come back to look after his private affairs. He is quite likely to call an offender into the palace, give him a cigar and a glass of wine, and in four cases out of five the offender goes out feeling very friendly to Leguia, but he goes to the island until he is thoroughly restored in his favor.

I will not bore you with an account of the personal courage by which he commands the respect of his people. He is doing a great service to Peru. He lives in a shabby, old palace, when he might use funds to build a monument to himself. But he does not do it. He is building up a system of irrigation, along the streams that run from the Andes out to the Pacific Ocean. He has built a broad, beautiful highway between the city of Lima and the port of Callao, a substitute for an old runabout and rather dangerous road.

A month ago when I was there he was discussing the matter of building a series of docks to obviate the loading of ships from lighters at the port of Callao. He is maintaining schools everywhere he can. He has instituted a system of compulsory education. At Callao I saw twenty-five hundred children being fed. He is trying to build up the physical stamina of the people. In other words, he is doing a very excellent work in a very arbitrary way. I do not see that it can be done in any other way.

I have talked to people who were not friendly to him, and yet I did not hear any man say he was not doing excellent work for Peru. One man who is conspicuous for his opposi-

tion to Leguia says that of course he is a tyrant and a dictator, but that he did not know of any misfortune that could come to Peru that would be any greater than his retirement.

No great potential army is maintained by any South American country: their relative lack of financial resources prohibits strong armaments either of land or sea forces. Brazil has about 6000 rather inferior troops, and Chile has 45,000 very efficient troops, trained by German officers. But even where military organization is at a low point, there is plainly in evidence that which emphasizes the military ideal and is suggestive of military ambition. The approach to any South American presidency, or even to ministerial offices, is under the guardianship of men in uniform and bearing arms. Uruguay is a little country. I live in California where we have about 4,000,000 people. Of course, when anybody goes to the state capitol, he shifts his cigar to the other side of his mouth and says, "Hello, Richardson," and that is all there is to it. The sight of fifty soldiers around the palace at the Uruguayan capitol all dolled up in gold braid is very imposing. I rather liked it. I even got into a tail coat myself. It certainly gives a certain dignity and emphasis to the government. Everywhere in connection with the official life of South America the visitor finds himself in an atmosphere once, with reference to India, described by the late Lord Bryce as "smelling of gunpowder." Obviously that sort of thing appeals to the Latin-American psychology, and it is no small factor among the influences that go to prop up governing systems more than less arbitrary in character and more than less uncertain at the point of tenure.

I do not know that a man who spends five days in a capitol and another ten waiting for a ship has a right to have any definite opinions. I do not want to be understood as having surveyed these countries with any degree of thoroughness or having found cock-sure solutions for their problems. What I present is nothing more than impressions.

As yet the South Americans, ambitious for world recognition as they are, and spirited as their outgivings loudly proclaim them, are hardly conscious of any responsibility relative to world problems, among others the problem of international peace. While they would be loath to confess the fact, they

realize that for them safety lies in their relative impotence in relationship to anything lying beyond the borders of their own continent. In the military sense their view does not go beyond the countries that lie within immediate neighborhood. They do not love each other; and the same must be said of states and districts within unified boundaries.

Uruguay, rich in potentialities but weak in numbers and financial resources, is under the impression that covetous eyes are fixed upon her both from Southern Brazil and from her more powerful neighbor, Argentina. Turning to the west coast, there are between Peru and Chile inveterate hatreds founded in historic resentments, freshly stimulated by the immediate contention over Tacna and Arica. These citations illustrate conditions of mutual jealousy, dislike, or fear among states where many historical influences would seem to imply common and friendly sentiments.

South America's voice in any world convention may be depended upon for support of the cause of international peace. For all the military spirit of her peoples, South America lies open to aggression. Any one of the more powerful nations might under provocation or without provocation swoop down and overwhelm any one of the South American countries. South America has everything to fear from what I may call alien warfare. She has everything to gain through peaceful relations with the broader world. Bear in mind that South Americans as a people are animated by a belligerent spirit, but count them, under the necessities of their situation, as supporters of the cause of international peace.

Brazil, as you know, is an enormous country. It is a country composed of different sections which are not related by any real interest except that of government. Sao Paulo in the South and the little states that lie below are modern, white, energetic. Coffee has made them wealthy. The two cities of Sao Paulo and Santos have very much the atmosphere of our own American cities. It is a go-ahead, active region. The North is chocolate-colored. I am told there are only four families in Brazil that have not some trace of negro lineage. With Sao Paulo the four southern states of Brazil, I believe, would be glad to make up a country of their own.

They have just elected a president, Washington Luiz, by

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the methods that are used there. He told me his father was an admirer of everything American, and that he had named one son Washington and another Lafayette. He is the most beautiful person, after masculine standards, that I have ever seen. He is tall, but not too tall; full, but not too full; he has beautiful eyes, a characteristic Portuguese. He speaks no English. His manner is very cordial, very gracious. I invited him to come to this country. I told him the Carnegie Endowment would meet him at the dock, carry him through the country, and return him to his people. He said that he would be very glad to come, but he had promised to go during the current year to each of the twenty-two states of Brazil, and that is a tremendous job. He is what you would call a Progressive in this country. His specialty is roads. He looks a strong man.

I think we make the mistake—I know I did—of regarding South America as a unified country. With the exception of the Portuguese in Brazil, the South Americans are Spanish, with Spanish traditions. The laws and institutions reflect these traditions. They have a common religion, and the circumstances and conditions would seem to imply it is a unit. But geographically and in the character of their people they are as separate as Canada from Mexico, or Maine from Texas. Take the two regions of North and South Brazil. They are as alien as Oregon and Florida, perhaps at the moment, to emphasize the situation, California and Florida.

Those countries are not in close relationship with each other. They do not like each other very much, especially on the West Coast. Argentina is the up-to-date, modern country, of course. There are 2,000,000 Italians there, and 1,000,000 in the state of Sao Paulo, Brazil.

Uruguay sets itself up as the aristocrat of South America because of its pure Spanish blood. Of course, Argentina with its very great prosperity of late years, is not thinking of history but of the future. Buenos Aires is a beautiful city. It is Chicago dressed up to look like Paris. And it does look like Paris. But it is Chicago when you get under the skin. It is full of energy and capability, although still a little self-conscious. I am disposed to think it may, when the country is fully populated, surpass New York. It would not surprise me if it became one of the greater world cities.

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The lands of that country are held in enormous areas from generation to generation, the reason being that when those countries broke away from Spain the controlling influences were exercised by the land-owning class. Therefore the great land areas were made practically, although not wholly, exempt from taxation. Taxes are levied upon imports, stamps, and upon every conceivable thing except land areas. A strictly first-class cigar that costs thirty cents in Brazil costs \$1.40 in Buenos Aires. A pair of Paris suspenders that costs us seventy-five cents, cost three dollars in Argentina.

Because the lands are lightly and inadequately taxed, the great landed properties of Argentina are not broken up. That means a low order of cultivation of field crops instead of gardens and farms. It means that there is not developing a middle class except in the towns and cities, and that not to any great extent. But a middle class will have to be produced before South America shall become legitimately prosperous, I mean, in proportion to her very great resources. That means there will have to be a reorganization of her system of taxation. I believe that to be the great fundamental need of that country.

Of course, there are many kinds of propaganda in South America. We have the French wishing to get the South American to come to France and spend his money. We have the Spaniard who cultivates the latter's friendship, having some trade and many family relations. We have the Britisher who was established very early and who maintains a strong connection. Then, of course, we have the German competition and manufactures. The men who sell American goods prefer to sell British or Spanish or French or German goods, so naturally the balance is in favor of our rivals.

Now, begging your pardon, I come to the missionary. The Catholic Church is naturally resentful of attempts on the part of American missionaries to "save South America for Christ". They do not want to be saved for Christ. They have their own religion, and it is very natural that the Catholic Church, which has a close domestic connection with every household, should resent the effort of American missionaries to make over Catholics into Methodists. A great deal of the resentment toward all things American is based on the activities of the

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missionary. One consequence of his activities is that of arraying the Catholic Church of South America against everything that comes from North America.

And here I venture to say that in my judgment the best religion for any man is the religion that affiliates him with his own traditions, his own family, his own people. I do not think anything has been gained by making the Chinaman a stranger in his father's house, an alien to his own country and traditions. I do not think you are going to accomplish anything by trying to make Methodists out of South American Catholics. On the whole, I think our relations with South America would be very much more cordial if we would call all the missionaries home and leave the South Americans to a religion traditional with them.

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OUR RELATIONS WITH CUBA

VERNON MUNROE

SUMMARY

AT the Round Table Conference on Latin-American questions, Mr. Vernon Munroe spoke as substitute for Mr. Dwight W. Morrow of Messrs. J. P. Morgan & Co. on "Our Relations with Cuba." He first outlined the present political conditions in Cuba, emphasizing the satisfactory relations between the Cuban Government and the United States Administration and the high character and unusual capacity of President Machado. He reminded the members that the Platt Amendment was like a treaty, and "as with most treaties, some of its provisions are vague enough to mean whatever the contracting parties want them to mean in any given case." The interpretations of the amendment are likely, he said, to differ with different administrations and to be controlled at any given time by public opinion in the two countries, United States and Cuba. He described the genesis of the Platt Amendment, saying that it was originally intended to be a protection to Cuba rather than a benefit to the United States. It was so understood by public opinion in both countries at the time it was passed, and is essentially so understood to-day. He briefly outlined the history of the intervention at the close of President Estrada Palma's first term in 1906. He also outlined the conditions which brought about the threatened intervention in 1917, when General Menocal was President of Cuba. After a few words with reference to the application of the Platt Amendment on these two occasions, he outlined the method by which assistance was given to Cuba at her request in 1921 and succeeding years during the crisis caused by the collapse in sugar prices. This assistance was rendered under a clause in the Platt Amendment interpreting the rights and duties of the United States in case of a breakdown of authority in Cuba.

He emphasized the gains made by Cuba financially between 1921 and 1925, due to careful and economical administration in

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those years of great difficulty and depression resulting in a reduction of 25 per cent in the amount of Cuba's debt, external and internal. He pointed out that in his opinion American capital though entering Cuba more and more, was less likely to ask political action by the United States in bad times because of the existence of the Platt Amendment and the protection to life and property thereby assured than if there were no such understanding between the two governments. His general feeling as to the relations between Cuba and the United States in the future was highly optimistic.

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DISCUSSION:¹ INTERNATIONAL PROBLEMS OF LATIN AMERICA

CHAIRMAN, PROFESSOR CHARLES W. HACKETT:² It certainly is very encouraging to know that such an arrangement as the Platt Amendment can be satisfactorily carried on. The significance doesn't end with Cuba, but its importance is realized in connection with all of our relations with Latin America.

The meeting is now thrown open to discussion, and I shall submit to being the principal target with respect to Mexico, and shall designate targets for other areas.

First of all, I want to open the agrarian problem, the Mexican problem, in this way: In a recent article on foreign affairs, Manuel Gomez compares the agrarian movement in Mexico with the similar movement going on in Central Europe, through Rumania, Hungary, Austria, and I don't remember whether he says Czechoslovakia or not. I understand that his Excellency, the Minister from Czechoslovakia, is present, and I wonder if we might call upon him to indicate briefly whether or not that is a movement with which he is familiar, and whether he can give us some side lights on the movement which Manuel Gomez has considered analogous to the movement in Mexico.

HIS EXCELLENCY, ZDENEK FIERLINGER:³ Certainly! We have in Central Europe a similar problem, that is, an agrarian problem. Before the war the land in Central Europe was apportioned in large estates. The largest estate in our country, for instance, in Bohemia, comprised about 40,000 hectares, which, roughly speaking, would be about 120,000 acres. On the other hand, there was a great demand for land on the part of the peasants who did not have enough to cultivate. That was true also in Rumania and Hungary, especially in Transylvania, which is now part of Rumania.

¹ Open discussion at Round Table No. 2, May 11, 1926.

² For Professor Hackett's address, and other papers which preceded this discussion, see pp. 339, 347, 354.

³ Minister to the United States from Czechoslovakia.

After the Great War the new governments had to take some measures in order to prevent social upheavals and economic crises. For instance, in Rumania they took very radical measures even before the armistice. The army, consisting chiefly of peasants, demanded a solution of this problem, and I think the situation would have been very difficult if the Rumanian Parliament at that time had not taken radical measures in order to give to the peasants their share of the land. The Parliament voted a very radical law which gave practically all the land to the peasants, at the same time assigning a certain compensation to the proprietors.

It is significant that it was chiefly the proprietors themselves who voted this law. Of course, on account of the depreciation of the currency the compensation was very small, and the proprietors conserved only a very small part of the property which was seized.

As has been stated, a certain injustice was done to the proprietors, but it is very difficult for everybody to expect to get the whole value of his property back when the country is going through such difficult crises, and social upheavals as have been taking place in Europe. Everybody suffered during the war. People who had money deposited in the banks suffered because of the depreciation of the currency. People who were shareholders suffered by the fact that the price of the shares went down. I think the intellectual class suffered the most. Even now they are suffering because their salaries are at a minimum. In short, the effects of the war have resulted in burdening every class of the population, and if the proprietors of the large estates could not get full compensation for their estates they were not the only class that suffered. The governments could not pay the whole value for the property.

In Czechoslovakia, for instance, the Land Reform Law fixed a certain compensation which amounts to about a third of the pre-war value. The law institutes a special bureau which has to liquidate the properties and give them over to the peasants and then fix a settlement for the proprietors, leaving them, moreover, a minimum of about 700 acres. In cases where the landed proprietor reaches an agreement with the peasants, this takes place without the intervention of the bureau. In most cases the proprietors reach an under-

standing with the peasants and the bureau does not have to interfere.

Of course, in every country, in every state, the situation is different. In Rumania there is not widespread use of modern farm machinery and implements. The peasants can not even cultivate the soil which they now possess. From an economical standpoint, therefore, the reform at the present time is not an unqualified success.

All these social measures, however, must be considered from the point of view of an historian; that is to say, we must consider what the effects will be in the future, not now, because the situation at present is very difficult.

I am confident that in Rumania the land reform will help to create a vast class of small landowners. If Rumania becomes agricultural it will have a very stable basis upon which to build, for I feel that the class of small peasants are the best elements everywhere.

In Czechoslovakia the situation is different, because there the farmers are comparatively educated. They are very modern and up-to-date farmers, and the land which was attributed to the peasants is intensely cultivated. Consequently, from the economic point of view, the reform is a great success. We are confident that after this law has been carried out completely, in ten or fifteen years all the land will be divided, and the results will be very beneficial. To be sure, there is a certain class of former proprietors of the largest estates who are suffering, who have not received a hundred per cent of the value of their property. But as every class in Europe had to suffer, they too had to shoulder their share.

I think that there is a certain analogy between the problem in Mexico and the agrarian problem in Central Europe.

CHAIRMAN HACKETT: I think we ought to hold in mind that everything that happens below the Rio Grande is not absolutely unique for that region, and it would be interesting to compare what is going on in Mexico with other great world social upheavals. I understand that Mr. Gonzales, former ambassador to Cuba, the first American ambassador to Peru, is supposed to be here. Is he present? I had hoped he might lead off the discussion concerning what Mr. Holman had to say.

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[MR. WILLIAM E. GONZALES (Editor, *The Columbia State*, Columbia, S. C., former United States ambassador to Cuba and to Peru) discussed the Tacna-Arica controversy and other matters, but as his remarks were not intended for publication they are not reproduced here.]

MR. ALFRED HOLMAN:¹ May I say that diplomacy deals with the differences among countries. A better kind of diplomacy would be to do with the correspondences of countries, which are many.

MR. S. E. HEYMANN: To what extent, if at all, is the agrarian movement in Mexico an elaboration of the single tax? Are they closely related? What I mean to ask is whether it is not possible this movement has been forced upon a majority by the minority, of either Mexicans or aliens.

CHAIRMAN HACKETT: I do not think there is the slightest connection. I do not think that is the understanding of the agrarian movement at all. Instead of being the desire of a minority, it is the will of the majority, of 10,000,000 people, to get land to sustain themselves, land which they had held up until the Díaz régime and his decree of May 25, 1884, by which they were dispossessed of communal lands which they held from time immemorial. It simply is a movement to create a system of small proprietorships so that they can become self-sustaining. That having been achieved, they may be reached by schools and education. In both directions there has been remarkable progress since 1920. The present government of Mexico has distributed 19,760,000 acres of land, and has founded 5,000 schools for the same people to whom the land has just been given. The number of new schools is larger than the number of schools attended in Díaz's régime.

MR. HEYMANN: In other words, the original Spanish titles—if there were such, and I suppose there were, the same as elsewhere—become invalidated by act of congress or legislature.

¹ Trustee, Carnegie Endowment; Formerly editor, *The Argonaut*, San Francisco, Cal. See also the address by Mr. Holman, p. 347.

CHAIRMAN HACKETT: That is quite wrong. The Spanish titles have been respected, but the fact is that the Indian communal lands were taken away by the decree of 1884 and the Indians dispossessed of them. The movement is not to destroy the Spanish titles at all, but to restore to the villages lands of which they were deprived unjustly and illegally and immorally. In some cases titles to village lands dated prior to the coming of Cortez in 1519. Some of them were written in their native languages, some written on native pots with drawings similar to our blueprints, in a way. It was the object of the Díaz forces and Díaz himself to destroy those titles. In some cases the Indians were able to hide them. With this revolution they have dragged them out from their hiding places and in cases where they have been entitled to grants, their lands have been restored. In cases where the titles were taken away by force, often by bloodshed, and destroyed, where it is not possible to make the title clear to village lands, they have given lands to the claimants.

The only way was to expropriate the lands of the large estates. That is where the Spanish titles are endangered, but the landowners are entitled to indemnification. The payment of bonds is not regarded as a full indemnification. That is where Mrs. Evans had her complaint. She admitted that the government had the right to expropriate, but she objected to the fact that the government was not willing to pay her what she considered was the value of her property. The government went into an investigation and was willing to make a payment on the basis of the findings, but she demanded full value, which was \$800,000. The only basis they would concede was \$100,000 in gold. She maintained that that was only one eighth of what the property was worth.

COMMANDER HUGO KOEHLER: ¹ Mr. Chairman, as I followed the agrarian movement in Europe, I saw that practically invariably it went through identical phases. For example, during the first years of the working of agrarian reform, the new proprietors, who lacked sufficient working capital and were almost always inexperienced in farm management even though they may have been farm laborers all their lives, rarely

¹ Naval War College, Newport, R. I.

produced as much grain as had been obtained when the land was worked as part of a great estate. The resultant shortage of farm products at once sent up prices and increased the cost of living. Whereupon, the old landed proprietors would cry out "See what agrarian reform means in actual practice. The first thing it does is to send up food prices." The industrial workers who at once felt the higher prices of farm products then joined the landed proprietors in this cry and together they would stop the agrarian reforms. So the pendulum would swing the other way. But, nevertheless, if we will only take a broader point of view and realize that there must always be a beginning and that during beginnings of even the very soundest measures all may not be as well as formerly, agrarian reform will be given a chance and the thing will march on.

I have seen many attempts to solve agrarian difficulties by providing an almost purely political solution for this problem that is so largely economic. But the only successful solution of this problem I've ever heard of was one based first and foremost on sound economic laws, and the political solution was then made to fit, instead of vice versa. Even the cleverest of politicians cannot make economic laws fit political expediency in these matters. Take, for example, Rumania, as one speaker has indicated, or Latvia and Esthonia. The returned soldiers felt they were entitled to land. It was good politics, at the moment, to agree to this. So the great estates were divided up into tiny parcels and every cab driver and ribbon clerk who thought it would be fine to be a landed proprietor was given a piece of land. But these city dwellers didn't want to go out and work and grub on the land. No, the cab drivers still drove their cabs and the ribbon clerks continued to sell ribbons. So the land that had produced grain before no longer produced grain; and that meant tragedy all around.

In Mexico, as I understand the agrarian reform there, the land will be turned over, not to city dwellers and people who may or may not work it, but will be given to the people who actually work it. In other words, the land will continue to discharge its economic duty; it will still produce grain and perhaps even in greater, not less, quantities.

In Europe, the problem is often further complicated by the fact that the local conditions are such that the land cannot be economically operated in small holdings because the small holding cannot support the necessary machinery, and the peasants lack cooperative organizations. But in Mexico, the local conditions in many regions are such that the land *can* be operated economically in small holdings. Moreover, the land is to be turned over to those who are already working it as laborers. So I think we can be optimistic about agrarian reform there.

In this connection there is another pertinent point. I have followed the various agrarian reforms in Europe in some detail, and I have read many glowing accounts of the splendid results of turning over land to the land-hungry peasants. Repeatedly, I have been given statistics about the actual number of acres actually turned over to the peasants. Nevertheless, when I have tried to put my finger on a real peasant who had received real land under the conditions I heard described, or when I wanted to put my foot on a real acre apportioned out, I had a frightfully difficult time, for the peasants usually receive promises instead of acres. But Mexico, I found, was an exception to this general rule; the peons had actually received actual acres.

MISS AMY H. JONES:¹ Isn't it true that the Mexicans haven't as much initiative now that they have the land, and that the crops produced are smaller in quantity than they were before?

CHAIRMAN HACKETT: Not so much grain is being produced, that is true. The landowner is content to raise beans and the small amount of maize he needs for himself. They are not raising produce for the large urban populations, such as Mexico City. That explains why the labor element in Mexico is not as sympathetic toward the agrarian movement as it was a few years ago; it is because practical agrarianism is not producing as much grain. Consequently the industrial workers and the city people have to pay more for bread. Therefore, you have a breach between agrarianism and the

¹ Carnegie Endowment, New York City.

dominant labor party in Mexico to-day. I expect the next trouble in Mexico will be between labor and agrarianism, because agrarianism is self-content for the time being, so content as to care little about raising wheat for the city people.

CHAIRMAN HACKETT: Are there other questions?

MR. J. H. ADAMS:¹ What is the dispute in the Mexican Claims Commission?

CHAIRMAN HACKETT: The dispute is over the interpretation of a certain clause in the General Claims Convention which was signed in 1923, which relieves the Mexican Government of responsibility for action of mobs, mutinies or insurrections by forces or by bandits, provided in any case that reasonable steps have been taken to suppress them.

It so happens that in January of 1916 Villa, being in rebellion against Carranza, who had been recognized as head of the *de facto* government, was declared a bandit. I don't know whether a price was offered for his head or not at that time. Carranza did so later. Villa was jealous because Carranza had won recognition, and, in order to provoke complications, he staged what is known as the Santa Isabella massacre, in which sixteen or seventeen American citizens were murdered, Americans who had been invited into Mexico by Carranza and his government to reopen the mines.

The present Government of Mexico, through the Mexican Commissioners, claimed that by the terms of that treaty Mexico is absolved from blame for the action of Villa in murdering those men. The United States Commissioners, of course, have tried to secure recognition of claims of the families of the men who were killed. The American Commissioners have dissented from the ruling of the neutral umpire, Dr. Riga, that Mexico is not responsible for the action of those men on the ground that Villa was a bandit and that he was so referred to in the official dispatches between Mexico and the United States at the time Pershing went into Mexico. The Mexican Government was advised that the American forces were pursuing a bandit. The contention is that he was a bandit, and

¹ Editor, *Baltimore Sun*, Baltimore, Md.

therefore the Mexican Government is excluded from responsibility for his act because they had made efforts to suppress him. The American Commissioner has dissented from that opinion.

MR. ADAMS: What further action can he take?

CHAIRMAN HACKETT: There is no further action provided for. That is, there is no appeal from the rulings of the umpire. As I see it, the United States surrendered to this neutral umpire its rights in the case to be adjudicated, and it is up to us to live up to the decision. I am not passing on the legality of the question. I am not saying that the families of those men do not deserve compensation. But I do say that we surrendered to a neutral umpire all of our rights to adjudicate. Therefore, it is as much our duty to live up to the decisions of that umpire as it is for Chile or Peru to live up to the decision of President Coolidge in the Tacna-Arica case.

DR. GILBERTO DE MELLO FREYRE:¹ I should like to ask Mr. Holman a question. I should like to ask where he got the impression or idea that the southern part of Brazil wanted to separate from the northern part.

MR. HOLMAN:² I got it from the atmosphere of conversations with many people. It would not be fair to speak specifically, even if I were able to, as to where I got that information. I had two associates who went with me, and everywhere we went we encountered statements that Sao Paulo pays from seventy-five to eighty per cent of revenues. I found the country under martial law. There was an atmosphere of general criticism concerning the expenditures of the government. It was said that too much of the revenue was spent on the other parts of the country; and the very definitely capable, modern and energetic state of Sao Paulo felt it was paying an undue share of the revenues of the country; and that it was a burden to be tied up with the North, where, as one man expressed it, only fifty per cent of the people wore shoes. That is about as nearly as I can answer your question.

¹ *Diario de Pernambuco*, Pernambuco, Brazil.

² For Mr. Holman's address, see p. 347.

I said in the beginning that I was only giving impressions. I do not wish to be taken as speaking authoritatively, but nevertheless I distinctly got the impression that the case was such as I cited. I was told in Rio that the next presidential election had been conceded to Washington Luiz as a kind of compensation to Sao Paulo, to smooth over the troubles of two years ago. It seemed to me that it was going to be very difficult for the two parts of Brazil to hold together.

DR. FREYRE: There is a sentiment for separation, but not in the South. The case is exactly the opposite, because North Brazil does not get the same attention as the South gets. But I never heard that Sao Paulo had any separatist inclinations.

MR. HOLMAN: I got that very distinct impression. One of my associates went down there the week before I did. He said, "These active people here are not going to remain tied up indefinitely to the less energetic and less modern North." While that was not a question that I could decently ask people about, yet that impression was conveyed.

DR. FREYRE: I only know that if I wrote that Sao Paulo wished to separate from the North of Brazil it would cause a sensation.

MR. HOLMAN: I am sorry that any statement of mine should cause a sensation in Brazil, because I have no right to pass any such judgment. I was merely making a general remark.

DR. FREYRE: You merely explained the statement by itself.

MR. HOLMAN: That statement by itself seemed to have an importance that does not go along with my disclaiming of authority as I went along.

DR. FREYRE: Of course, one should be very careful about one's impressions. I might very easily wire to Brazil that you were about to have civil war over prohibition.

MR. HOLMAN: I have not had that printed in any newspaper. I was merely talking over a privileged table. It would have been quite another thing had I said that Brazil was going to have a revolution. I do not say that. But I do say

that I have the very distinct impression that the energetic, highly prosperous coffee region, with a million Italians, who have no respect or knowledge or interest in the traditions of Brazil, would be willing to set up their own government.

CHAIRMAN HACKETT: What about the German element? There are 500,000 Germans there.

MR. HOLMAN: They are farther south. There, again, is another element I thought might be interested in some other kind of government than the government which is adapted to the North Coast, where, as my friend said, only few wear shoes.

CHAIRMAN HACKETT: Yet during the war those 500,000 Germans remained absolutely loyal to Brazil. That strikes me as being the strongest evidence of unity in the country.

DR. FREYRE: They remained very loyal.

CHAIRMAN HACKETT: After a while Mueller, a full-blooded German, was selected as foreign minister in order to give recognition to the Germanic element in Southern Brazil.

MR. HOLMAN: I had the impression that they had their own state down there, but I found Brazilians. I think they are more closely affiliated with Sao Paulo than with the North.

DR. FREYRE: Another point I want to make is that I am in agreement with Mr. Holman on his stand concerning the missionaries.

MRS. LINDSAY: This is the last subject on the face of the earth that I ever expected to say anything about in this conference, and if it is going to cause any ill feeling, I won't say a word. But I did want to ask Mr. Holman how many missionary stations or schools he actually visited.

MR. HOLMAN: I didn't visit them. I avoided them. I saw enough missionaries who called on me. Of course, I hope I am not being cross-examined. I went to one mission where there were some very commonplace people trying to do a very improper and impertinent thing.

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MRS. LINDSAY: The second question I want to ask is: Which missionary spent most or a large proportion of the appropriation for his or her own home?

MR. HOLMAN: I don't think it would be quite the proper thing for me to give the names.

MRS. LINDSAY: In South America, in general, I visited both Catholic institutions and Protestant missionary stations and schools, and in Chile I saw the government schools, which are neither Protestant nor Catholic. I found one thing to be practically universally true. I found a love of education—the same love of intellectual ideals that I would find in stepping across the campus of Columbia University—in those Catholic or non-Catholic professors, in those Protestant missionaries, teaching in their schools and universities.

As I went through, I quite put in abeyance the question of whether it was Catholic or Protestant work. It was all done in the spirit of Jesus. I saw Protestant missionary work in Valparaiso, Santiago, Buenos Aires, Lima, and La Paz, and met the missionary nurse in Cuzco. I saw memorable work done by Catholic Sisters in Santiago and in Lima.

South America is a Catholic continent, and an immense one. We cannot realize either its nature or its needs unless we can actually go up over the high Andes, and see the snow-capped ranges, the tropical valleys, and the products of the plains and mines. We must understand the pre-Inca times, the Inca stock, and the Spanish civilization that overlaid it; the Spanish religion; the traders, miners and engineers that are coming and going. Latin America is being reborn. Remarkable sanitary work is going on. Many hospitals, especially in Montevideo, are notable; child welfare is progressing, and in Latin countries, including Porto Rico, are to be found physicians of world-wide renown.

Coming back, I felt that the one thing to do was to study all these institutions, and the language. We cannot talk to people unless we know their language and their customs. We can go down to South America and learn things of mountain grandeur, of beauty, art, architecture, history, romance, manners, and the finer aspects of social life. It is a Catholic continent, but I think there is room for all those Protestant

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missionary schools, and room for the work of those missionaries. Some of them possess a personality and spiritual power that would be impressive in any land. Let us not ask whether we are Catholic or Protestant, but let us of the north and of the south join hands, and weld our two continents together. United in bonds of friendship and understanding, we may truly make for international peace.

DR. FREYRE: May I say a few words as to the question of race mixture in Brazil? You were practically right in saying that race mixture is growing as a general process in Brazil. Even the intellectuals of Brazil have come to think that race mixture will be considered as one of the contributions of Brazil to international peace and cordiality. However, I might say that I belong to one of the four families. I think the proportion is somewhat larger, though. I think there are more than four. Those in Brazil who claim to be white are almost as far from the right proportion as those Americans who claim to have come over in the Mayflower.

MR. GONZALES: Mr. Chairman, will you allow me to say that I have known two Brazilian diplomatic officers, and I lived next door in Lima to the present ambassador from Brazil to the United States, and I think Brazil has one of the best organized diplomatic corps in the world. Unfortunately, there certainly is no comparison between Brazil and the United States in that respect.

MR. HOLMAN: In Brazil the mixture of races, that is, the general domestic life as one sees it casually, shows distinct evidences of having benefited by the seventy or eighty years of orderly, benevolent, imperial government. There is a cleanliness about Brazil, an orderliness of life. I was there during a celebration of four days of unrestrained merriment. During that time I saw not one drunken person, not one indecorous act, not one indecorous costume, and the streets were full of people. I went again and again over the city.

I did not mean to criticize Brazil in the matter of mixture of races. But it strikes an American, especially one whose traditions have been south of the Mason-Dixie line, perhaps differently from what it would a Frenchman, to see a black

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man and a white girl sitting affectionately together in the park. It impressed me rather unpleasantly, but perhaps my family traditions had something to do with my reaction. I was assured that from their standpoint racial mixture was not greatly regretted, that it produced a very fine type, and furthermore that it was working out well.

CHAIRMAN HACKETT: The situation is very well expressed by the fact that Brazil boasts that it has had no race problem and will not have a race problem, that there is no discrimination in Brazil on account of race, color or previous condition of servitude.

BENJ. B. WALLACE:¹ In connection with the missionary question, I recall an incident which impressed me some years ago. I remember hearing a man speak at length of some Protestant missionary station in South America which received a considerable proportion of its support through the efforts of a Roman Catholic resident of the community, who solicited funds from Roman Catholics there, and while traveling in this country solicited funds from Roman Catholics here. He did it because he believed that the only way in which the Catholic Church in South America would progress and render more efficient service to the people was through having a little competition through being stirred up by these missionary activities. Of course, it is easy to understand that the Roman Catholic clergy have about as much love for Protestant missionaries as any industrial monopoly feels for a competitor entering the field; but that does not seem to me to be conclusive argument against the missionary activities.

MR. FREYRE: I should like to say one thing on that. Probably it should be considered not only from the standpoint of religion, of Protestant and Catholic, but from the national point of view, for the Catholic sentiment is so intimately connected with the national personality of each South American republic.

CHAIRMAN HACKETT: I think, too, that we should draw a distinction between policies in religion and clericalism.

¹ Institute of Economics, Washington, D. C.

MR. TOM WALLACE:¹ I think what this gentleman said is right to the point, that it would probably have the effect of stimulating the Catholics to greater activity, and result in the weeding out of some of the members of the Catholic clergy who are not above reproach.

MISS AMY JONES: I think it is rather difficult to judge missionaries as missionaries, or school teachers as school teachers. They are not to be considered as a class; they are individuals.

MR. HOLMAN: They have all got one instinct in common; they all want support. I spoke of the missionary question simply as related to the growth of good-will among these countries. I found, or thought I found, that the Catholic clergy were using the enmity between them and the missionaries to promote prejudice against the North American. I thought I discovered such a tendency; it appeared the missionary was in the way of development of the North and South Americans getting together, hindering social goodwill between these countries.

COMMANDER KOEHLER: Mr. Chairman, as we wander around we see a great deal of missionaries all over the world. So far as the Catholic Church is concerned, it is more prosperous and healthy in the United States than it is in any place else on earth, simply because in the United States it is kept healthy by fair competition. On the other hand, perhaps the most intensely Catholic country in the world is Colombia, and your point of clericalism is most remarkably well illustrated there where there is no competition.

It happens that I am a Catholic, but I think the most dangerous condition for Catholicism is when the Catholic Church has a monopoly. The religious idea then degenerates into clericalism and that, I think, may become a danger. I think that on the whole the Protestant missionary activities in South America are looked on as a valuable contribution; but at the same time I can quite agree that the missionaries are open to attack on the point of personality in some cases and inefficiency in others, and there are many indications that however inimical

¹ *Louisville Times*, Louisville, Ky.

the competition of Protestant missionaries may be to the Catholic clericalism, it is nevertheless helpful to the Catholic religion as distinct from clericalism.

MR. GOMEZ: Mr. Chairman, although I do not propose to invade the subject of the Church, I wish to point to this rather peculiar situation in Peru, which is certainly as strong as any Catholic country in the world in its faith. It objects to having its people go to any other church in Peru, but at the same time there is no antagonism on the part of the individuals in the Church against other sects.

A very singular instance of this is that Leguía appointed a young Protestant as president of the University of Cuzco, where he came into very intimate contact with the Catholics, and there has never been any protest made against him by the Church, and he is still president after having been there fifteen or sixteen years. Not only that, but he was elected by both parties, and the Council of the town had the wisdom to put him in charge of municipal finance. And he is from Pennsylvania. (Laughter)

MRS. LINDSAY: He is no longer in Cuzco. He was in Lima, at the head of the Peruvian educational system, when we were there.

PART VII
INTERNATIONAL COOPERATION FOR THE
PROMOTION OF PUBLIC HEALTH
AND SOCIAL WELFARE

THE PROMOTION OF PUBLIC HEALTH AND THE PROTECTION OF WOMEN AND CHILDREN¹

SAMUEL MCCUNE LINDSAY

THIS is the only Round Table dealing with international social welfare problems and with international co-operation along the lines of the non-political activities of the League of Nations. It seems appropriate and desirable therefore not to construe too strictly the specific topic of the morning and not to confine our attention exclusively to the two aspects of social welfare—the promotion of public health and the protection of women and children—enumerated in that topic. We shall find material for profitable discussion in the broadest possible survey of the social and humanitarian work of the League of Nations and of its non-political activities. These constitute, for the present at least, what seems to me to be the most significant effort at international cooperation in all history and the most promising basis for meeting the increasing needs of the world for more cooperative and less competitive action.

The non-political and humanitarian activities of the League, which in the Year Book of the League are summarized under the title, Cooperation of States under the Covenant, comprise seven distinct forms of organized effort: 1. The Health Organization. 2. Economic and Financial Organization. 3. Organization for Communications and Transit. 4. Committee on Intellectual Cooperation. 5. Advisory Committee on Traffic in Women and Protection of Children. 6. Advisory Committee on Traffic in Opium and Other Dangerous Drugs. 7. Mitigation of Suffering—International Relief Union—for relief in disaster.

In the International Labour Organization comprising a General Labour Conference meeting annually, and a Permanent International Labour Office, we have a semi-independent world organization as extensive as the League itself or more so because it may have member states not members of the League.

¹ Opening Remarks at Round Table No. 3, May 11, 1926.

Created under both the Covenant of the League and Part XIII of the Treaty of Versailles, it deals with many of these non-political and humanitarian functions just enumerated and with practically all others not covered in that enumeration. Its work is carefully coordinated through liaison officers with that of the League.

We shall hear at the general session this evening something of the Organization and Significance of the International Labour Office,¹ and of the Health Organization,² and of the Organization for Communications and Transit,³ and also concerning protection of children.⁴ We shall hear, in the less formal brief papers presented at this Round Table, more concerning the scope, plans and work-program of the Health Organization from Dr. F. G. Boudreau who is the American member of the Health Organization. We shall hear to-day from Col. Wm. F. Snow, M. D., Chairman of the Special Body of Experts, appointed by the Council of the League of Nations to study the Traffic in Women and Children, something of the details of many kinds of social work carried on under the Advisory Committee on Traffic in Women and Protection of Children. Dr. Julia C. Lathrop, who has just returned from attendance for the first time at a session in Geneva of the new Advisory Child Welfare Committee which functions, I believe, in connection with the general Advisory Committee on Traffic in Women and Protection of Children, and with Dr. Snow's Special Body of Experts, will supplement Dr. Snow's address and what Dame Furse will have to say on Child Welfare and International Child Problems. We are fortunate also in having with us the Secretary of the Opium Research Committee of the Foreign Policy Association, Mrs. Helen Howell Moorhead who has attended all of the recent International Opium Conferences at Geneva and can tell us of the significance and character of the work of the Advisory Committee on Traffic in Opium and other Dangerous Drugs

¹ Paper by Dr. William Martin, p. 399.

² Paper by Dr. F. G. Boudreau, p. 379.

³ Paper by Walker D. Hines, p. 445.

⁴ International Child Problems by Dame Katharine Furse, summarized in Discussion, below, p. 425.

appointed by the Council of the League. The committee held its seventh session at Geneva in August 1925.

Thus we have for consideration at this Round Table a complex and almost bewildering mass of data bearing on the social questions which come within the purview and functions of the League of Nations and are now being attacked with new force and gratifying success through organized international cooperation. Time would not permit if indeed I were competent to summarize and chart all of these various activities which mean so much to the advance of humanitarian progress throughout the world.

While doubtless many of these questions may seem for the time being to have a greater interest for the peoples of Europe than they have for those in the United States of America, and while some of them, like the opium question, may seem to us to be surcharged with foreign politics, I cannot help feeling that they constitute on the whole just the sort of questions for the solution of which the American people have a special genius. In the vast social experiments in the realm of Public Health, Child Welfare, and Public Morals in America, we have much to learn from and much to contribute to similar experiments abroad. In any event here lies a sphere of international cooperation for us to which little or no objection can be made by the extreme isolationists and those who fear most the dangers of becoming politically involved in the policies of Europe. Here the door is open for us to play an important part even without considering whether we shall ultimately or ever become a member state of the League of Nations.

Conferences for the development of the highest practical and attainable standards, *documentation* for the spread of knowledge of problems and their historical setting, *research* for the ascertainment of exact facts, are the three-fold form which all of these international cooperative activities and organizations take. On the documentation side alone there are many illustrations of the value of closer acquaintance with what is going on at Geneva and elsewhere under these co-operative agencies. Recently quite by accident, though I make it part of my professional work to follow such matters, I came across the International Health Year Book—1924, a volume of 500 pages published by the Health Organization of

the League of Nations (Geneva, 1925) containing the reports of the Public Health progress of twenty-two countries. It includes a monograph of 45 pages on the United States which gives a better summary of the public health work of our federal government and that of our states and leading cities than will be found, I venture to say, in any other single source in this country. I wonder how many of our Health Officials, Schools of Medicine, Hygiene and Public Health, libraries and students specializing in this field, know of the existence of this book and the other publications of the Health Organization? The same thing is true of reports and publications on Industrial Management and labor problems issued by the International Labour Office, and is doubtless true also of all the divisions of the social section of the Secretariat of the League. New tools have been fashioned, new methods as well as a new spirit are at work in the world for dealing with ancient social problems and for the solution of the new problems which the progress of modern science reveals. We shall do well to study them, to know more about them, and to do our part in relating them to our own tasks of social organization and reconstruction, and possibly thereby we may find ways to contribute to their further development for the good of mankind.

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INTERNATIONAL HEALTH WORK

DR. FRANK G. BOUDREAU, M. D., C. M.

American Member, Health Section, League of Nations, Geneva

THE conservation of the public health is a development of comparatively recent times. Many of us can easily recall a period when preventable diseases raging in our cities were taken as a matter of course. I need only remind an American audience of the epidemics of typhoid fever which were so common fifteen years ago that in many of our cities visitors were expected to acquire the disease, and the fact that most of the residents appeared to be immune was not considered in the light of the survival of the fittest but was made the subject of congratulation. The public conscience was activated by just a few, then a growing number of public-spirited citizens, until now, thanks to the splendid cooperation of the press, health departments are growing in size and efficiency and every child knows more of hygiene and sanitation than all his ancestors put together. This development of public health conservation was not a national movement but of international scope. It grew almost simultaneously in all civilized countries of the world. It was inevitable that the next step should be the development of international cooperation in the field of public health.

Various causes contributed to the growth of international effort in disease prevention. The characteristics of disease itself furnished a powerful stimulus. Political boundaries were not respected by disease. A case of smallpox in Canada gave rise to a virulent epidemic in Minnesota and Michigan. Typhus fever and leprosy entered the United States from Mexico. Trachoma was introduced into our large cities from Europe. And in this process of give-and-take, the rôle of recipient was not the only rôle played by the United States. The increase in volume and rapidity of transportation played an important part. Many of the public health laws in the United States owe their origin to cholera which threatened to enter our country from Europe a number of years ago. In the

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nineties, an epidemic of plague probably arising in Manchuria spread to an extent unprecedented in the history of the world, exceeding in volume the Black Death of London which was supposed to have been finally conquered by the Great Fire. We are still attempting to stamp out the sparks which fell here and yonder as a result of that epidemic, and I fear it will be years before our efforts will be crowned with complete success.

In the days of slow sailing ships and few passengers, cholera was not likely to come from India to America, nor plague from Singapore to European ports, nor yellow fever from the tropics to our southern cities. But with the adoption of faster methods of travel and cheaper rates and greatly increased volume of traffic, epidemic diseases began to spread rapidly from one country to another. Many and disastrous were the lessons we had to learn before we realized that disease was an international problem requiring international cooperation in its prevention and that a country which attempted to isolate herself was not able by her unaided efforts to cope successfully with disease. Recent outbreaks of plague in Los Angeles, New Orleans and Galveston serve to remind us that in so far as disease is concerned, the isolation of America is not an isolation of immunity.

Before the outbreak of the World War, the need for international cooperation in the prevention of disease had been realized. A number of international scientific congresses met at intervals, and governments of a number of countries had reached agreements in regard to the application of certain preventative measures. International sanitary conventions had been negotiated with great difficulty, it is true, but with success because of the pressure of circumstances. International collaboration was essential and the effort required, however great, had to be made. Usually the government of one country took the initiative and after months or years of persistence and the expenditure of large sums, international conferences were held and conventions drafted and negotiated. Now that an intergovernmental organization has been established, public health administrations of the different countries meet regularly and as a matter of course, and international cooperation in the prevention of disease is made easy instead of difficult.

Before the League came into being, an international body

had been created to assist the public health services of the different countries to cooperate. This was the *Office International d'hygiène publique*, organized during the Rome Conference of 1908 and having its permanent seat in Paris. It began with a small membership which has grown to forty-three states, and the permanent committee consists of representatives of those states who meet twice a year and discuss health matters of international interest. For some time this body has been engaged in revising the Paris International Sanitary Convention of 1912, which prescribed the measures to be applied by the different governments in order to prevent the import and export of diseases. This was the situation before the war.

As in other fields, the war created new and important problems of disease prevention, which the various countries were enabled to solve by their unaided efforts. Those who framed the Covenant were aware of those fresh problems and new difficulties. They wisely saw that public health work occupied an important place in the international field. So one paragraph of the Covenant bound the signatory states to take measures in matters of international concern for the prevention and control of diseases. Of the many difficult problems which faced the newly established League, I am sure that none was more difficult than this problem of disease. The war had destroyed or disorganized the machinery of prevention in many countries. New countries with new frontiers had been established. The movements of refugees and troops, carrying with them the seeds of epidemics, sowed a crop of pestilence in many hitherto immune countries. The harvest was not long in coming, and soon Europe found itself overrun with epidemics of typhus and relapsing fever, cholera and smallpox, which not only ravaged Eastern Europe but threatened also to overwhelm the West.

Immediate action was forced upon the League. There was no time to set up elaborate machinery. The defenses of the new countries must be strengthened immediately if Europe was to be saved from the ravages of disease. So an Epidemic Commission was organized, consisting of a few experienced public health officers. States members of the League were asked for contributions and many responded generously. At the suggestion of the League, the Government of Poland called

the now historic Conference of Warsaw to attempt to secure united action by the various public health administrations against a common enemy. So in Warsaw in 1922 there met together, for the first time after peace was declared, representatives of the countries which a short time before had been at war. Whatever of rancor and suspicion existed melted away before the need for common action. New principles of international cooperation were established; new freedom of communication between national public health services became the order of the day. A number of bilateral sanitary conventions were negotiated, many containing a clause providing for recourse to the Health Organization of the League in case of differences arising in regard to interpretation or application. This first international conference of countries formerly at war was held under the auspices of the Health Organization of the League. It could not have been held otherwise, and this favorable beginning was an augury of the continued progress of the new instrument for the promotion of international cooperation in disease prevention.

The work of the Epidemic Commission and of the Warsaw Conference consolidated the efforts of the various public health administrations, dissipated many of the difficulties facing each administration, smoothed the path of the refugees and cleared away the poisonous cloud of suspicion which hindered collaboration. Let me give you a concrete example. It had been the custom, when one health administration wished to secure information in regard to the prevalence of disease in another country, to appeal to the consular services. This meant that all the formalities necessary to diplomatic procedure must be obeyed, and very often before the information was available the epidemic had penetrated beyond the frontiers. The new Health Organization of the League emphasized the necessity of direct communication between health administrations, and sent its own agents into Russia and other countries to secure and publish first-hand information in regard to the prevalence of diseases.

Finally, before dismissing the work of the Epidemic Commission, I must briefly touch on its work in Greece, which was ravaged by epidemics of smallpox, cholera and typhoid fever on account of the inpouring of refugees from Asia Minor in

1922. On being appealed to by the Greek Government, the Epidemic Commission organized columns of physicians, nurses and students who vaccinated more than 550,000 refugees against the three prevalent diseases. The Epidemic Commission has become absorbed by the present Health Organization of the League which I shall now briefly describe.

When the Assembly and Council of the League began to consider the establishment of an international Health Organization, in order to give effect to Article 23, paragraph (F) of the Covenant, it was natural to turn to the *Office International d'hygiène publique* which, as I have already shown, was established in 1909 and consisted of a Permanent Committee of representatives of some forty-three states which met twice a year at Paris. The United States of America was a member of the *Office* and when the plan of bringing the *Office* into the League was broached, with, of course, greatly enlarged powers and functions, the opposition of the United States prevented its realization. It was finally decided to give the Health Organization an Assembly or Advisory Body, a technical committee and a secretariat. The Assembly or Advisory Body consists of the Permanent Committee of the Office which studies the reports of the Health Committee of the League with a view to giving advisory opinions. The Health Committee of the League consists of twenty members, ten of them selected by the *Office* and ten by the Council of the League. The members of the Health Committee do not represent the countries from which they come but sit as public health experts. Two Americans and one German sit on this committee; Surgeon-General Cumming of the United States Public Health Service and Dr. Alice Hamilton, Professor of Industrial Hygiene in Harvard University, are the Americans. Professor Nocht, Director of the Institute of Tropical Diseases of Hamburg, is the German member. The function of the Health Committee is to advise the Assembly and the Council in regard to international health problems and to direct the technical work of the Health Section. The Health Section is an integral part of the Secretariat of the League, under the administrative control of the Secretary-General and in charge of a medical director.

The rapid development of the health work of the League has been due in large part to the generosity of the International

Health Board of the Rockefeller Foundation, which has contributed substantial sums to specific activities which I shall describe later. To review the part played by America in the health work of the League, an American representative sits on the advisory body, two Americans are members of the Health Committee, and the Health Section has had one or more American members from the beginning. Many of the sub-committees of the Health Committee number among their expert and corresponding members prominent American public health officers whose nationality does not apparently prevent them from cooperating in the work of the Health Organization of the League.

Time does not permit me to describe fully the work of the Health Organization. I shall confine myself to a description of such of the services as may serve to illustrate the general principles of international public health work.

In a crude way a public health administration may be compared to a fire department. The first work of a fire department is to set up an elaborate system of alarm, so that it may have instant and accurate information in regard to the outbreak of fires. So the first duty of a health department is to organize a system of intelligence whereby the information possessed by the doctors who treat diseases may be collected. Nearly all countries have such a system. Before the Health Organization of the League existed there was no interchange of such information between countries. And yet it was just as important for France to know what diseases prevailed in Spain, Switzerland, Germany and England as to have reports on the prevalence of disease within her own boundaries. It is true that certain countries, notably Great Britain, Germany and the United States published a certain amount of information of this nature, derived largely through consular channels and therefore neither immediate nor complete. For governments apparently hesitated to interchange such information, and that for various reasons. In the first place, however well disposed the public health administrations might be, there might be objections on the part of commercial interests which feared interruption to business and hindrance to the free flow of tourist traffic. In the second place every health officer has an apparently well founded conviction that epidemics al-

ways come from some other country, state, city or political subdivision. This theory is of course substantiated by history. Why do we call influenza the Spanish flu? Why was syphilis known as the Spanish disease, the French disease, and the English disease as it made its way northwards in the Middle Ages? These suspicions are of course well founded, for epidemics do sweep from one country to another, now eastward, now westward, curiously enough paying little or no attention to political boundaries.

However well founded these suspicions, they did not favor the interchange of reports between countries and the first task of the new Health Organization of the League was to collect and distribute information in regard to the prevalence of disease in all countries, so that every public health administration might adapt its measures to the actual conditions. Curiously enough, the causes which prevented a free interchange of such information between countries did not operate in the case of the Health Organization of the League. Practically every country which possesses such information, including America, the Union of Socialist Soviet Republics and Mexico, now transmits it freely and fully to Geneva where we summarize it and transmit it to governments by mail, by cable and by radio. Nearly 70% of the world's population is represented in these disease returns, and the area is being extended each month, so that now the public health officer in London or Paris or Washington may study the movement of disease not only in his own country but over all the world and shape his plans accordingly.

Shortly after its establishment the Health Organization of the League turned its attention to the Far East, the great reservoir of plague, cholera and perhaps smallpox. Sick rats from India may be carried with a cargo of grain to any importing country. The result may be first an epidemic of rat plague, second an outbreak of human plague. Ports of different countries are distant only one or two days' sail, and immediate notice of plague and cholera is needed if precautions are to be timely and effective. So the administrations of the Far East were approached as to the need for a bureau of the Health Organization in that area, to receive and broadcast by cable and wireless notice of plague and cholera in ports and

the hinterland. The different administrations agreed that such a bureau would be a useful addition to their public health defenses, the International Health Board granted a generous subvention, and on March 1, 1925, reports from a few ports were wirelessly and cabled. The bureau was set up in Singapore. Its work developed rapidly, so that now telegraphic information in regard to plague, cholera, smallpox and the movement of ships from infected ports is received from over thirty-six ports in an area including the East Coast of Africa and extending to nearly all the ports of Australasia and Asia, and the summarized information is broadcast by the powerful wireless stations of Saigon, Bandveng and Bombay, and special cables are sent to all administrations which make the request. Moreover the Far Eastern public health services appreciate so highly the value of these services that they have volunteered to contribute to the upkeep of the bureau, and substantial sums have been given or promised by Japan, China, the Federated Malay States, the Straits Settlements and many others.

In view of the rapidity and volume of present-day transportation facilities, the collection and transmission of this epidemiological intelligence is a protection for the West as well as for the Far East, and is so recognized by all competent public health officers.

Vital statistics have been called the bookkeeping of humanity. One of their uses is to furnish a basis for the prevention of such epidemic diseases as plague and cholera as I have already indicated. But they have other uses. The success or failure of public health measures is gauged by their effect on the morbidity and mortality rates. So it is natural that the disease and death rates of different countries should be compared in order to measure the relative value of different forms of public health effort. But there are many pitfalls in the way of such international comparison. The methods of collecting the reports and of establishing the difference so that an apparently low infant mortality rate in one country may in reality not be lower than an apparently high rate in another country. On the other hand the possibility of such international comparison is highly to be desired. In order to bring the different public health administrations into closer touch with one another, and to throw light on the value of national

public health statistics as well as to enable such data to be compared, the Health Organization of the League has undertaken a program of work which includes the setting up of international committees of experts to study certain questions, the publication of reports on the methods of public health service, and a whole series of special studies and investigations, which time forbids me to mention. One or two examples will suffice. Infant mortality rates in the different countries are not comparable. This prevents the just appraisal of national measures designed to prevent infant deaths. The committee charged with the task of solving this problem adopted a report which was approved by the Health Committee and the Council, and circulated to all Governments. Some governments have adopted the procedure recommended in the report. Others are engaged in the task of preparing the necessary legislation. So the first step leading to the desired end of international comparability has been achieved.

In 1925, the first volume of an International Health Year Book was published by the Health Organization. This contained reports on the progress of public health, including legislation, prevalence of disease, organization of the health services and much allied information, for 22 countries including the United States of America. A volume will be published each year so that in the future there will be a series of reports on public health work in many countries, and each public health administration will have available for easy reference complete information about the progress of public health among its neighbors. Disease varies in different countries. Scarlet fever is a serious problem in Eastern Europe, a minor disease in Western Europe, an almost unknown disease in certain tropical countries. An investigation of this problem is being carried on for the Health Organization in Germany, and much interesting information has already been accumulated in regard to the influence of race and the presence or absence of immunity. This is a subject which may only be studied on an international scale. The study promises to be of practical value in prevention. The work of the Health Organization of the League in this field may be described as an attempt to bring to bear upon the problem of disease prevention the resources and experience of many countries. The

results within the comparatively short period of its existence have already been fruitful.

For practical purposes the Health Committee has subdivided its work and appointed commissions to study each general problem. Each commission consists of several members of the Health Committee and a number of coopted experts and corresponding members. The Malaria Commission has studied the problems of malaria in a number of countries, and as a result has accumulated experience and information which could not be secured in any one country. A number of governments have asked it for advice in organizing a campaign, as in Yugoslavia, Albania, Persia and Corsica. Malaria was one of the diseases which spread rapidly as a result of the war and its consequences. The tropical form of malaria is the most deadly, and persons who may be immune to the ordinary forms succumb readily to the tropical or malignant form. In Russia the movements of population caused by the war and famine have caused a marked extension of the tropical form and the same is true to a lesser extent of other countries. The increasing prevalence of malaria required a larger personnel. The malaria commission has secured the collaboration of the Institutes of London, Paris and Hamburg to remedy this deficiency. Courses in malaria control for public health officers will be given in June at these institutes. A period of several months in the field under competent supervision will follow the courses at the institute. The International Health Board and the Health Organization have given a number of scholarships to enable governments to send health officers to these courses.

The Malaria Commission is also carrying on experiments in a number of countries with the hope of finding drugs which will take the place of quinine in the treatment and prevention of malaria. The available supply of this precious drug is limited. The experiments carried on so far appear to show that there are other alkaloids in anchovia bark which may give good results, and perhaps the total alkaloids may be substituted for quinine itself. This would greatly increase the available supply of this prophylactic and curative agent. Whenever the work of the malaria commission is mentioned, the name of the late Dr. Samuel G. Darling is remembered.

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Dr. Darling was an American, a member of the Malaria Commission and on the staff of the International Health Board. While studying malaria control in Syria with the Malaria Commission, he lost his life in an automobile accident in which two other members of the party also perished, Dr. Norman Lothian, a member of the Health section and Mlle. Besson of the Secretariat. In memory of the outstanding work of these two men the Health Committee has established a Darling prize and a Lothian scholarship, the first to be awarded for research in malaria control. Voluntary contributions are being received for the Darling prize, and I am sure many of his fellow countrymen will desire to contribute to a fund to perpetuate his memory and to honor his achievements in the prevention of human suffering. Several members of the Malaria Commission plan to visit the southern states this year to study the American methods of malaria control which have been so effective in some districts. The Malaria Commission has a very heavy program of work but my time is too limited to permit me to give any further particulars.

The Permanent Standards Commission is engaged in the international coordination of research work. The work of this commission has been largely confined to serological and biological remedies. The units employed as standards of measurement differ in the different countries. As an example 5,000 units of anti-tetanus serum in America may not be at all equivalent to 5,000 units of the same serum produced in France. And yet uniformity is quite desirable in this field, for it is important that the physicians and public health officers of one country should be able to understand the medical literature of another. Furthermore, these remedies are imported and exported, and it is essential that each physician who uses such remedies should possess an exact knowledge of their therapeutic value. Again, international standards if properly applied by national health administrations protect the sick from preparations of improper strength and in some cases, from fraudulent products. To secure international uniformity, the Health Organization of the League calls together the specialists engaged in this work in the various countries. A program of work is laid out, certain specific problems being assigned to each specialist. For instance, an American may

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be asked to study in his laboratory the various methods of examining or testing digitalis with a view to determining the most suitable method for international use. In the course of a few months another conference is called, the specialists report on the work they have done and standards are adopted. This is an extremely complicated subject, and yet agreements have been easily reached. At a conference held last year final decisions were reached in regard to the methods of testing digitalis, ergot, pituitary extract, thyroid gland, insulin and a number of less well known preparations. At previous conferences standards had been adopted for diphtheria anti-toxin and anti-dysentery serum. The commission is now engaged in studying smallpox vaccine, tuberculin, and auto-anthrax serum, with a view to securing international uniformity in methods of testing. It has not been difficult for the Health Organization of the League to secure the active collaboration of the specialists in the more important countries, and I think this could have been accomplished only by an international, intergovernmental organization such as the League. The Cancer Commission is attempting to discover the reason for the differences in the rates of cancer mortality in various countries. The question was raised by the British member of the Health Committee. He had been struck by the fact that the death rates for certain forms of cancer in the British Isles were much higher than those in Holland, which were in turn much greater than those in Italy. The work of the Commission showed that the differences were real and not due to statistical errors. Moreover it was shown that when women from England and Wales settled in America, these differences persisted. It was further shown that the variations were not due to differences in treatment. The anthropologists have been called in to explain whether these national differences are racial in character, and the Malaria Commission will receive a report on this subject at their meeting in Paris during this month. This study has aroused a considerable amount of interest in other countries. An officer of the United States Public Health Service has been assigned to the study of this subject. Studies along the same lines are being pursued in Czechoslovakia and Switzerland in addition to Great Britain, Holland and Italy. It is impossible at this time to predict

the result, but one can say at least that interest in this important subject has been stimulated, and that the collaboration of a number of public health administrations in the study of a common subject is of value in itself.

The Tuberculosis Commission was set up in response to the request of the Government of the Kingdom of the Serbs, Croats and Slovenes which asked for the advice of the Health Organization of the League in setting up a tuberculosis program. The request was based upon the fact that the Health Organization, as part of an association of governments, was in a position to secure advice from the most expert health officers of all countries. Much interesting data have been accumulated; an important monograph on the causes of the tuberculosis decline has been published, and studies are being carried on in the Scandinavian countries and in France.

The Commission of the Far East is studying the means of preventing sleeping sickness in Africa. This is not the form of sleeping sickness known in this country, but a disease transmitted by the tse-tse fly and deadly to man and beast. The countries which have colonies in Africa have contributed to a common fund placed at the disposal of the Health Organization, and the most expert physicians of these countries are engaged in a study of the problem at Entebbe. They are trying to find out why some natives are immune, whether the wild beasts act as reservoirs of the virus and the value of a sanitary passport for individuals passing from one country to another. Instead of working separately, perhaps duplicating effort and without the advantage of a knowledge of what the others are doing or have succeeded in proving, they are working together on a joint program, and they may call upon the experts in all the countries in the League for advice and counsel.

The Commission on Public Health Instruction is studying the methods employed in the various countries to spread public health education and in particular the health instruction of physicians and health officers. A summary of the methods of instruction employed in various countries is to be prepared by Sir George Newman, Chief Medical Officer of the British Ministry of Health. There is also an Opium Commission which cooperates with the Social Section of the League in the

Opium Enquiry. The task of the Opium Commission was to ascertain the maximum legitimate requirements for opium and cocaine. They decided that the only legitimate uses for opium and cocaine were medical and scientific. They further laid down the maximum requirements per capita per year in countries with well developed medical services. These requirements are very small compared to the actual amounts available, —450 mg. in the case of opium and 3 mg. of cocaine.

The Assembly of the League has repeatedly given its approval to that part of the program of the Health Committee which seeks to bring the public health administrations of different countries into closer touch with each other. This is achieved by means of interchanges or collective study tours. A recent example will serve for illustration. Health officers from Montreal, San Francisco, Rio de Janeiro, Budapest, Vienna, Bucarest, Dieppe, Lodz, Belgrade, Italy, Japan, etc., 15 in number, are brought to London to study the methods of public health administration. The study lasts for five weeks, a very carefully prepared program being followed. Each activity studied is made the subject of an exchange of opinions. The points of view of health officers from 15 countries are brought to bear on each problem. On the one hand *esprit de corps* is developed, acquaintances are formed and lasting friendship cemented. On the other hand the technical information acquired is extremely valuable. The best methods of applying public health measures are brought to light, and each health officer brings about reforms and improvements in his administration on his return home. These interchanges have been held in many countries including America. Nearly 400 health officers from more than 40 countries have participated. Many of them belong to an international association formed by the health officers themselves. Those who have taken part in these interchanges are valuable links with the Health Organization of the League. At the present time collective interchanges are going on in West Africa and Denmark, the first for colonial medical officers in Africa, the second for health officers whose chief preoccupation is rural hygiene.

In addition to the work I have mentioned, the Health Organization is carrying on a whole series of special studies and

investigations, into the sources of cholera in Siberia and India, into scarlet fever, measles and smallpox, into the disinfection of hides and leather infected with anthrax, into the sources of epidemic meningitis and a number of other important subjects. With the small staff at its disposal the Health Organization could not hope to accomplish a fraction of this work without the collaboration of the various public health administrations, and it must be remembered that the chief work of our organization is to bring about this collaboration, to act as an intergovernmental agency, and not in any sense to carry on work which is in the province of any public health administration. Slowly but surely the Health Organization is gaining the confidence of the public health administrations so that the use of its peculiar resources and facilities is being requested. Last year eight governments at the Sixth Assembly proposed new work for the Health Organization. In previous years Albania, Persia, Corsica (the French Government) Yugoslavia, The Netherlands and Greece had appealed to the Health Organization for assistance in the solution of particular problems in previous years.

The Health Organization of the League is a small but growing force in the field of international public health. It is an instrument which will be useful in proportion to the cooperation it is able to bring about between public health administrations. It is a logical consequence of the need for united action against a common enemy, disease. In this shrinking world interwoven with traffic routes, and populated with human ants who swarm hither and yon, the only hope for the avoidance of more disastrous epidemics than have yet afflicted mankind, lies in an association of governments bound together for a common purpose.

PRACTICAL ASPECTS OF INTERNATIONAL HEALTH PROBLEMS

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THE time at my disposal is too short to permit me to describe the organization and functions of the Health Section of the League of Nations. I propose to outline briefly the activities of our organization as they are being pursued at this period, in order to furnish a basis for discussion and questions.

If we were able to visit all of the public health services of the countries of the world we would find their statistical departments engaged in collecting and tabulating reports of epidemic diseases which would presently be transmitted to Geneva, for the Health Organization of the League now receives from the different governments practically all the information available concerning this important subject. At Geneva a number of clerks and a few statisticians prepare this material for the printer and distribute the reports at weekly and monthly intervals to all interested persons. This means that for the first time in the history of the world one may secure an idea of the international movement of epidemic disease, and that the first requisite of prevention is provision for national public health services of a knowledge of when, where and to what extent epidemic diseases are prevailing.

A visit to the bureau of the Health Organization at Singapore would enable us to learn that the public health administrations in the Far East are sending to the bureau telegrams in regard to plague, cholera and smallpox in all the important ports in that area. A ship sailing from a port in China may reach Japan within a comparatively few hours. So rapid has the notification of infectious diseases become that before that ship docks at a Japanese port, the health authorities of that port may have heard that cholera prevails in the Chinese port from which she sailed. The information received at Singapore is broadcast by cable and radio. It is picked up

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by public health administrations and by ships at sea. As the East is the most important source of plague and cholera, the Singapore bureau may by the reception and transmission of reports protect not only the countries of that area, but also all countries to which come ships from the Far East. So the Health Organization of the League acts as a receiving and distributing agency of reports of epidemic diseases, and thus performs a service which would be impossible to any government.

In West Africa, a group of sixteen health officers from the West African Colonies are studying together the colonial public health services and institutions of that area under the guidance of a member of the Health Section of the League. The French Government has asked the League to set up in West Africa a bureau which would do for Africa what the Singapore bureau is doing for the Far East. These sixteen or seventeen health officers will discuss the need for such a bureau when they hold the final conference at Freetown, after a thorough study of the public health services in the different colonies. Whatever the final outcome of their deliberations may be, the few weeks of study together will certainly promote a better understanding and closer cooperation, so that the Health Organization of the League will have succeeded in one of its objects, that of bringing public health officers of different countries into closer touch with each other.

In Africa a few experts are also studying the problem of sleeping sickness, a very fatal and prevalent disease transmitted by the tse-tse fly. These experts are from England, France, Holland, and Germany, and they are studying the problem together instead of separately, and are proceeding along lines laid down by specialists from a number of countries. The governments having colonies in Africa are contributing the major part of the budget of this commission, which is working under the auspices of the Health Organization of the League. Their program of study includes the questions of human immunity, the value of medicinal agents, and the part played by wild animals in the propagation of the disease. The research work thus undertaken on an international scale should increase our knowledge of the origins and prevention of sleeping sickness which causes such ravages in Africa.

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Three schools of tropical medicine are giving special courses in malaria control in order to train public health officers of countries where this disease is a problem. The movement of populations due to the war and famine caused a marked extension of malaria in the countries of Eastern Europe, and health officers trained in malaria control are too few to carry on this work. The Health Organization of the League has therefore arranged for theoretical and practical courses on this subject. The directors of the Institutes of Tropical Medicine in London, Paris and Hamburg have agreed to give courses in June. At least a dozen health officers from different countries where malaria prevails will attend. After the theoretical courses, the students will apply the lessons they have learned under the direction of expert malariologists in a number of countries. Each of these health officers should, on completing the courses, be in a position to direct an effective campaign against malaria in his own country.

Fifteen health officers from as many different countries are studying rural hygiene together in Denmark at the present time. As the interchange has just begun, I shall not attempt to describe it but shall refer instead to the interchange of health officers in England which ended just a few days ago. This interchange included 15 municipal health officers from Montreal, San Francisco, Rio de Janeiro, Dieppe, Budapest, Vienna, Bucharest, Belgrade, Poland, Japan, Italy, etc. They studied the public health services of London and the so-called Home Counties for a period of five weeks, being divided into small groups for that purpose. Each subject studied was made the occasion for an exchange of news, so that the participants not only learned what was the practice in London, but also in the other cities represented. A final conference was held in Geneva, and each health officer read a paper on some subject he had studied during the interchange. No one who has not seen such a group at the beginning and end of the tour, can appreciate the valuable results achieved. *Esprit de corps* is promoted, lasting friendships are cemented, and a better understanding is developed. The technical advantages I will leave to your imagination—in themselves they would justify every cent of this expense. Nearly four hundred health officers from over 40 countries have participated in the inter-

changes promoted by the Health Organization of the League of Nations, and many of them belong to an international association of medical officers of health organized by the participants themselves.

Laboratory workers in various parts of the world are studying certain problems for the Health Organization of the League. These problems concern sera used in the treatment and prevention of disease, and biological remedies such as insulin. Standards for these products differ in the different countries, so that the unit in one country may have a very different value from the unit employed in another. It is, of course, essential for the physicians of one country to understand the reports of physicians in other countries, so that any advance may be utilized for the benefit of all the people of the world. Furthermore, these products are imported and used in different countries. Specialists from many countries including the United States are studying certain of these products for the Health Organization in their own laboratories. Presently they will meet in Geneva to report on their work and to agree on standards. A committee of this kind met at Geneva last year. They agreed on international standards for insulin, digitalis, thyroid extract, pituitary extract and a number of other products. Agreement had already been reached in previous years on diphtheria antitoxins and antidyentery serum, and work is proceeding on anti-anthrax serum, tuberculin and smallpox vaccine. The last conference included specialists from America (three) and Germany; health officers from the Union of Socialist Soviet Republics also participate in the work of the Health Organization and cooperate very fully in certain fields.

I have been able to touch on only a few of the outstanding activities of the Health Organization of the League. If I had more time I might tell you of the studies being carried on in various countries of the reasons for international differences in the rates of cancer mortality; the countries especially concerned are England and Wales, Holland, Italy, the United States and Switzerland, but many other countries are now showing an active interest in this subject. I might also speak of the tuberculosis study, which seeks to determine the causes for the large decrease in tuberculosis mortality in recent years.

The study of public health instruction has also been taken up by the Health Organization, and I might tell you of the work being done along this line in a number of countries. At the present moment an International Conference is sitting in Paris to revise the International Sanitary Convention of 1912, which has to do with the international preventions of certain epidemic diseases and the sanitary measures applied to ships. The Health Organization of the League is represented at that Conference and had much to do with the preparatory work. During the last Assembly eight governments proposed that the Health Organization of the League should undertake new work in order to apply its facilities to the solution of such subjects as food, child welfare, hospital statistics and health insurance. A number of governments have set up liaison bureaux to cooperate with the Health Organization and to apply in their own countries the results of its work. I might describe the purpose, number and value of the publications of the Health Organizations. I hope I have succeeded in showing you that the Health Organization is assisting in the promotion of international arrangements by its work, and that the organizing of international relations is proceeding in a logical and speedy way. By free discussion and exchange of views the public health administrations of the different countries of the world are learning to collaborate in the fight against disease, and to present a united front against a common enemy.

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THE INTERNATIONAL LABOUR ORGANISATION

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I. GENERAL CHARACTERISTICS

OF all the non-political organs of the League of Nations, the International Labour Office is altogether the most catholic in its aims, the most independent and the most important.

It is the most general. The object of the League of Nations is to ensure world peace. There are two kinds of warfare: warfare between states and warfare between social classes. The object of the International Labour Organisation is to bring about peace between the different classes. It is concerned alike with social and economic life.

It is the most independent. Although the Treaty of Peace laid down that the International Labour Office should form part of the organization of the League of Nations, the relations between the two are mainly formal in character. The budget of the International Labour Organisation is incorporated in that of the League and is passed by the Assembly. Ratifications of conventions are registered by the Secretariat of the League. The Director of the International Labour Office, however, is not responsible to the Secretary-General or even to the Council of the League, nor is the International Labour Organisation subordinate to the League, but is rather coordinated with it. Its existence is based, not upon decisions of the Council or Assembly, but on the Treaty of Peace itself. The member states are represented directly at the Conference, so that the Assembly is in no way superior to it.

Lastly, the International Labour Office is the most important of the technical organs of the League. It employs almost as many officials as the whole Secretariat. Its budget amounts to about one third of the total budget: 1,400,000 dollars, out of 4,500,000 dollars. Its Conference, which includes a larger number of delegates than the Assembly of the League, meets, like the latter, every year. The Governing Body, like the

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Council of the League, holds four annual sessions. Thus, although there can be no question of comparing the activities of the two organizations, there are no grounds for declaring that one is more important than the other.

II. ORIGINS

The International Labour Organisation is the outcome not of pure theory, but of the slow evolution of European requirements. Economic and social conditions in Europe are very different from those in the United States. This difference must be borne in mind if the real nature of, and necessity for the International Labour Organisation are to be rightly understood.

American industry developed during the nineteenth century in a country in which labor was scarce, and hence dear, but in which raw materials were plentiful and there was ample outlet. The result was that American workers were able to obtain relatively high wages, which ensured a high standard of living, and made it easy for them to unite in the defense of their interests. They have thus never felt the need of state intervention on their behalf.

The evolution of European industry followed quite different lines. Labor has always been plentiful and cheap. Economic conditions, however, were unfavorable, as the majority of the European countries do not have the raw materials which they require and the nature of the European market, which is subdivided by national frontiers and intersected by customs, has made mass production impossible. Unlike the United States, therefore, Europe has been faced with unfavorable economic conditions. Social conditions were favorable not to the workers, but to the employers—at all events, in appearance, for the result of a plentiful labor supply has been to keep wages down and to prevent an improvement in the quality of the labor. The workers, in constant dread of being replaced by the surplus labor available in the country, have been unable to defend their interests, and their standard of living has declined in proportion as the big industries developed.

In the middle of the nineteenth century, the miserable living conditions of the workers roused a certain number of individuals to action. But the efforts of private initiative in Eng-

land and France to improve them only led to incomplete results. They failed owing to the resistance offered by the employers, who had a surplus labor supply at their disposal. These circumstances led to state intervention in social affairs.

It soon became apparent, however, that the state was powerless in view of the exigencies of world competition. Social policy necessarily imposes charges on industry. It raises the costs of production. In the matter of competition, it acts to the detriment of the most progressive countries and in favor of the most backward ones. International agreements appeared necessary if industry was to adopt a generous social policy.

In 1876, the Swiss Federal Government convened an international conference for the legal protection of workers. Circumstances prevented this conference from meeting immediately, but in 1890, the German Emperor repeated the invitation first extended by the Swiss Government. Three conferences were held before the war, the first in Berlin in 1890, and the next two at Berne in 1906 and 1913.

In the meantime, big private organizations were established, on an international basis, to supplement state action. They were largely supported by industry, which realized the advantages to be derived from international action in social affairs. Ultimately labor bent all its efforts towards the internationalization of social problems and remedies.

The International Labour Organisation was established as a result of this triple effort on the part of governments, owners and workers. In September, 1914, the American Federation of Labor adopted a resolution urging the Executive Council of the Federation to submit proposals for the reestablishment of fraternal relations and the protection of workers, thus laying the bases of a durable and lasting peace. This resolution was the starting point of a whole series of similar resolutions passed by Inter-Allied and German Workers' Congresses, and finally by the Berne Conference, which in February, 1919, included representatives of the workers of all the European countries.

In compliance with these proposals, the Peace Conference set up a Committee on Social Legislation, with Mr. Gompers as President, which drafted the text of Part XIII of the Treaty

of Peace. In his speeches, President Wilson referred to Part XIII as the MAGNA CHARTA OF LABOR.

III. ORGANIZATION

The International Labour Organisation is established on the same model as the League of Nations, or—to be more correct—on the model of all human society. It includes an organ which represents the whole of the members, an executive organ and an administrative body.

The legislative organ, which is known as the International Labour Conference and meets every year, is one of the most original institutions of the League of Nations and is very likely to be one of those which will have the greatest influence on the evolution of the international society.

The Conference is essentially democratic in character. The Assembly of the League includes only representatives of the states, who must vote according to their instructions. Only unanimous decisions may be taken. The International Labour Conference, on the contrary, is composed of representatives of the different nations who can vote freely and individually and pass decisions by a majority vote. It is this that has inclined certain jurists to the view, that in the future evolution of the League, the International Labour Conference might act as a Chamber of Representatives, while the Assembly of the League of Nations would act as a Senate.

The democratic character of the institution is brought out by the fact that the International Labour Conference, whose constitution is in advance of that of the majority of the states, constitutes an assembly of interests. In every state, four delegates are appointed: two by the government to represent general interests, that is, the interests of the consumers; one by the chief employers' organization; and one by the most representative of the workers' organizations. In actual practice, this system has met with difficulties in certain countries; nevertheless, it constitutes a daring solution of the problem of the representation of interests in international affairs.

The Conference adopts conventions and passes recommendations. A difficult point arose at the Peace Conference. If these conventions, which were passed by a majority and by representatives who had not received instructions from their

governments, were to be binding upon the states, the International Labour Organisation would be a superstate. This would have meant a serious reduction of the sovereignty of the member states. If, on the other hand, the conventions were not binding, the Conference would be a purely advisory organ without authority.

The solution agreed upon lay midway between these two possibilities. The conventions adopted are not compulsory, states being free to reject them. The governments are obliged, however, to submit them to their respective parliaments. They cannot simply pigeon-hole them, as so often happened in the case of the conventions adopted before the war by international conferences. Similarly, the recommendations passed by the International Labour Conference must be submitted to Parliament in order that the latter may declare whether it wishes to give effect to them or not.

The difference between the conventions and recommendations is thus not a difference in the degree of obligation devolving upon the states, but merely a difference in the actual scope of that obligation. The conventions must be adopted as they stand, *ne varietur*, while the recommendations must simply form the subject of national legislation.

The Conference, which is the representative and legislative organ, appoints the Governing Body, which is the executive organ. The Governing Body is composed of twelve Government members, eight of whom represent the states of chief industrial importance, and also six workers' and six employers' representatives, who are appointed respectively by the workers' and employers' groups of the Conference.

The administrative organ is the International Labour Office, the Director of which, Mr. Albert Thomas, was appointed by the Governing Body.

IV. OBJECTS

The object of the International Labour Organisation is not, as some people believe, to standardize labor conditions in the different countries. It is simply to establish an international minimum. Labor conventions cannot in any case lower the workers' standard of living in any country. The effect of international legislation can only be to raise that standard. The

International Labour Office is established upon the principle that the living conditions of the working classes cannot fall below a certain standard without injury to industry itself and to civilization as a whole.

Since the middle of the last century, the progress of industry and the marvelous development of machinery have coincided with an improvement in the living conditions of the workers. This improvement is often held to be due exclusively to technical progress, but it is equally true that this progress is the result of the raising of the average standard of living among the masses. In either case, the improvement has enabled a large number of individuals to consume more and has thus increased the outlets of industry; it has also enabled the workers to obtain training and to improve in their trades. Until the nineteenth century, the worker was viewed simply in his capacity as such. The great discovery of modern times has been to see in him a consumer and hence, to some extent, a collaborator of industry. If the average standard of living in a country is to be maintained, however, the other competitive countries must make a similar protective effort on behalf of their working classes. To regard social policy as a purely national affair is to place it in the hands of countries which are still at an earlier stage of evolution, while to internationalize it is to place it on sure foundations. This idea was expressed by President Wilson in the following terms:

The point I wish to make is that the world is looking to America to set the standards with regard to the conditions of labor and the relations between labor and capital, and looking to us because we have been more progressive than other nations in those matters, though sometimes we have moved very slowly and with undue caution. As a result of our progressiveness the ruling influences among our working men are conservative in the sense that they see that it is not in the interest of labor to break up civilization, and progressive in the sense that they see that a constructive program has to be adopted. We must devote our national genius to working out a method of association between the two which will make this Nation the nation to solve triumphantly and for all time the fundamental problem of peaceful production.

In other words, the object of the International Labour Organisation is not to further the interests of the workers alone. It is to protect workers, employers, and the public alike; it is to protect the workers of the less progressive coun-

tries by facilitating the development of social legislation, to protect the employers in the more progressive countries by safeguarding them from the competition of other countries, to protect industry by raising the standard of living among the working classes and increasing output, and to protect society by eliminating the disturbing elements among the workers. This was the view expressed by President Wilson in his speech at St. Paul on September 9, 1919:

The interests of capital and the interests of labor are not different but the same, and men of business sense ought to know how to work out an organization which will express that identity of interests. Where there is identity of interests there must be community of interest. You cannot any longer regard labor as a commodity. You have got to regard it as a means of association, the association of physical skill and physical vigor with the enterprise which is managed by those who represent capital; and when you do, the production of the world is going to go forward by leaps and bounds.

V. EVOLUTION

The Washington Conference in November, 1919, was the first manifestation of the activities of the International Labour Organisation. At this Conference two very important series of decisions were passed.

In the first place, Germany and Austria were immediately admitted as members of the International Labour Organisation. Germany, which is not yet a member of the League, has been a member of the International Labour Organisation for the last seven years, thus bearing witness to the universality which that Organisation desired from the very outset. Germany has hitherto been allowed to play no part in the political reconstruction of Europe, but it would have been absurd to make any attempt to reconstruct the social fabric of the world without the collaboration of one of the most important industrial powers. The universality displayed by the I. L. O. is further shown by the relations—purely scientific relations, it is true—which the Office has established with the Soviet Government and by the interchange of publications and documentation.

In the second place, the Washington Conference adopted a series of conventions, the most important and the best known of which is the convention concerning the forty-eight hour

week. In fact, the forty-eight hour week already existed in most industrial countries of Europe, as a result of war and revolution. The purpose of the convention was thus not to create a new situation but to protect the countries which had already made this forward step against the competition of the others, and also to protect the workers against any regression of their working conditions.

Since 1919 the International Labour Conference has met every year—in 1920 at Genoa, and since 1921 at Geneva. The first three and the seventh conferences adopted draft conventions concerning the hours of work in industry, agriculture and at sea, measures against unemployment, and the protection of women and children (night work, minimum age of admission, confinement, etc). They are, as can be seen, broadly humanitarian in character.

In all, 20 conventions and 25 recommendations have been adopted by the Conference in its first seven sessions; 182 ratifications have been registered and 31 ratifications agreed to. These figures, although much higher than could have been obtained in this connection before the war, represent only part of the legislative results due to the efforts of the International Labour Office. More than four hundred laws have been submitted or passed in different parliaments as the direct result of the decisions of the Conference. Even this figure does not really represent the true results; as it does not take into account the indirect influence exercised by the Office on national legislation in matters concerning which no formal decisions have been passed by the Conference.

Nevertheless, it must be confessed that, efficacious as it has been, the legislative work accomplished by the International Labour Organisation has been less considerable than the Peace Conference and the working classes in the different countries had expected and hoped. It was thought in Paris in 1919 that a year would be sufficient for all the countries to ratify any convention. The work of ratification by the parliaments, however, has proved so slow that, between 1921 and 1925, the International Labour Conference has not dared to pass any new conventions, lest it should overburden the agenda of the parliaments and thus discourage the latter.

The reason for this comparative failure is not far to seek.

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The economic and social clauses of the Treaty of Peace were based upon the conviction—a conviction which was quite general in 1919—that the war was going to be followed by a period of extraordinary prosperity. After the destruction of so many men and so much material it was not to be expected that there would be any shortage of markets or unemployment. No one had any doubts as to the prosperity of industry during the coming years. Hence considerable and rapid progress was expected in social legislation. When trade is flourishing and labor is scarce, employers can afford to be generous. They must be so, in their own interests.

That was not all. In 1919 Bolshevism had reached the climax of its early successes. The nations of Europe were afraid of the effects of its propaganda. Huge concessions to the working classes did not appear too high a price to pay for the maintenance of social order and domestic peace.

In the spring of 1921, however, the situation was completely reversed. The economic crisis which suddenly occurred throughout the world cut short the profits of industry and the surplus labor gave rise to unemployment. The workers, who were now too numerous, ceased to be all-powerful and threatening. The employers, who were confronted with almost insurmountable financial difficulties, could no longer set aside from their takings the sums required for social improvements. Thus, the hypothesis upon which the International Labour Organisation had been founded proved false. The states which in 1919 were prepared to ratify the conventions without delay were no longer able to do so, and the legislative work of the International Labour Organisation necessarily declined.

It would hardly be right, however, to speak of failure. As soon as industry revives and labor becomes scarce, the conditions obtaining in 1919 will be reestablished, and international labor legislation will pursue its course. The first symptoms of this change are already visible. For the first time since 1921 the International Labour Conference of 1925 has decided to adopt new draft conventions. Moreover, a gathering of the Labor Ministers of Belgium, Great Britain, France, Germany and Italy held recently in London decided that these five big industrial powers of Europe might proceed to ratify the Washington Eight-Hour Day Convention simultaneously and on a

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common basis. The relaxation of the economic tension which is becoming more and more noticeable in Europe will certainly mean a series of fresh ratifications for the I. L. O. during the next few years.

This tension, however, has had certain permanent effects. It has obliged the International Labour Office to transfer the center of gravity of its activities from purely legislative to scientific action. The task of the Office in this connection is to collect information concerning social work in the different countries, to centralize it, to set it forth scientifically and to communicate it to all the parties concerned. The Office has brought out a series of publications, the most important of which is undoubtedly the *Enquiry into Production*, which constitutes an economic and social history of our times. There is the likelihood that it may collaborate later with an independent organization which is engaged in studying scientific management. As regards this point, Europe is far behind America and would ask nothing better than to follow American examples when these are available.

This work, which is described as scientific, is not, however, purely theoretical. If the experience of one country can be placed at the disposal of others, much tentative effort and many mistakes may be avoided, while practical results should be obtained.

Finally, the International Labour Office has on various occasions brought its influence to bear and acted as arbitrator in social disputes. It would be difficult to estimate the services which the League of Nations renders to humanity by preventing wars, the possible effects of which are never realized, as they never come to pass. Similarly, the personal action of the Director of the International Labour Office has led to the prevention of strikes, more particularly in the matter of maritime traffic. It has saved the world vast losses, of which nobody has ever heard.

VI. CONCLUSIONS

Labor conditions are so different in America and in Europe that the experiences of one continent can hardly be taken as a basis for development in the other. The economic conditions of industry are totally different. In the case of American

goods, the cost of production is based upon dear labor and cheap raw materials. In Europe, the position is exactly the reverse. Hence the possibility that social policy may exercise any effect upon the cost of production is almost negligible in competition between Europe and the United States.

This is a fact beyond dispute, a fact which was realized at the Peace Conference. That is why, when President Wilson asked that special measures might be taken in favor of federal states, the framers of the Treaty did not hesitate to insert special provisions with regard to federal states, although the measures in question were such as to render the ratification of conventions by the United States practically impossible.

In other words, the United States have never been expected to offer legislative collaboration in this connection: what was expected of them was scientific collaboration. Similarly, the International Labour Office, as has been seen, was forced by circumstances to suspend its legislative activity to a certain extent and to concentrate upon its scientific work. The evolution of the I. L. O. has thus been such as to make the collaboration of the United States easier and more useful.

The essential cause of the economic crisis which has spread over the whole world is to be found in the fact that during the war years the industrial capacity of every country was overdeveloped. All the European countries, under the stress of belligerent effort, increased the number and output of their industries. The overseas countries, being deprived to some extent of European exports, did the same. At the present day there are too many industries for the actual requirements of humanity. There is only one remedy for this state of affairs: to increase human requirements. All measures of national protectionism are merely artificial. It is only by extending the markets that work can be found again for all the workers and all the factories in existence.

In view of the fact that to extend the markets in backward countries must necessarily take time, there appears to be only one swift solution for the industrial questions engaging the attention of the whole world, namely, to extend the internal markets by gradually raising the standard of living among the working classes. That is just what the United States have done for themselves. The purpose of the I. L. O. is to do the

same, to a certain extent, in Europe, where of course it requires international agreements. Viewed from this standpoint, the activities of the International Labour Office, far from impeding industry, are calculated to encourage it.

Secondly, it must not be forgotten that discontent is the most powerful factor in promoting war. This principle was expressed in the following terms in the Preamble to Part XIII of the Treaty of Peace: "Whereas the League of Nations has for its object the establishment of universal peace, and such a peace can be established only if it is based upon social justice. . . ."

Nothing could be truer. When a nation is contented, it dreads disorders and catastrophes. When the life of the individual is hard, when wages are low and the most elementary needs cannot be satisfied, nations begin to dream of changes and conquest. It is in the matter of social questions that the opposition between Moscow and Geneva is keenest. The best means of keeping the nations away from Bolshevism is to develop international collaboration in social questions, through the agency of the League of Nations.

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THE PROGRAM OF THE LEAGUE OF NATIONS ADVISORY COMMITTEE ON THE TRAFFIC IN WOMEN AND THE PROTECTION AND WELFARE OF CHILDREN AND YOUNG PEOPLE

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to study the Traffic in Women and Children

MY task is primarily to set the stage, so to speak, for the discussion of the Advisory Committee on the Traffic in Women and Children and to sketch the evolution of the Social Section of the League of Nations, while Miss Lathrop will discuss the child welfare program. Perhaps between us we can give you a picture of the reason why these dissimilar activities are grouped together in the League.

As far as the League itself is concerned, I think we have to keep in mind that it provides a very simple machinery in the form of the Assembly to secure a consensus of opinion among the representatives of all the member nations. These representatives come together once a year in September to discuss the business of the League. The Council is a small body which functions more or less continuously throughout the year. Then there is the Secretariat, which is the executive body for carrying out the business of the League, after it has been determined by the Assembly and interpreted in terms of advice and instructions by the Council.

The Secretariat is divided, for practical purposes, into a series of sections—the Health Section, which Professor Lindsay mentioned, and a number of others of which, for my present purpose, the Social Section only need be named.

The Social Section deals with a group of activities which are rather hard to define. Public Health, of course, has a much more definite meaning in the minds of the statesmen of the world than the social problems dealt with by the Social Section. One of these is the traffic in women and children, so-called, that is, the sending of women and girls particularly,

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but also of children, from one nation primarily for the sexual pleasure of individuals in another nation. For the purpose of suppressing, or at least restricting, this evil, a series of international conventions have been negotiated during the past twenty-five or thirty years.

One of the articles of the Covenant referred the problem to the League of Nations for further study and international action. When the members of the Council came to discuss it they decided that it was one of the things which should be dealt with by the Social Section of the Secretariat. Subsequently they came to the conclusion, after several preliminary studies, that there existed no adequate data on which to base a clear-cut program, which the League could follow in carrying out this requirement of the Covenant. So it was decided to set up an Advisory Committee on this subject.

The Advisory Committee comprises two groups of members, namely, assessors and government officials, the former representing the outstanding voluntary international agencies dealing with the traffic in women and children, the latter representing their governments more or less officially, and enjoying the prestige that goes with direct appointment by a government.

The government officials do the voting in the Committee, the assessors participating in every other way. Of course the Advisory Committee has no executive power. It can only advise the Council as to its best judgment about policies and means of carrying them out.

The library of the League has a wonderful collection of general information; but not of the character needed for this purpose. You have to visit the Library and actually work in it to realize how remarkably well organized it is, and what a mass of documents and other working material has been collected in a short time.

As time passed, however, and the Advisory Committee met year after year, it became evident that it must have up-to-date information. Consequently about three years ago, Miss Abbott, who is, I believe, technically an unofficial observer and consultant from our government but who, so far as the League is concerned, receives all the courtesies due a government representative and participates, except in the matter of formal

actions, as a full government member, made the proposal that the Council should set up a special commission to study the traffic in women and children with the aim of getting a factual basis for the recommendations of the Advisory Committee in the future. The Council accepted that recommendation. The need being agreed upon, the Council said, "We will go ahead if there are funds."

As we could not draw, for this commission, on the official funds of the League, we hoped to finance the project by securing voluntary contributions in the United States, and as a matter of fact, the Bureau of Social Hygiene made the generous contribution of a sum necessary to carry on this investigation. Perhaps I should say that this is an interesting and very simple illustration of how the Council and voluntary agencies work together on such purely non-political problems.

The Council called on the Secretary-General for suggestions as to the composition of the special commission. It was decided, as frequently happens, to include a number of representatives from different countries, so the commission became larger than was originally planned. There are, therefore, eight members: an English representative, who is in the Home Office and especially concerned with the British Government's relationships to the care of delinquent or dependent children and a great many other similar functions and who is also the central authority for traffic in women and children under the old conventions; a Belgian representative, who is the head of the Child Welfare Division of the Belgian Government; a Frenchman, who was formerly an officer in the French Government with a long experience with police administration; a Swiss, who is the head of the International Society for the Suppression of White Slave Traffic; an Italian, a remarkable woman with long experience in Social Welfare work; a Uruguayan woman, a physician and professor in the university there; a Japanese, one of the chiefs in the legation in Paris and an unusually competent and broad-minded member; and an American physician with training and experience similar to that of the other members. We had all hoped that Mr. Abraham Flexner would be the person who would be selected to act as chairman, because he had made such a splendid contribution in his study of prostitution in Europe and

elsewhere and because he was thoroughly familiar with the conditions before the war. When Mr. Flexner could not serve because of illness they still had certain reasons why they wanted an American to serve as chairman, and it fell to my lot to act as chairman of this commission.

The commission has undertaken to get the facts about the traffic in women and children as it exists to-day over the world. The commission will assemble its data and report to the Council of the League of Nations. Whether that report goes into the wastebasket or is used depends, of course, on what the Council does, but it is probable that the report will go to the members of the Advisory Committee as a factual basis for their further efforts to suggest policies and programs for action by the League or its constituent member nations.

The commission goes out of existence when it makes its report. The Advisory Committee is a standing committee that continues its work year after year. That is the machinery and it is an illustration of the kind of organization one of the sections of the League has set up.

I would like to mention one thing that has been much in the public eye—the protection of young people. The Council has been urged for some years to interest itself in child welfare and to designate a committee for this purpose. The League, like every governing body I suppose, is urged to set up a great number of these special committees, yet the Council wishes to create as few of them as possible. The question of the traffic in women and children had grown out of existing conventions and therefore had its recognized place; but child welfare was a new thing and it had no assigned place. The League wanted to do everything it could to promote child welfare, but it had to put it on some clear-cut international basis. It occurred to some of the members that it was proper to assign child welfare to the Social Section, and to extend the Advisory Committee's functions to include this additional field. Apparently this administrative linking together of child welfare and traffic in women problems has occasioned, in the United States at least, confusion which had not been anticipated at Geneva.

They have attempted to overcome this difficulty in a relatively simple way: There is still the one Advisory Committee,

and its government members serve in double function on two sections of that committee, one section dealing with child welfare, and the other continuing to deal with the traffic in women. There are two sets of assessors, one for each section. Miss Lathrop, who is one of the assessors for child welfare, has just returned from a meeting under these conditions, the first they have had, and it will be interesting to know whether she considers that the new plan is working out satisfactorily.

I mention this matter to show how simple in conception the League organization is. It has no pride of organization nor is it bound by precedent. It can throw the present machinery over and devise something else, and seems disposed to do so if something else will work better.

The special commission undertook to study the traffic in women and children since the World War, and it was agreed, of course, as the Council tries to agree always, that what was done would be done in cooperation with the nations, and without arousing antagonism. Letters were sent out, signed by the Secretary-General at the request of the chairman, asking the courtesy of information and the privilege of inquiry upon the spot, so far as our commission might feel such inquiries to be desirable. I think it is rather significant that we have not found a single country that has refused to cooperate or to agree to inquiries on the spot, although there had been many predictions that opposition would be encountered.

There was a good deal of difficulty in making sure that we had a definition of what "inquiry on the spot" is. When you have to define that sort of term in twenty or thirty languages, or even define it in French and in English, which are the official languages of the Secretariat, you find that it is something of a task. I remember when it came to certain phases of migration from one country to another our committee was getting along very smoothly when some one stated that girls come down from Poland into Italy to a port like Genoa, ignorant of United States immigration laws, and failing to get on shipboard they are left stranded. There was nothing in French that was equivalent to the word "stranded," and we spent two hours with the interpreters trying to explain to all the members what was meant by a girl being stranded in Genoa. But the interpreting service of the Secretariat is

marvelous, and after the first day or two, when one gets accustomed to waiting for something to be straightened out, he begins to marvel at the demonstration of the fact that we do not have to wait for a common language before we can hold conferences to develop common ideas.

The Secretariat's business is that of being in the background all of the time and shaping the give-and-take of the members of the various commissions. The letters which they send to the various countries have to be interpreted in terms of diplomatic language as well as in terms of mother tongues and often they have to be supplemented by various notes of explanation and by personal letters. In the case of our commission, when the plan was explained we received very definite co-operation. Nothing outside of some such machinery as that of the League of Nations could get such results, because it takes a long time to get official delegates together for the adoption of a convention, and when the funds are limited it is especially difficult. But as the League's experience is growing and more peoples know about it, its opportunities are increasing. Our commission has now sent representatives into a good many countries of the world to get information and, as I have said, everywhere we have been given assistance and recognition.

Again referring to the documentation side of the work, we wanted to get all the laws and regulations that related to this subject and interpretations of the regulations so far as practice was concerned. It takes a great deal of time and effort to put such a mass of laws and regulations into any proper shape. Here again the League did not hesitate to call upon volunteer service. For instance, the American Social Hygiene Association was asked whether it would not be able to put into orderly system for filing, with interpretative notes, all of the laws gathered. The Association has done this and turned over to the library in Geneva the completed studies. That is only one instance. There are many illustrations of cooperation of that sort. Every agency desires to work toward the common purpose of getting a factual basis for the reports of such commissions.

Perhaps there is one other statement that I may make in completing the picture; there are a great many things that do

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not have to wait for action by the Council. The fact, for instance, that the League was taking up this study has practically led some countries, as we find in making inquiries on the spot, to exercise their own initiative in finding out what their local conditions are. That is partly to help get information and partly to find out for themselves, to check up on what may be said later by the League. Again and again, in this connection, a country has said, "We haven't given much thought to this question. Can't you send us some practical suggestions or send some one out here to talk it over?" Of course this commission has not made its report and can give out no information at all, but the Advisory Committee, through the Social Section, has been able to send out many suggestions to these various countries; and they are already putting them into operation. For instance, in the Far East, Japan, instead of opposing an inquiry on the spot, has said that it would like very much to see a study made in the Far East. In the meantime the Japanese Government formally instructed its embassy at Paris to gather all the information it can on what other countries are doing on the problem of traffic in women and children, and has gone to great effort voluntarily to gather data for this Commission.

There are many by-products coming out of the League's commissions and advisory committees that one doesn't think about. I have mentioned only a few in this rather discursive discussion, but I thought it would help more to show you how the League works than it would to try to tell you anything of the details of what has been done. So far as the commission to study traffic in women and children is concerned, suffice it to say that what seemed to be a very thorny subject has proven to be one of the things of which the nations of the world have said: "It isn't political; it's a thing we all want to deal with on a practical basis. We want the facts."

It has demonstrated that in the field of scientific and sociological international effort we can probably take any subject and work out machinery for effectively getting facts and devising joint action. We could not do this, however, without having some continuing organization such as has been built up at Geneva under the name of the League of Nations.

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INTERNATIONAL CHILD WELFARE PROBLEMS

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THE fact that I have just returned from attending for the first time a session of the new Advisory Child Welfare Committee of the League of Nations may well seem a reason rather for keeping silence than for speaking. However, since the week of discussion and conference has given me a new sense of the practical value to the world of the League's scientific services which directly or indirectly affect the young of the race, I venture to submit my impressions.

Two marked influences had a share in creating this Committee in 1925. First, it affords an instance of that development, which Dr. Snow has suggested, from a specialized activity for suppressing a flagrant social evil to a basic effort for a better social life. Both are necessary. They help each other. The League of Nations was charged by the Treaty of Versailles with responsibility for international agreements relative to the traffic in women and children, and therefore had created an Advisory Committee on this question in 1921; but in 1925 it set up the Advisory Commission for the Protection of Children and Young Persons, dividing it into two parts—the Committee on the Traffic in Women and Children and the new Advisory Child Welfare Committee, with which we are now concerned. As a listener I had the privilege of being present at one sitting of the Committee on Traffic and gained some realization both of the difficulties it must encounter and the progress already made by the wise, patient efforts of a body whose work intimately connects with certain aspects of that of the Child Welfare Committee. Indeed it is especially provided that the two committees “may meet together in plenary session for the discussion of any question of interest to both.”

Second, the creation of the new Committee was largely

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caused by the fact that in 1924 the Assembly and Council of the League decided to take over the international work of the Association for the Protection of Children which has its seat in Brussels.

To show the spirit and purpose of the twofold reorganization described, one cannot do better than quote from the report of the Advisory Commission on the Traffic in Women and Protection of Children to the League Council submitting the plan of the Advisory Child Welfare Committee:

The Advisory Committee thinks it right to take the normal child as the basis of its study, and to emphasize the constructive side of child welfare as much as the more limited though vital question of protecting the child from adverse influence or wilful exploitation. There is also the difficult problem of the abnormal child whose free development is hampered by physical, mental or moral defectiveness, and whose lot calls for special care and sympathy.

The Advisory Committee decided not to offer a specific definition of the subjects which should fall within the term “child welfare,” since a complete definition might be misunderstood as too vast and a narrow definition might exclude questions which later it might appear should be included. The Committee wisely states that it “fully realizes that if the work in this field is to be effective, it must be built up gradually from a strictly limited program, and developed as opportunity offers.” The report enumerates the three main headings under which its work should be carried on: documentation, research, discussion. All social students will be in accord with this method of first gathering relevant existing publications, developing original research, and diffusing useful knowledge by all practicable methods of discussion.

Inevitably and indeed advantageously the earlier sessions of a new committee of this character, with a scope so large and so experimental, will be devoted to at least preliminary consideration of a wide range of topics. This was true of the meeting in March. Among the subjects considered were the protection of life and health in early infancy, the compilation of laws relating to the age of consent and the age of marriage, the proposal of an international convention for the assistance or repatriation of foreign children who are abandoned, neg-

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lected or delinquent; consideration of the report submitted by the International Labour Office on ratification of international child labor conventions and on legislation regarding child labor; the necessity that there should be no wasted gap between ages for leaving school and for beginning work; family allowances; the recreation report by Dame Katherine Furse; the cinema; alcoholism.

Action was taken authorizing a study of juvenile courts. "The problem of the blind child" was placed on the agenda for the next session. A resolution was passed expressing the Committee's sense of the dangers of alcoholism to the physical and intellectual and moral development of children and young people and requesting the Council to ask the governments to protect children and young people from this danger by every possible means and agreeing that the question should be placed on the agenda of a later session. It was decided that the subject of the neglected and delinquent child should be placed early on the agenda of the next session.

As to the cinema, the Committee adopted the following resolution:

The Committee recognizes on the one hand the attraction and importance of the cinematograph in certain circumstances from the point of view of the healthy recreation, instruction and education of children and young people, but it is convinced on the other hand that the abuse of the cinema has definitely harmful effects upon the minds of children and young people and, according to certain medical authorities, upon their nervous system and physical health.

The Committee, appreciating the interest felt by the International Institute of Intellectual Cooperation in the question of the cinematograph, desires to assure it of the importance which the Committee itself attaches to the question from the point of view of the moral and intellectual development of children and young people, and requests it to devote special attention to the cooperation of all concerned in the production, circulation and utilization of good films.

The Committee recommended:

First, that in each State, offices for control or preliminary censorship should be established whose decisions would be enforced by fixed penalties, with a view to preventing the exhibition of demoralizing films; the views of educationists and parents should, so far as possible, be represented in these offices; second, that all possible means should be employed to encourage the exhibition and the international exchange of films calculated to promote the intellectual, moral and physical education of children and young people.

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The Committee decided that in view of the note from the International Labour Office on the difficulties of establishing a report on the effect on the well-being of children, of measures taken to relieve distress—e. g., the effects of social insurance, of measures to alleviate distress caused by unemployment, sickness or death of wage-earners—the consideration of the subject be adjourned to a subsequent session.

Perhaps no subject considered by the Child Welfare Committee is of more immediate concern on the Continent than that of repatriation. It is difficult for us in this country to realize the problems of child welfare created by the forced shifts of population from one country to another, the new national boundaries which often confuse citizenship for large groups and compel the presence of large numbers of unfortunate refugees in other countries than those of citizenship or origin. Such a condition necessarily tends to make the care of dependent and delinquent children who are living in a country other than that of legal residence a new and urgent problem. The discussion was painstaking and it was emphasized that the first consideration in every instance must be the best interest of the individual child. It is not irrelevant to suggest that this view of the first consideration is not without grave claim upon the attention of any country which deports children to countries of origin.

It will be seen that most of the subjects under consideration belong to one or the other of two classes which may be described as, first, defined and terminable, such as repatriation, the cinema, the juvenile court, compilations of laws. Second, those which necessitate progressive scientific research and are therefore continuous and probably endless, for example, the protection of life and health in early infancy—no one to-day will be bold enough to state a lesser generalization than that great dictum: when all children are well born and well cared for the infant death rate will be negligible.

In order to facilitate work the Committee appointed two sub-committees, a Legal Committee to which were referred subjects presenting legal and technical difficulties, and a Liaison Committee which recognized the close interrelations of certain other scientific services of the League by inviting to membership representatives of the International Labour Office,

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the Health Commission and the International Institute on Intellectual Cooperation.

To me no action of the Committee was more significant of its wisdom than the creation of its Liaison Committee by which it recognizes that the promotion of child welfare calls for joint activity. This means that the child is to be dealt with as a young human creature, not as an abstraction—a case or a pupil or a worker, a patient, a delinquent, a dependent, but rather as a growing person to whom many agencies must contribute, to whom the physical and moral nurture of good and wise parents are the first essential (and for whose lack Society must provide), for whom education, recreation, social protection, the inculcation of true ideals of behavior, are rightfully due. The child has a right to grow normally and harmoniously into the full development of his mental and moral and physical powers.

It is plain that the Committee fully recognizes the vastness of the task before it and the importance of an approach which shall be in the highest sense scientific and humane. Behind all the questions which are brought forward one is conscious that great economic issues lie in waiting but that must not hinder the efforts of to-day.

At the meeting government delegates were present from Spain, France, Belgium, the British Empire, Denmark, Italy, Japan, Poland, Rumania. Assessors were present representing Women's International Organizations, Social Service Council of Canada and Canadian Council of Child Welfare, "Save the Children" Fund, League of Red Cross Societies, International Organization of Boy Scouts and Girl Guides, International Federation of Trade Unions, International Association for the Protection of Children, American National Conference of Social Work.

The meeting was presided over by the Spanish delegate, Don Pedro Sangros y Ros de Olano, and Dame Rachel Crowdy, Secretary of the Social Section, acted as Secretary of this Committee. I should like to bear witness to the fairness and great courtesy of the Chairman and the cosmopolitan progressive spirit of the Committee as a whole.

It would show a singular lack of comprehension to mention

the Child Welfare Committee without referring to the heavy burden of responsible work borne by its permanent staff of which Dame Rachel Crowdy is the head. A more exacting secretarial task than that which Dame Rachel Crowdy is called upon to perform for this Committee, cosmopolitan in its structure, necessarily expressing great variety of experience, confronted with the organization of an enormous scientific task, with a field no less wide than the world itself, is hard to imagine. Dame Rachel joins to great administrative ability, warm human understanding, a mind which sees clearly and looks ahead, and a disarming candor which is invaluable.

And finally in this Child Welfare Committee we see, as our Chairman has indicated, nothing less than an organization endeavoring to pass beyond those problems which may be defined and determined, and grapple with the problem which is that of civilization itself—how to improve the conditions of life for the world, beginning with the young.

DISCUSSION:¹ INTERNATIONAL SOCIAL WELFARE PROBLEMS

CHAIRMAN, SAMUEL McCUNE LINDSAY:² The chief function of a round table conference is to call attention to the available materials for the study of the questions before the conference and then to discuss those materials in a more intimate way than is possible in the more formal general sessions.

I want first to spread on the record of this round table a brief abstract of the remarks of Dame Katharine Furse, G. B. E., Head of the Sea Guides, Girl Guides Association, London, England. Dame Katharine is attending the International Conference at Camp Macy, Briarcliff Manor, at which representatives of girls' organizations in thirty-three countries have assembled as the guests of the Girl Scouts of America. She could not be present with us this morning because of conflicting engagements on the program of that conference but will be with us at the close of the general session this evening and tell us of the work of the Girl Guides in Great Britain and of some of the problems which similar children's organizations face in other countries of Europe and which form a part of the International Child Welfare problem. I may add that Dame Rachel Crowdy, Chief of the Department of Social Questions and Opium Traffic in the League of Nations was invited to be here. She is now in Canada and will soon visit the United States but engagements previously made for her in Canada have made it impossible for her to be with us to-day. Both from what Miss Lathrop has told us³ and from Dame Katharine's remarks, we shall I hope get some idea of the important work that comes under Dame Rachel's jurisdiction in the League organization.

¹ Open discussion at Round Table No. 3, May 11, 1926.

² Professor of Social Legislation in Columbia University and President of the Academy of Political Science in the City of New York. For Prof. Lindsay's introductory address and other papers which preceded this discussion or dealt with the topics here discussed at the subsequent general session, Tuesday evening, May 11, 1926, see pp. 375 *et seq.*

³ Paper by Dr. Julia C. Lathrop, p. 418.

DAME KATHARINE FURSE, G. B. E.:¹ As you know, our organization is a sister organization to the Boy Scouts. It started because the girls wanted something similar. They used to dress up in their brothers' uniforms and go out and play the same games. They were insistent that they must have the same organization. So Lord Baden-Powell who had founded the Scouts then gave them this other movement of their own because we didn't want to mix them up with the boys as the public would think they were just tomboys.

We start with the children at about eight years old as Brownies and then we carry them on for about four years more, until they are twelve, when they become Guides or Girl Scouts, as they are called here. At the age of sixteen we try to move them on into the ranks and there they can remain until they are eighty or any age they like. So you see, there is no limit really to the age of the people in our movement and neither is there any limit to religion or nationality or type or class or anything else. We try as far as possible to organize the girls and the women of the different nations together so that they understand one another, become tolerant of one another and finally perhaps, begin to love one another better than they have done before. That is shown very well in the units we have at the International Conference now meeting at Camp Macy at Briarcliff Manor, because we have representatives from Austria, Germany, Italy, France, Great Britain and various Dominions, China, Japan, Czechoslovakia, Yugoslavia and other states. In fact they are coming from all over the world to discuss together what can be done for the children of the future.

You all know what is happening to the children now in many countries. Some countries have these terrible difficulties of poverty and starvation still going on. I had a letter today from England asking me to go and discuss how we could help the children of Russia. We know that in Germany the children are still suffering from the effects of the war, so much so that when I asked a German delegate this morning to help me with some information to give you she said, "We are in great trouble with our children, so much so that we don't want to tell what is happening in Germany."

¹ Head of the Sea Guides, The Girl Guides Association, London, England.

The refugees in Bulgaria and Greece are sitting on door-steps and becoming mentally deficient because they have got nothing to do, because they have nothing to play with and because they are underfed. These children are degenerating and gradually becoming hopeless citizens of the world. In our great towns we have the same problems; you probably have them here in New York in the slums as we have them in London and other cities. There are children who never see anything outside of the streets. They don't see a tree or a bird unless we can get them out into the country. They have no place but the streets to play. I understand that here in the States some of the streets are sometimes shut in the evening so that the children can play safely. We don't even have that yet.

You know the dangers of playing in the street, especially with the older children. They have the instinct of adventure and they want to hunt and there is no one to hunt but each other and at first it leads to nothing harmful, but later it may develop much which is harmful and which will cause a lot of trouble.

I think perhaps the greatest problem ahead of us now in child welfare is the adolescent child because more is being done for the small children than has ever been done before. The school child is given care in all civilized countries which it has never had in any other generation, but in most countries they are let out at fourteen, fifteen, or sometimes still earlier and then they don't want to go to school any more or take advantage of further education and they just drift away, lose what they have had and do not become good citizens.

Along with other things civilization also offers to the children and the young people dissipation and distractions which perhaps lead to a certain amount of selfishness—thought for themselves rather than thought for other people—and dissipation and distraction lead likewise to an unfortunate absence of meditation and reading.

We want a lot of help for these children in all directions and we are trying very hard in our great Scout movements to give them something of what they can't get any other way, but it isn't only for those movements I speak, because we are just as interested in other organizations, such as the Junior Red

Cross or the Y. W. C. A. or whatever organizations there are over here, all combining together to help these children.

We want your help, we want your sympathy, but above all things we want your interest. You may be surprised to hear we do not ask for your money. We find that it is better at home for these children to earn their own money as far as possible. You will find that even the little poor children bring their pennies or halfpennies every time they meet. They manage somehow gradually to buy their uniforms. They pay towards a fund for their camp and if possible they are self-supporting, because we believe that that gives them dignity and self-respect, which is essential in such work as we do. Of course, we are bound to ask now and then for help toward camp expenses and such things for the very, very poor, but we try as far as possible to get these children to earn their own money. They have sales or entertainments to which they get their friends and relatives to come. No doubt they may be rather dull entertainment but through those they can earn a certain amount of money which helps them to get out into the country and to get the fun which they need just as much as everybody else.

Our method is to interest the child, to attract it, to arouse the great sense of adventure which is in everybody. There is probably not a person in this room who doesn't look back on a time when he played pirate or something which was full of adventure. Probably at the age of sixteen or seventeen we all saw ourselves in heroic positions. These children are longing for that and somehow in the Scouts and Guides they are getting it. They are getting a chance of learning how to go into the world and look out for themselves and above all things, to look out for other people, because service is really the watchword of these movements. They are difficult to build up because we cannot get enough people to help us as leaders. Here again, if you will help we shall be very grateful; if you can make known the tremendous need there is for young people to come forward and help the children, we should appreciate it. Probably those who fail to do so may some day realize how much they wish they had.

When war broke out I went to help the Red Cross in London and I recall scores of women who came to the Red Cross office

offering to help, and when we asked them what they could do they said they couldn't cook or nurse or do anything. It was one of the most piteous experiences of my life during the war, to see this enormous mass of untrained people, people who hadn't faced the situation that was ahead of them; people who were not prepared or ready to do things; women bursting into tears because they couldn't go to the front.

Perhaps the preparation for peace is even more difficult than the preparation for war. There was something very splendid in the chance we had in working for the war, but there is something infinitely finer in working for the peace which we all need now. So if you could persuade young people to come forward and help these children to get the peace they all want in the future, to get the understanding and the tolerance of one another, to get to know different people in different countries, because one part of our work takes these children abroad, it would be wonderful. In England last year I think some five thousand boys went abroad to camp. They hiked across country and in doing that they learned to know the ways of boys in other countries. They got to understand that the people in France could do things, perhaps, better than in England. I know our Guides were very surprised because they went to camp in France thinking they knew a great deal and they came home humble because they found the French were a great deal better at camping than they were.

Since I came to America I have met any number of girls who told me that they have been corresponding two or three years with a girl in another country. They have Scouting as their subject and their one great wish is to meet the girl with whom they have been corresponding all these years. It is by this inter-correspondence and exchange of visits such as we have here with the women who are representing the different countries that we are hoping to achieve what we all want more than anything else in the world, namely peace for the children and peace for the children's children in the ages to come.

CHAIRMAN LINDSAY: Before proceeding with the general discussion of the papers of Dr. Snow, Dr. Julia C. Lathrop, and Dr. Boudreau, or of any other questions this group may wish to take up, I desire to call on one more speaker who is not announced on the printed program. Mrs. H. H. Moor-

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head is secretary of the Opium Research Committee of the Foreign Policy Association. She has attended all the recent international opium conferences and meetings and has very kindly consented to speak briefly on that important social problem.

MRS. H. H. MOORHEAD:¹ I am very much indebted to Dr. Snow for outlining the machinery of these advisory committees on subjects within the Social Section, and to Miss Lathrop for giving us an understanding of the significance of the work that Dame Rachel Crowdy has done as the head of the Social Section of the Secretariat of the League.

Dr. Snow remarked that there was some doubt as to whether opium was really a Health Section problem, a social problem, or a political one. Opium certainly is full of politics, and as such has been one of the most difficult subjects which this particular section has handled. In five minutes to which I was told I was limited, I cannot go into the detail of the entire opium problem. I can only call your attention to certain documentary information now readily available. A pamphlet² of the Foreign Policy Association contains the 1912 treaty, The League was made, by Article 23 of the Covenant, the intermediary for communications between the signatory states, and created an advisory committee for the supervision of the execution of the treaty. This pamphlet also contains the amendments to the treaty the drafting of which caused so much discussion and such a quarrelsome conference in November 1924 and the early months of 1925; and a general discussion of the events, and an analysis of the facts—an analysis without bias—on which the treaties are based; the text of the American withdrawal and the text of the critique given by the chairman of the conference on the American withdrawal.

What I want to say about the opium situation, which I think very few people understand, is that one of the by-products of this advisory committee in Geneva, which was established to carry through the execution of these conven-

¹ Secretary of the Opium Research Committee, Foreign Policy Association, 18 East 41st street, New York City.

² *International Control of the Traffic in Opium*. Summary of the Opium Conferences held at Geneva, November, 1924, to February, 1925. With Appendices, etc., New York, 1925, Foreign Policy Association, 56 pp.

tions, has been the evolution of an idea for the control of a raw material of commerce from an international viewpoint. There has been set up in the amendment to this treaty a thing called the International Control Board.¹ The United States, as you remember, has now withdrawn, refused to sign this new treaty, and has finally, as it were, run herself into a "blind alley" as far as the new treaty is concerned. However, the treaty has this element in it: It is the first attempt to set up the machinery for an international control of a raw material of commerce. The principles on which it is based are those which ultimately can be developed and applied to any raw material of commerce, even oil, even rubber. We have here a germ of an idea which, if it is soundly applied in its beginning, if it is started on a very small scale and every step taken with extreme caution, may be one of the really creative things which the League is doing, because I quite agree with Miss Lathrop that the real fundamental business of this world corporation, as it were, is only incidentally the thing which has deprived us of a larger audience this morning—disarmament.

They must get done with disarmament. They must get done with the arrangements in regard to war and then the League of Nations must get down to the actual creative, constructive world business, such as the health, the social problems more directly applied, and the fundamental economic difficulties between countries, to which opium, strangely enough, is pointing the way.¹

CHAIRMAN LINDSAY: Mr. Moorhead has very kindly brought a number of the pamphlets referred to, which she will be glad to have you take with you.

Dr. William Martin formerly associated with the International Labor Office has just come in. We shall be glad if he has anything he would like to say to us on the topics now being discussed. He is going to speak about the activities of

¹ Other pamphlets to which reference should be made are: (1) *India and Opium: The Present Situation*. By Rev. W. Paton, reprinted from the National Christian Council Review, January, 1926, Calcutta, India, 24 pp. (2) *The Opium Situation in India*. Recent Developments, 1926, New York, and Dr. Policy Association, 44 pp.

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the International Labour Office at the general session this evening.

DR. WILLIAM MARTIN:¹ Not having heard all of the statements it is possible I will repeat some things which have been said so far. But I think it would be interesting to point out that the League of Nations has been brought to those non-political activities chiefly, or rather partly, by the absence of the United States as a member of the League.

I think it is interesting to recall what happened in 1919. The League was first conceived by President Wilson and other negotiators of peace chiefly as a political body for political work—as a means of preventing wars. Then the Secretariat was organized in London. The chief officials who had served on Inter-Allied organizations during the war, and were out of work after peace came, were now called to come into the League; but they were primarily concerned with economic and technical questions, and they naturally brought into the League their state of mind.

I am sure, if the United States had ratified the treaty and become a member of the League, the first concern of the League would have been disarmament and the political questions which occasioned the creation of the League. But in the first year, the fact that the treaty had not been ratified by the United States caused the League some anxiety about its future, and the people who were chiefly concerned with technical questions took the upper hand. That is why the United States, not being a member, has exerted a great influence upon the evolution of the League, and principally because the League has thought that it would probably be easier to gain successes in the technical field than in the political field, without the collaboration of America.

CHAIRMAN LINDSAY: Thank you very much, Dr. Martin! I think that is a very good point to make—that out of our stupidity and unwillingness to do what every plain dictate of reasonable action would have demanded of us, has come some good thing after all. If we have been able indirectly to stimulate some of these social activities and give them a little

¹ Editor of the *Journal de Genève*, Geneva, Switzerland.

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added chance to become rooted in the procedure of the League in its early stages, perhaps later on when we come to our senses and become full-fledged members of the League, as I hope some time we will, the work will be broadened and the whole League strengthened by the unfortunate circumstances of these earlier years.

DR. SNOW: I had hoped that Miss Lathrop would be disposed to tell us, if she chose, about one item on an overfull agenda—about the way in which the Advisory Committee approached the question of motion pictures. I heard that Miss Lathrop had an active part in this work.

MISS LATHROP: I would like to know the source of Colonel Snow's information because I sat very silent during the discussion on the cinema. I read in the minutes, after the discussion, that the committee had determined to recommend that there should be a censorship established in every country. Being a non-voting member I was not permitted to record my views.

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PART VIII

SPECIAL TOPICS

THE RELATION OF THE UNITED STATES TO THE WORLD COURT

MANLEY O. HUDSON

Bemis Professor of International Law, Harvard Law School,
Cambridge, Massachusetts

I WAS very much interested, during our round table on disarmament problems this morning, to find such emphasis laid by different speakers on the necessity of our developing a new determination to have disputes between peoples peacefully settled before great progress can be made with the subject of disarmament. I think we may say that the world has made a very great progress in recent years toward developing a new determination to have disputes settled by peaceful means, and that progress is due as much as anything else to the setting up of new institutions for the purpose of handling acute international situations.

I am one of those who believe that it is possible for a great deal to be done by a court of international justice. I don't want to exaggerate the possibilities; I certainly have no desire to overstate them. Being a lawyer I think I appreciate lawyers' limitations in dealing with human problems. I am very far from saying that it is possible for a court of law to handle all international differences that may arise. I think it is only obscuring our problem to advocate any such thing. But I do believe it is necessary that our generation should give a part of its attention to the development of machinery for the administration of international justice according to international law.

The Permanent Court of Arbitration

All of us, I think, can take pride in the fact that in the course of the last few years so much has been accomplished in building up institutions to that end. In the first place, we still have the Permanent Court of Arbitration set up in 1899, and I am delighted to note that since our meeting this evening, Dr. James Brown Scott has come among us. I could not

speak of the Permanent Court of Arbitration in his presence without recognizing the very great debt that all of us owe to him for the very valiant part that he has played for a quarter of a century in pushing forward the interest in this country in such institutions and in making it possible for our government to play the part that it has. (Applause).

Looking back on twenty-five years, I don't see how anybody can say that the world would have been better off without the Permanent Court of Arbitration. I don't see how anybody can fail to say that we have profited by the existence of that institution. In twenty-five years it has handled with more or less success eighteen cases—a nineteenth case is now before a tribunal of that court, consisting of a single judge, Judge Max Huber, the president also of the Permanent Court of International Justice. The nineteenth case is a dispute between the Netherlands and the United States concerning an island in the Philippine Archipelago. Of those eighteen cases that have been handled, perhaps none would have led to war. Perhaps the handling of them has not very directly contributed to our meeting the problem of war. But I do feel that it has contributed indirectly, and I cannot see how it is possible for anyone to say that the world would have been in a better position in handling the major political problems of our time if there had been no Permanent Court of Arbitration.

The Work of the World Court

We have now succeeded in getting alongside this Permanent Court of Arbitration the Permanent Court of International Justice, more widely known in this country as the World Court. For almost five years now the Permanent Court of International Justice has been in existence and for my part, speaking as a lawyer, as a student of international law, as a person who tries to spend a part of his time in envisaging the future of international relations according to law, I can only express the very greatest rejoicing that this Court has made such a splendid beginning in the course of these first five years. It has won the confidence of lawyers throughout the world; it has won the confidence of foreign offices throughout the world; it has been far busier than any of us supposed it was going to be. I am very glad to see Dr. Scott nod his head to

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that statement. I think that he and I both felt when the Court was first set up that it might very possibly be put as an ornament on the shelf without being given very much to do.

During the year 1925 it was necessary for the judges of this new Court to be at The Hague every month in the year with the exceptions of September and December. That is, during ten months in the year the judges of this Court were at work during 1925. They are meeting to-day for their tenth session and they are now dealing with their nineteenth case. They will meet for their eleventh session on the fifteenth day of next month and when they come together for their annual session in June they will have two questions before them. One is a boundary dispute between Spain and Portugal, which I understand has now gone before the Court, and the other is a request for an advisory opinion coming from the Council of the League of Nations and relating to the functioning of the International Labor Organization. So I think we may say that so far as the handling of international disputes according to law is concerned, our generation has made a splendid beginning and if this beginning can only be crowned with a continuance for twenty-five years to come, I am quite sure that the person who is teaching international law in my chair twenty-five years from now will be teaching a very different kind of international law from that which I am teaching to-day. This court is going to make a new international law and I have little doubt that it has become a permanent thing in our international life.

Exaggeration of the Problem in America

Now in the United States I venture to say that the issue as to the World Court has been very much exaggerated. In the first place, I think we very much exaggerate its importance in the world in which we live. I can't see its direct relation to the problems of war and peace which some of my friends see, by any means. I cannot believe that it is capable of dealing with the greater problems which might possibly lead to war in our time. With a Court alone I should think our world very ill prepared to handle the current international problems of our time, though a Court is to me an essential part of any scheme of international organization.

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I think we first need to get rid of the notion that it is so all-important. In the second place, we have had difficulty in this continent because of numerous suggestions that have been made here about creating some new Court. I meet a great many people who have come to feel that it is a question of whether we are going to have this Court or some other. Well, since Dr. Scott and Mr. Root returned from The Hague in 1920 there has never been any question in my mind as to what Court we were going to have, and in my judgment the United States has had no freedom of choice since that time. It has always been a question of our doing something about this Court or our doing nothing, and it seems to me that some of our friends have only beclouded the situation by suggesting another course.

In the third place, there has been a misunderstanding in this country of the position of the World Court because of its connection with the League of Nations. Now I am not one of those who regard the League of Nations as the original sin. I have never minimized the fact that the World Court was set up largely as a consequence of the functioning of that machinery which we call the League of Nations, and that it exists to-day as a part of a general scheme of international organization. The fifty-five countries that are maintaining the League of Nations are all contributing to the support of the World Court, and all of them are inclined to view the World Court as a part of a general effort that they are making to maintain the world's peace. They view it as one of the agencies necessary for the functioning of that new method of cooperation and widening understanding which we call the League of Nations.

In the fourth place, there has been a misunderstanding in this country of the advisory opinions of the World Court. Unfortunately the book which Dr. Scott wrote immediately on his return from The Hague in 1920 has been very little read and many people have not understood the device of advisory opinions. In fact, I think few of us in the beginning, though this is not true of Dr. Scott, few of us understood how important they were going to become. In my judgment they are to-day the most important part of the work of the World Court. They mean that the Court is not to exist *in vacuo*, it

is not to exist in space apart from what people are doing in other fields, but it is to be a servant of the people who are trying to guide the world's affairs through international conferences of all kinds, whether within or without that system of conference which we call the League of Nations. The history of the last twenty-five years has shown that nations are very unwilling to cast their differences in terms of legal solecisms. It is very difficult indeed to find a legal equation which would cover many of our international disputes. If anyone doubts that statement I would suggest that he try to frame a legal question that was in issue between the Powers in 1914. I find myself entirely at a loss to know what the legal problem was that was in dispute in 1914. It is possible, however, to have a political conference to deal with various political situations and to aid that conference by opening the possibility of referring questions that are bound to arise in the course of such discussions to a group of jurists for an authoritative opinion. In the course of the last four years, in thirteen different cases, it has proved a very useful thing indeed for the Council of the League of Nations to be able to seek the advisory opinion of the Permanent Court of International Justice. Of course, that advisory opinion does not bind anybody; of course, it is what it purports to be, advisory, and yet it does furnish in certain situations a guide which enables the political discussion to proceed and to proceed in clearer atmosphere.

Now in spite of these exaggerations in the United States, our Senate has taken the action set forth in its resolution of January 27, 1926, and it has at last after a long delay advised and consented to adhesion by the United States to the protocol of signature of the Permanent Court of International Justice.

During all this period of five or six years while the new Court was being builded, while it has been gaining the confidence of lawyers in foreign offices, the United States has contributed nothing. Two individuals in the United States, Mr. Root and Dr. Scott, in 1920 contributed their counsel. Another individual, Judge John Bassett Moore, has contributed his valuable assistance by acting as a judge of the Court. But the government of the United States has contributed nothing, not even Judge Moore's salary.

The Senate Reservations

But we now propose that the United States shall adhere to the protocol on certain conditions. So far as these conditions are such as were proposed by Secretary Hughes, they are not likely to cause any difficulty that I can see.

The first one simply provides that the adhesion will not be taken to involve any legal relation on the part of the United States League of Nations. I simply don't know what that means. I suppose it is an inoffensive statement of a reservation, because no one has pointed out any meaning for it.

The second is that the United States is to participate in the election of the judges of the World Court. That is a very proper condition for the United States to set and I doubt if it will meet with any opposition whatever in other countries.

The third is that the United States will pay a fair share of the expenses of the Court as determined and appropriated from time to time by the Congress of the United States. This would be the only obligation that the United States would undertake in adhering to the protocol of the Permanent Court of International Justice. It would be an obligation to pay some \$35,000 or \$40,000 a year, the exact amount to be determined by our Congress.

The fourth reservation is that the United States may withdraw at any time from the support of the Court, which doesn't quite seem as though we were cooperating as wholeheartedly as we might. In other countries it wasn't found necessary to put in any statement about withdrawal, but of course we have had a history in North America which may perhaps be responsible for this. Our Supreme Court of the United States, which I take it all of us in this room regard as one of the great pillars of the republic to-day, was very unpopular in this country for some twenty to thirty years after it was established. In fact, its unpopularity did not disappear until the Civil War. I recall a statement by a very prominent politician in Kentucky as late as 1820, in which he wanted Kentucky to withdraw from support of the Supreme Court of the United States. Perhaps the history of our Supreme Court and the things that were said about it in the first twenty-five years of its existence may be a historical pre-

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cedent for our action in drawing up this reservation about the World Court.

But the fifth reservation gives considerable difficulty and I should like to place the difficulties before you in the two or three minutes at my disposal. The first part of the reservation, perhaps, does not occasion difficulty. It says the Court shall not render an advisory opinion except publicly after due notice to all states adhering to the Court and to all interested states and after public hearing or opportunity for public hearing given to any state concerned. That only states a practice of the Court, a practice that has become settled.

But the second part of the fifth reservation is more serious. It says: "Nor shall the Court without the consent of the United States entertain any request for an advisory opinion touching any dispute or question in which the United States has or claims an interest." Advisory opinions have come to be regarded with a great deal of satisfaction and a great deal of favor in other countries. I think other countries would be most reluctant to take any kind of action that would in any way limit the usefulness of the device of advisory opinions, and my information is to the effect that people in other countries are scanning this second part of our fifth reservation most carefully indeed to see whether or not it may limit the usefulness of advisory opinions in the future.

Difficulty of the Fifth Reservation

The difficulty is here. It isn't objected that the United States should have that power which any state represented on the Council of the League of Nations has in the requesting of advisory opinions. We don't know quite what that power is. It has not been decided whether a single state represented on the Council of the League of Nations can block a request by the Council for an advisory opinion. If that request requires a unanimous vote, then of course any state represented on the Council can block it and any state especially interested in any question is entitled to be represented when the Council is talking about requesting an advisory opinion. But the precedents are not clear; the question has not been decided and it is impossible to say to-day whether unanimous action is necessary when the Council requests an advisory opinion. It may be

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that the Council could make the request by a majority vote. Then the United States says we should like to be in the same position as other states and the argument in the Senate was that equality would require that we should be permitted to veto a request for an advisory opinion at any time. I think that is hardly a fair argument because it presupposes a decision as to the necessity for unanimity in the Council itself. But supposing unanimity is necessary in the Council and supposing that the United States is in this respect only placed on an equality with other countries, then the difficulty comes that when the Council is considering making a request for an advisory opinion, the United States is not represented at the meeting of the Council and it is very difficult for the Council to know whether the United States does or does not have or claim an interest in a question which may be submitted for advisory opinion to the Court.

Now the reservation reads that, "The Court shall not, without the consent of the United States, entertain any request for an advisory opinion touching any dispute or question in which the United States has or claims an interest."

If it could be said that the United States would express its opinion as other states represented on the Council will express their opinions, then I take it that other countries would have no objection to this reservation. But that cannot be said. Then when is the United States going to say whether or not it has or claims an interest? After the Council has acted? That would be a very awkward position, indeed. While the Council is acting? Must the United States be consulted before the Council acts and in the course of its deliberations? During the Mosul case last fall it was necessary for the Council to act very quickly to request an advisory opinion. The request for an advisory opinion was a step in the negotiations concerning the Mosul question. If we are insisting on the letter of this reservation, it might very well mean that the Council would be deprived of its power to request and get an advisory opinion in an acute case with promptness and with certainty.

The Present Situation

So I think the Senate reservation has created a very serious situation indeed, and that part of the Senate program is

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being carefully studied in other countries. Therefore we ought to be very patient until other countries have a chance to make up their minds about it. I should have hoped that it would be possible for the United States to have a representative sit down with the representatives of other countries and talk over this situation, to say what these reservations are designed to accomplish, perhaps to unfold our political situation in this country, so that the reservations could be better understood. But of course, when the President was confronted with an invitation to be represented at such a conference he had two difficulties to consider. The first difficulty was that our Senate has in recent years been attempting to take on its own shoulders the responsibility of conducting our international affairs. Here is a question still in the state of negotiation; the President has not committed the country in any way; we stand wholly uncommitted internationally and yet in the stage of negotiation it is very difficult indeed for the President to deal with the question because the Senate has said what it is going to demand and the President is afraid—very properly afraid—to modify any dotting of an i or crossing of a t in the Senate reservation.

In the second place, the situation was difficult for the President because of the apparent justification of a criticism made in this country that the World Court is somehow a creature of the League of Nations. I think that has no reality in it whatever, but given the political situation at the time, it doubtless had to be considered by any Secretary of State or any President of the United States.

So we are to-day confronted with this situation. The United States proposes to adhere on certain terms. Those terms are very serious terms indeed. For my part I very much wish that the other countries would accept them. I very much hope that this fat will not get back again into the fire. But I see the difficulties that must inevitably be present in the minds of people of other countries. I think we find ourselves to-day in a most difficult situation, the Senate having laid down a program, the President unable to be represented in any international conference at which that program would be discussed, the program having to do vitally with the future of the Court, and yet we seem to be unable to get any further for the moment. Perhaps some of you will say it is just as well

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that this whole subject should be allowed to stand over for a few years to come. If one draws that conclusion, I am not going to be very impatient with him. The consummation of this action by the government of the United States will not make very much difference to the course taken by our government in handling actual cases in dispute with other countries. But I do think that the immedaite consummation of this adhesion would enable our government to follow a very much more enlightened policy with reference to international arbitration than it has been following during the course of the last five years.

We have got ourselves, it seems to me, into a very difficult situation. In the course of the next months we shall probably have to consider it from wholly new angles, and the difficulties at the present time do not show the method of their own solution.

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INTERNATIONAL TRANSIT PROBLEMS

WALKER D. HINES

Late Director General of Railroads; Arbitrator under Peace Treaties of Questions of River Shipping

THE subject which has been assigned to me, International Transit Problems, is rather broad. I had better use a little of my twenty minutes in providing some boundaries to the subject with which I shall deal. In the first place, the world-wide problems connected with ocean transportation I shall not undertake to touch upon.

With respect to the United States, or rather the American continent, it is rather interesting to note how few international transit problems we have. Five years ago, when I attended the London Congress of the International Chamber of Commerce and acted as chairman of the group on transit, it was difficult to find any substantial international transit problems which were presented by the North American continent, leaving aside, of course, ocean transportation. I suppose in South America they may have more problems because they have more countries, more international conditions to deal with; but, after all, the conditions where international transit problems are the most pronounced are the conditions that we find in Europe. Most discussions relative to international transit problems deal with the situation in Europe, and that is what I want to discuss briefly this evening.

Even before the war there were so many countries in Europe and their boundaries were so close together, that the problems, to some extent of river transportation and to a very great extent of rail transportation, involved in movement of traffic and passengers from one country to another were always present and always serious. It is hard for us in this country, with an extent of nearly three thousand miles east and west and almost two thousand miles north and south, to realize how many international problems there can be in Europe with respect to transportation.

Some years ago I saw a map of the Atchison, Topeka and

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Santa Fé Railway, which extends from Chicago to the Pacific Ocean and the Gulf of Mexico, superimposed on a map of Europe. The result was that the eastern end of that railway system at Chicago was about where St. Petersburg was at that time; the southern end was found down in Italy or Spain; the western termini were found out in western France and in England. Thus, a single transcontinental system of railroads in this country covered a very large part of Europe, and whereas in that system as it exists in this country there is not a single international problem, a corresponding extent of railway mileage in Europe bristled with international problems, even before the war.

I want, however, to speak of the problems that are peculiar to the post-war conditions and of course I have to limit that largely to the things with which I have had some contact in my work in Europe since the war. As I look at it, those problems were of two characters. One was the specific things that needed to be done after the war to adjust transportation conditions to the changes which the war had brought about. There are two sorts of those problems that I have particularly in mind. One was the redistribution of the rolling stock of the railroads. That was necessary in many parts of Europe; for example, when France got back Alsace-Lorraine after the war, there was the problem of taking over the railroads and the rolling stock appropriate to those railroads. That was a comparatively simple problem. But in the Austro-Hungarian monarchy, whose territory was distributed among seven distinct and independent nations after the war, this problem of distributing the railroad rolling stock was one of immense difficulty. Very shortly after the treaties of peace were put into execution, a commission was formed containing representatives of all the interested states and of some other states to work out a distribution of this rolling stock. The problem was so enormously intricate that it took years to work it out. I am not certain that it has yet been completed. I know two or three years ago the rolling stock was circulating on a purely provisional basis because the commission had not been able to reach a final agreement. A difficulty that arose in making the distribution was that the machinery employed, that is a commission with members from all of the interested states, was

naturally not beyond the influence of politics. Inevitably the work of the commission took on a political aspect that made it difficult to reach conclusions.

The work with which I had direct connection was the distribution of the shipping on international rivers, and as to that, the peace treaties adopted an entirely different scheme. Instead of creating a commission upon which there should be representatives of all the interested countries, they went to the other extreme of providing that the distribution of the shipping should be made by an arbitrator designated by the President of the United States, so that they entirely avoided the necessity of trying to get an agreement among the interested parties as to what should be done.

In fact, the thing that attracted me to that work, when I was asked if I would undertake it, was that I would not have to get anybody to agree with me. (Laughter). There was nobody who could discharge me; there was no appeal from my decision; so it struck me as a rather agreeable sort of undertaking. The result, I think, justified the wisdom of designating some single person to make the decisions, because the work, although started some months later, was substantially completed long before even a provisional completion could be made of the distribution of the rolling stock in Central Europe. This result was not due to any qualities of my own, but to the advantage of having a single and disinterested individual to make decisions instead of having a commission made up of representatives of all the interested countries.

Now in doing that work, the problems I had to deal with involved, first, a decision as to how much of the German shipping on the Rhine must be given to France, in view of the fact that France, by getting back Alsace-Lorraine, had got an important footing on the Rhine. It was conceived that France should have a corresponding amount of the German shipping. Then similar problems arose as to the distribution to Czechoslovakia of a portion of the German shipping on the Elbe, and as to the distribution of a portion of the German shipping on the Oder to Czechoslovakia and Poland. The most intricate problem of all was to decide how much of German, Austrian and Hungarian shipping on the Danube should be turned over to Czechoslovakia, Yugoslavia and Rumania—

a sort of a six-sided puzzle. It was complicated by the fact that in the last days of the war a great deal of German, Austrian and Hungarian shipping which was moving up the Danube, trying to escape the approach of the Allied armies which had come in from Saloniki, was seized. The American arbitrator had to pass on the validity of such seizures and decide how much the capturing countries were entitled to keep. Those problems were worked out, distribution was made, and as I say, by reason of the fact that a single person could make the decisions, they were made with reasonable promptness.

Then the situation settled down to the more permanent difficulties. The changes brought about by the war produced problems of a much more lasting character and which could not be solved by the mere distribution of transportation equipment but called for continuing attention. It happens that I had some opportunity during last year to see further how these more permanent influences of the post-war readjustment were still burdening certain phases of the transportation situation in Europe, because the League of Nations asked me to make an investigation of navigation conditions on the Danube and the Rhine and I spent the greater part of last summer in that work. I would like to mention a few of the points that came to my attention then, because they illustrate conditions which have arisen all over Europe in one way or another with respect to transit, both by rail and water. My own investigations last summer, however, related primarily and almost exclusively to the water problems.

The Danube situation called for the greatest study. Before the war the Danube was largely in the territory of a single political entity and that was the Dual Monarchy of Austria-Hungary. The territory from Passau at the frontier between Austria and Germany down to Orsova, which was in the eastern part of Hungary, was all in Austria-Hungary prior to the war, and thus was within a single toll union or customs union, so that there was a kind of free trade approximating that which we have within the limits of our own country. That was a distance of nearly 1200 kilometers and before the war commerce could move back and forth within that limit without having to cross frontiers which had customs duties or serious formalities. Since the war that condition has been entirely

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changed. Whereas before the war a cargo could pass from a point just below Passau on down to Orsova without passing any customs boundary, at present that cargo passes out of Austria into Czechoslovakia and out of Czechoslovakia into Hungary and out of Hungary into Yugoslavia and out of Yugoslavia into Rumania, and at each of those crossings of a frontier there are separate sets of conditions and distinct formalities as to customs and methods of examination which have proved to be a very serious embarrassment in the development of transportation by the Danube.

In another respect the condition has changed in a very fundamental way. Before the war, practically all the shipping on the Danube, aside from that of Rumania, on the lower river, was under the control of the principal Austrian and Hungarian companies, which worked in close cooperation. There was a German company which was beginning to develop but had not yet become very important. After the war, on account of the creation of these new sovereignties, we had the situation that I found last summer. There is now a German company, an Austrian company, a Czechoslovak company, a Hungarian company, several Yugoslav companies, two or more Rumanian companies, both I believe operated by the state, a Dutch company, and a French company. All those companies have acquired shipping and are operating on the Danube. There has been an immense amount of duplication of effort and that has contributed to the transportation problem.

Another feature closely connected with what I have said as to the Danube is that, along with the creation of all these different states, there has been an enormous development of intense nationalism. Each one of these countries is naturally bent on trying to become sufficient unto itself, so that it can protect itself and support itself, no matter what untoward international events may come about. The result is that very high protective tariffs have been established, and consequently the industries which had been built up before the war to serve a wide area are now confined to their new home territory, which is much more restricted, with the result that a part of the old industrial plant is being wasted because it is not being used and at the same time new industries are being created in some of these new countries to take the place of the industries that are wasting in the older locations.

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For example, before the war Budapest was one of the greatest flour markets in the world. It had an enormous area from which to draw grain. It had an enormous area in which to distribute flour without encountering customs barriers. At present the area from which the Budapest mills can draw grain is greatly restricted and the area throughout which they can sell flour is very much more restricted, so that the flour milling plant which was created in Budapest before the war cannot be used to its capacity and in other Danubian countries they are now developing flour milling plants in order to provide the flour which formerly was provided from those at Budapest.

That is just an instance of innumerable problems that have arisen since the war that have affected the commerce of those countries, decreased the total commerce, and, consequently, to a considerable extent, upset the methods of transportation, as well as the quantity of transportation. In 1923 the amount of traffic carried on the Danube was only a little above half of what it was in 1911, showing how the region has suffered in the interchange of goods and passengers by reason of these restrictions which were the inevitable outgrowth of the conditions growing out of the war.

Now I am not one of those who spend time in lamenting the existence of such conditions or in claiming that a great mistake was made in creating these different countries. My own opinion is that those new countries just grew up out of the conditions which produced the war. When the war was drawing to an end the several nationalities along the Danube were beginning to assert themselves as separate countries just because the old scheme had broken down. Nobody can be charged with fault unless we can say that those who had established the old régime were to be blamed. It is hardly practical to debate how far this situation falls short of being perfect or how much better it might have been. It is a situation that exists; it is one which was the logical outgrowth of the war, and I am mentioning it simply because of its direct bearing upon the transportation problem.

Before the war Rumania had a very large surplus of grain to be exported to foreign countries. Since the war, although Rumania has acquired a great deal more territory and much of it very important agricultural territory, it appears that

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Rumania has less grain to export than it had before the war, and that greatly affects transportation on the Danube. There are two or three different reasons for that, rather interesting reasons. For one thing, they say that the distribution of the land, the breaking up of the big proprietary estates, has cut down the production because the production is now on a more unscientific and fragmentary basis than it was before. Another thing they say is that on account of the war and the experiences that the Rumanian peasants had in the army, they have gotten more in the habit of eating white bread and they want to keep it themselves; there is not so much of a surplus of marketable grain as there was before the war. Another reason is that Rumania, in attempting to meet the difficult situations that have confronted it since the war, has resorted to quite extreme measures of prohibiting the export of grain at times. Such measures must have discouraged the production of grain, because they have forced the grain to be sold at home for very small prices which have been unattractive to the farmers.

These facts are just illustrative of the things that are going on all over Europe. It would be impossible in any reasonable length of time even to catalogue the disturbances which the war has made in the methods of life and business of the people. Such conditions have far-reaching effects upon international transportation.

Another feature of these problems is the burdensome formalities that have developed at these frontiers. I might illustrate that by what is perhaps the most extreme instance I have found on the Danube. A cargo going, say, from Budapest in Hungary to Belgrade in Yugoslavia, has to cross the frontier between Hungary and Yugoslavia. Just before it crosses that frontier there has to be a customs inspection and a police inspection and a sanitary inspection at the Hungarian station at Mohacs. Then the boat proceeds downstream about twenty-five kilometers and it finds on one bank the police officers of the Yugoslavian Government and on the other bank the customs officers. It has to go through these formalities again, and perhaps it cannot get the police officers and customs officers to conduct their inspection at the same time. It is frequently the case that boats representing perhaps a considerable in-

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vestment and operating cost lose an entire day or more just through the formality of that double or treble inspection. Now I think that is a temporary condition. Both countries have indicated their entire sympathy with a plan to consolidate those stations and to simplify the situation, but this proposed consolidation is one of the numerous things that have not yet been achieved. Yugoslavia after the war was confronted with the stupendous task of reconstruction, largely of its railroads, and of organizing its government to administer much more territory; and it has not been possible to get around to all the problems which grew out of the war, even though they cry for amendment and reform.

On the Rhine the situation was much better organized and there were fewer problems. I was greatly interested to find that, as far as the navigation people, German, French, Belgian and Dutch, were concerned, the thing that seemed to cause the greatest difficulty was the excessive railroad competition, growing to a substantial extent out of national policies.

For example, it seems that Germany had more and more committed herself to the policy of preferential railroad rates which encouraged traffic to move through the German ports on the North Sea instead of through ports along the Rhine, and that policy had proceeded to the extent of substantially cutting down the movement of traffic on the Rhine. It was also interesting to note that the Rhine shipping interests of each country thought it was the railroad policies of other countries that were largely responsible for the adverse effects on Rhine traffic. The various shifts in the policies of railroad rate making were largely the outgrowth of post-war conditions.

These things I mention just as illustrative of international problems in Europe which have come in the wake of the war.

Having given those illustrations, I want to emphasize that these problems are receiving a very high degree of intelligent, sympathetic attention from the Secretariat of the League of Nations. They have a Transit Section which is constantly studying these matters with a sincere desire to find solutions.

When I went to Geneva to take up this investigation it interested me enormously to find there in the Transit Section a group of men who were not thinking about this thing from

the standpoint of any one particular country but who were thinking about it from the standpoint of the common good of Europe. Their aim was to develop transportation, so it would be the freest and the least subject to interruption possible. I believe this is one of the very most important aspects of the work of the League. In this country we do not adequately realize that the existence of the League has developed an international sentiment, an international sympathy and, on the part of these experts who are spending their time there studying these matters, a desire to promote the general good. I believe that by degrees these men, studying this problem and that, and using their influence to improve conditions by degrees, will have a tremendous influence in getting rid of the difficulties which the war has left behind it in such indescribable numbers. They are doing this all the time. They send their representatives to different places to make investigations, and, as far as I could see, they show an amazingly international, well-balanced spirit, sympathetic to all countries, primarily actuated by the motive of trying to improve international relations, clear away the difficulties, and promote the freedom of transit in Europe.

While the obstacles to reasonable freedom of transit over there appear almost insuperable when tested by our standards, I believe we can at least derive a substantial measure of comfort from the belief that there is in the Secretariat of the League a competent and sympathetic group of men who are doing their best all the time to solve these problems and to promote the welfare of Europe—and that means to promote the cause of peace in Europe and in the world.

TARIFFS AND TRADE BARRIERS AS OBSTACLES TO INTERNATIONAL GOODWILL

HERBERT C. PELL, JR.

Former Congressman from New York;

Former Democratic State Chairman, New York

WARS among nations are not isolated phenomena; they are not fortuitous events; they do not come like meteors unheralded from another sphere. They are the consequences of the conditions which precede them, and those of us who wish to do anything to insure the continuance of a normal condition of peace must first study the circumstances which make wars possible and investigate the roots of the hostility which at last makes them inevitable. Like other menaces to the health, happiness and contentment of humanity they can be permanently abolished only by the suppression of their causes, and it is well for us seriously to consider what these causes may be—to follow the same course that would be taken by a group of physicians anxious to prevent the outbreak of an epidemic or of underwriters attempting to lessen the danger from fire or from explosion. The doctors would not confine themselves to the generous distribution of medicines, but would consider the drainage and water supply system of the community and the carrying possibility of the illness which they were investigating. The underwriters would not limit themselves to an effort to prevent the occurrence of sparks, but would try to prohibit the accumulation of vast stores of explosives in places where sparks might occur. In international relations sparks cannot be prevented, but a great deal can be done to prevent the accumulation of static hatred ready to explode at the first excuse.

There is in every part of the world a certain dislike of foreigners or of outsiders and of their customs. There is throughout this country a feeling of dislike for the city of New York. In the South you will find that little good will be said of the Yankees. New England despises the rest of the nation. The average country man does not care for his urban

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fellow citizens. This distaste seems innate, but unless it is artificially strengthened it will act more as a stimulant than as a menace to peace and to prosperity.

Naturally no one will arouse hatred merely out of deviltry, and certainly no expensive propaganda of hate, malice and suspicion will be organized simply to vent spleen. No one will, just to satisfy spite, organize an anti-New York movement in the South or an anti-Western movement in New England.

The dislike of foreign peoples is, however, fostered in this and in other countries by a very expensive organized propaganda supported by individuals who expect to get a profit from some special privilege granted by their government, usually in return for political contributions, but ostensibly to protect the people from some foreign bogey set up by the propagandist. It is perfectly obvious that no politician would dare to go to any community and seriously suggest the advisability of adding an extra twenty-five cents to the cost of every cotton undershirt worn throughout the United States in order to provide the mill owner with a handsome villa or a Rolls Royce. Such talk will not go down; so we find every manufacturing district harried continually by cunning orators—the servants of the interests which hope to profit by hate—who are ready at all times to ply their trade. A meeting at Lowell, Massachusetts, will be told that the British, and especially the people of Yorkshire, are devils spending their lives in the effort to bring about the ruin of the fair city of Lowell. At the same time in England, cotton barons, as desirous as our fellow countrymen of unconscionable profits, are employing men to stir up hatred against the contriving and extortionate Yankee.

In a political speech delivered in London I heard the American steel manufacturers held up for public hatred as (at home) an eleemosynary group, who, rather than have their men idle and see hardship among their employees, will continue to manufacture at a great loss to themselves. The English audience, however, was told that the charity of these philanthropists was strictly for home consumption, and that once they looked across the border they took off their halos and put on horns and tails. In their black councils there was plotted the ruin of the city of Sheffield, the destruction of all the English

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iron industry, and the audience was seriously told that back of this nefarious scheme was the whole body of the American people. In fact, these English electors, without much knowledge of foreign affairs or of conditions in other countries, were told about the United States exactly what the people of the United States are being told about the people of England—what we hear about the city of Lyon if we go to a political meeting in Patterson, New Jersey, and what we would hear of Patterson if we went to a meeting at Lyon. It is quite true that none of these politicians, and certainly none of those who employ them, are consciously desirous of war, but each one feels that his own game can be improved a great deal at an apparently small public cost. They believe that a little local suspicion and dislike of foreigners is unlikely to have much effect one way or another on great international questions and it may be of real use in justifying their legislative servants in voting them special favors. Each one is doing his bit to add to that explosive mass of hatred, which, if it be great enough, may at the coming of a spark result in a tremendous catastrophe.

In 1914, at Sarajevo, Franz Ferdinand was shot. Here was a little enough spark, but the explosives piled up by generations were so powerful that their detonation cracked civilization to the bottom. Only last year an American Consul was killed in Persia by a mob. The Persian Government might have done much more than it did to protect our representative, but we did not see this country traversed by rioters ready to tear the flag from Persian Consulates or to lynch itinerant carpet venders. As an excuse for war this was far more valid than was the murder of the Archduke. The spark was bigger but there was no explosive lying around. The American manufacturers of fur coats had not aroused the country to the iniquities of the unborn pauper lambs of Persia. Our people looked down on the Persians in much the same way that the Persians looked down on us, but this feeling had not been artificially stimulated by American manufacturers, and the incident passed off in peace.

One of the most important lessons of the war which has hardly been considered by the public is that drawn from the unity of Germany and of Italy. Less than fifty years before 1914 Prussia and Bavaria were at war. The king of Bavaria

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in 1914 carried a Prussian bullet in his body. He came of a people and of a family which had been great in the councils of Europe at a time when the Hohenzollerns were nothing but petty robber barons and before Prussia existed, and yet after the most stunning defeat experienced by any great nation in recent years, with the shattering of all the governments of Germany, there has been no serious move to revive the independence of Bavaria which had given queens to France and emperors to the Holy Roman Empire at a time when the steward of the French King would have disdained a Hohenzollern bride and when part of the imperial duty was to extend civilization into that territory that is now Prussia. Saxony has a proud history. The independence and courage of the Hanse towns illuminates the Middle Ages, and yet the new German nation survived its first government.

Italy, too, remained one nation, and yet from the 13th century till the year 1860 in no Italian book will you find any reference to the Kingdom of Naples, to the Kingdom of the Two Sicilies. It is always just "The Kingdom"—"*il regno*." The rulers of this Kingdom had been emperors of the West when the Counts of Savoy were petty French noblemen. The Republic of Venice was a great power in the world when Savoy was a den of thieves. The ancestors of the present King of Italy were no more than freebooters during that epoch which made Florence the financial center of Europe for centuries and the artistic inspiration of the world for all time; and yet, in all the stress of the present day do we find these small nations of Italy looking back to their separate glory? We find the same feeling of unity here that we find in Germany; and why? For more than half a century there has been no private profit to be gotten in Berlin out of popular hatred of Bavaria or of Hamburg. The manufacturer in Milan would gain nothing by hiring politicians to vilify Naples. The hatred which for centuries had made Germany and Italy little more than cockpits is dead. A Berlin brewer cannot ask for protection against the pauper hops of the wicked Wittelsbach, so he either makes his beer cheap or good or goes out of business. The Chianti district cannot rush to Florence and ask for protection against Asti. The result is that both in Germany and in Italy very real and independent nations have been actually fused together.

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On the other hand let us consider the case of Savoy and Nice. At the same time that Naples, which was one of the oldest countries in Europe, was added to the possessions of the House of Savoy, Savoy itself, whence sprang the race of the present kings of Italy, and Nice, their first seaport, were ceded to France. To-day, Savoy is as French as Touraine; Nice is as French as Marseilles. The manufacturer of perfume at Cimiez, who seventy-five years ago would go to Turin and try to arouse hatred against the manufacturer who operated twenty miles west of his plant at Grasse, is to-day in partnership with the man from Grasse, sending a representative to Paris to ask for some restriction on the trade of his erstwhile fellow countryman from San Remo.

It is worth remembering that what happened in the 19th century to Italy and to Germany is only what happened to every other nation in Europe at some earlier time. What is now France was once several independent states. Provence, Dauphiné, Brittany, Burgundy, Aquitaine, Normandy and Anjou were absolutely independent of France and of each other. Spain was divided into many little free peoples. These many states actually coalesced, and it is worth remembering that the nations of Europe became solidified within themselves only as they did away with internal economic barriers. So far as I know there are only two cases in which separate nations have been united and these economic barriers done away with that the union has not been permanent. I refer to Norway and Sweden, which remained together almost one hundred years, and to Belgium and Holland, which separated after fifteen years. Except for these cases no independent governments have ever coalesced and destroyed the tariff wall between them and ever afterward willingly separated. On the other hand no alliance in which the economic barriers between the contracting nations were maintained has ever outlasted the crisis which brought it into existence.

We are forced to the conclusion that the greatest cause of war is the propaganda of hate engineered by manufacturers anxious for immediate private profit gotten at they care not what ultimate cost. This private privilege to plunder they get from politicians not too proud to peddle percentages to contributors and who hide their sordid traffic back of a smoke

screen of hate raised for the purpose. Tariffs, not armaments, are the cause of war.

We can study this question in the United States itself. This country to-day is the biggest free-trade area in the world. It is the largest and most divergent economic unit. We can afford much local self-government because we know that our fundamental unity is not being attacked by subsidized propaganda. There is, of course, a natural and healthy regional rivalry. There are local prejudices which, within bounds, do more good than harm, but there would not be sufficient profit in arousing sectional hate to make it worth while for any business man to pay the expenses of such a campaign of propaganda. The man who runs a greenhouse in New York State cannot go to Albany screaming for protection against the sunlight of Florida. He will make no profit out of vilifying California. He must either run his business efficiently or get out. He cannot arouse public hatred to cover his incompetence. That is the reason we do not have the press disseminating internal hate. It is the reason the subsidized politicians at every state capital are not occupied in abusing their fellow countrymen; but the fact that suspicion of other nations can be made the source of private profit is the only reason why there is a regular organized propaganda of hatred and distrust here and in every country of the world.

THE PRESS AND SOCIAL SAFETY

EDWARD PRICE BELL

Former London Correspondent of *The Chicago Daily News* and President,
Association of American Correspondents, London

WHENEVER I think of the question of social safety in the United States — whenever I ask myself whether we are, or are not, free from the menace of revolution in this country—my mind instantly turns to the American press. I ask myself, "How well is our press serving our people?" I ask myself, "Have we, or have we not, a press as good as it ought to be?"

Whenever I think of the question of social safety in the world at large—whenever I ask myself whether the property and the lives of the nations are, or are not, safe—my mind instantly turns to the international press. I ask myself how good this press is. I ask myself whether it is, or is not, worthy of its peculiar, its tremendous, its sacred mission.

You all will gather, therefore, that I place the press and social safety—place journalism and peace, whether the peace be national or international—in close and vital apposition. This I most indubitably do. If a nation's press be bad, I do not think its political and social institutions can be safe. If the world's press be bad, I do not think the world's peace can be safe. Good newspapers and good human relations, a sound press and a stable society, I regard as inseparable.

Now, assuming that this point of view is correct; assuming that this premise is tenable; assuming that as goes the press of a nation so goes the social well-being of the nation, and that as goes the press of the world so goes the peace of the world, it follows that students of journalism are equipping themselves to play a part in a formidably responsible profession. My belief that they so are equipping themselves, and my further belief that journalists always can profit from taking counsel together, account for my venturing to address you to-night.

Surely this view of the press makes it surpassingly interesting. Seen as I am asking you to try to see it, it becomes a mirror, a fascinating mirror, a mirror in which the keen eye

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may catch a glimpse of the movement of human destiny. What do you see when you look into the mirror of the American press? Remember, in a sense, you are examining your own lineaments there. Remember you are looking at yourself and your compatriots, at your emotions and theirs, at your convictions and theirs, at your morals and theirs, at your thoughts and theirs, at your words and theirs, at your actions and theirs—looking at these things, and saying to yourself, "What do they all mean?"

Let us get down to hard-pan in this matter. What do we think of our spiritual and intellectual physiognomy as we see it in our newspapers, magazines, and reviews? Do we like it? Is it a handsome face? Is it a noble face? Are there lines there speaking of health, of purity, of greatness, of wisdom, of sympathy? Are there lines there speaking of a heart void of greed and scorning danger in the path of duty? Are we a people traveling the right road at home, and thoroughly unashamed to look the world in the face? What, in a word, is our opinion of this journalistic image of our national soul?

As for myself, I see many things in this composite, this very wonderful picture. Some of these things are encouraging. I see lines of high intelligence. I see lines of great nobility. I see strong lines, clean lines, tender lines. I see lines of infinite intrepidity. And I see a beautiful light in the picture. It is the light of friendship, of compassion, for others—even others of a hue of skin not ours, of nations to which we do not belong, of creeds in which we do not believe. Peculiarly splendid is this light. It is the light of humanity.

All these things I see in the picture, but I see others. Sometimes I see so many others that they appear for a time to blot out everything I just now have been trying to describe. I see lines of gross stupidity. I see incredibly mean lines. I see lines of weakness, of filth, of brutality. I see lines of ignorant politics, of debased politics, of impudent politics. I see lines of duly-constituted authority hand in hand with crime. I see lines of prestige and power indifferent to the public weal, strategically, resolutely, pitilessly bent upon their own errands. Timidity I see. Cowardice I see. And, instead of that most beautiful light in all our world—the light of humanity—I see the glare of a narrow, an avaricious, an insensate, and a disastrous nationalism.

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Every one of these things looks forth from our national portrait as revealed by our press. What are we going to do about it? What can we do about it? If the situation is to be put right, let me say to you that the task will fall mainly to the newspapers, magazines, and reviews of this country. They, and only they, hold the weapons of victory in such a struggle. Others can help. Statesmen can help. Religious and educational leaders can help. Public-spirited citizens of both sexes and all classes can help. But, when the great, resistless operation against wrong in America is under way, it will be led by journalists, and spear-headed by journalists, and journalists will form the backbone of the fighting troops.

That is the position. And why is it the position? It is the position because this war, like all great wars, is going to be won on the home front, and the journalist is the only person who can make the home front solid, and keep it solid. Who else's communications reach the home front? Nobody's. Journalism's voice resounds everywhere, in every city, town and hamlet, among the hills, on the plains. Journalism can make all our people hear. It can make them feel. It can make them know. It can make them think. It can make them fight.

It is just here that we begin to get into the heart of what one means when one says a country with a bad press is in a bad way, and a world with a bad press is in a bad way. How well is our press serving our people? Have we, or have we not, a press as good as it ought to be? Are our public prints doing all they can to safeguard our liberties? Are they doing all they can to make our democracy secure? Do they envisage, do they understand, our living nexus with other nations? Do they know that world prosperity is our prosperity, and world peace our peace? How great are our public prints, anyway?

Such are some of the questions I would press home to your consciences and your intellects. Of all men in the world, newspaper men should be the most wide-awake. It is they who stand upon the bridge. It is they who command the searchlights. It is they who never sleep. If they be not sharp-eyed; if they drowse on the job; if they be not loyal; if they be not fearless; if they be seamen unworthy of their trust, then, I ask you, what safety can there be for the ship?

"But," some one may say to me, "our American democracy is a tried democracy. It has weathered heavy storms. Its future is no longer hypothetical." And this same person may go on to remark: "World peace, too, is assured. Neither governments nor peoples ever again will contemplate war. They know all about war now. They know how mad it is. They know how horrible it is. We are living in an era quite different from that before the big German guns began to thunder at the gates of Liège."

How many of you believe that? I say to you that democracy throughout this world is on its trial, and nowhere more certainly than in the United States. Our democracy is very far from perfect. If it were perfect, or anything like perfect, we should have much less cynicism than we have, and much less blatant ignorance than we have, on the floors of our state and national legislatures. If our democratic system were not working imperfectly, and in some respects abominably, we should not see justice polluted and paralyzed, and the beast in man running as free as it is, in many parts of this country.

As for the peace of the world, it is notoriously insecure. Great and honest men are striving to make it secure. In the years since the war—the past eight years—more consecration, more moral energy, and more intellectual capacity have been put into the peace movement than in all the previous course of history. Prodigious have been these efforts, and prodigious is the honor due those who thus have lavished their renown, their character, and their intelligence in the premier cause of humanity. But world peace still trembles in the balance. Peacemakers are only on the threshold of their labors.

Touching the national aspect of our subject—the relation of the press to the existing social order—let us glance at recent Italian history. Democracy in that historic kingdom is extinct or in abeyance. Mussolini, Italy's man of the hour, pronounces parliamentarianism a failure. He declares it did not serve Italy's true interests—led to rascality and incompetence in Rome, broke the solidarity of the nation, crippled industry and commerce, prostrated the country's finances, and threatened 40,000,000 people with famine.

Whether Mussolini is right or wrong does not concern us in this discussion. What concerns us is that Italian democracy,

at least for the time being, has gone by the board. In other words, the press of Italy, the journalism of Italy, failed to preserve representative institutions in the peninsula. It did not make them work. It did not arouse the people. It drowsed on the bridge until the ship of Italian popular rule drifted upon the rocks. I do not say that Italy has less liberty under Mussolini than it had before him—he asserts it had *no* liberty before him—but I do say that Italian democracy, as we understand democracy, is in ruins.

In Spain, also, the press failed to avert a military dictatorship—failed to preserve or attain the liberties of the people in the only way we consider effective for such a purpose. Look at Russia. No press there—or, at all events, no press deserving of the name—and no liberty. In the very nature of the Russian situation, Russia cannot have the liberty of democracy, for Russia has not the popular education essential for the functioning of great news and critical publications. Russia's masses, at this time, are beyond the help of journalism—sunk in illiteracy—whatever the future may hold for them.

Great Britain, birthplace of modern freedom, is at this moment the arena of a battle royal in the sphere of political and social controversy. Communism, though weak, is in the fray. Socialism, by no means weak, is in the fray. Liberalism, shorn of much of its traditional glory, is still holding on. Conservatism, watchful and embattled, is in the citadel of power. Who will win? Will the ancient parties of British democracy pass into the category of political stories that have been told? I make this prediction: If the freedom of democracy survives in Great Britain—and I have not the faintest doubt it will—it will survive by virtue of the conviction, the alertness, the militancy, and the brilliance of its press.

Failure of the press in nations is failure of democracy in nations. Failure of the press in the world is failure of peace in the world. Not long ago, in the Official Residence, Tokyo, I was talking to that greatest of Asiatic diplomats, the late Viscount Kato, Prime Minister of Japan. This is what he said to me about journalism: "Food, water and air scarcely affect human life more widely or essentially, for newspapers afford spiritual and intellectual sustenance for the masses of the world."

And the statesman-philosopher added: "Pure newspapers, informed and honest newspapers, generous and fearless newspapers, it probably is not too much to say, would insure the moral and mental health of nations; and nations morally and mentally healthy would have no desire to go to war." That is something for every journalist to ponder. It points out his solemn duty. It tells him to be pure—pure in his motives. It tells him to be informed—to learn the facts. It tells him to be honest and generous and fearless, and holds out to him the ineffable reward of the peace of mankind.

Journalism's greatest failure since it appeared on the stage of human affairs was its failure to prevent the World War. Was such an achievement at all within the domain of possibility? Well, if it was not, it might have been. If the press of Europe had been great enough—as well informed and honest and sympathetic and fearless and indefatigable as reason would have dictated—it *might* have been out of the question, and I believe it *would* have been out of the question, for any leader or group of leaders to plunge Europe into war. Europe lacked an internationally-minded and powerful press, long and skilfully organized against war, and war came.

All that, though not its painful and dangerous aftermath, is over now—a tale written in blood and fire and tears. Let us, so far as we may be able, turn that mournful failure to account. Let us be more self-curious, self-critical. Let us be more coordinative and more constructive. We have seen that we cannot take it for granted that free society is safe. We have seen that we cannot take it for granted that world peace is safe. We have seen that great and grave difficulties and hazards attend the political and social navigation of the world.

I am speaking as an American journalist to American journalists. What is our problem? What can we do? Our problem, our vision splendid—a vision perhaps too effulgent for weak eyes—is that of doing our part, and a very great part it is, in making this giant nation spiritually and intellectually worthy of its material greatness and of its moral opportunities in a hard-smitten, groping, half-distracted, necessitous world. If we do this—if we achieve this result—I can tell you that we shall have made popular liberties safe in the United States.

More: that we virtually shall have made certain through the coming years the peaceful progress of humanity.

How can we make of our democracy a real democracy? How can we make it truly great? We can make it real and great by telling it the truth, by supplying it with facts, by making it conscientious, watchful, righteously belligerent, courageous, politically competent. And what does this mean? It means a great journalism. It means a journalism of tremendous energy, a journalism of high culture, a journalism of incorruptible conscience, a journalism with its soul attuned to ultimate altitudes, and its sinews steeled to climb to them.

That is what it means. Is the vision too bright? Are we dealing in the "ideologies" of contemptuous pragmatism? If anyone thinks so, I respectfully would ask him: Are we always to be commonplace? Are we always to be little? Is there to be no pageantry of color, no poetry, in our lives? Are we always to have the mental trajectory of the mole? It is high time, in my judgment, that men lifted up their eyes. It is high time that all peoples, and especially the American people, grasped the truth that every particle of this world's *actual* realism is spiritually founded: that spiritual forces in men's affairs are sovereign.

So I would call all journalists to high conceptions and to a high faith. I would beg them to be great leaders. Great leaders in all walks of life are what the world needs. Do not write or edit your paper down to the lowest in human nature; do all your writing and editing in the opposite direction. Human nature, as we all know, is complex. It is infinitely complex. There is good in it and there is bad in it. In your writing and in your editing, appeal to the good. You will find it, you will call it forth, and in the measure that you do this you will augment the moral vitalities of the world. If some counselor tells you you cannot succeed in journalism without muddying the stream, say to that counselor this: "I like pure water. I will pursue no calling that requires me to muddy the stream."

I wish all journalists could be beautifully educated. As leaders, they supremely need education. True enlightenment is the moral sunshine of our universe—the most efficient psychological disinfectant we have. True enlightenment, to my

mind, issues mainly from Greco-Latin culture, from the ancient classics, from the humanities. I recently sounded some great men on this subject—Marx of Germany, Mussolini of Italy, MacDonald of Great Britain, Poincaré of France, Calvin Coolidge, and Mackenzie King of Canada. Without exception these men were inclined to regard the Greek and Latin classics as embodying the fundamental civilizing essence of history.

Marx said: "Greek and Latin culture is invaluable." Mussolini said: "It is for every people one of the most powerful instruments of civilization." MacDonald said: "It humanizes man and humanizes society." Poincaré said: "The classics are civilization's solidest prop." Coolidge said: "The classics teach the value of the ideal, and only the ideal is real." "All permanent government and all successful industry rest upon the humanities," said Mackenzie King. What faith in idealism on the part of some of the world's foremost realists!

Now I wish to quote a little more from Poincaré, whom I believe to be the most splendid Frenchman of our time, and one of the most splendid Frenchmen of all time. I have been talking to you about leadership. I have been appealing to you to be great leaders, high-minded leaders, leaders disposed to walk in hobnailed boots over any one who would try to make our people mean and make them small. I said to Poincaré, "You favor a leadership of the *élite*?" And he replied: "They are the heaven. They represent spirituality, intellect, culture—very precious things."

And France's indomitable fighting statesman continued: "It is not enough for a people to have farms, mines, railways, machines, money. They must have wisdom. They must have sympathy. Without these inestimable qualities of mind and heart international harmony and world peace never can be obtained. Machinery never will pacify humanity; only acute minds, enlightened souls, and determined wills can do this."

These words I commend to you. They are weighted with truth. Neither time nor tide, neither design nor fortuity, will affect them. It is their spirit that we want to incorporate into the American press. It is their spirit that we expect the young women and the young men of journalism to carry into their

profession as the efflorescence of all their training, study, thought, and conscious purpose. Not all of us, to be sure, can be classicists. There must be among us many who know little or nothing of Greco-Latin learning. But we have the sufficient consolation that the deeper virtue of this learning is not intellectual, but moral. And we all can strive toward moral aristocracy.

It sometimes is said, not flatteringly, that we journalistic folk are people of words. Such we are. We are the world's irrepressible verbalists. But what, after all, is the matter with words? Rudyard Kipling, not very long ago, was a guest of a famous medical society in London, and, in the course of a speech he made, he said he at first had been greatly puzzled as to why the doctors had invited him, but soon decided they had invited him because he was a dealer in "the world's most powerful drug—words." Very remarkable things are words. Was it not a few words whispered by Iago into the ear of Othello that slew Desdemona?

Our critics would have us be taciturn, would they? Well, I have known a lot of mental vacuity to drape itself in taciturnity. Taciturnity is no virtue all by itself. Taciturnity may be a vice; it is a vice in cases of silence where there ought to be speech. If silence is sometimes golden, so are words. Words are not at all, necessarily, such bad things as they have been painted. Idle words, empty words, are bad things, or at least useless things. Malignant words, mischief-making words, are bad things. But words freighted with truth, with beauty, with sagacity, with humanity, with the philosophy of the salvation of civilization—such words are not bad things. Their gold is a finer gold than is the gold of the most golden silence. And it is only words of this character that we are going to have our coming journalists use!

No; we are not going to be taciturn. We are not going to stop using words. Take away from a journalist his words and you take away his job. We are not going to stop using words, but we are going to try to use words with more point in them, with more light in them, with more fire in them—words that ignorance and demagoguery and pettiness and blackguardism in all its forms will like less and less. Why, my fellows of the pen, the whole question of what we shall be

able to do—the whole question of what sort of effect we are going to have upon the morals and the policy of this country and of the world—this whole question is a question of the words we shall employ, whether false or true, weak or strong, dull or brilliant.

What are great publishers and editors? They are the field-marshals and generals in command of the warring hosts whose tanks and artillery and machine guns and rifles are words. One of these high general officers I will mention. He is the new publisher, the new generalissimo, of *The Chicago Daily News*, that famous national and international paper into which the late Victor Fremont Lawson coined his genius and his life. I am speaking of Walter A. Strong, young, big in body, big in heart, big in brain, and, unless my judgment be wholly at fault, in the opening stage of a big career.

My reference here to Mr. Strong is a reference to a symbol. To me he is a symbol of hope. To me he is symbolic of a new, a larger, a more imaginative, a more beautiful, a more creative, and a more commanding journalism. It is quite impossible to think of poor journalism, of low journalism, of money-grubbing journalism, of journalism morally and mentally sterile, issuing from personalities like that of Mr. Strong. May his like increase! America needs them. The world needs them. Not a moment too soon can they come full-panoplied into action.

These new men, these Walter Stronges, of our profession will be greater than the greatest of their predecessors for just one generic reason: they are greater artists than their predecessors were. Will they, then, be poorer business men? They will be better business men, for the best business men in newspaper production are those whom the mystery of heredity has endowed with artists' gifts.

Buying and selling newsprint are by no means the alpha and omega of journalism. All the difference is made by what goes on the newsprint, and here we find ourselves in the sphere of emotion, in the sphere of imagination, in the sphere of mind, in the sphere of art. I venture the prophecy that no publisher will reach the first rank in the dawning era unless he shall have had his draft at the fount of the muses.

Ramsay MacDonald, then Prime Minister of England, said

to me as we talked in his room at the House of Commons: "What the world needs more than it needs anything else is a political and social Shakespeare." I quite agree. I wish the world had a political and social Shakespeare, and I wish he were a newspaper publisher. That would be his ideal field. It would give him an unparalleled opportunity. If he needed some technical aid on the business side, on the editorial side he would be supremely competent. He would understand the instrument upon which he was playing—the many-stringed instrument of the sensibilities and powers of writing men—and is it too fanciful to suggest that, Orpheus-like, he would charm wild beasts and move trees by his music?

Poetry. That is what your great publisher needs. Shakespeare was the supreme poet of humanity because he was humanity's supreme humanist. No publisher, no editor, can be great unless he be a great humanist, for from beginning to end his problem is a problem of humanity. He not only must understand his staff—understand how to get out of it all there is in it—but must understand the public.

I give it you as my conviction that many editorial chairs creak under their load of misunderstanding of the public. Occupants of these chairs think the public is shallow. It is deep. They think the public wants trash. It wants the best that is known and thought in the world. Movies are all right in their way. Jazz is all right in its way. Comic strips are all right in their way: in moments of exceptional penetration, even I can see the fun in them. But I say to you that all these are light diet. I say to you that we cannot build up a great and safe democracy on movies and jazz and comic strips. Give us these by all means—for we do not want to draw faces over-long—but give us also more of the sentiment and the philosophy and the facts that are pregnant with the fate of human society.

That, such as it is, my fellow writers, is my message. It all comes to this: that we can make our free institutions safe; that we can make our democracy, unlike the democracy of Italy and Spain, work; that we can do our part in the promotion of universal justice and peace—how? Merely by being great journalists; merely by understanding our own mighty institution and our people; merely by honorably and generously and brilliantly wielding our incomparable power.

PART IX

AMERICA'S PART IN INTERNATIONAL COOPERATION

INTRODUCTION ¹

THE HON. ELIHU ROOT

Former Secretary of State; Trustee, Carnegie Endowment for
International Peace

CIRCUMSTANCES which I was eighty-odd years too late to change have prevented me from attending the sessions at Briarcliff, very much to my regret. I am glad, however, to have the opportunity to meet the participants in that interesting and unusual conference at the last stage before they disperse on their way to their homes, to say to them in behalf of the Academy of Political Science and of the Carnegie Endowment and of the great multitude of Americans who are seeking more light and better understanding of international affairs, we thank you; we send with you as you depart our best wishes for your future, and we hope you will come again.

You have been engaged in a great process, a process made necessary by the assumption of power over international affairs by self-governing peoples. The change from autocracy to democracy in the control of international relations is capable of vast improvement making for the peace of the world, but that improvement can come only through the control of well-informed democracies, the control of peoples who are sufficiently familiar with the alphabet of international affairs to reject the suggestions of the demagogue and the incitement of the selfish and intriguing men who desire personal advantage out of international strife.

The lessons of history, both national and international, admonish us that all human progress must be a spiritual progress. Particular controversies, immediate crises, may be disposed of by force or the threat of force, but human progress proceeds only in the spirit of men. The formation of new and better standards of conduct has been the method by which mankind has come from brutal conditions to the larger liberty

¹ Address delivered by Mr. Root as Presiding Officer at the Closing Session, at the Hotel Astor, New York City, May 14, 1926.

and justice of our time, and to that we must look for further progress in the future.

And the essential condition of the improvement of standards of conduct is education, information, the habit of study; the creation of intelligent leadership, of public opinion. The process must necessarily be long and difficult, but it is certain in its results, and a part of that process, a great contribution to that process, you have been making in your conferences at Briarcliff.

No nation in the world needs information and training in international affairs more than this great people in America who have been engaged in the building up of an empire in this vast continent and have until very recently thought but little and known but little about international affairs.

The process necessarily involves standardizing opinions, through the communication by one to another of an understanding of the views, the predilections, the prejudices, the traditions, of other peoples; and the great things that are to be accomplished in human progress in international affairs must be accomplished by that slow, constant dissemination of better understanding among the peoples of the earth. And for what you have done, gentlemen, our guests from other lands, for what you have done in contributing to the understanding of our American people here of other peoples and other thoughts and other traditions and the real problems of international affairs, we thank you most heartily.

It gives me great pleasure to present to you now a great editor of that great country across the sea which has so many bonds of sentiment and feeling with the people of the United States, M. Georges Lechartier, editor of the *Journal des Débats*.

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AMERICA'S PART IN INTERNATIONAL COOPERATION

GEORGES LECHARTIER

Editor, *Journal des Débats*, Paris

I REMEMBER a cartoon published in the American press some time ago which showed Senator Borah and Hiram Johnson grinding teeth, fists clenched and with most ferocious expressions on their faces, driving, at a mad run, a small fire-engine somewhere near the Capitol at Washington. Standing by and somewhat amused, President Coolidge called to them, "Hello, boys! Where is the fire?", to which Mr. Borah cried in reply, "Who said Europe?"

If this cartoon illustrated the true and unanimous feeling of America at present, the question of the future participation of America in international cooperation would have received its answer. I am inclined to think, however, that if this expression of the American feeling toward Europe may be exact in some parts of the United States—in the states of Idaho and California, for instance—it is far from accurate in some other states and most especially in New York.

The best reason I have for this belief is that I, being one of those contemptible little Europeans, am here now and that the reception which I have met since the very first moment I landed on the pier in New York was such, and so kind in all ways, that I can hardly find adequate words now to express my deep gratitude to the organizers of the Briarcliff meeting.

And there is, besides, another reason why I believe that the excellent cartoonist to whom I first referred indulged in some exaggeration. And it is because I feel that I am better placed than anybody else to judge what America can do in the matter of international cooperation in the future, for I know what she has done in the past. That American cooperation I witnessed in Europe and most especially in France, and I appreciate its efficiency in two fields—material and intellectual.

If I were to recall all that Americans have achieved in the matter of immediate and international cooperation in my

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country since the Armistice was signed—the anonymous gifts which figure in millions of dollars, lavishly spent for reconstruction in France, the villages adopted and reconstructed by private American citizens, the relief given to the populations of our devastated regions—I would be speaking for hours. But may I not mention specially some of the social work accomplished by the Carnegie Endowment both in France and in Belgium—the library of Rheims, now almost reconstructed, which will house the municipal library saved from the Hotel de Ville just before that monument, built during the 14th century, was burned to the ground on May 3, 1917; the community buildings at Fagniers reconstructed on new, modern and most efficient plans and now in daily use; in Belgium, the library of the University of Louvain reconstructed for the greater part by the contributions of the Endowment. And how many more instances of helpful cooperation in almost every field could be recalled and placed to the credit of the cooperation of America as represented by the Carnegie Endowment!

Now, speaking of intellectual cooperation, shall I recall here again what has been done unofficially by the same great organization during the last eight years? But one has only to look into the annual report of the Division of Intercourse and Education to know what has been accomplished—with the centers created all over Europe, with the lectures delivered by prominent men sent as intellectual ambassadors from one country to another, with the innumerable and wonderfully informed documentary books and tracts published, with the “international mind alcoves” multiplied all over Europe, with the magazines created, with the relations of the nations and the better understanding of its peoples promoted, in brief with the international mind developed everywhere. Looking to these achievements as a whole, it seems that the organizers, trustees and officers of the Endowment can be justly proud of what they have already accomplished. It seems that they can face with all confidence what may remain for them to accomplish in the future.

As to the official cooperation of America, one has only to remember the enthusiasm which greeted, in Great Britain, France, Italy, Switzerland, Czechoslovakia, Holland and all

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over Europe, the first and somewhat very reserved steps taken by America toward participation in the World Court, to have an idea of what she will accomplish in that way. It was, indeed, quite symptomatic that not one of the members of the Court—who are lawyers and who says lawyers of course says argumentators—not one member of the Court ever doubted that the American reservations would be accepted with thanks by the whole super-judiciary and most honorable body. It was quite symptomatic that the president of the Court, when interviewed by newspaper men at the time of the American adhesion with eight reservations, went so far as to announce publicly that should one of these reservations present some annulling character, as sometimes reservations do, America would not be asked to modify the reservation but rather the rule of the Court would yield to the American reservation.

In fact America has already done more for Europe, so far as social and intellectual cooperation is concerned, than Europe expected from her. I would add that, acting thus, America has but followed her traditions of social progress, as it has long been customary for her to excel the older nations in all old ways when she had no chance to open new ones.

What cannot be expected from America if she only chooses to follow the lead which she herself has so precisely and generously indicated? What cannot be expected if she decides to turn her unlimited energies finally toward the great and yet little explored field of international cooperation?

I have said that there were some fairly good signs that America would soon, and in spite of some formal, let us say psychological, difficulties as regards the too neglected League of Nations, become a definite member of the World Court. The best way of cooperating still more closely in international affairs would be of course to join the League. Without indulging too long in dreams, we may remark that the privileged position which America occupies now among the other nations of the world, her great power in men, wealth and ideals, her straightforward and unprejudiced mind, would afford to the League a new, immeasurable and decisive moral strength—which is now badly lacking—and confer on America as an arbiter in eventual conflicts a unique opportunity to maintain, under any circumstances, the dearly acquired and actually too fragile peace of the world.

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May I now suggest that we, who have attended the Briarcliff meeting, have just contributed somehow to that once apparently chimerical achievement; that we, studying in all good will and sincerity the most urgent international problems, and those which can bring most trouble and misery to mankind; that we, trying to find by common agreement a way out of the many and apparently inextricable difficulties which those problems present, have acquired simultaneously better understanding on many subjects and mutual esteem.

Aristotle says somewhere that the true source of friendship among men resides in cooperation in a common task; most of all, a noble and inspiring task. For that cooperation requires nobody to renounce being himself, but it makes all participate to the benefit of the common labor. And the act of working together creates mutual esteem and gratitude among all. The task which we have been pursuing is, above all, noble and inspiring, and what we have now realized in mutual esteem and friendship as individuals, nations can and will realize some day, on both sides of the Atlantic, thanks to the international cooperation of America.

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AMERICA'S PART IN INTERNATIONAL COOPERATION

H. WILSON HARRIS

Diplomatic Correspondent, *Daily News*, London

NO foreigner invited to occupy the space of fifteen minutes in laying down a foreign policy for the United States could fail to feel that he had before him a highly exhilarating exercise. I do not propose, Mr. Root, to take full advantage of my opportunity, because I am of the opinion that the foreign policy of your great country may safely be left in the hands of the constituted and constitutional authorities of the country, though I am bound to add that I have met American citizens who do not hold that conviction with the firmness with which I do myself.

In discussing America's part in international cooperation, it would be mere affectation to pretend to ignore the fact that on the continent of Europe the nations are almost at one in deciding to base their international cooperation on one particular and chosen instrument. This is no question of individual views. The government of Great Britain is pledged to base its foreign policy on the League of Nations; the government of France is equally pledged; even — if I may use the word even — the outgoing government of Germany (and I trust the incoming government equally) is similarly pledged; and so far as signature of the Covenant goes, Italy is pledged likewise. If there has been any similar declaration of policy on the part of the government of the United States, it has escaped my notice.

That is a fact of which I believe full account must be taken. There is, of course, no question that the entry of the United States into the League of Nations would greatly strengthen the arm and reinforce the moral authority of the League, but even without the United States, the League of Nations will continue to go on its way, and I venture to predict that it will continue to fare in the future as it is faring now, at least reasonably well.

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In any case, it is my profound conviction that those who direct the fortunes of the League of Nations would do wisely to frame their plans and shape their policy on the assumption that the United States will not at any early date find a place in their ranks. If events prove otherwise, then they will face the non-fulfilment of their predictions with fortitude. If, on the other hand, the forecast is well justified, then there is always a certain satisfaction in accuracy.

In any case, I hope I have made it clear that anything I may say about the possible cooperation of the United States in world affairs does not even in the depth of my mind postulate the active participation of the United States in the work of the League of Nations.

I would indeed venture to go further and enunciate one purely personal view, and that is that I myself hope that the United States will not enter the League of Nations until at least something like 70 or 75 per cent of its population is convinced that that is the right course for America to take. The entry of America by a 51 or a 55 per cent vote would, it seems to me, produce complications highly detrimental both to the League and to the United States itself.

But let us turn more definitely to America's part in international cooperation in the present and in the past. We might, as my predecessor did, make a long list of the great deeds America has set to her credit under this head of international cooperation. I will content myself with recalling simply a few.

It was undoubtedly Secretary Hughes's speech at New Haven, Conn., which set moving those forces which culminated eventually in the preparation and application of the Dawes Report. It was, I think I am right in saying, largely a speech by Senator Borah, delivered at some locality the name of which escapes me but which I have very little doubt exists, that led to the holding of the Arms Conference at Washington in which you, Mr. Chairman,¹ played so distinguished and so fruitful a part.

And one need merely mention the work done in Europe and for Europe by men like General Dawes and Mr. Owen Young and Mr. Parker Gilbert in connection with the Dawes Report, by Mr. Jeremiah Smith at Budapest, by Mr. Morgenthau first

and Mr. Howland after him at Athens, by Mr. Walker Hines in connection with inland navigation problems, and by many other eminent Americans whose services to Europe and to the world it is a pleasure and a privilege to recognize.

But what I venture to suggest is this, that valuable as those services are, it is not merely by cooperation expressing itself through distinguished individuals that America can do for the world the service that Europe has perhaps no right to ask but even yet continues to hope for and expect.

There have been other forms of American cooperation. May I recall an old and not unfamiliar story about a man who went down from Jerusalem to Jericho and fell in with certain characters of a type with which Europe is commonly supposed to be peopled. You will remember that there arrived on the scene two passers-by. They surveyed the traveler in his misfortune, but they remembered that they had been brought up to avoid entangling alliances, and straightway they continued on their journey. And then another wayfarer came by, and he poured into the traveler's wounds oil and wine, he set him on his horse, he took him to an inn and he even paid the innkeeper for his further sustenance.

I trust that the point of that little analogy is not being lost. I speak in appreciation, not in criticism. America poured oil and wine into the wounds of bleeding Europe without grudging and without stint. Never has there been more splendid charity in the history of the world than that which flowed out from this continent on the morrow of a war to a stricken continent in the East. And yet may I venture to suggest once more that even cooperation expressing itself in such charity as that does not exhaust the possibilities of America's services to the world.

There have been instances of cooperation of other kinds. The American dollar is flowing to Europe in such volume that if it were conveyed in the form of metal symbols, I suppose that the *Leviathan* and the *Berengaria* together would sink beneath the weight of it. And where the American dollar goes the American diplomat must follow, because the American dollar cannot do its work except in conditions of political stability which will enable business to be carried on without let and hindrance. For that service we are profoundly grate-

¹ The Hon. Elihu Root.

ful. If we have, as we have, to build up the old waste places, it is far better that that process should be carried on on a basis of business than on a basis of charity.

But once more, not Wall Street but the Capitol and the White House must do their part if we are to see created in the world those conditions of political stability which will enable nations to express themselves freely, to realize their possibilities, to live, in a word, the kind of life which is lived amid such satisfaction and prosperity by the country of which you are citizens.

I venture, with all diffidence, to lay before you the suggestion of the possibility of opening up in thought still further avenues of specifically inter-governmental cooperation. There again I do not pin my faith even in thought to any existing agency. It may be that we shall do better to strike out new roads and to find better methods of expression than any which exist, but I believe those better methods are necessary, and it is the work of such a conference as we have been attending to endeavor to some extent to think them out.

Perhaps I may very briefly indicate what I mean. I believe that more and more the world will come to the conviction that if law and order are to be upheld in the relationships of nations, this principle must be laid down and maintained and defended; that however just the claim of one nation against another may be, that nation puts itself irrevocably in the wrong if it endeavors to support that claim by war. And from that there follows another necessary corollary—if a nation should so break the peace for its own interested ends, then in one way or another that nation must be restrained and disciplined.

Now, I have been venturing to put to myself the question, and (though this requires more temerity) perhaps I may venture to put to you the question: What would be the argument of a nation which did intend deliberately for its own selfish ends to break the peace? What would be its view of the probable attitude of the United States of America in the matter? Is it possible, I wonder—I am merely thinking aloud as I address you here—that such a nation would argue somewhat thus: "If we pursue our ends, if we defy law and order, if we break the peace of nations, we know that the overwhelming

sentiment of the United States would be against us, but, after all, what matters is not what the people of the United States may think but what the government of the United States may do. There sit on the Capitol Hill ninety-six great men and good, but half of them, thank God, are Republicans and half are Democrats, and by the time they have finished talking politics and got to talking statesmanship and have evolved their conclusions and have accommodated those conclusions to the views of the eminent man who sits at the other end of Pennsylvania Avenue, by that time we shall have been able to create the *fait accompli*, and against the *fait accompli* neither man nor devil can contend."

Moreover, is it possible that the argument will proceed a little further? Is it conceivable that such a state will say: "We do not believe that in any case the United States is going to take responsibility in a matter such as this. The United States has its traditions of isolation. It may disapprove of our action, but it will lift no finger to prevent it." Is it conceivable that into the calculations of such a possible law-breaker considerations like that may enter?

If, Mr. Chairman, I am not indulging unduly in the freedom you have granted me, may I ask one further question, because I do not believe you would want me to come here and keep silent about questions which are in fact being asked in Europe? It is not merely a question of whether the United States would refrain from helping; it is a question of whether the United States would actually hinder. If such a condition arose as I have tried to outline, if the law-abiding nations of the world felt compelled to discipline a law-breaker by whatever means came first to hand, if they found it necessary to bring pressure on that law-breaker, to isolate it temporarily, to interrupt its trade, would the United States say: "No, I have no part in this. My ships shall not be stopped on their errands. I will continue to revictual and comfort this nation even though I am convinced, as the nations of the rest of the world are, that it is a law-breaker and a criminal"?

Mr. Chairman, I am merely asking these questions. I am putting to you the questions that I am putting to myself. The last thing I would desire to do would be to come here as a critic. I am merely a humble but zealous seeker after infor-

mation. I trust I have not exceeded the bounds permissible to one who has enjoyed hospitality so lavish and so welcome in the last few days. If that be the case, may I in closing say one word specifically as an Englishman?

No Englishman who has been in this country even for a fortnight, still less one who has seen, as I have believed I saw, the whole public life of America pulsating with sympathy for my country at a moment when it was being tested by a crisis which tried every fiber—no man who has lived in America at such a moment as that can fail to realize that despite certain superficial differences, despite those little bickerings which, after all, add a certain zest to our companionship, there are certain things unseen, deep-seated and firmly rooted, which make a fundamental union between your nation and my own. Our ways, after all, are your ways, and our thoughts your thoughts; and trying to gather together the reflections that have been in my mind and which I have tried so inadequately to lay before you, I have felt that Great Britain and America may still have a common task to discharge in the world. There is talk sometimes of an Anglo-American Alliance. I am convinced that any such open alliance as that would be a profound mistake. It is not needed, for one thing. For another, it would call for an answering alliance. But the common task is there, and surely the common purpose is there also. And therefore in my closing sentence, may I appeal to you to join with us in striving on to finish the work that we are in—not in isolation but in harmony with the nations of the world—but so far as you and we are concerned, nation with nation, people with people, and I still venture to hope, government with government.

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AMERICA'S PART IN INTERNATIONAL COOPERATION

WILLIAM MARTIN

Editor, *Journal de Genève*, Geneva, Switzerland; Member of the Directorate, and Liaison Officer with Organizations of the League of Nations, of the International Labour Office

THE war is over. This is the lesson which I believe emerges from the events of the last few months—from the Locarno Conference, and in spite of its disappointing results, from the special Assembly of the League of Nations. Do not put your faith in those who tell you that Europe dreams of new adventures; she is sick of war and hates victory almost as much as defeat. Do not believe those who speak of the century-old hostility between France and Germany. That is of the past. Never in history have peoples gone to war because of old grievances. Far from being opposed, many of the interests of France and of Germany are identical, and the two countries will become more closely united, under the pressure of economic necessities.

The real worries of Europe to-day lie elsewhere. As you kindly asked me to speak to you of the collaboration of the United States with Europe, I should like, without presuming to advise you in any way, to show you how the misfortunes of the European peoples may interest America.

The war may be ended in the field of politics; unfortunately, its economic and social consequences have not yet been overcome. The war gave rise to an extraordinary development of the productive power of European industry. All the countries built new plants to feed their military and civil populations, in order to be independent of their neighbors and enemies. These industries attracted a large working population to the cities. To-day these workmen demand employment; this industry requires outlets. But outlets are not to be found anywhere. Overseas countries, deprived of European products for five years, have become manufacturers of their own raw materials. Europe, on the other hand, by spending lav-

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ishly for five years her wealth and manhood, destroyed her reserves of goods and of riches which had accumulated by the savings of three generations during a century of technical development. To-day her production has increased, her consumption has diminished. The miners' strike in England has, fundamentally, no other cause.

What has been the result? First, unemployment in several countries. The unemployed cannot be allowed to starve. They must be fed by means of the national savings. Unemployment, a new type of war waste, ends by destroying the collective savings and by lowering the standard of living of European peoples, already so low in comparison with the American level.

There are only two methods of solving the problem of unemployment: the export of goods or of men. It is difficult or impossible to export goods. Each country closes its boundaries to protect the home market for its own industry. It is even more difficult to export men, as the whole of Europe, with the possible exception of France, has a surplus of labor and overseas countries have restricted immigration.

Let me be quite frank. It is not for me to judge the policy of your country. But I wish to show you the results for Europe of the restriction of immigration. Europe has always had a surplus of labor. Formerly this surplus flowed to the American continent, and emigration preserved, more or less, a state of equilibrium. Now this safety valve no longer exists for us, and if the boiler sometimes appears to be on the point of bursting, it is because there is no escape for the excess steam.

I am convinced that the majority of European troubles, which so amaze you and which often amaze us, are due to the fact that our people cannot migrate freely as in former times. Without the restriction of emigration enforced during the war by the British government, and the restrictions applied here after the war, Ireland would never have had enough men to rebel and become free. Had it not been for these restrictions, Facism would never have taken on in Italy that international character displayed in the recent speeches of M. Mussolini.

Europe is producing more than before 1914. In spite of war losses she has more labor. She can export neither men

nor goods. Europe finds herself enclosed in a vicious circle, exactly the reverse of the situation in your country.

What is the solution? Our whole future depends on that question. All European countries tried at first to save themselves by national measures. Their efforts failed. To-day the majority of the countries begin to understand that each is helpless against the forces which dominate and crush her. Only by measures of an international character, applied in common, may a solution be found. To-day, the interests of one country are so entangled with those of others that a people who wished to isolate themselves in the full sense of the word, if they would accept no limitation of sovereignty and refuse to exercise any influence over other peoples, would soon disappear off the face of the earth.

This lesson applies not only to one continent but to the whole world. Continents are purely geographical conceptions. Europe is not an entity, either in the political, the economic or the moral sense. I am not sure, in spite of the Pan-American movement, that one can say that America is an entity and that your country is more closely bound to Mexico, Chile and Brazil, than to England, France and Germany. Moreover, I am convinced that intercontinental problems would arise the very day that each continent succeeded in attaining unity.

The people of the United States may not have the feeling of that interdependence of all peoples and of all continents, because, thanks to their power, their situation and their resources, they are as a matter of fact less dependent than any other people. But that independence does not lessen your responsibilities; for, each of your actions has a profound influence on other countries. Your aloofness had graver consequences for the European peoples than your active participation would have brought. That is the case, for example, with the League of Nations, whose development during the first six years has been dominated by the fact that America was not a member. It is not for us to say to the people of this country what they should do in any particular case. But I think you may not object if I say that Europe has a desire, which is almost a right; it is that the American people, when they have to take some decision, should not overlook the fact that Europe

will be either the victim or the beneficiary. The decision, I am sure, will be the best if, in reaching it, every element of the problem is considered.

That is just why I feel so grateful to the organizers of the exceedingly interesting gathering we have just had at Briarcliff Lodge. I came here from a place where we can see every day the advantages and the necessity of international collaboration. There were no less than sixteen meetings at Geneva this very month of May. The results of all these gatherings may not seem very practical. They all contribute, nevertheless, to better understanding among nations and to the final triumph of international cooperation. The ways of God are long and international progress is very slow. But we know that the new world cannot be built in one day.

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AMERICA'S PART IN INTERNATIONAL COOPERATION

FRITZ SCHOTTHOEFER

Foreign editor, *Frankfurter Zeitung*, Frankfurt a. M. Germany

[In introducing Mr. Schotthoefer, the Chairman, Mr. Elihu Root, said:—I am sure that the members of this assemblage fully represent the general spirit of America in desiring, earnestly desiring, that the war may close by the return of Germany to her former position of equal and respected participation in international affairs and in the renaissance and growth of general international friendship. I will ask you, in expression of this sentiment, to rise and to unite in receiving the representative of Germany in this international conference in the person of Mr. Fritz Schotthoefer, the foreign editor of the *Frankfurter Zeitung*. (The audience arose and applauded.)]

AMERICA'S part in international cooperation is in my opinion the most important problem of the present time. Since my arrival, and while attending this most interesting conference, which I should like to see renewed on a still larger scale on the other side of the Atlantic, I have noticed that a great many Americans are not yet satisfied with the part that the United States is taking in international affairs. I remember with a great deal of pleasure the eloquent speech of Professor Hudson on the subject of the relation of America to the International Court of Justice at the Hague. It is my opinion that this part is not so small as it may appear if you look only on the official conferences or formal negotiations during the recent years. Even these have been very important. I need not mention in detail what the government of the United States has done.

Even without official participation, America is continually exercising a great influence in the whole world, and particularly in the evolution of Europe. America does not always interfere, but she is always present. You know that in astronomy

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it is possible to determine the position of a yet unknown planet merely by its attraction and repulsion of other planets. That is the case with the United States. It is certainly one of the biggest centers of gravitation in this world. Whatever statesmen and peoples do in Europe or Asia, they constantly look with one eye—I hope it will always be the right eye—at the American continent. They feel there is something which cannot be neglected, which must be seriously taken into account. What will America think about this or that, and what will she do? I may be allowed to state here that sometimes it is impossible to foresee what attitude will be taken on this side of the Atlantic. And not infrequently we have met with a silence which could be interpreted in many ways.

In saying this, it is not my intention to give a lesson to America. We are convinced that she has serious reasons for everything that she does. To follow any capricious idea rushing through the brain is the last thing which could be expected from the Americans. America knows what she wants. That is a great advantage for her. But it is also an advantage for us. We have the certitude that she will come into action only when she has earnestly examined the situation, and that then she will do something of real and practical value.

In this place I can give only my personal opinion. I know that perfectly well. I am German, but I would not venture to speak on behalf of the German people. I leave that to the men who have been charged by the German nation to take care of its interests. But what I may say is this: We appreciate highly the work of America in the recent development of European affairs. Without American financial intervention in the reparation question, Europe would not yet have succeeded in overcoming the dangerous crisis in which we lived since the end of the war. The settlement of the reparation question opened the way to Locarno, which may lead us to complete pacification. And peace in Europe means peace throughout the world.

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THE SIGNIFICANCE OF THE CONFERENCE¹

NICHOLAS MURRAY BUTLER

President, Columbia University; President, Carnegie Endowment for International Peace

[In introducing President Butler, the Chairman, Mr. Elihu Root, said:—If the Chair were required by the duties of his office to select that apparently much needed international officer, a traffic policeman, for the crossing at the North Pole and for all other international crossings, whether at Briarcliff or Geneva, at Washington or in Europe, the Chair would endeavor to select the man with the most thorough knowledge and understanding of the characters, the traditions the predilections of all the peoples of the civilized world, with the most unselfish devotion to the welfare of them all, and with the most keen and far-reaching vision of the possibilities of the future of civilization, and he would name for that office Nicholas Murray Butler (Applause) who will close this meeting not when he begins but when he concludes his remarks. (Applause).]

IT only remains, and in a very few sentences, to close this significant and, I think, noteworthy conference.

I arrived from another engagement in time to hear one happening which greatly cheered me and one which brought me some depression. I arrived in time to hear my friend, Mr. Harris, make a veiled allusion to a historic person who went down from Jerusalem to Jericho and had something happen to him. I observed from the laughter and applause which filled the obvious vacuum in his remarks that knowledge of the English Bible is not wholly extinct among us. That cheered me.

And then I arrived in time to hear my friend, Dr. Martin, engage in his struggle with the English language. I have been told and taught that the English language is unconquer-

¹ Address delivered at the conclusion of the National Conference on International Problems and Relations, at the Hotel Astor, New York City, May 14, 1926.

able, but in Dr. Martin's case, he came, he spoke, he conquered. (Applause).

On behalf of those who have been associated in the arrangement of this conference, I wish first to thank the distinguished representatives of journalism in Europe who have come to us with messages so eloquent, so helpful, and so enlightening; and I wish at the same time to express our pleasure that a notable company of representatives of American journalism, recruited from all parts of the United States, have been able to spend these four days together not only in listening to formal papers and in participating in active and vivid round-table discussion, but in establishing those close personal contacts and in carrying on those intimate personal conversations which constitute, after all, the chief benefit of such a gathering as this.

The results of it will, we trust, be seen over the years, as those who write and speak to their several peoples reflect in their writing and their speaking the information that has been gained, the insights that have been had, the stimulus that has been acquired.

Unless I mistake, two conclusions have come out of it all which are fairly obvious. The first I draw from the papers and discussions on the subject of disarmament, and that conclusion is this: that the whole center of gravity in respect to that problem has shifted in recent years, and that we have now to study and reflect upon a problem which arises not primarily any longer out of armies and navies, but out of the great air forces and the resources and inventions of modern chemical industry. And the difference due to that shift of interest and importance is this: armies and navies are obviously military, at least in ultimate purposes; air forces and chemical industry are not, they are part of the organization and apparatus, perhaps the necessary organization and apparatus, of modern industry, and yet they may be transformed in the twinkling of an eye into the deadliest instruments of combat.

Does not that indicate once more, Mr. Chairman, that the path to peace is less likely to be found through limiting the instrumentalities of war than by the slow, steady building of that will to peace which lies behind all instrumentalities and bends them to its high and convinced purpose? (Applause).

A second conclusion which seems to me to emerge, par-

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ticularly from the brilliant papers of Wednesday evening and the discussions that followed upon them, is the fact, recognized often before and in other spheres, but here emphasized with extraordinary power and convincing clearness, that another center of gravity has moved from questions of pure politics to questions of pure economics. We are hereafter, whether working in the sphere of liberty or in the sphere of government, to concern ourselves more than we ever have before with problems arising out of the distribution of raw materials, their interchange, and with those multifarious foreign trades and commerces that are the outcome of our industrial civilization.

Without knowing it, a very large part of the world has for generations been living on its capital. It has been settling in new and apparently inexhaustible territory. It has been using up newly discovered and apparently endless resources. But as the older countries find these problems which have been discussed just now to press heavily upon them, as their peoples are less free than they once were to move about the world, and as the newer countries, including our own, become more fully settled and the area of free and exploitable land so notably diminishes, we all alike begin to feel the pressure for cooperative economic enterprise and organization. Unless I greatly mistake, that very system of continental and internal free trade which has built up the United States and made its prosperity possible will point the way and lead the way to other similar organizations and federations, and when they have been accomplished, provided they are successful, our successors a generation or two hence will have the larger and ultimate task of finding some formula for the organization and integration of them all.

To my thinking, Mr. Chairman, these are the two outstanding lessons of this conference.

There is one other lesson which grows out not alone of this conference but of every similar conference. It reminds me of a story which used to be told by Mr. Gladstone relating to his famous visit to Pope Pius IX. Mr. Gladstone put to the Pope this very searching question. "Your Holiness," he said, "during the past thousand years, Europe has seen every sort and kind of political, social, and economic turmoil. It has seen revolution after revolution. Dynasties

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have risen and fallen. Philosophies have come and gone. Peoples have passed from one end of the civilized earth to the other. But this church of which you are the head has remained steady as a rock through it all, maintaining its unity and its power. How do you explain it?"

And Mr. Gladstone said that the Pope looked at him kindly and replied: "I explain it by three things which we have consistently done. The first is consultation, the second is consultation, and the third is consultation."

Mr. Gladstone used to say that he came away from that conference with a new insight into the significance for the institutional life of man of that persistent conference, consultation, kindly comparison of view, asking of questions, unburdening of difficulties, stating of problems, which are the rational man's way to approach a difficulty with his fellow.

And may I, Mr. Chairman, remind you that the first conscious act of the American people was an act illustrating the full meaning of international cooperation, for when their representatives put their hand to the Declaration of Independence, they did so out of "a decent respect to the opinions of mankind." A higher cooperation than that no nation can promise, no nation can offer, no nation can give. (Applause).

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PART I

BETTER ECONOMIC ORGANIZATION OF AGRICULTURE

BETTER ECONOMIC ORGANIZATION OF AGRICULTURE ¹

DR. ALBERT SHAW

Editor, The American Review of Reviews

IT has been shown by official statistics that the year 1926 has been a prosperous one for the American people at large. There has been little unemployment; wages have been high; the improved earnings of invested capital have been reflected in the high level of security prices on the stock exchanges. The distribution of commodities that relate themselves to comfort, and even to luxury in the life of ordinary families, has been upon a more diffused scale than ever before. The sessions of the Academy of Political Science today are in recognition of these current conditions, and are concerned with some particular aspects of what we may call the economic problems of an unusually well-sustained period of national prosperity.

The papers and discussions of the forenoon session have dealt with many aspects of a vastly extended system of credit which is enabling people throughout the country to enjoy the immediate use of articles of a relatively permanent nature that otherwise they could not hope to possess until after the savings of a number of years had made it possible for them to pay cash down. The high wages of industrial workers have further stimulated what is now a contagious ambition to live in a more suitable house or apartment, with better furniture and with conveniences of all kinds. The universal shortening of work hours has resulted in an emancipation from overpressure and fatigue and this has had much to do with the widened market for automobiles, and with the immense growth of demand for everything that provides recreation and amusement. All these things have lifted men and women and households out of the ruts that dire necessity and the fear of

¹ Remarks as Chairman of the afternoon session of the National Conference on Problems of Prosperity, held by the Academy of Political Science at the Hotel Astor, November 17, 1926.

poverty had worn so deep, and had made so familiar, in the industrial decades of the century previous to the present one.

This afternoon's session, over which I have the honor to preside, faces boldly the distinction, from an economic standpoint, between the conditions that prevail in industrial and commercial centers of population and those that we find in this precise period when we examine the economic status of our agricultural population. The farmers also buy automobiles on the installment plan, just as they have for a number of years past been buying increasingly elaborate and ingenious machinery on a credit system involving a series of deferred payments. Scores of thousands of them have bought their farms on a more venerable credit system—one requiring interest-bearing notes secured by mortgages, and calling in many cases for repayment of the principal sum in yearly installments.

But on our program leaflet, the general topic of the afternoon is expressed in the phrase "Better Economic Organization of Agriculture," and this phrasing conveys a certain suggestion of challenge to those who bring forward the glowing statistical aggregates that are meant to convince us that we are all much better off than ever before. The farmers as a whole, through their representative organizations and spokesmen, are asserting that economic conditions are fundamentally wrong in the business of agriculture. Speakers whom I am to introduce this afternoon are well qualified to state the facts as to life, work, and business in the fields of rural industry, and to consider the nature and value of remedial measures that are now under discussion at Washington and throughout the farm States of the Middle and Farther West and the South.

For our purposes, it is desirable to distinguish between farming as a life and agriculture as a business pursuit. Considered from the standpoint of the rearing of families, and the association of such families in the more or less complete organism of neighborhoods, the farm unit is basic in the structure of the American nation.

As compared with city dwellers, the general levels of rural civilization were higher than the levels of culture and economic comfort that prevailed in our towns and cities, from the very beginning of our colonies early in the seventeenth century to a period fairly late in the nineteenth century. When the

superior advantages of city life at length became strikingly obvious, a thoughtful analysis showed clearly enough that pure water supplies, with other applications of medical and sanitary science, had diminished the death rate in cities by at least fifty per cent, while almost unlimited expenditure for schools, and other opportunities for training and culture, had quite revolutionized the condition of city boys and girls as compared with that of their cousins living on the farms.

And thus, even when in many given cases there was better assurance of shelter, clothing, and food on the farm than in the town, thousands of families moved to the population centers in order to give their children the free advantages of schools of every kind, or else to bring the family within the reach of skilled medical service and the many other benefits that had become apparent in towns where clean streets flooded at night with electric illumination, good police systems, and all sorts of entertainments and amusements were near at hand, with neighbors and friends also at close range. These things, together with short and definite hours of work, were giving urban dwellers many blessings that had not become widely distributed to people on the farms, who were in the main still living under the conditions of pioneer days, but with the hope and vigor of the pioneer period mostly oozed away.

It was because of contrasts like this that Congress ordained, at great expense, that radical innovation for the benefit of farm dwellers known as Rural Free Delivery. The telephone came as perhaps the greatest benefit of all, because farm wives could talk with each other even when they could not meet face to face, and the village doctor or the local merchant could be reached in emergencies. The automobile, with its accompaniment of good roads, arrived as a great boon to the farmers. The phonograph came to be a universal solace; and the radio is rapidly making its way throughout the farm neighborhoods. Electricity is only beginning to perform its destined service in our farm homes, but, as one of our speakers will show us this afternoon, country life may be rendered far more convenient and agreeable by a definite policy that will provide for distribution of electric current for light and power.

Upon the whole, we are seeing ways by which those modern advantages that have quite transformed the life of towns-

people may be brought in almost equal measure to the families that cultivate the soil. Throughout many regions of the country, the consolidated rural school, with motor busses to transport the children, is doing more than any other one thing to re-establish rural civilization on the higher level, to bring new hope to farm families, and to allay the restlessness and discontent that had become so prevalent with the breakdown of the one-room country school system.

We have not yet fully grasped the conception that the State itself should, as a matter of deliberate policy, see that country children are provided with educational facilities at the cost of the State, precisely as the poor children of great cities are provided at the cost of all the taxpayers of the municipality, the city itself being one undivided school district.

These considerations have to do with the kind of policies that are meant to support the dignity and the essential quality of our rural civilization. The typical American farmer has not been a grubbing peasant, but a great citizen with a national and a world outlook. It will be a short-sighted and a deplorable policy that drives the better class of farmers away from the country into the town, in order to maintain the dignity of personal and family life and to have assurance of equal advantages in the present period of intelligence and culture.

And still it remains to be said that the policies relating directly to the equalization of social benefits, as between town and country, belong only incidentally to our afternoon's program. The farmer lives without rent payment in his own house, and to a great extent provides his own food. By a local exchange of the lesser products of the farm—those of the poultry yard, the orchard and the garden—the farm family may provide itself with ordinary clothing and some other immediate necessities in the nearest village or the county town.

But the typical American farmer in the Mississippi Valley, in the corn belt, the wheat belt, the cattle and sheep-grazing areas, and in the cotton and tobacco regions of the South, is not merely a farmer who sustains himself on the peasant basis by producing his own cereals, vegetables, poultry, pork, milk and butter. He takes much more seriously his attempt to produce a staple cash crop for the supply of industries and for the consumption of the city dwellers who

now greatly outnumber the farm producers. It is the better organization of this business of producing and marketing staple crops that is the more direct topic of discussion this afternoon.

Older men can remember the time when almost every small neighborhood had its own flour mills and its own sawmills. These small mills went out of existence, not by the hundreds but by the tens of thousands, when the great commercial mills (as, for example, the flour mills of Minneapolis, and the sawmills of great lumber companies) began to demonstrate their advantages in manufacturing and distribution. The farmer had to sell his wheat for what he could get on a system of grading that he did not invent; and then he had to buy the flour for his own daily bread at prices which he had no part in fixing and which bore no relation whatever to the price he had received for his wheat.

Thousands upon thousands of small retail shops in the cities were, in a certain period within the memory of older men, put out of business by the rise of the great department stores. Many of the local traders who had come close to the needs of the farmers were superseded by the mail-order houses that shipped everything, from a pair of gloves to a ready-made barn, from Chicago or elsewhere. In the early period, the farmer's wagons and utensils were largely made in the shops of the local wheelwright and the local blacksmith. Prices paid for these implements bore some relation to the crops that the farmer had raised with these local plows and had marketed in these local wagons. But hundreds of thousands of these shops in the immediate farm neighborhoods were closed by the rise of the great implement concerns, such as the plow works at Moline, the Studebaker wagon factory, the McCormick harvester company, and so on down the list. In due time, the farmer found that there was no alternative and that he must buy his utensils and machines, not on terms that he could help to make but altogether upon terms made by the great industries that manufactured and distributed the articles necessary for his productive work.

Meanwhile, the individual farmer was producing some wheat or some corn or some cotton, and was offering to the market some hogs or some fat cattle, or some products of

dairy and poultry farming, on marketing principles not essentially different from those that had prevailed for generations, excepting that, whereas he had formerly had a large part in saying what price he must have for the things he sold, he had altogether ceased to have any relation whatever to the fixing of price. If his wheat had gone to the local mill and he had supplied himself and the neighboring village with flour, he would have felt himself on terms of equality in the market. But when his wheat was bought for Minneapolis or St. Louis or the Chicago export market, he had no recourse except to take the price that was fixed by conditions far beyond his control or that of his neighbors.

In view of these facts, we find today two radically different opinions as to whether or not anything can be done through governmental action. One view holds that it is best to allow natural law to work its way, and to leave the farmer to struggle on till he finds his place in the economic world that, except for him, is shaped by the forces of so-called big business. The opposing school of thought holds that agriculture needs government support in order that the farmer may not be destroyed in his struggle against adversity.

Those who admit the desirability of governmental relief may again be divided into two schools of thought. One set of leaders are thinking in terms of immediate or emergency relief, and seek improved credit devices for the marketing of staple crop surpluses. Another group are thinking more fundamentally, in terms of some permanent reconstruction. They show the need of organizing business of producing and marketing those farm commodities that the world requires in ever increasing quantities, and that American farmers should find prosperity in supplying.

The advocates of "Farm Relief," so-called, have before them facts of the kind that Dr. Taylor and other speakers will present in this afternoon's session of the Academy. Our own Government, as a part of its program for the salvation of Europe, from 1917 until 1920, practically compelled the American producers of staple crops to intensify and expand their production of exportable staples, regardless of what might be the consequences of a profound disturbance of the normal balance. The reactions that brought widespread bank-

ruptcy to cotton farmers, then to cattlemen and banks in the Farther West, and later on to many thousands of farmers and hundreds of banks in the wheat and corn belts, were directly due to policies for which these interests were in no manner responsible. The Government at Washington had invited colossal disaster by its failure to consider the economic welfare of the American people as solicitously as it was conserving that of the people of Europe. It was not a theory, but rather, it was a desperate condition that confronted the producers of standard farm commodities.

Naturally enough, when the authorities at Washington realized the plight of these interests, various measures were taken to provide better credit facilities. These were desirable in so far as they were applicable to the situation. There was, however, a series of regional crises that did not so much call for further opportunities to borrow money as they required price conditions which might make it possible to come out from under the burden of accumulated debts, and to continue the business of farming. When prices are favorable, credit is easily arranged.

With all the prosperity that the country as a whole is enjoying, the farmers in 1926 have fared badly. Not only are they less prosperous than those engaged in other kinds of economic effort, but also their rewards, for their labor and the use of their capital, come far short of those that they were accustomed to enjoy before the Great War. Congressman Dickinson, of Iowa, who is to speak this afternoon, represents those who hold to the view that Congress must help the farmers to help themselves by providing some method for the marketing of staple crops that will save agriculture from the deadly harm of violently changing prices.

It is not sufficiently well understood how great, even under normal economic conditions, are the hazards that beset the farmer in the production of these necessary commodities. Weather, for example, is quite beyond the farmer's control, yet it affects crop production by exceedingly wide margins of variation. Thus, in 1926, cotton sells for half of the price received in 1925, mainly because of weather conditions that increased the yield, although last year's good prices had stimulated some increase of acreage. Winter wheat in 1926

was almost twice as prolific a crop as in 1925, because of favorable weather. Such hazards of farming, due to conditions of heat and cold, drought and moisture, and other things beyond control, must in the main be assumed by the individual farmer, although their harsh effects may be mitigated by policies of a kind that bring together farmers for cooperative purposes in large associations, and by insurance methods that may yet be greatly improved.

Agriculture is a national interest, and it is fundamental. Farming itself is (1) a mode of life, (2) a practical business, and (3) an admirable profession in which scientific knowledge and engineering progress of all kinds may be utilized. The farmers are not asking to be coddled or subsidized. In their status as country dwellers, they should be put upon the same basis as regards schools, roads, and other common services as are people in the cities. In their economic affairs they should be helped to find the best ways to equalize supply and demand, to standardize regional crops, and to find their markets through large and well organized cooperative associations that can minimize the exasperating price fluctuations that are now so damaging to the individual farmer. The problems in detail that relate to the future of American agriculture are exceedingly difficult, but undoubtedly they can be solved. It is essential for the well-being of the country that its great landed domain be wisely used, and that it shall continue to be inhabited by people who till the soil with intelligence, and who live in their rural communities with dignity and with satisfaction.

Doubtless much genuine effort has been made by the national Government since 1921 to give agriculture a support that would help it back to its normal place as an economic interest. But certain steps are yet to be taken in order that the program already entered upon may have the full effect that is conceded to be unattained as yet.

So much attention has been fixed upon national policy that we are in danger of losing sight of the more immediate and intimate responsibilities of the states themselves. For more than a hundred years we have encouraged diversified manufactures through protective tariffs, and the farmers have been taught that their welfare lay in the creation of a great con-

suming home market. The further relationship of the tariff to our agricultural prosperity is yet to be studied impartially without regard to partisan tendencies. As for the states, it is their business to provide for the educational welfare of their own citizens in every county, township, and school district. It is their business, looking to the future, to see that hillsides are reforested, that roads are built, and that farm life is maintained through the development of a standardized medical health service in every locality.

An intelligent state government will recognize the fact that the fertility of the soil and its proper use in agriculture are matters of vital public concern. A wise agricultural policy in many of our states might have prevented the ruin of millions of acres of land by erosion, following the continued abuse of a one-crop system. Several Southern states are at this very moment seriously considering measures for the arbitrary reduction of cotton acreage, and for the conservation of soils by crop rotation and other recognized methods. The interest of the state, looking to future generations, is far more important than that of the private owner of land. Private ownership is desirable, but it must be subject to the fundamental rule that the domain of the state is to be used for the general welfare.

AGRICULTURE AND THE TARIFF

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I.

IF we are to understand the position which the great farm groups particularly in the North Central, Mid-Western and Western States are taking on the tariff, it is necessary to take into account some other policies of government which have played a determining part in the development of the present condition of agriculture.

Our national program since the Civil War has aimed to expand agriculture without any thought of the relation between crop output and domestic market requirements. The foreign market was ready to take what we could spare, partly because the United States was a debtor country. Foreign capital invested here made exports necessary. It was our policy to get our land resources into private hands for productive purposes as fast as possible. Railroads were subsidized to develop new empires. States competed with states for settlers. Hundreds of millions of dollars were thrown into reclamation projects.

This policy was suited to the United States as a debtor nation. The reversal of the credit balance growing out of the war turned the situation precisely around. We went into the war with our agricultural plant expanded beyond home needs, and for the Allies this was fortunate. We were able to supply the food, but in doing so the country demanded from the farmer that he enlarge his ordinary peace-time activities to the limit. No effective program was ever worked out to save agriculture from the full force of the shock when war demand stopped.

Deflation followed inflation and farm expansion, all induced by government policies, and left the producers of the great primary crops in a post-war position of inequality. In terms of other goods and services, farm crops have sold at radically less than before the war. In the period of 1910 to 1920 farm indebtedness trebled, and most of the debt was as-

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sumed when the dollar was cheap. Both these factors tinge the agricultural outlook on the tariff. Bringing the cost of labor, commodities and services down by attacking the tariff, the Transportation Act, hours-of-labor laws, the immigration exclusion act, and other government protective devices might restore equality in exchange, but farmers want to pay their debts with crops as big in dollar value as possible. Reducing the tariff and opening the gates to foreign labor will not accomplish that.

II.

The protective tariff is only part of our national protective system that has grown since the day of Alexander Hamilton but at no time so rapidly nor in so many new directions as during the past decade. This system of governmental institutions and sanctions limits or annuls competition and affects the distribution of wealth in the United States to the advantage of some groups at the expense of others.

Agricultural interests in relation to our protective system are as radically divided as the interests of the most diverse groups. Producers of protected specialties no doubt favor continuing the tariff. Producers of other crops see it as a device that raises their costs and does them little good. Probably Northern farmers will continue to support it in general, but only in case equally effective devices are created for them. This does not mean that the farmers are interested in preserving the tariff *status quo*, or that they approve excessive protection in any line.

Thus the tariff is viewed from two standpoints—as part of this protective system that imposes added costs on industries not likewise protected, and as part of a mechanism that may be employed to offset the inequality it has helped to create.

Agriculture as a whole is a heavy loser under our protective system, both directly and indirectly. The tariff raises the money costs of every farmer in the United States. On the other side of the ledger, it confers a direct cash benefit on a few—dairymen, sheepmen and producers of flax, sugar, poultry and citrous fruits. Occasionally it has been of limited help to growers of corn and wheat, but as a rule it is either of comparatively little direct benefit, or of none at all, to the producer of wheat, cotton, pork, rye, corn and oats.

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Opinions vary as to the extent to which the tariff directly aids farmers. The divergence is great enough to cast doubt on the utility of the statistical method in attempting to arrive at the truth among them. Wheat may be selected for a simple illustration. A member from Kansas, now about to retire from the lower House of Congress, is widely quoted as saying that the tariff has afforded an average protection of twenty-three cents per bushel of wheat in the United States, for the past five years. A staff contributor to a leading national farm monthly in one of two recent articles on "The Farmer and the Tariff" declared that "the Minnesota and Dakota wheat grower . . . commonly figures the benefit [of the tariff on wheat] at twenty cents a bushel or better."

As far as my own observation goes, the Minnesota and Dakota wheat growers do not figure any such degree of benefit from the tariff. In the year 1925, the United States' total wheat crop was less by more than one hundred million bushels than in any other year since the war. There was consequently the smallest exportable surplus in a decade, and the tariff might be expected to reach its greatest effect on domestic price. Therefore, I was interested in comparing the figures realized at their terminal markets by the Canadian and the American States wheat associations for the 1925 crop. The Canadian settlement was for an average price of \$1.45 a bushel for Number One Northern wheat at Fort William after deducting terminal costs and general expenses of the pool. Three of our spring-wheat state associations reported average terminal prices at Minneapolis for Number One Dark Northern wheat ranging from \$1.44 to \$1.51 a bushel. In other words, the settlement of the 1925 pools in the United States and Canada was at substantially the same terminal price for top quality spring wheat. In computing the net returns to the spring wheat farmers there is a sharp freight differential to be considered. For example, the Montana or western North Dakota wheat grower pays eight to ten cents a bushel more freight to his terminal markets than his neighbor to the north pays for the equally long haul to his market—more than enough, apparently, to offset any margin that may have existed on the average through the marketing season for the 1925 wheat crop.

The same variety of opinion appears when considering the

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indirect gains or losses attributable to our tariff policy. The staff correspondent referred to above sums up his conclusions in the statement that the American farmers lag behind in direct tariff gains, but are better off by indirect benefits. Yet in striking his balance he fails entirely to consider the effect of our national policy of restricting imports on the demand—hence the price—for our farm-crop surpluses sold abroad—and this is only one of the omissions that creep in to cast doubt on the accuracy of his and other statistical treatments of the tariff and agriculture.

Growers of fruit and vegetables and producers of dairy and poultry products reap most of the indirect benefits of our protective system. Demand for what they have to sell is stimulated by sustained wages of labor. On the other hand producers of staple crops like wheat and cotton are not assisted in like degree. Demand for the plain foodstuffs and articles may slow down, not speed up, when the family budget permits the housewife to select from a wide variety of substitutes. The per capita consumption of wheat in the United States, for example, has fallen off twenty-five per cent in the last quarter-century.

We have a surplus for export of our most important crops. Their domestic price is closely related to foreign price. The tariff increases the difficulty of exchanging the exports for products of the labor of other lands, thus exacting an indirect but none the less real penalty.

III.

Notwithstanding agriculture's adverse position under the tariff as a whole, the tendency among farmers is to prefer protection for themselves to withdrawal of protection from others. There are several reasons why this is so. There is, of course, the influence of producers of effectively protected crops who, though outnumbered, are active. But above all else farmers want higher prices for themselves rather than lower prices for the rest in order that they may more easily pay their debts. It is not only the inequality between farm prices and other costs that troubles the farmers; it is the fact that their debts amounting to some twelve billions of dollars largely contracted when the dollar was cheap must now be paid when the dollar

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is not so cheap in terms of all commodities and is still less cheap in terms of the products of the farm.

When farm prices fell out of line after the war, the tariff was the first remedy applied, along with the equally orthodox one of additional and unusual loans. The Emergency Tariff of 1920 and the Fordney-McCumber Tariff of 1922 gave prominent consideration to agriculture, both in duties applied to products of the farm, and in providing for admission, duty-free, of many articles that farmers buy. Friends of the tariff attribute to these exemptions more value to the farmer than they actually possess. For example, the tariff enters into the cost of every farm implement sold in this country, though the article itself may be on the free list. This added cost comes from the tariff on steel, which also enters into the cost of the freight; from increased labor costs, if we accept the protectionist argument that the tariff makes high wages. But leaving that, the tariff was powerless to help the producers of our basic crops, who were the ones that most needed helping. As has already been shown, our staples like cotton, wheat and pork are normally produced in excess of the home demand. We might multiply the duty rates on them without helping the producers.

The impotence of the tariff unaided to bring about price recovery of surplus crops is reflected in the past and present purchasing power of agricultural products compared with non-agricultural commodities. The Bureau of Agricultural Economics index of purchasing power last published gave the average exchange value of thirty principal crops in terms of non-agricultural commodities, as eighty-three per cent of pre-war—the lowest point in twenty-six months and a drop of ten points in a year.

IV.

The agricultural surplus problem arises out of our past policies of expansion, the great number and wide distribution of producers of major crops which make collective action difficult, and the impossibility of controlling volume of production by regulating acreages.

As an illustration of the last factor, it is pointed out that

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1920 and harvested 3,208,584,000 bushels, in 1924 the acreage was practically the same—101,076,000 acres—but the harvested crop was only 2,312,745,000 bushels. The range in production which no human agency could have foreseen or prevented was 896,839,000 bushels with no marked acreage variation. Wheat farmers planted approximately fifty-two millions acres of wheat, both in 1924 and 1925. The crop harvested in 1925 was almost two million bushels smaller than the crop in 1924. On the average acreage planted to cotton during the past five years, including 1925 (but not including the enormous crop of 1926), the range between the years of high and low production amounts to two and a half million bales. These figures illustrate why farmers cannot adjust their supply to home demand in the production stage as a closely integrated industry can do. If they could they might make the most of their markets in prices that reflect economically obtainable advantages, including those made possible by an effective tariff.

If producers through cooperative action could control the flow of widely grown commodities to market and thus adjust supply to demand in the stage of distribution, they might be able to prevent surpluses from breaking their markets below cost of production, or from determining the domestic price by foreign sales. But there is now enough experience to show the sharp limits to what can be done through voluntary cooperation. To withhold from the market temporarily unrequired supplies, or to divert them to outside markets, is likely to involve costs and losses on the portion diverted or withheld. As long as these costs and losses must be borne only by those who voluntarily elect to pay them, while the benefits are shared equally with those who do not, the cooperative association that attempts this policy is doomed to fail in it. This is true notwithstanding that such cooperative action may have resulted in stabilizing prices, and in improving those secured for that portion of the crop sold in the domestic market.

The demand that some effective method be found for handling unavoidable surpluses came from all over the West after the war. The boll weevil was taking care of cotton then, but in the West and Mid-West farmers asked that the tariff be made effective for producers of our surplus crops. This

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idea found form in the surplus control bill in the 68th Congress, relating to six leading cash crops of which our domestic production normally exceeds home requirements. It proposed a way to withhold or divert surpluses whenever the domestic price of one of the designated commodities dropped below a point equivalent to its average purchasing power for the five years immediately before the war. It proposed to meet the costs through an "equalization fee" collected on each unit of the commodity so handled, as it moved in trade.

Before the 69th Congress many forces had brought modification in the plan considered in 1924. The "ratio price" feature had been persistently branded as "price-fixing." The farm organizations proposed as an alternative that surpluses be handled in such a way as to make existing tariffs effective in the domestic price. In the meantime interest had grown among the commodity cooperatives of the pool type. Their influence resulted in further modifications until the bill before the 69th Congress became largely a cooperative marketing measure with no government corporation or agency to carry on marketing functions, which were to be handled by agencies set up by the farmers themselves. The essential feature in both bills was the universal distribution of cost of operation among all producers of the benefited commodity. The plan was further modified by the counsel of the cotton cooperative associations who asked that the same principle be applied to them, i. e., to charge the cotton industry as a whole with the task and cost of its own stabilization.

V.

Most of the negative arguments developed during the past three years in which this legislation has been considered apply equally against protective devices now in use in the United States for other groups and in other countries for agriculture. The field is too broad for this paper, but an excellent illustration is afforded by two recent statements of the Secretary of Agriculture and of the Secretary of the Treasury.

In an article recently published in the most widely circulated American weekly, the Secretary of Agriculture said:

I have stood firmly in the belief that the basic surplus problem is not confined to any one section, and I have consistently opposed all

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legislation which would favor one class of farmers as against the interests of other groups of producers. Farmers of the East are heavy buyers of Western grain. The South is a heavy buyer of Northern pork products, grain and feed stuffs. The North is the buyer of cotton products. Even within the same region the grain growers' finished product may be the livestock feeders' raw material, and so on.

It is interesting thus to hear no less a spokesman for our protective government than the Secretary of Agriculture argue that it is unsound to improve the price of wheat for example, because, he says, farmers who grow wheat use a great deal of it on the farm, and those who do not grow it, eat it. If the Secretary's logic is good when he opposes making the tariff effective for the wheat farmer, and helping the cotton farmer secure a better price through control of supply, it makes an overwhelming case for removal of the tariff on wool and sugar. It applies equally to our steel tariff. One suspects from this declaration that the Secretary is in the way of becoming a free trader.

The tariff of thirty-one cents per pound on wool, for example, helps the relatively few wool growers among our farmers but it takes from other farmers who do not grow wool a greater sum. It may be reasonably inferred from his utterance that the Secretary of Agriculture favors the removal of the tariff on wool. The case against the sugar tariff is even stronger. Since producers of wool and sugar are likewise consumers of their own products, it is strange that they have remained ignorant of this principle now advanced by the agricultural spokesman of a high tariff administration. Certainly, if he is right in his position, then the wheat, corn and cotton farmers need sadly to be educated. They have been demanding better prices which the Secretary now points out would not be good for them.

The Secretary of the Treasury stated the grounds of his opposition in a much quoted letter last June of which perhaps the outstanding feature was the fear he expressed that, "European labor could purchase American products at a lower price and could live more cheaply than American labor. Foreign industrial costs would be lowered and the foreign competitor assisted in underselling American products abroad and in our home market."

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This, of course, is precisely what the protective tariff does. It operates not only to increase living costs for American labor but it raises both living and production costs of American agriculture. Whatever may have been the basis of former tariff laws, the Act of 1922 certainly embodies the principle that duties should be sufficient to compensate American producers for their higher costs compared with producers in the "principal foreign competing country." If they do so, then obviously domestic prices for the protected commodity will range above foreign prices, with all the consequences which the Secretary of the Treasury fears.

Therefore, if any cause makes the tariff effective for the producers of the basic crops of agriculture, the effect on industrial costs in this country will be identical with the effect of the farmers' proposal. It is difficult to escape from the conclusion that the Secretary's first desire is to enable our industrial producers to compete with foreign manufacturers for export markets, even if this has to be made possible through saddling the burden of cheap foodstuffs and raw materials definitely upon the farmers.

Some well-informed men contend that because we are dropping behind in farm acreage and production compared with population, farmers are approaching a time when they will be chief beneficiaries of the tariff. It seems reasonably clear, however, that if the forces who want cheap food stuffs and raw materials are now successful in defeating the farmer's demand that the tariff or some other protective device be made to work for them they would be equally successful in repealing agricultural tariffs, should they ever become operative.

In conclusion, the position of those elements in our farm population that have been most active in the so-called "farm relief" movement may be expressed substantially as follows. They know: (1) that it will help them more to raise their prices than to bring other prices and wages down to their level; and (2) that even if all tariffs were removed there would still be the problem of price instability that can only be met by surplus control. Therefore, from a government committed to the policy of effective aid for favored industries, they are asking for some mechanism equally effective for agriculture.

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AGRICULTURE AND THE TARIFF

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THE farmers of the United States sustained a loss of about \$20,000,000,000 of their capital during the six years from January 1, 1920, to January 1, 1926. This was 25% of their capital account at the earlier date. The value of farm land for the United States as a whole declined 31% between January 1, 1920, and January 1, 1925.

This shrinkage in capital value is due to shrinkage in income. During the general depression following 1919 the per-capita current income of the farm population of the United States as a whole dropped 49% from 1919 to 1921, while the per-capita income of non-farmers dropped only 3%. In Iowa the shrinkage in income during this period was 75% for the farm population and 5½% for the non-farm population, while in Vermont the per-capita income of the farm population increased 14% and that of the non-farm population declined 3%. In 1919 the farm population, representing about 30% of the total population, received 17.7% of the current income of the nation; in 1920 this dropped to 13.4%; in 1921 to 9.9%. When the capital losses are subtracted from the national income and from each group receiving national income, the farmers' share of the net income for 1921 is reduced to 5.9%. The per-capita current income of the farm population has improved in dollars but the income of non-agricultural groups has improved faster, so that the share of the farmers was probably no higher in 1925 than in 1921.

While the city industries quickly recovered, the depression in agriculture has continued. The gross income of agriculture declined from \$17,677,000,000 to \$13,031,000,000 between 1919 and 1925, or 26.6%. The net earnings of farmers declined to a greater extent than the gross income. At the end of 1925, six years after the beginning of the agricultural de-

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pression, from which there had been considerable recovery, the income per capita of the farm population, received as pay for labor and management, was 28% below what it was at the end of 1919, whereas the per-capita income of factory workers rose 3% above the 1919 figure.

This disparity in farm and city income is due to the fact that the ratio between the prices of farm products and city products has been unfavorable to farmers since 1919. In December, 1920, the purchasing power of farm products when expended for non-farm products fell to 67% of the pre-war figure. Another low point was reached in August, 1922, when the purchasing power went down to 66. There was a gradual recovery until August, 1925, when the figure rose to 93; but since then the position of agriculture has grown worse. In August, 1926, the purchasing power of farm products was only 83% of the pre-war level and it is still on the downward trend. This means that while a unit of farm products will purchase only 83% as much of city products as before the war, a unit of city products will purchase 121% as much of farm products as before the war. Once this disparity has been established, city consumers cease to spend the accustomed proportions of their incomes for the staple farm products and are in a position to spend increasing proportions for better homes, entertainment, food delicacies and finer clothing—all of which make increased demands on the city trades and industries.

Much of the damage to the farmer can be credited to the direct action of the government. The financial policy of inflation and deflation threw all sense of permanent values into confusion. Had inflation and deflation taken place at the same rate in all industries, the damage to agriculture would have been much less than it has been. The power to resist deflation was much greater in non-farming occupations than in farming. This was due in part to the fact that farmers are not so well organized, and in part to governmental action which favored other groups.

The war activity of agriculture was of the same kind as that of peace times. The expansion of agriculture was brought about during the war by appeals to patriotism and by some fulfilled and some unfulfilled promises to sustain the price

levels. This expansion having taken place, the reduction came slowly and brought with it enormous losses. The farmer's only chance of salvaging anything out of his life-long savings was in hanging on with the hope there would be a turn for the better. Associated with these conditions, we have had the grotesque circumstance that some of those who occupy the posts of statesmen in this country have feared to give the farmers any relief lest it stimulate them to increase production. Certainly until the annual losses are wiped out there could be no danger of expansion. No more has been asked than that old price ratios be in a measure restored. These ratios were not over-stimulating before the war when the financial condition of the farmer was healthy; the danger of expansion at this time when agriculture has been weakened by a long sickness and when other occupations are far more profitable is certainly much less.

In the main the special war activities of the manufacturing industries were different from their peace-time activities. At the close of the war, instead of a surplus of equipment and products of the kinds demanded in peace times, there was a shortage. The war industries were junked and the losses absorbed by the government. The city industries have prospered, with the exception of the relatively slight depression in 1921, while agriculture has continued to be depressed.

While the government could see no way to reduce the sufferings of farmers, the city industries were not only protected from the losses due to the junking of war industries, but a new tariff law was carefully prepared to guarantee to the manufacturing industries even higher tariff rates than they had enjoyed before the war. The sheep industry is the only important exception to the general rule. The sheep farmers were the first to suffer at the close of the war. In 1920 the sheep farmers and the bankers associated with them were at the point of bankruptcy. A change in the tariff restored their prosperity.

The tariff, reenforced by the immigration law, constitutes the major reason for maintaining the disparity between farm incomes and city incomes. Instead of an increase in protection to industry following the war, there should have been a reduction, because the position of the basic unprotected in-

dustry, agriculture, was weakened by overexpansion and by a reduced buying power in Europe. This greatly reduced the power of agriculture to compete with the protected industries for labor and capital.

Since the natural conditions for carrying on the protected manufacturing industries are as favorable in this country as abroad, and since protection has been needed in the past because natural conditions made certain other industries, primarily agriculture, even more profitable than manufactures, the original and only true basis of a protective tariff has been to enable the infant manufacturing industries to compete with the more favored industries in the home market for labor and capital. This competition reduced, the tariff should be reduced. To raise the tariff on manufactures under these conditions was at least a colossal blunder. One economist recently said the passing of the Fordney-McCumber Tariff Law was a crime. The wrong action on the tariff at that time is the major reason for the present disparity between farm and city incomes.

Thus while agriculture has suffered from the cumulative effects of the war and the activities of the government incident thereto, with no help, excepting increased credit facilities which have had the effect of increasing the indebtedness of farmers, many of the city industries received reimbursements of losses due to closing down of war activities, and have benefited by a protective tariff that elevates the prices of city products at the expense of agriculture.

In general the first years of agricultural depressions do not damage city industries. They damage those city industries which manufacture for the farm trade solely, but other industries gain by the abundant supply of cheap food and raw material, the very cheapness of which is the occasion of the agricultural depression. It is only when this depression in agriculture has wrought its full effects that city industries suffer from the agricultural depression by paying high prices for food and raw material due to the reduction in the amount or the efficiency of farming.

It takes a long time to stop agricultural production by means of depressed prices. But while the process is slow it is very destructive. It leads to cut-throat competition, because of

the large permanent investment in proportion to the annual outlay, and because of the fact that three-fourths of the work on farms is performed by farmers and their families.

Both the land area in farms and the farm population are beginning to shrink. Between January 1, 1920, and January 1, 1925, the area in farms declined nearly 31,000,000 acres, and the farm population was reduced between January 1, 1925, and January 1, 1926, by more than 700,000, while the total population increased about 8,500,000.

This shrinkage will go on (if farmers are forced to it) until price ratios are reestablished on a basis which makes farming as profitable as other occupations regardless of government handicaps, or until the more intelligent and more ambitious of the rural population have gotten out of agriculture into other occupations, leaving behind that peasantry which already constitutes an unfortunately large percentage of our farm population. Peasantry is a state of mind. It represents an inferiority complex. Hope and ambition abating and efficiency declining, the peasant takes what he can get, multiplies his kind and furnishes the foundation of a decadent nation.

No rational citizen wants the present city prosperity at this cost. True it has been said by those in high places that the consumers have the votes and will vote for cheap food. Cheap food today will mean dear food tomorrow. Statesmanship can help consumers to think of tomorrow as well as today. The great effort of the late Secretary of Agriculture Henry C. Wallace was to help business men and the high officials of the government see the truth regarding agriculture, believing that there was yet left or would arise enough statesmanship in this land of ours to save us from the disasters which lie ahead. Apparently his words fell on deaf ears, uncomprehending minds, or were met by hardened hearts.

Before taking up the tariff in its relation to this problem it will be well to review the remedies which do not involve the tariff.

The reduction of the land area by governmental action which would help farmers get off marginal and submarginal lands and find work in other occupations has been suggested by Professor Richard T. Ely. The methods of making this plan effective have not been worked out in detail but in the mean-

time the United States Government appropriated \$70,000,000 in 1926 for the expansion of the agricultural area through specific reclamation projects.

It has been suggested that we adjust agricultural production to the needs of our own country, producing at home so far as may be the agricultural products which we import from abroad, and reducing our production of staple products to the needs of our own country. Calculations show that in order to reduce our staple products to the point where year in and year out we would have just enough for the home demand it would be necessary to reduce the present crop acreage of the United States more than 40,000,000 acres after devoting as much area as would be needed to produce those commodities, now imported, which it is physically possible to produce in this country. The agricultural products we import require much labor and little land. We could produce our own sugar and our own silk, but at a cost which would mean a great loss to the nation.

It has been suggested also that the government should take a hand in developing facilities which would aid the surplus farm population to find positions in other occupations. The efforts being made by farmers or members of their families to change from country to city occupations have not been very successful. True the movement has been large, but more than one-half of those who leave the country for the city occupations fail to find a foothold and drift back. This is a sorting process, but an expensive one.

While the total writing-off of rural wealth would reach staggering figures, if enough land could be withdrawn from agriculture and enough people taken out of agriculture and placed in other occupations, the price ratios would be restored and the current incomes of farmers would be on a parity with those in other occupations. This would reduce our farming far below the amount carried on before the war. This is what is slowly coming to pass at a human cost which is blighting the rural population in such a manner as to limit seriously the possibilities of our national life.

After all, why is all this reduction of agriculture needed? Is it needed in order that the United States can best serve mankind in this after-war period? By no means! The agriculture of the United States should be maintained and improved.

This reduction is forced upon farmers by the disadvantage of selling on a world market and buying on a too highly protected home market. Were it not for excessively high protective tariffs on imports, the purchasing power of farm products would not be down to 83% of the pre-war figures. There are other factors, but the tariff is of major importance in determining the present situation.

It has been recognized that the tariff may be attacked by two methods, either of which would give relief to farmers: first by reducing the tariff; second by making it effective for agriculture. The attack has been largely on the latter line during the present administration—in part because it was thought there was no hope that the administration would favor tariff reduction. It has been demonstrated that the administration was equally against making the tariff effective for agriculture.

The present tariff is too high, much higher than is needed for protective purposes. The original purpose of a protective tariff was to raise the home market price of a commodity which without protection would be less profitable than some unprotected commodity. But our present tariff rates are much higher than the maintenance of our city industries requires.

Without protection our population would turn its energies to those occupations which pay best under conditions of world competition. Protection fixes the domestic prices of certain products somewhat above the world price level in order to enable that industry to compete successfully with other domestic industries for the use of labor and capital. This, of course, always places the burden of higher costs upon the unprotected industries. It may be a justified national policy when used to develop infant industries which, once established, will be able to stand on their own merits; but it is never justified when the rates are so high as to force unprotected industries out of business. The true test of how much our present tariff can be reduced without destroying the industries is found in the answer to the question how much can the prices of protected goods be lowered before it will become more profitable to produce unprotected goods. If the tariff on protected goods could be reduced fifty per cent without reducing the profits to the point where an unprotected product will pay better, then

the present tariffs are twice as high as they should be. The tariff that is justified on the ground of diversified economic life and a home market has fulfilled its purpose when it makes protected industries which require price-fixing to sustain them as profitable as the basic industries which are not protected.

This amount of tariff reduction would in no way reduce the total well-being of the people of the United States, for we have great natural advantages that provide the basis for a higher standard of life than is possible in most foreign countries. The immigration law protects us in the enjoyment of these resources. On the other hand, a reduction of tariffs from the present high levels down to the minimum essential to maintain the protected industries would go far toward reestablishing pre-war price ratios and a more equitable distribution of wealth between country and city in the United States. And this in turn would lay the foundation for a permanent prosperity based upon efficiency in production and justice in distribution. Without justice in distribution efficiency will fail.

But, it will be said, this would mean dragging the wages and profits of the protected, that is, price-fixed, industries down to the level of the basic unprotected industries. Not exactly. It would mean bringing them together at a median point. Indeed it would lower some and raise others, and why not? The present system is robbing the farmers of the comforts of life and of their accumulated savings in order that those in the protected industries may enjoy an unsurpassed indulgence in the comforts and luxuries of life in this after-war period when most of the world is sick.

How obvious it should be to the open-minded student or to the statesman that protection which makes protected industries far more profitable than the basic unprotected industries is overreaching itself and lending itself to an unjust distribution of wealth which is not only economically unsound but fraught with serious danger to our national life! It is this unbalancing of the distribution of wealth made possible by the tariff which has led to the slogan "Protection for All or Protection for None".

Tariff reform is a crying need of the day. The tariff can be reformed by reducing the rates to the point of balanced relative profits, or by making adequate tariff rates effective for agriculture.

The real problem is that of the proper distribution of wealth as between the country and the city. It may be said: The present inequitable distribution is temporary; in the long run agriculture will come back through readjustments of population. In a large measure this is true, but in the meantime life is passing and millions of patriotic citizens are losing their life opportunities. Furthermore, the blight upon agriculture will last for generations to come and may become permanent through the elimination of the best blood from the country.

Tariff reductions should be carried to the point of reestablishing the pre-war ratios without undermining our industries by making them less able to compete for labor and capital than the basic unprotected industry. This should become a definite program of action. It is here recommended, therefore, that the tariff rates be reduced ten per cent each year for five years or until the pre-war price ratios are reestablished. The amount of the tariff reduction should be distributed over the various commodities in such a manner as to secure the maximum benefit from an average annual ten per cent reduction. This would be very conservative action. The alternative to tariff reduction is making the tariff effective for agriculture to the point of reestablishing the pre-war price ratios for farm and city products. Those who proclaim either one of these proposals unsound must by the same token admit the soundness of the other.

AGRICULTURE AND THE TARIFF

HON. LESTER J. DICKINSON

Member of Congress, 10th District, Iowa

WHEN the first railroad was being built across Iowa, the Board of Directors met at the terminal point of the western section of the road and after due discussion concluded that they would spend no more money trying to extend that railroad across the state, because white men would never be able to live there anyway. But they have been living there. Last year my district, fourteen counties in Iowa, raised 26,000,000 more bushels of corn than the entire state of Pennsylvania—and Pennsylvania considers itself quite an agricultural state.

The difference between the problem in Iowa and the problem in the East is the fact that our eggs are largely in one basket, and when agricultural values decrease by seventy-five per cent, as Dr. Taylor explained, you can see what a chaotic condition it leaves us in economically.

I have been one of those advocates of the proposition that the tariff can be made effective and protective of agriculture. I believe it can be done, but it can be done only by national legislation. I am opposed to the government's being in business, and I have never advocated any subsidy for agriculture out of the public treasury. The reason agriculture can not be put fairly before the people of the East is the fact that ninety-five per cent of all Eastern comment on the demands of the West is based on the false assumption that the West is asking the government to do something for it out of the public treasury.

In other words, we have not been able to get our program fairly discussed in many localities and particularly in the Eastern press. Not that I blame the press. The Easterner, being unable in many cases fully to comprehend all of the details of the problem, is liable to take catchy sentences from the comment that he gets, and base his conclusions and arguments on them.

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I was very much amused last night in picking up a little prospectus headed "Importing Foreign Cement and exporting American Prosperity," published by a New York organization, and edited by H. Struckman, President of the International Cement Corporation. He gives as his reason for having it specified in construction contracts that American-made cement is to be used, that increasing the business of the cement industry helps the coal industry, the sack industry and all of the other industries whose products go into the manufacturing of cement. I can take every argument in that pamphlet and apply it to agriculture, with increased emphasis, and yet many people in the East will not take a pamphlet on agriculture and read it through, while they will read one on cement. Why? Because cement is a protected industry that has been able to canalize its trade and in that way establish itself, while the farmer is an individual living alone on his farm, unable to make his cause heard.

A great many people have referred to Iowa as the hotbed of radicalism. Now, let me suggest that it is not only in Iowa that the farmers of this country are depressed. If there is any criterion as to the depression of farm interests in this country, it ought to be found in the reports of the Federal Land Bank organization with its twelve districts in the United States. When they foreclose a mortgage and take over a debtor's real estate, under the law they are compelled to charge off the entire item within five years after it is acquired by foreclosure, or charge off a percentage annually. On September 30, 1926, this government organization made its usual report. The percentage of land values charged off in relation to the total amount of loans ought to be a fair criterion as to the economic status of agriculture in those particular districts. I find that the highest percentage is for Spokane, Washington. The next highest is Berkeley, California; next is Columbia, South Carolina; next is Wichita, Kansas; and then comes Springfield, Massachusetts. The percentage in the Springfield, Massachusetts, district, which includes the state of New York, is double the amount in the Omaha district, which includes the state of Iowa where most of the howling is coming from, according to the popular belief of the press.

The following personal letter from Ohio reflects the feeling and condition in that state:

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Senator Fess has gone so far as to say there is no farm problem in Ohio, and to indicate that the farmers here are prosperous. Nothing could be farther from the truth, as you well know without my telling you. I wish to inform you that the grain farmers of Ohio are all in the same boat with the farmers of Iowa.

The condition in north-central New York is reflected by the following quotation from a letter recently received:

We are living in a once prosperous and progressive farming section, and now not more than one-fourth of the farms are actually being farmed. About one-half are abandoned; of the remainder, some are still inhabited but the people are depending upon outside employment for a livelihood, while others are just living up the land which will soon be added to the abandoned farms. Very few young men remain on the farms and a very few more years will see most of the men now operating farms in this vicinity in their graves or past working days.

In other words, every claim of the people of Iowa with reference to discrimination against agriculture is also true of agriculture in New England, the Southern states, the Western states, the Pacific states, and the Mississippi Valley. The only difference is that in Iowa agriculture is probably ninety per cent of our economic turnover, while in New England it probably is not three per cent of the turnover, and therefore receives little attention.

Many people ascribe the present difficulties of the farmers to this or that or the other cause. They refuse to admit that it is a handicap that has been imposed upon the people following this particular industry. They say that we have passed a tariff law giving effective protection for agriculture on all of the schedules that were asked for. But why not go farther and admit that whenever you put a tariff on a commodity of which you produce a surplus to be sold in the world's market, the tariff is ineffective? They stop before they reach the real discussion of the tariff so far as the principal, primary commodities are concerned. They tell you about protecting lemons and citrus fruits, but remember when you sit down to a square meal that five or six staple food commodities entering into about ninety per cent of every meal you ever ordered are not protected. That is the reason for the demand coming from the Middle West, that the protective tariff system be made effective on all farm commodities.

I have been an advocate of the protective tariff system. I believe in it. Since the war practically all countries have adopted either the protective system or something similar. Protection is taking the form of export controls in the case of British rubber, Brazilian coffee, Japanese silk, and German potash. Yet America has been absolutely inactive here. We have been denied the privilege of testing out legislation for to protect our primary export commodities which, in my judgment, have more to do fundamentally with the future of this country than any other industry.

There are those who say it is all the farmer's fault, and that it is within his power to work out his own salvation. Let me suggest a comparison. Take any business there is in New York and run it on the basis of charging off seventy-five per cent of the capital investment within four months' time. That will ruin any business. And yet you are asking the farmers of Iowa to survive under exactly those conditions. I can remember the time when we were offered one dollar and seventy-five cents for corn and within four months' time it was down to twenty-two cents.

Let me give you a typical illustration: I have a friend who has been in the banking business for forty years. He has been dealing with a certain farmer near his town. The farmer raised a family, sent his son to college, and was one of the substantial men of the community; he had a borrowing power at the bank of from four to six thousand dollars. As time went on his loan against his land increased, and in the fall of 1920 he carried fourteen thousand dollars against his quarter-section of land and a current indebtedness at the bank of six thousand dollars. He never knew what it was not to be able to pay his debts when the demand came, but the bank examiner said to the banker, "You have got to get security for this six thousand dollar item." The banker went to the farmer and said, "You have got to give me security." The farmer said, "All I can do is to give you a second mortgage on my farm." The banker took the second mortgage. The farmer at the end of that crop year found that he could not make interest and taxes and living expenses; he tried the second year and the third year, and then he came in and looked down at the floor and said to the banker, "I can't make the grade. You just take this old farm."

Here we have a banker in business forty years; a farmer owner on the same land for many years—the farmer tilling the same land and raising the same crop—the banker dealing with the same individual and the same security—yet the farmer loses his land and the banker gets a frozen asset. The banker, if he gets about thirty of these items, will have a closed bank by reason of frozen assets. We have had over three hundred of them in the state of Iowa within the last three years. That is purely due to lack of stabilization and inadequate returns from farm operations.

That is the very proposition that makes us demand that something be done to try to stabilize the price of farm commodities, and we believe that that can be best done through national legislation of the kind that has already been suggested in Congress.

What is the difference between present and former conditions? I can remember reading the will of Nathaniel Dickinson who lived at Hadley, Massachusetts, my forefather, eleven generations ago. He left so many square acres of land and described it, so many barrels of pork, and that was his will. We were an agricultural people. But times changed. In the days of our fathers, when they wanted flour for the family they put six or eight sacks of wheat into the back end of the old spring wagon and drove down to the miller, whom they knew by name, and negotiated with him as to the toll that he was going to take from their commodity. The farmer at that time had bargaining power with the butcher who bought his live stock for sale across the counter. Why? Because he could say something about how much he should pay for this animal or that animal.

Where has the farmer's bargaining power gone today? He takes his produce down to the station and delivers it there for whatever they say the centralized market happens to consider his commodity is worth that morning. He has no bargaining power.

That is where the trouble lies with the farmer of this country. He has lost his bargaining power. Now how does big business get a bargaining power? By canalizing trade. All over this country branch banking is being advocated. That means stabilizing the banking business of the country by

centralizing it. If you are selling merchandise in some rural locality, you will find that some day there will be established on the corner opposite you a chain store which will sell for seventy-nine cents the commodity you have been selling for a dollar, and within a given limited time you are going to be out of business.

It is true in flour; it is true in tile and brick; it is true in cement and building materials; it is true in copper with the latest organization of \$460,000,000; and now we have the public utility power concern selling electricity and public service to the New England States, with a capital of \$1,500,000,000, and with headquarters in the City of New York. That is what I mean by canalizing trade and putting it into the control of a few individuals.

Why? Because they want to control the production and the market. Now, I am not objecting to that, but I doubt that it is a good thing for the country as a whole. There was a time when communities grew up around an old banker who was recognized as the stability of the locality, and also the corner storekeeper who was the adviser of the entire town. Now we are going to supplement those fellows with men who are working on a salary for chain banks and chain stores, and so forth, and we destroy the individuality of the locality.

There are enough critics who will say: "All the farmers have to do is to have sense enough to get together and do the same thing big business is doing, and that is to control their commodity and control their output." But start with the millions of farmers engaged in producing the same commodity and try to get them together on such a basis! If they make no more progress in the next hundred years than in the past thirty, toward cooperative control of markets, they will still be selling for what the other fellow offers them when they take their stuff to the market. Therefore, I maintain that if the farmer is to regain his bargaining power it must be done by canalizing the marketing of his commodity, just as they canalize all of these other commodities before they are sold and thereby control the production and also control the marketing.

I believe that can be done by legislation, and not without legislation. It might be done in some commodities that are

produced in restricted areas, but it is not going to be done in the marketing of the major commodities that are absolutely necessary in a program to stabilize agriculture in this country. Therefore, if legislation can be passed that will canalize and in that way stabilize, you will have performed the service, first, of giving the farmer as a producer a bargaining power. Then if you have a surplus that must be marketed abroad, you must also have the machinery for control of the sale of the surplus abroad.

Now, how is that going to be done? In my judgment, it can be done by the creation of a Federal Farm Board as proposed in the legislation that was presented last winter.

If our present marketing machinery of this country is rendering a turnover service for pay, it will survive under this law. If it is running a bucketshop game of speculation in these commodities, it will not survive and ought not to survive. In other words, I believe the proposal would not interfere with the present marketing machinery, because it would require only a small adjustment for that machinery to meet normal fluctuations. But it would eliminate those extreme price curves that are now ruinous to a number of major food commodities produced in this country.

In 1924 it was wheat. In 1925 it was cattle. In 1924 it was hogs. The next year we had all hogs and no corn, and that year it was the corn man. The next year and this year it is the cotton man. The production of commodities cannot be changed fast enough to enable a farmer to stay in the commodity he can produce at a profit. He cannot guess often enough.

Some economists who have never traveled over the prairies of the West say, "Well, why don't you balance production?" If anyone will send an economist to Iowa who can balance the production of corn and hogs and cattle, I believe I can guarantee to get an appropriation by the state legislature of Iowa to pay him a salary of a million dollars a year in order to stabilize the price of those two commodities.

In my judgment, the remedy involves two principles. First, you must have the necessary governmental machinery to canalize farm products into centralized channels, as big business is doing with the sale of its commodities. That can be

done through a board such as I have suggested, that board designating an agency, which will have the right to collect from the producers the loss and pay them back the gain if there is any.

The second principle is that that agency must have the right to take off from the market a sufficient amount to prevent the market from being depressed by a surplus. That is what we call taking care of the surplus that has to be sold gradually in foreign markets.

The objection is raised that this means dumping the surplus on foreign markets. But it is being sold in the foreign markets right now. Don't you think if you had an agency that had no other purpose in mind except to stabilize price, rather than to sell at a profit, it could sell just as judiciously in foreign markets as private agencies are now doing? I think it could be done, and done better. Foreign purchasers dealing with that agency would know that they were going to be able to get the surplus at a stabilized price into which no excessive profits will enter.

In my judgment, this crisis is not over. The man who goes out into the West and comes back and tells people that the crisis is past, is wrong.

There is one thing more, and that grows out of the discussion of this morning on installment buying. One of the contributing causes of the tribulations in the West is the fact that farmers have had put under their noses every possible inducement to buy additional things, and buy them on the installment plan. Why?

The General Motors Company made excessive profits during the year 1926, and, I regret to say, one of their markets is in Iowa. What are they doing there? They are selling ninety-odd out of a hundred of their machines on the installment plan. The current cash that we need to keep in those localities is being transmitted to the East. In a little while, the locality finds that it has not sufficient cash with which to function, and a bank has to close.

A good banker friend of mine the other day said to me, "Years ago, Iowa used to raise horses and we shipped them East. In a little while, they had the bones and we had the money. Now the East builds automobiles and ships them

West. In a little while, we have got the junk pile and they have the money."

Of course, I appreciate the fact that it is injudicious buying. But the Middle West is suffering from installment sales. According to the great financiers, the plan is economically sound providing it brings the money in to the particular interest that they want protected. Nevertheless it is a mighty bad thing for the farmer who has a hired man or a boy or a girl spending his or her monthly check to pay for an automobile that he or she might do without.

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POWER ON THE FARM¹

ARTHUR WILLIAMS

Vice-President, The New York Edison Company

MERELY for the sake of comparison in the subject under consideration, the comparative inefficiency of the farm without electricity, let us take a hypothetical illustration, even though it may be based upon a background of impossible conditions. Let us select, for this purpose, one of the great industrial and professional activities of the country, segregate it fictionally from all other group activities, and imagine that during the past century this selected industry has been standing practically still, and has been unable for some cause to take advantage of any modern improvements, either in the technical field of production or in the home life of those identified with it, employers or employees. Let us further assume, for the purpose of contrast, that this condition of complete stagnation has existed only in this selected industry, while all others, both in technical completeness, modernity of equipment, and home life of those identified with them, have adopted all modern conveniences and improvements of whatever nature, wherever to be found. With this comparative objective in view, let us select, say, the printing industry and profession, and include in this hypothetical generalization all its plants and their equipment and the homes and living conditions of related employers and employees, their families and all dependent upon them. What would be the effect of this stagnated condition upon the printing industry?

Antiquated Conditions—Lack of Progress

There would still be the old hand-press, with each sheet of paper individually selected and placed in position on the press

¹ Field power for plowing, cultivating and harvesting is not under consideration in this article. That form of service is now abundantly available in independent units, such as the ox, mule, or horse, or by mechanical means, of the gasoline engine type.

before printing, its slow tedious operation often requiring two men, in back-breaking, muscle-straining effort; there would still be the rotary press, turned by hand or kicked by foot; there would be inadequate ventilation, lack of proper sanitation, and the work, day and night, would be surrounded by conditions of a most undesirable and unhealthy nature.

Capital investment in printing plants and equipment would be very limited; employment would be unattractive, efficient workers in the present-day sense could not be secured; the entire industry would be on a very low standard of production and personnel. The modern newspaper, so essential in forming enlightened public opinion, would be impossible; present-day attractive periodicals, often in color, would be unknown, and their number and circulation most limited; there could be no publicity and advertising in the modern sense, so essential for the better development of industry and business.

Home Life Included

Falling within the scope of these imaginary conditions in the profession and art of printing would be the home; candles and oil would be used for illumination; flowing water, hot or cold, or any other of our present numerous household conveniences would be unknown; the homes of the industry would correspond with the homes of a hundred or a thousand years ago, lacking all now so essential in making life livable and attractive to old and young. Discontent would inevitably exist, not only to the detriment of the individuals identified with the printing industry, but to the harm of the community in general.

Picture Presents Existing Farm Conditions

This unhappy picture, while finding no possible application in the industry selected, accurately outlines industrial and home conditions as they exist today in more than ninety per cent¹ of the farm life of the country. Life and labor today on the farm are of the most arduous and undesirable nature. They exist now substantially as they existed a hundred or a thousand years ago, stagnated, unattractive, undesirable, with all of the other industries and professions of the country

¹ National Electric Light Association.

moving forward in step with what has been brought to them through invention and progress. Poor, inconvenient lighting; pumping water by hand; hand-grinding of food for animals; milking cows; sawing wood; churning; all demanding monotonous and exhausting work, which, relatively, in every other industry is performed by power—cheap, abundant, convenient power, requiring only the controlling hand and mind.

Such conditions cannot do other than cause widespread discontent and unhappiness, and an active desire to get away from every form of farm life. Obviously, agriculture must be the last of the fields of production in which one wishes to invest capital or engage as a principal or employee; the farm now invites the least interested and efficient character of labor. Yet farming is the most important of all industries and professions. Were the supply of food cut off, we should starve. If agriculture is conducted inefficiently, either the farmer, as at present, makes less than he should, or all pay more for food, and many are habitually undernourished.

Cheap, Abundant Power, Productivity, Prosperity— Kindred Terms

Something of the injustice to which the farm worker is subjected as the result of prevailing conditions is indicated in the report of the delegation of trade representatives who came here recently under the auspices of the London *Daily Mail*, their purpose being to ascertain why American workers are relatively so prosperous. The answer the commission took back to England—to employers, to workers, and to the public alike—was that our outstanding prosperity is due to efficient productivity, under modern industrial conditions; that this is the result of the almost universal elimination of exhausting human labor, every worker having at his elbow a high average of effective electric power.

Quoting the President of the American Federation of Labor on the Importance of Power

A further illustration of the importance of power, so abundantly available in every other industrial group, is found in a recent address by the distinguished president of the American Federation of Labor, Mr. William Green:

Workers have learned from experience that electrically driven machinery has lightened the burden of employment and relieved them of the drudgery and hardships of human toil. They now do with the machine what at one time required the strength and vigor of their bodies. Work has been made easier, life has been made more tolerable, living conditions have been improved, and workers have been permitted to enjoy the blessings and benefits of modern life.

These favorable conditions do not include the farm worker. Without power he lives and works as in the days of his grandfathers and great grandfathers, back hundreds of years, almost to the beginning of time. He finds his own muscles, and lessening strength with age, continuing in laborious toil where in all other industries power has taken their place. While other men, working eight hours a day, between five and six days a week, earn enough for comfortable and attractive living, his work begins before sunrise and continues until after dark, six days a week, and a material part of the seventh day, with his home conditions, comparatively, most unattractive.

National as well as individual welfare requires that these conditions, now so inherently a part of existing farm life, shall be eliminated to the utmost degree, at the earliest possible moment. The problem of the farmer is the problem of the nation.

Proposed Solutions

The conditions as they now exist can never be righted until power, cheap, abundant, and convenient, can be had on every farm. Many other solutions are before the country, such as protection through the tariff, co-operative buying and selling, and other measures, some of which, if not all, would result in higher food costs to the public. But these agencies, which might become merely political footballs, would fail pitifully in going to the root of the trouble. Without farm power, not one of them would increase farm efficiency or make farm life and work more attractive; while power available everywhere would meet the social and economic needs of the farm, and increase efficiency of productivity, and, without necessarily increasing food costs, enhance the emoluments attendant upon this work, which the farm so rightly deserves. With power, the tariff and other remedial agencies under consideration would assume their proper place in farming, as they have as-

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sumed or are assuming it in the wise judgment of the nation in all other industries and professions.

American Public Utilities are Helping to the Utmost

Our public utilities have not been unmindful of the responsibilities resting upon them, or backward in their efforts to solve the problem; rather, with large expenditures and extensive study, they have gone far ahead of any other country in this respect. And this with their own money, whereas elsewhere, at least to a very large extent, what has been accomplished in a much less satisfactory degree has been through the use of public funds and agencies. Even in the much advertised Province of Ontario, backed by the abundant and unlimited resources of that great government, farm extensions and service have been limited, and the cost of service to the farmer is much higher than on this side of the Canadian border.

Solution of the problem of providing abundant and cheap power to the farms seems closely analogous to the corresponding problem now in course of favorable and economic solution concerning the reconstruction of the country's highways, over which the farmer brings his produce to his shipping points or purchasing market. Without passable roads, he could not deliver his products; likewise, without corresponding electrical highways, he cannot receive from the power plant the energy he requires for his home and barns. Just as highways have been provided for vehicles, so highways must be provided for kilowatts and kilowatt hours. It is an economic, not a political question.

Of Greatest Importance to the Nation

The solution of the problem is of paramount importance, not only in the civic, but in the economic life of the nation. With ample power, life and work on the farm would become more attractive, possibly supremely attractive compared with many other activities; the supply of food of all kinds would be more efficiently obtained, the value of farm realty would be increased, net farm income and profit would be enhanced, and the cost of food might be ultimately reduced; farm effort would be accompanied by greater certainty of results in pro-

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duction, and the individual, as well as the group, would be protected in many respects against retarding or destructive agencies; farm employment would encourage and develop a highly efficient and desirable character of farm personnel.

Some Statistics, Actual and Estimated

There are now 6,372,263¹ farms in the United States. 452,620,² or 7.11%, have either gas or electric service; 225,000³ of this number, or 3.53%, are connected with electrical central stations. Thus, it will be apparent that almost 93% of the farms of the country are without power in either the homes or for the outbuildings, and more than 96% are without central power plant service.

About 31,240,000⁴ of the country's population live on farms. Farm workers not living on the farms on which they work are not included, but one must assume that their home conditions are no better in character. Probably more than 35,000,000—possibly a full third—of the American population live on farms and under farm conditions.

The realty value of American farms, including land and buildings, is approximately \$50,000,000,000⁵ (\$49,546,523,759); the total value, including machinery and live stock, is in excess of \$58,000,000,000⁶ (\$58,443,000,000); the present annual value of farm products is more than \$13,000,000,000 (\$13,031,000,000). The cost of labor in 1919 was \$1,098,694,590⁷ and for 1920, including the estimated value of board furnished, was \$1,356,403,452.⁸ It is probably much higher today.

¹ U. S. Census of Agriculture—"Number of Farms by States and Counties," 1925, p. 4.

² National Electric Light Association.

³ *Idem*.

⁴ U. S. Department of Agriculture.

⁵ *Idem*.

⁶ *Idem*.

⁷ *Idem*.

⁸ *Idem*.

Highway Mileage

There are approximately 3,200,000¹ miles of highways in the United States; as this includes the highways already electrified and those lying within incorporated municipal areas, it is probably fair to estimate that, in round figures, there are approximately 3,000,000 miles of highway which fall within the scope of this paper. As a gauge of present conditions, it may be stated that at the end of 1923, approximately 430,000² miles had been hard-surfaced by federal, state and local authorities. About 35,000³ miles were hard-surfaced in 1923. The best information available indicates that about 500,000 miles or 16 $\frac{2}{3}$ % of the mileage of the country, is hard-surfaced at the present time.

It is estimated that during the past 25 years, more than \$10,000,000,000⁴ have been expended for highway improvement. During the past five years the annual expenditure has averaged \$1,000,000,000:

1921	.....	\$1,149,437,806
1922	.....	898,352,307
1923	.....	996,781,036
1924	.....	1,181,521,115
1925	.....	1,003,124,000 ⁵

And the estimated figure for the present year is also about \$1,000,000,000. Of the money expended, in 1921, 64.61%⁶ was supplied from county, township and district funds, of which 28.04% came from bond issues and 30.17% from taxes; and 35.39%⁷ was supplied from state funds, apportioned as follows: 9.91% was derived from bonds, 3.96% from taxes, 1.88% from appropriations, 2.16% from transfers from counties, 6.9% from federal aid and forest funds, and the remainder, 10.58%, from motor fees, gas taxes and miscella-

¹ American Road Builders' Association.

² National Automobile Chamber of Commerce.

³ *Idem*.

⁴ Bureau of Public Roads, Washington, D. C.

⁵ American Road Builders' Association.

⁶ *Idem*.

⁷ *Idem*.

neous sources. These figures, in their aggregate exceeding \$10,000,000,000, have been quoted as suggesting the ease with which this enormous expenditure has been made, apparently to the satisfaction of everyone, for even those who do not own horses or automobiles, or use them for personal transportation, can appreciate that the benefits derived from good roads are universal—both to the travelers and to the stay-at-homes. The items have also been given in such detail, at the expense of your time, as indicating the sources from which this money has been made available.

Estimated Cost of Farm Electrification

Assuming as an estimate an average cost of \$2,000¹ a mile—the best figures obtainable range from \$1,000 to \$2,500—for circuit mileage and that the area to be covered is approximately 3,000,000 miles of highways, the cost of joining the power plants and the farms of the country by “electrical highways” would approximate \$6,000,000,000. This sum would be lessened by the extent to which highways are now electrified—a figure at the moment unavailable, but seemingly a relatively small percentage of the total.

There would seem little if any question that electric power available on every farm would enormously enhance farm values of the entire country. Were this increase in value but slightly more than 10%—40%² increase has been recently quoted in an actual instance in the state of Alabama—the entire estimated cost of highway electrification—\$6,000,000,000—would be offset in farm-value increments alone. Obviously, the cost of highway electrification is only a part of the problem, but its absence constitutes the missing link which separates the power plant from the farm, and the closing of this gap is the key to the entire situation.

Under existing conditions, the expenditure required for this purpose is so great that, were farm rate schedules to carry the entire cost, they would necessarily be far in excess of any other rate schedules for light and power, and more than the farmer could pay; or, were the cost distributed over electrical service in general, existing schedules would be distorted and

¹ *C R E A Bulletin*, Vol. II, no. 11, p. 7.

² *Powergrams* (Alabama Power Company), October, 1926.

overburdened, and all consumers in existing classifications would be subjected to a rate which would constitute not only an injustice in itself, but greatly restrict the use and extension of the service. As in the country's highway reconstruction, which is being accomplished with such universal satisfaction, some form of collective assistance seems necessary to meet this part of the electrification problem.

Some Suggestions

One suggestion has been tax-exempt securities, confined to the erection of rural transmission and distributing lines, issued under such competent authority as the public service commissions of the states. For this, there is ample precedent in acquiring funds for other purposes in which the public interest is served; and what is more important in the public interest than efficient farming? Again, possibly federal and local taxes could be omitted on rural service for prescribed areas; here, also, is found ample precedent, at least for state taxes, in tax-exempt homes in this and other states. Interest on rural line securities might be paid by farm organizations or the local authorities, with possibly the funds required for the retirement of the securities upon their maturity provided by the utilities rendering the service. Other methods equally or perhaps more adequate and desirable, through which collective assistance might be provided, will doubtless suggest themselves.

Electrical Highways Only Part of the Problem

The provision of electrical highways is but part of the problem. At one end is the electrification of the farm, at the other, the provision of adequate power, either from additions to existing, or the erection of new generating plants. With the electrification of the highways, however, neither of these problems, while representing enormous aggregates of value, seems to present insurmountable difficulties.

Assuming an average cost of \$750 for the preliminary electrification of each farm, the total expenditure reaches about \$4,750,000,000. This could undoubtedly be financed directly or indirectly by the farmers themselves, exactly as other consumers of electric current finance their electrical equipment, the present expenditure for which, on the part of the con-

sumers alone, is approximately \$2,000,000,000 yearly.¹ Perhaps some form of deferred purchase would be necessary, as in purchasing automobiles and in other forms of merchandising, but this would seem to present no serious problem, for the farmer is outstanding for honesty and integrity, and can be relied upon to meet any obligations he may assume.

Knowing the extent to which the public utilities of the country have always been ready to render adequate service and to meet every demand made upon them, it would seem, from the precedents established, that, as great as is the new investment required for this purpose, adequate power will be available whenever demand is made for it. Something of the magnitude of the responsibility at the generating end of the transmission line is indicated when we remember that the energy required in the earlier stages of complete farm electrification would probably amount to not less than 20 million horsepower and represent an investment running into billions of dollars. But, as I have indicated, the public utility men have never been found wanting to meet all proper demands falling upon them, and I judge, therefore—speaking not with authority, but by deduction and from existing precedents—that this part of the problem can be safely left to them, whenever and wherever it may arise.

Interesting Comparisons

The cost of farm electrification, taking the three groups, the farm, the highway and the power plant, is enormous, in all reaching probably some \$15,000,000,000—perhaps even more. But the figures lose something of their terrifying effect when comparing them with the aggregate value of the farms themselves of \$58,000,000,000; or with the present annual farm income of \$13,000,000,000; or with our recent war expenditure of \$32,000,000,000,² averaging \$22,000,000 daily for the entire period, and aggregating more than \$1,600,000,000³ during the last month of the war, a daily average of \$53,000,000; or with our present national wealth, which has in-

¹ *Electrical Merchandising*, February, 1924.

² Bogert, E. L., *War Costs and their Financing* (1921), p. 105, and *Tax Burdens and Public Expenditures* of the National Conference Board.

³ *Ibid.*

creased more than \$145,000,000,000¹ since 1914, at the beginning of the World War, and is now estimated at more than \$350,000,000,000.²

The war expenditure, amounting to more than five times the estimated cost of electrifying the highways of the country—the only part in which public financial assistance, as such, would seem required—was for things which, in the sense of property, have long since disappeared from any tangible inventories, and was intended for injury to, and destruction of, the most priceless of assets—human life. All electrical expenditure of the character indicated would be for materials and services which would add to the national wealth at least one hundred cents on the dollar, to say nothing of great increase in existing material values—and allowing nothing on the human side of the account in the elimination of exhausting labor, drudgery, dissatisfaction, distrust and unrest—elements which, if eliminated from the national life, would be of untold value, whether measured by this great prospective expenditure alone, or even by the entire wealth of the nation.

The solution of the problem from the standpoint of finance, engineering and construction would be materially facilitated were it to be extended over a period of time, say of five or ten years. This would find analogy in the present policy of highway reconstruction. Were a beginning made along permanent and constructive lines, the farmers and the nation would doubtless be content, and many of the underlying causes for the present state of unrest and disturbance in farm matters would speedily disappear.

Some Attendant Considerations

The present percentage of power available on the farms obviously does not necessarily indicate a corresponding percentage in farm production. Thus, the 7% of the farms having power may be productive of, say, 20% of all farm products. The questions under consideration, however, do not primarily relate to acres, or percentages of production, but rather to human beings, who live and work on the farms. It is assumed that every farm will average a family, or the

¹ U. S. Bureau of Census, *Wealth, Debt and Taxation* (1922), p. 18.

² Federal Trade Commission, *National Wealth and Income* (1926), p. 2.

equivalent of a family, and that the percentage of available power practically indicates the percentage to which the human side of farm life and work is affected favorably or unfavorably by its presence or absence.

It may be true, at least to a certain extent, that, as industry concentrates around abundant power sources, the tendency in farming may be in the same direction. And further, just as more widely distributed power tends to decentralize industry, making it possible to locate the factory under selected conditions most advantageous for it and its workers rather than to have its location determined by the availability of power, so universal power on the farm would spread effective and efficient farming all over the country, avoiding intense concentration in any given area, and bringing into cultivation enormous acreages either abandoned or worked far below their natural productive capacity. With abundant power available everywhere, the small farmer would be able to successfully establish himself on low-priced land—another form of greater opportunity, in the national, as well as the individual interest.

In Conclusion

That the present farm problem is real and pressing, and increasingly acute, one can hardly doubt. And that the best interests of the nation, as well as of the farmers themselves, demand that practical and far-reaching steps be taken toward remedying the basic difficulties, seems to me increasingly clear. Neither in the world of politics nor in the world of business statesmanship is there any patent panacea or formula for solving a task of such enormous magnitude. Panaceas and nostrums in one form or another make their appearance in politics when business men fail to deal flexibly with urgent conditions of social and economic necessity or distress, and I know all are anxious that the problems of agricultural relief shall not be the subject of purely political expedients. The task is great, but who questions that it can be accomplished by the men of outstanding ability who now are identified with the management and the public regulation of the utilities, if they but have behind them a sufficient degree of public interest and the constructive support of enlightened public opinion?

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POWER ON THE FARM¹

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IT is with diffidence that I venture to discuss Mr. Williams' thought-provoking paper. My chief qualification for this honor is that I am connected with neither the electrical industry nor farming. I can, therefore, approach the subject with an open mind. By contrast with the amount of technical knowledge one should have to reach wise conclusions in reference to "Power on the Farm," I may truly claim that when I agreed to speak on the subject my mind was more than open. It was almost blank! But while Mr. Williams knows all about developments in the electrical field and I know very little, I suspect that he is even farther from being an honest-to-goodness dirt farmer than I am. I conclude this from the very gloomy views he expresses about the present stage of development of American farming. He goes so far as to say: "Life and labor today on the farm . . . exist . . . substantially as they existed a hundred or a thousand years ago, stagnated, unattractive, undesirable." Surely he has never read David Grayson's *Adventures in Contentment*—written, I understand, also at a safe distance from the farm—or even the advertising literature put out by the International Harvester and the Ford Motor companies!

Conditions on the American farm still, no doubt, leave much to be desired but they have hardly been "stagnant" since the Civil War period. Ingenious improvements in nearly every kind of agricultural implement and machine, the gas engine, the tractor and the automobile, have wrought revolutionary changes in the work of the American farmer. But we must all agree with Mr. Williams that these changes have not gone far enough to cause farming to keep pace in its use of labor-saving machinery with manufacturing. Much more needs to be done to bring American farming to the level of efficiency of which it is easily capable.

¹ Discussion of paper by Mr. Arthur Williams, *cf. supra*, pp. 539-550.

Another objection that might be raised to certain implications of his argument is suggested by an analysis of the causes of our present agricultural depression, which gives occasion to this program. Chief among them are the diminished demand for our products abroad and the very slow and uneven adjustment of the farming industry to the new market situation. The remedy for this would appear to be not more production through the use of more labor saving devices, but less production.

But he has stressed not so much the inefficiency of farming as an industry as the unattractiveness of life on the farm as a mode of existence. And as to this there can hardly be disagreement. Not merely in the recent past but for generations in this country we have seen the ablest and most ambitious boys, and, of late, more and more the girls too, leave the ancestral farm to enjoy the advantages of life in our cities. We were saved from any serious consequences from this process of internal migration to the detriment of our farming population until the war period by the constant recruiting of this element from the most promising groups of our incoming immigrants. But since immigration has been so largely suspended, the trek from the farm threatens to result in a lowering of the average intelligence and ability of our farmers. The automobile, the telephone, the radio, and the movie theatre in the nearby village are helping to break the monotony of life on the farm, but the drudgery, especially for the housewife, remains. It is to relieve this drudgery and introduce more sweetness and light into the farm household that Mr. Williams makes his plea for greater appreciation of what power companies are already doing in some sections to meet the farmers' needs for electric power, and for a readiness on the part of local, state and national governments to cooperate and assist.

Notwithstanding dissent from some of his statements, I cordially agree with his main argument and conclusions. To make farming more attractive and to stem the tide that is carrying our best youth to our towns and cities seem to me, as to Mr. Williams, important social aims. And we must all be strongly impressed by the force of the analogy he suggests between our highways for the easy and cheap transportation

of persons and goods, built and maintained entirely at government expense, and highways for the transportation of electrical power.

We began road building in this country with exactly the same presumptions with which we now approach the problem of distributing electrical power. If roads were needed we thought it would be profitable for turnpike companies to build them and that it would be right and proper for them to make their investment pay by levying tolls on the people who used the highways. Experience soon educated us away from such a narrow and unsocial point of view. It taught us first that commercial companies probably could not afford to and certainly would not build highways of as good quality or as rapidly as our expanding needs demanded. It taught us secondly that everyone and not merely those who used them enjoyed the benefit of better roads. For the first reason the local and state governments and of late the national government have concerned themselves more and more with problems of road building. For the second we have given up any thought of collecting tolls from those who use the roads, and while we currently impose special taxes on the owners of automobiles and the users of gasoline to add to the revenues available for the construction and maintenance of roads, this will probably prove a passing stage and this burden may be imposed in the future entirely, as it already is largely, upon the general body of taxpayers.

I agree with Mr. Williams that the time has come when we must recognize highways for the transportation of electrical power as of equal social significance with highways for the transportation of persons and goods. This creates a presumption in favor of government aid, if it can be shown to be needed. But when I review what the electrical industry has accomplished in the last five years without government assistance I am not quite convinced that the time is ripe for government intervention—for this is what government aid inevitably and properly carries with it. Is there not some ground for hoping that the cheapening of the processes of generating and transmitting electricity which has enabled the electrical industry to lower its rates in the face of a rising general price level and rising wages, may continue so that at least the farms that

are not too far distant from the constantly multiplying main power lines may be supplied with electric power on a commercial basis? Mr. Williams is far better able to judge than I am whether this hope is chimerical, but until the technical improvements that are still being made cease to be the principal theme of the electrical journals I fear the attempt to convince the public that the electrical industry needs assistance to render its highest service to American farmers is premature. But if the technique of electrical engineering has not yet been standardized, as has that, for example, of hydraulic engineering, it no doubt soon will be. Mr. Williams has rendered a significant service by making it clear that we have to do here with a new social utility and by emphasizing its importance as a means of restoring the balance of attractiveness between the country and the town. We hear much of the lure of life in the city. He has stimulated our imaginations to foresee a time when power may cause the talk to be rather of the lure of life on the farm.

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HOW SEASONAL REQUIREMENTS OF AGRICULTURE AFFECT DEPENDENT INDUSTRIES

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THE farm buyer taken collectively represents the greatest single sales outlet in our national business structure. When his buying power is good there is likely to be fairly general prosperity. When it is below a fair parity there is a trend toward depression and an inevitable deterioration in our agricultural structure. Although our farm population decreased 1.5% between January, 1925, and January, 1926, it is still the largest single class in the total population. Although it numbered 30,655,000 persons on January 1, 1926, it is at the crack end of the economic whip.

In the old game of "crack-the-whip" the wise ones always grabbed hands first, leaving the inexperienced and weaker ones at the far end of the line where they were easily shaken off. Agriculture is big and unwieldy; hence it is slow to grab and easy to snap loose. The reason for this condition is found in the fact that there are nearly 6,500,000 independent agricultural units. There is a wide diversity of interests and in some respects a conflict of interests within agriculture itself. Agricultural leadership is generally inadequate and none too far-sighted considering the difficulty of its problems.

The players in the figurative game we have in mind are rugged, self-reliant, aggressive, and all of them represent factors important in determining the prosperity or adversity of the various groups constituting American agriculture. In the whip are not only industrial and mercantile groups, legislative enactments and national and international conditions, but also the weather, an uncontrollable bully, will be found at the head of the whip. Down the line also will be found insects, plant diseases, soil limitations and other factors beyond the farmer's control. The game has gone so fast and furiously

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during the last five years that agriculture may be thought of without too great a stretch of the imagination as being engaged in a dizzy reel of several years' duration. As a result, the farm market is too often an unknown and, to some extent, unassessable quantity. At best, in spite of its great mass, it is a field in which buying fluctuates all too quickly for the good of the nation. This is readily seen from the present cotton situation, to which further reference will be made.

The present prosperity of cities and industrial areas is due in part to cause-and-effect relationships with agriculture which is supplying the consuming market with relatively cheap food, as a consequence of which the real wages of non-agricultural classes have been increased, thus creating a prosperity attained in a sense at the expense of agriculture. Many classes are claiming an increasingly greater share in the total national income without considering the effect of such demands upon other classes. The effects of these demands can easily be envisaged by reference to the constant increase of railroad wages and railroad rates that has gone on over a period of years, the increase in cost of building construction and other similar increases.

On account of its inevitably seasonal character, both within a single year and over a cycle of years, agriculture is in a weak position in exchanging its commodities for the commodities and services of others. This condition reflects itself in the balance sheets of every class that does business with agriculture. It affects not only the machinery, fertilizer, and seed business but the lumber, cement, automotive, clothing, food and all other industries that supply the necessities of life to the farm family. Under modern conditions the farm family buys very much of the same things, except a few food products, as the city family.

The decrease in farm population during recent years has no doubt been due not only to low relative farm earnings but also to the increasing tendency toward the use of more and better machinery, more and better fertilizer and more highly productive strains of crop plants. The acceleration of its pace in recent years, however, can be traced to the fact that farming on the whole has not been so profitable as other kinds of effort. This is sufficiently demonstrated by the relatively low average

price of farm products, the ratio of which for October was only eighty-one per cent of the all-commodity index.

The packing and textile industries, which buy their supplies from the farmer, are affected in one way by the variations in the fortunes of the farmer, while industries like the farm machinery, fertilizer and seed businesses, relying upon the farmer as their only purchaser, are affected in a different but more intimate way.

In twenty-five years of mature observation of the interrelation between crops and business in the United States, I have noted that although each season the state of the crops continues to be a common topic of conversation and newspaper comment, its influence upon business becomes less marked. Speculative endeavor, of course, continues to consider quantity and quality, particularly of the staples like corn, wheat and cotton, and also the more important of the fruit and livestock products; but business as a whole goes on with less and less thought of the relationship of agriculture to national policy. For the purpose of our discussion we may inspect both seasonal and cyclical variations in agricultural activity and buying power.

Seasonal Variations

The large hazards in agricultural production and the sudden changes in the economic condition of the farmer, due to seasonal changes, give rise to some of the most serious problems that concern industries selling to farmers. The sale of fertilizer, with which I am particularly familiar, is entirely a seasonal movement. For the year ended July 31, 1926, of the total sales made in the twelve states for which statistics are readily available by reason of the tag system, eighty-six per cent occurred during the months of February, March and April. The total sales in these particular states represent over two-thirds of the total for the nation as a whole.

It is a safe generalization to say that in the South, our greatest fertilizer-consuming territory, eighty per cent of the total consumption is shipped within a period of eight weeks. The total consumption of the nation is approximately 7,500,000 tons, of which the South uses approximately 5,500,000 tons. It is necessary, therefore, for the fertilizer industry and others

similarly situated to purchase their supplies months in advance and to manufacture and accumulate their products in order to be prepared to distribute them during the period of heavy movement. This necessity is well illustrated in the case of sulphuric acid, the indispensable chemical for converting phosphate rock into available phosphoric acid. Sulphuric acid is made in great chambers through a relatively slow chemical reaction involving the passing of sulphur fumes through water in the presence of nitric acid. This process must go on practically twelve months in the year in order that the manufacture of acid phosphate for a relatively short period may supply the needs of the fertilizer-using farmer. Such operations mean heavy investment in both plant and inventory.

Similarly it is necessary to purchase potash in some of the numerous forms used in preparing complete fertilizers many months in advance in order that the potash mines of Germany and Alsace may mine, manufacture, ship, and have in the hands of American fertilizer manufacturers in due season the supplies required for the concentrated eight-week shipping period.

Nitrate of soda, synthetic and by-product ammonia, and other supplies are in the same situation. Phosphate rock itself must be mined, shipped, acidulated and cured for a period of from a few weeks to several months in order that it may be in the best condition for making satisfactory fertilizer.

An industry presented with such a problem is one that despite itself, in a period of sudden or even gradual depression, must carry on its books a high investment inventory. When, due to the innate character of agriculture, prices make a sudden decline, with its consequent effect upon purchasing power, the dependent industry suffers great and inevitable losses. The close of the war, for instance, found manufacturers with inventories of nitrate of soda on their hands that cost up to \$100 per ton. In approximately a year the price had receded to but little more than half this figure. The problem of a change in price is, of course, the first concern of the purchaser of such materials. Interest and carrying charges and other similar factors, however, cannot be overlooked.

Another and an extremely important effect of the seasonal nature of agriculture relates to payment by the farmer for

supplies purchased. Competitive conditions, the absence of fixed trading practices of a permanently sound character, and other elements add a critical feature by reason of the fact that sales are not usually made for cash at the time of shipment and delivery, but on a time basis with a due date after the harvest of the crop on which the fertilizer is to be used. It is estimated that in a single county where fertilizer is used generously, unpaid bills amounting to as much as \$10,000,000 have been carried from one year to another by reason of a conjunction of adverse crop conditions and low prices.

Industries in which sales are made for cash do not have such risks. Those that do business with agriculture can scarcely eliminate hazards of this kind completely. Other industries upon occasion are confronted with situations of a similar character, but industries related to agriculture must incur these risks and expenses every year, for annual crop production makes possible only one turnover a year. In only a few areas is more than one crop produced in a single season.

In addition to other uncertainties, there are wide variations in weather and other features of crop production that make even seasonal variations extremely irregular. Large and small crops succeed each other. Sometimes there is a small crop with a low price and consequent low purchasing power, and at other times there is a small crop with a high price. Then again, as has been observed in the case of cotton, there may be large crops with relatively high prices, and small crops with very low prices. This was well shown when in 1921 the crop of 7,950,000 bales brought on an average at the farm, only a little over sixteen cents a pound, while the 16,000,000 bale crop of 1925 brought eighteen cents a pound. When low price is superimposed upon low production, the effect on dependent industries is most unhappy. The effect on the fertilizer industry was a reduction in tonnage purchased by the Southern farmer from 5,466,000 tons in 1920 to 3,125,000 tons in 1921. Of course, every dependent industry suffered similarly though probably not to so great an extent.

Neither the farmer nor the fertilizer manufacturer can forecast the changes that may occur. Adverse conditions arising within a single month during the usual period of purchase and distribution may prevent the use of hundreds of

thousands of tons of fertilizer. As the commodity itself or the materials for producing it have necessarily been purchased in advance, they are left on the hands of the manufacturer. If the farmer purchases the fertilizer and applies it, and then has a crop failure, unpaid bills may remain in the manufacturer's hands, to be collected over a long period or, too frequently, to remain uncollected.

Cyclical Variations

In periods of prosperity fertilizer sales increase rapidly and lead to excessive provision of manufacturing-plant capacity. Subsequent periods of lessened use leave the industry with lean years and excess producing power, with consequent heavy overhead expense. The expansion to meet the demands for "food to win the war" was so great that it may be safely stated that we still have an excess capacity of at least fifty per cent of fertilizer-manufacturing plant eight years after the close of the war. These long-time swings inevitably leave the industry with a considerable loss to write off at the end of the period.

In 1919-1920 a large production of fertilizer was sold at a high price. Suddenly in 1920 an industrial depression struck the country before collections were made. The result was a tremendous loss due to bad debts, to changes in the purchasing power of the farmer caused by fluctuations in general business conditions, or to the reduction in the purchasing power of the farmers' products, affecting both the volume of sales and the extent of collections. Even the best minds of the industry are unable to forecast the larger and sudden changes in the purchasing power of the farmer. For instance, in August of this year cotton was twenty-one cents. A few persons foresaw the impending drop but very few anticipated that by October the price at central markets would be as low as twelve cents, and that the price of middling at the farm would be as low as eleven cents, with other good spinnable grades selling for as little as seven and eight cents. These prices average at least five cents a pound below the cost of production. Fortunately, some ameliorating conditions exist so that despite a disadvantageous cotton price there is a fair purchasing power in reserve.

Last year it was corn that was the disturbing factor in the

economics of farm life, with some rather loud echoes in political life. In 1923 wheat was in trouble. In 1924 the hog producer had his misfortunes, and so it is around the cycle of conditions and crops. This instability not only occasions different problems for dependent industries, but creates economic and social waste, loss to the farmer, and unsettled conditions among those that trade with the farmer. When such conditions arise, their effect is not only to reduce purchasing but to restrict such buying as is done to commodities of lower grade. This restriction in itself may represent an economic waste, especially as it affects the purchase of fertilizers. A really low analysis fertilizer does not give a return commensurate with its price, compared with one of higher analysis. In 1921 we witnessed a diminution of almost fifty per cent in the quantity of fertilizer sold in the South, but the value of the goods was only about one-quarter of the value of those sold in the previous year.

The experience of agriculture is paralleled by that of the fertilizer industry. Some of the heaviest losses are incurred during and following the largest crops. By reason of nature's bounty, the same acreage, or even less, has on occasion produced a bumper crop compared with other years. This year the cotton grower, having been relatively free from boll weevil for two seasons, expected an infestation of this destructive insect. As a consequence, under the stimulus of a good price, he increased his acreage. The ultimate outcome of the immense crop, both for the cotton farmer and for dependent industries and for the business of the nation as a whole, is still problematical.

I have drawn my illustrations largely from the fertilizer industry because it is so closely related to the exigencies of farming, but the producers of agricultural implements, tractors, trucks, automobiles and many other commodities, are similarly affected. Likewise bankers and local business men can read in both the seasonal and cyclical conditions of agriculture the possibility of profit or loss in their own enterprises.

Sales of agricultural implements are particularly sensitive to farm conditions. Statistics for 1921, the year of the great drop, are not available, but manufacturers' sales of \$538,000,000 worth of farm machinery in 1920 may be compared

with \$244,000,000 worth of sales in 1922. It is regrettable that there is no census for the intervening year, as it represents a crisis never previously experienced in the farm machinery and implement industry. However, carefully prepared estimates by those in a position to know place the value of sales for 1921 at approximately \$210,000,000. The drop in value in this case is due more largely to decrease in volume than to decrease in prices.

The cyclical variations most easily observable are probably those due to the low prices of cotton in 1907, 1911, 1914 and 1926.

Cooperation and Assistance for Farmers

The attempt to synchronize the seasonal requirements of agriculture with those of related industries is complicated, difficult and often unsatisfactory. The sound development of cooperation, worked out with fairness to business groups dealing with agriculture, will be a great help in the long run. The chief problem is the more immediate one, the one of the next five, ten, or fifteen years. It is obvious that the industries dependent on the farmer as a sales outlet are directly interested in the stabilization of farm conditions. To what extent the farmer should be assisted and how far dependent industries can go in assisting him is one of the problems of the hour. In cases of need they may make sales to farmers without cash as advances on his expected production. Fertilizer companies, for example, frequently advance funds on cotton and other staple crops, not only for the current year after indebtednesses have been settled, but often when there are still large open book accounts against the purchaser. Producers of agricultural implements have sometimes accepted agricultural products in exchange for their own products at a price above the market. There is a limit, however, to which dependent industries can go in assuming the risks of the farmer. A permanent agriculture, which is essential to our national well-being, should not rest upon what in some cases may almost be termed an unbusinesslike advance of funds for production purposes. The fertilizer manufacturer must bear all the usual elements of uncertainty involved in assembling, conditioning, mixing and distributing his goods and furnishing

them to the farmer. He takes tremendous risks on his own account, and he may be going entirely too far in the long run if he undertakes to carry the farmer's burden in addition to his own. Dependent industries have assisted in the development of credit organizations and in the publication of agricultural facts that tend to stabilize farm prices. In periods of industrial change, however, the exigencies of the situation demand more than this, if five years' adverse experience can be trusted. It is possible that experimental trial of some supplement to our present distributive system, if carefully worked, may not be more costly than a continuance of the existing conditions.

EQUALITY FOR AGRICULTURE WITH INDUSTRY

GEORGE NELSON PEEK

Chairman, Executive Committee, North Central States Agricultural Conference

I

WE are engaged today in the most interesting and, from the American point of view, one of the most vitally important experiments the world has ever witnessed—a test of whether an independent agriculture, enjoying the advantages and benefits of life on a level comparable with that prevailing in our cities and towns, can be established and maintained.

Excepting on the North American Continent, the labor of farm production is nearly everywhere performed by a peasant class. Farming has tended to become a peasant occupation because rewards are so uncertain and frequently so low that they permanently attract only those who are content with harder work and lower living standards than the more resourceful and aggressive demand. The uncertainty is not only one of yields but of prices; the uncontrolled risks such as weather and pests are followed by other and often equally disastrous risks in the market.

The day of the self-contained farm, existing on its own production aided by a little barter, is definitely past. So is the day when rising land values will compensate for unprofitable crop prices. The condition that has succeeded them is dangerously weakening our farm structure. The issue which the present experiment is to determine is whether our ideal of American agriculture, as distinguished from peasant agriculture, can endure.

II

The facts, figures and causes of our post-war agricultural depressions have too long been matters for discussion. The rehabilitation of the farmer and a method of preventing a recurrence of agricultural depressions now compel attention and immediate action.

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To anyone really familiar with the present status of the farmer, certain conclusions are inevitable. He has been producing food for the nation at prices which have been exhausting the accumulated resources of the generations which preceded him, because they have not yielded cost of production. He has been attempting to buy the actual necessities of life at prices which reduced his purchasing ability to a point which prohibited him from buying what he needed.

In the past fifteen years the farm debt has trebled¹ and actual farm land values have declined one-fifth.² During the past six years, the dollar value of the farm investment has declined twenty billions³ while our industrial and urban wealth has increased by that amount or more.⁴ These are evidences of a progressive draining away of wealth from the country to the city which is inevitable as long as the products of the farm remain low in price compared with goods and services which the farmers must buy.

The purchasing power of farm products (according to the

¹ The mortgage and personal debt of farmers of the United States is estimated at \$4,200,000,000 for 1910 (Brookmire Economic Service, generally accepted as approximately correct. The estimated total debt for 1920 used as a basis for its calculations by the Bureau of Agricultural Economics is \$12,250,000. The farm census of 1925 has not been finally tabulated on mortgage debt reported, but the figures for states announced to date by the Bureau of the Census show an increase in 1925 over 1920. Census figures show trends of indebtedness rather than totals.

Using census figures as a base of current dollar value, and correcting by use of the All-Commodity Index of the Bureau of Labor Statistics, shows that the 1925 purchasing power of the lands of the twelve north central states was but 78.96 per cent of that of 1910. In other parts of the United States, excepting the South Atlantic group, the same general percentage was recently announced in the *Journal of Land Economics* by Dr. Paul Eke of the University of West Virginia.

³ Dr. O. C. Stine and L. H. Bean of Bureau of Agricultural Economics, "Income from Agricultural Production," in table p. 29, *Annals of American Academy of Political and Social Science*, January, 1925 (based on Dr. W. I. King's studies for Bureau of Economic Research), give total farm property value for 1920 as \$79,607,000,000; for 1924, \$59,409,000,000.

⁴ In general this statement is verified by the National Industrial Conference Board (*The Agricultural Problem in the United States*), p. 54, table 14, which shows that total national wealth increased between 1912 and 1922 from 186 to 321 billions whereas the total agricultural wealth, between the same years, increased only from 42 to 59 billions.

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index used by the Bureau of Agricultural Economics)¹ has ranged from a yearly average of sixty-nine per cent of pre-war in 1922, to eighty-nine per cent in 1925, and at the last published calculation stood at eighty-three per cent in August 1926.² In the words of the National Industrial Conference Board: "It is often said if we could adjust prices to their comparative relationship to other prices which we had in the period from 1909 to 1914, everything would be all right: but as a matter of fact, there is very little evidence that agriculture was in a sound condition in this country before the war."

The limits of this paper will not permit extended reference to evidences of the results of the disparity which have been pointed out by the National Bureau of Economic Research, the National Industrial Conference Board, the U. S. Department of Agriculture, and numerous other institutions and investigators. Our farm plant is contracting in comparison with our population, and with other industries; our agricultural exports per capita have declined twenty-eight per cent³ and our agricultural imports per capita have increased thirty per cent since 1900;⁴ there is persistent and increasing disparity between the per-capita share in the national income received

¹ This index compares the farm price of thirty leading items of farm production with the wholesale price of non-agricultural commodities as reported by the Bureau of Labor Statistics, on the basis of the five years 1910-14 as 100. (See *The Agricultural Situation*.)

² *The Agricultural Situation*, October, 1926 (p. 6), says: "The general index of purchasing power of farm products, in terms of non-agricultural commodities again declined three points from the month previous and stood at 82, the five pre-war years being considered as 100. One year ago this index stood at 93. This latest figure of 82 represents the lowest point reached in 26 months." (*The Agricultural Situation* in November revised its August index from 82 to 83.)

³ Dr. Virgil Jordan, Chief Economist of National Industrial Conference Board, Chicago, October 1, 1926: "The increasing effectiveness of competition of foreign producers in both foreign and domestic markets, is shown by the downward trend of exports and the rise of imports after 1900, both of which were interrupted only temporarily by the exceptional conditions during the war period. Since about 1900 our exports per capita, in quantity of agricultural products, have declined about 28%, whereas the volume per capita of our agricultural imports has risen about 30%."

⁴ *Idem*.

by farmers compared with non-farmers;¹ returns on capital invested in agriculture are small compared with those of other investments.² Most of these are involved in the long-time trends of agriculture.

Of the recent developments the National Bureau of Economic Research says: "The great agricultural depression of 1921 and 1922 was not due to the fall in general prices, but to the fact that the prices of agricultural commodities fell more rapidly and to lower levels than did the prices of the articles the farmers bought."

Another industry finding itself unable to return production costs would restrict output and regulate its movement to market, until prices properly related themselves to costs of production. The major branches of farming, however, face this problem with the certainty that, even if the acreages of the millions of individuals could be accurately regulated, no power on earth could forecast what production would be.

So the producers of our basic crops have hung on, year after year, unable to make protective devices that work for other groups operate for them. They are forced to see their total current supply equated to current demand at a disastrous price because of their inability to lengthen the equation over a number of years, through effective holding and storing against future needs.

If the wheat farmers could adjust their supply to the needs and purchasing power of their several markets, they could use the tariff to protect their domestic price levels. If the cotton growers as a whole could own and carry their temporarily unneeded supplies, they could stabilize their market over a period of years at the best obtainable price, instead of taking

¹ To show "the persistent and increasing disparity between the per capita share in the national income of those engaged in agriculture and that of those engaged in other major occupations," Dr. Jordan gave the following figures, "For \$100 that went to each person engaged in all other branches of our productive life, each person engaged in agriculture received \$46. in 1900. It has gone down in 1910 to \$40. and in 1920 to \$39. We find that the percentage of the total national income which has gone to agriculture has steadily declined since 1920, from 13.8% in 1920 to about 7.5% in the last fiscal year, 1925-26."

² National Industrial Conference Board; Dr. O. C. Stine, L. H. Bean, "Income from Agricultural Production" cited above.

the price which the current demand affords, regardless of what the needs of tomorrow may be. The present crisis in cotton provides a case in point. Favorable crop conditions combined with a large acreage to produce a large yield. Prices collapsed upon crop forecasts to a point barely equivalent in purchasing power to five-cent cotton before the war. Congress, a few months ago, failed to pass a measure under which the cotton growers themselves could have adjusted supply to demand. Now the government is attempting to arrange for the withdrawal of four million bales of cotton under conditions which may help the banker who has cotton loans, and the cotton buyers and spinners who have loaded up while prices were at the bottom, but which, under no conceivable circumstance, can be of assistance to the cotton farmer who has been forced to let his crop go.

III

This condition strongly emphasizes the need of a new agricultural policy. It must be broader than any one bill or remedy. The sound program for America must aim toward the development of a well-balanced national life—one which will not stimulate any one form of productive effort at the expense of other equally essential producers. If we pursue this it will inevitably take us into fields of taxation, of transportation, of finance, and of markets. But in the brief time allotted to me I wish to confine myself to the particular phase of the problem which organized farmers have sought to attack through legislation in the 68th and 69th Congresses.

When a surplus agricultural production was necessary to repay foreign investors in the United States and to pay for our imports, our national policy of expanding agriculture upon an export basis worked admirably. When our greatest national test came it was our surplus food production that fed the Allies and decided the issue of the World War. But the international balance shifted as a result of the war. We have the gold. The rest of the world owes us. These facts inevitably limit the volume of exports, both industrial and agricultural, from the United States. Our wheat, pork, cotton and sometimes beef can bring the farmers only the price which foreign buyers will pay for what is left after the domestic need

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is satisfied. This condition is crucifying agriculture. It is directly due to our past policy of agricultural expansion, and to the development of the American protective system which keeps farm costs on a high domestic plane while farm prices remain relatively low due to the influence of world competition.

In my reference to the American protective system, I include not only the tariff but such measures and devices as the Adamson Law, restriction of immigration, the Esch-Cummins Law, the Railroad Labor Board and others of like purpose. These all have tended to protect, stabilize and hold immune from world influence industry and labor, and to make effective the work of their organizations in holding up the prices of their commodities and services.

Agriculture, on the other hand, remaining unorganized is still subject to world influences on export crops because the American price of these crops is not determined here by American conditions, but is determined in foreign markets by world conditions. We sell our surplus abroad in world competition, at a price determined by world supply and demand and regulated by world conditions. It follows that the price of the surplus is the price of the crop. This is axiomatic.

For nearly five years this condition, as one of the principal reasons for the existing inequality, has been known by our national administrations. The Agricultural Conference convoked by President Harding in the early months of 1922 called, by resolution, upon the President and Congress to take such steps as were necessary immediately to restore the fair exchange value of the farmers' dollar. The chairman of that conference, who was also chairman of the Congressional Joint Commission of Agricultural Inquiry, appointed by Congress "to determine the cause of the agricultural depression", refused to permit a discussion of what is now generally recognized as the principal cause of the depression, because he said it involved the tariff. In its report, covering some four volumes of facts, figures and diagrams, this Commission failed to mention the only thing it was appointed to determine—the cause of the agricultural depression.

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IV

The remedy lies in one of two directions. One, repealing all protective measures enacted for the benefit of other groups, thus enabling the farmer to buy as well as sell in a world market; the other, including the farmer in the protective system, by organizing and financing agriculture so that it, too, can adjust supply to demand, and if necessary divert surplus to export as industry does, and is encouraged to do by the Webb-Pomerene and Edge laws.

The first remedy, the repeal of all protective legislation, is legislatively impossible and certainly undesirable, since protection furnishes security for American standards of living against descent to the level of the world at large. Farmers have not advocated this policy. Even if by cheapening other goods and services their purchasing power could be restored, the low dollar price would leave them under a great disadvantage in relation to their debt. Their indebtedness has mounted from about four billion dollars in 1910 to over twelve billion dollars in 1925¹—a sum greater than the original foreign debt to the United States. If the farmers are ever going to pay that debt, it should be with commodities as high in dollar value as when the debt was incurred—or as near to that figure as possible. To reduce the dollar value of other goods and services might raise the exchange value of farm crops, but if the price level for all commodities, including agricultural products, were thereby lowered and held down, the debt-paying power of the farmer would be reduced.

The second remedy—to include the farmer in the protective system—is no difficult matter. It requires only a mechanism which the producers of the primary surplus crops can use to regulate the movement of their crops to market, with the cost of withholding unneeded supplies, or of diverting small surpluses to export markets, assessed against all the producers of the commodity affected. If you withhold or skim off the surplus which for natural reasons cannot be controlled or prevented in the production stage, the demand can still be satisfied, but at a fair exchange value for the farmer.

This principle would work out in different ways with differ-

ent crops. The growers of cotton could secure relative price stability through balancing supply and demand over a period of years instead of currently. They could secure for themselves whatever economic advantage there may be in their position as producers and exporters of two-thirds of the world's international trade in cotton. Growers of other crops like wheat, of which the exportable surplus is relatively small compared with domestic consumption, could secure the advantage of tariffs in the domestic market.

The essential element in such a mechanism is the universal assessment or "equalization fee" which distributes the cost of caring for surpluses over all the producers of a particular crop whose excess supplies have to be dealt with to prevent price demoralization.

V

Opponents of the movement have made much use of adjectives and epithets to condemn it without entering into a discussion of the economic principles involved. "Economically unsound", "price-fixing", "unworkable", "socialistic", "class legislation" and other inspired phrases have found receptive places in the minds of many well-meaning people. They are not intellectual arguments and appeal only to prejudice. The people who utter them will do well to stop and reflect. A decaying agriculture is a sure sign of a decadent nation.

I confess I do not know just what is meant by the term "economically unsound." We are discussing laws of trade as distinguished from laws of production, and it is our purpose to extend the laws of trade as applied to agriculture. All trade laws are man-made, and if the proposal of the farmers under discussion is economically unsound then so are many laws of trade which permit holding by an industry of supply and releasing it to demand at will.

In this connection it may be interesting to note that in a full discussion of the subject extending over a period of more than a year conducted by Mr. Chester C. Davis and the writer through General Dawes with Sir Josiah Stamp of England¹

¹ On January 5, 1925, General Charles G. Dawes, Vice-President, submitted a statement of a proposal to manage and divert the exportable surplus

¹ Cf. *supra*, p. 65, note 1.

the question of the economic soundness was never raised by Sir Josiah. On the contrary he said:

As has already been emphasized in previous correspondence, the ultimate test of the scheme is whether the return on the capital and labor of the farmer is fair and reasonable in comparison with that secured by capital and labor in other economic spheres. The late Henry C. Wallace, according to the views quoted from his book entitled *Our Debt and Duty to the Farmer* holds that it is not. A judgment on this matter can only be formed by those on the spot.

In speaking of the charge that the proposal is "price-fixing", he said: "The scheme is thus not a price-fixing one, for it merely creates an addition to a moving world price. This, on the assumptions given one, is economically feasible and not fallacious." Of its workability, he said: "There seems to be no reason why this process should not be carried on until the domestic price is pushed to the point at which the return to the farmer will bring his economic position into favorable comparison with that of other producers."

If it is "socialistic" and "class legislation" it must be borne in mind that it is merely a demand of the farmers for relief from the effect of special legislation already enacted by Congress in the interest of other groups.

Many objections have been raised. Only a few of them are worthy of consideration or can be considered here. Two arguments are frequently heard against effective action along this line for agriculture: first, that it would raise the cost of living, and thus lead to demands for higher wages—the so-called "vicious circle"; second, that it would stimulate production, thus aggravating the difficulty. If we admit either one as a valid argument, we confess that there is no solution short of tearing down industry and labor; that farm prices must continue to be low compared with other prices. This

of wheat in the interest of stable domestic prices, to Sir Josiah C. Stamp, English economist. Upon receipt of Sir Josiah's comment, General Dawes invited George N. Peek to correspond with Sir Josiah Stamp through the Vice-President as an intermediary. The American side of the correspondence was carried on by Mr. Peek and Mr. Chester C. Davis. The Vice-President explained that he hoped to bring about a discussion confined strictly to the economic merits of the proposal. This interchange of comment continued until the final summary by Sir Josiah C. Stamp on May 13th, 1926 during his visit to the United States.

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denial to the farmer of his production cost plus a small profit means that we insist that his present position of disadvantage must be made permanent, in order to keep industry satisfied.

Much of the mention of increased living costs as a reason for opposing farm legislation does not come from the consumers at all. As a matter of fact, I am convinced that fair prices to the farmer would not mean in the long run any appreciable hardship to the retail consumer. There are adequate safeguards to the consumer against unduly high prices. Imports would flow in when prices rise at home to the limit of the tariff above prices outside. There is a point, too, at which consumers would turn to substitutes which would naturally limit prices, just as stimulated production would increase the supply and check prices if they tended to get definitely out of line with fair production costs.

Retail prices which consumers pay in many cases do not reflect the change in price levels at which farmers sell these great staple crops—which is one reason for the comparative inelasticity of demand. For example; the farm price of cotton in January, 1924, was 32.5 cents per pound; in January, 1926, it had declined to 17 cents per pound; and to-day the farmer is getting 10 to 11 cents per pound on the farms of the South. There has been a drop in the farmer's price to about one-third of the price thirty-four months ago, yet how much has the retail price of cotton goods to the American consumer declined? The farm price of wheat dropped over a dollar a bushel in 1920, without any corresponding reduction in the price of bread, and it has had an up and down range of nearly 90 cents a bushel during the last two years, but the only way the consumer of bread learned of it was to read it in the papers.¹

We must recognize that increased farm prices would react on the cost of living to exactly the same degree, no matter whether the rise was due to voluntarily limited production, or to control of supply by cooperative organization, or to Government action.

As to stimulated production any one of the methods suggested above would have to increase farm prices so greatly that

¹ This is supported by common knowledge and post-war experience with prices of (1) wheat and bread, (2) cotton and cloth.

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farming would be attractive to capital in competition with other investment before production could be materially expanded. There is a long gap to be filled before that point is reached. Our per-capita farm acreage and production alike are falling steadily behind our population.¹

The argument that increased production will follow farm legislation, advanced in a country where every public policy has been aimed at the expansion of farm production, would be absurd if it were not urged seriously by men of influence. Among them are our foremost advocates of government help to expand farm production. Singularly enough, men will condemn one method proposed to increase farm prices on the ground that its adoption would stimulate production, and advocate another method to accomplish the same purpose, without recognizing that the effect upon production, whatever it might be, would probably be identical in both cases. Finally, even if production should increase, the farmer alone would bear the burden of it under the plan proposed.

VI

There are many elements in the agricultural problem today that are new. They contribute to the forces that have pressed agriculture out of adjustment in our national life. It is necessary that we understand them and in the light of that understanding define a new national policy.

¹ Describing "the contraction of our agricultural 'plant' and its production relative to the growth of our population," the National Industrial Conference Board says: "Since the beginning of the century our mining production increased about 231%; our manufacturing production about 190%; whereas agricultural production only increased 38%. The number of acres in farms per capita increased up to 1860, but then started to decline since it was then limited by the limits of our territory. The per-capita of improved farm land increased up to 1880, but since then has shown a downward trend. The acreage in harvested crops per capita increased up to 1900. Since then it has shown a downward trend. In the period 1920-1925, this decrease was very sharp, between 9% and 10%. Instead of this process resulting in an increase in yield per acre to make up for the declining per-capita acreage in crops, there has been a slackening in the upward tendency in the yield per acre which was in evidence before the beginning of the century. Neither has there been any increase in the total per-capita agricultural production. In fact the period 1920-1925 shows about 5% below the pre-war years 1910-1914." Also, see Brief of American Council of Agriculture, filed with President's Agricultural Conference, December, 1924.

Foreign countries cannot well pay in gold for either industrial or agricultural products, because we now have the gold; they cannot advantageously pay for our agricultural products with their industrial products because of the tariff. They cannot pay for industrial exports with competing agricultural products because of the tariff, and because of our surplus production in many lines. Yet in the midst of such wealth as no other country has ever possessed, one-third of our people are witnessing the transfer of their savings and capital into the hands of other economic groups. This impoverishment of agriculture, our basic industry, must go down in American history as a dark blot upon our statesmanship.

Without further delay we should, through legislation, make it possible for agriculture to attain economic equality with industry and labor in the domestic market, and then in the future let all three groups make adjustments together to meet changing conditions whenever it seems necessary to do so, as a matter of national policy.

I repeat, the sound program for America should aim toward the development of a well-balanced national life, one which will not stimulate any one form of productive effort at the expense of other equally essential producers.

DISCUSSION: BETTER ECONOMIC ORGANIZATION OF AGRICULTURE

GOVERNOR J. P. GOODRICH of Indiana asked whether the proposal to reduce the tariff ten per cent a year in the hope of reducing prices was not inconsistent with CONGRESSMAN DICKINSON's assertion that the tariff does not affect industries which export a large share of their output and which are therefore governed by world prices. The automobile industry, he remarked, buys materials in a protected market, but enjoys no protective tariff on automobiles and must compete in the world market. He further questioned whether the Iowa farmer mentioned by MR. DICKINSON as having mortgaged and lost a farm was really typical. While some farmers and some banks had failed, because of unsound management, thousands of others had not failed. Failures were less frequent in counties where farmers diversified their crops and sold finished products rather than raw materials.

By way of illustration, MR. GOODRICH described conditions in his own district, Randolph County, Indiana. Randolph County is a typical agricultural district. The only town in the county has a population of about 4500. The value of livestock sold in 1925 was \$4,565,000; the value of poultry and eggs, \$627,850; butter and dairy products, \$416,000; corn, about \$150,000. In 1922 and 1923 all of the eighteen banks in the county were borrowing money to tide the farmers over, but at present the farmers were paying their debts, and the banks were not borrowing. The total amount of mortgages recorded was \$1,772,000 for 1919, \$1,865,000 for 1920, \$2,135,000 for 1921, and \$1,189,000 for 1922; perhaps fifty per cent of these amounts had been paid off. But in 1924 some \$903,000 was paid off, while new mortgages amounted to only \$733,973. In 1925 the amount paid off was \$1,600,000 and the new mortgages \$990,578. Some farmers who mortgaged their land too heavily had to sell, or lost their land. But in the past year there were only five per cent as many foreclosures in the county as during any year from 1892 to

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1896. In reply to the statement that farmers lived and worked under antiquated conditions, MR. GOODRICH described the marked innovations that had occurred within his own lifetime—the introduction of farm machinery, sanitary plumbing, electricity, automobiles, moving pictures, furnaces, radios, etc. He concluded by expressing the opinion that the McNary-Haugen Bill was not a sound method of aiding the farmer.

MR. DICKINSON, replying to GOVERNOR GOODRICH, suggested that if Iowa farmers diversified their output the result would be a surplus of poultry and dairy products on the market.

GOVERNOR GOODRICH, replying in turn, said that the corn crop went into some form of manufactures, excepting the less than ten per cent exported. What he asserted was the necessity for the farmer to manufacture his raw material, instead of selling it to others to manufacture.

MR. WILLIAMS: May I just take a second to say to the Governor that I want no better advertisement for electric power than the Governor standing here himself with a smile on his face, a bath every day, hot and cold water, no laborious work on his farm. He belongs to the seven per cent and not to the ninety-three per cent which I put outside this distinguished and favored group.

MRS. FREDERICK C. BURSCH, Chairman of the Committee on Living Costs, Connecticut League of Women Voters, discussed the significance of electric power as a substitute for the drudgery that had hitherto fallen to the lot of the woman on the farm. To be effective in this respect, electric power must be cheap. The operation of the Bowlder Cañon and Muscle Shoals projects by the government would serve as a sort of yardstick by which the achievements of private capital in providing power economically could be measured.

MR. PHILIP W. HENRY (Consulting Engineer, New York City):—With regard to power on the farm, perhaps some of those present may have seen in the *Sunday Times* of October 31st, the account of a plant recently erected on the farm of the

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Walker Gordon Milk Company, at Plainsboro, N. J., for the artificial curing of alfalfa. This plant, which can work rain or shine, takes the green alfalfa and in half an hour turns it into the highest grade of alfalfa meal, the ordinary quality of which sells for \$30 to \$40 per ton on the dairy farms in the vicinity of New York and Philadelphia.

This operation requires 90 horsepower, of which 10 are used in making mechanically the green material into a mattress ten feet wide and eight inches thick; 10 horsepower are used in driving this continuous mattress through a furnace 150 feet long, where a mixture of air and combustion gases at a temperature of 275 degrees F. are forced through it. Thirty horsepower are required for the fan or blower, which mixes the air and gases and forces them through the alfalfa. The grinder, to which the cured alfalfa passes automatically, takes 40 horsepower, and by the same operation the alfalfa meal either is blown into the storehouse close by, or can be fed automatically into bags.

The capacity of the plant is two tons of alfalfa meal per hour, which means the evaporation of four to five tons of water per hour. Inasmuch as the production of a ton of alfalfa meal requires only one-fourth to one-third of a ton of coal, the cost of fuel is not so large an item as might be expected. The labor expense too, is small, as only three men are required to operate the plant.

This plant is not a machine to be sold to the farmer, but must be worked by a corporation or by a group of farmers; for the cost of the plant erected is around \$25,000, and in order to work economically it must handle a large tonnage. It is designed to take care of 600 acres in alfalfa, or perhaps 400 in alfalfa, with 200 acres planted first with winter rye or oats, cut green early in the spring, before the first crop of alfalfa is ready. This area would then be planted with soy beans which would be cut late in the fall, after the alfalfa had finished. In this way there would be practically a continuous operation from May to November, thus introducing a new régime into agriculture. The product in all cases would be a concentrate, or feedstuff, containing from 14 to 18 per cent of protein, the alfalfa meal analyzing the highest.

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Another virtue of this system is that the entire crop is saved, for none of it touches the ground. When cut it is elevated into a wagon running alongside the mowing machine, and taken to the drying plant which may be several miles distant.

DR. BEMIS asked who was to own and maintain the power lines of which MR. WILLIAMS had spoken.

MR. WILLIAMS replied that the important thing was to get the power to the farm by some practical method, which could be found if the public desired a solution of the problem.

MR. HAMLIN discussed the problem of maintaining a balance between agriculture, commerce, and industry, and suggested that to this end it might become necessary to abandon the tariff and substitute direct governmental aid.

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PART II
INSTALLMENT PURCHASING
ITS MERITS AND DEMERITS

ECONOMIC PROBLEMS INVOLVED IN INSTALLMENT SELLING.¹

EDWIN R. A. SELIGMAN

Professor of Political Economy, Columbia University

WHAT is commonly known as installment selling has gone under a great variety of names, such as credit merchandising, time sale, partial payment, hire purchase, contract selling, deferred payments, installment buying, pay-out-of-income, and installment purchase. The essential feature of the phenomenon consists in substituting for cash payment or deferred payments in a lump sum a system of deferred payments in partial sums or installments. How much, if anything, is to be paid in cash, at what intervals the subsequent payments are to be made, how large each successive installment is to be, under what conditions and with what security the sale is to be effected—all these are details which, however important in themselves, do not affect the ultimate explanation.

Inasmuch as installment selling involves the use of credit, it is as old as the appearance of credit itself. We find it mentioned in the Babylonian records; a recently deciphered papyrus affords interesting details of such a transaction in ancient Egypt; we know that in classic Rome it was more or less familiar as applied to real estate. In the Middle Ages and later on with the advent of public borrowing the use of installment credit became very common, as witness the issue of terminable annuities in Europe or, more recently, the use of serial bonds in this country. Of an analogous character is the system of life insurance, which is based upon premium payments in installments.

What is, however, more generally characterized at the present time as installment selling is the application of this feature of successive partial payments to the purchase of ordinary commodities for the purposes of consumption. Even

¹ Introductory address delivered by Professor Seligman as presiding officer at the First Session.

here, however, there is nothing essentially new in the practice. The sale of furniture on installments was common in the continental countries of Europe and especially in France in the seventeenth and eighteenth centuries. The system was introduced into this country in 1807 in the furniture business. In 1856 the Singer Sewing Machine Company adopted the installment method of disposing of its products; and it rapidly spread to its competitors. Installment selling in pianos and in the book business has been customary for over a century and we have only to point to the building and loan associations in this country to realize how strong and how ancient a factor this system has been in the case of houses.

The modern development has been due, however, to the extension of an old principle into new fields. This has assumed two distinct forms. In the case of real estate the installment principle has been applied not only to the purchase of plots in the most minute subdivisions, but also, still more recently, to the financing of large apartments and other structures on the balance over and above the first or the second mortgage. In the second place, the installment system has been applied to goods, wares, and merchandise apart from land and houses. In this development the automobiles took the lead. Exactly when this began it is difficult to ascertain, but by 1916 it had become sufficiently important to warrant the appearance of separate finance companies to facilitate the transactions. Even thus, however, the volume of sales was relatively insignificant and it is only within the last half-decade that it has grown to be important enough to attract wide attention. So successful, however, did the system become that it has now spread within a few years to a wide variety of commodities, the most important being radios, refrigerators, vacuum cleaners, and the like, and more recently still, jewelry and clothing.

The total amount of sales on the installment plan has been variously estimated as between five and seven billions of dollars, out of total annual merchandise sales of some forty billions. A more careful computation of my own results in an estimate of about four and a half billions out of a total of thirty-eight billions. These figures however, do not include installment sales connected with real estate which we shall omit from the picture today.

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The recent and rapid extension of installment buying has brought with it an entirely new machinery of its own and is adding a fresh chapter to the history of credit transactions in this country. Owing to the novelty and to the rapidity of the development the system has been quite differently estimated and the reactions on the part of individuals have been very extreme. As with every great economic revolution—and the system of installment selling may aptly be so characterized, some individuals and classes have been benefited, others have been injured. Most of the opinions expressed have been the more or less unconscious reactions of these benefits or injuries. No adequate study has yet been made by impartial investigators to seek to determine the real economic significance of the system. I may perhaps be pardoned for saying that for over six months some of my colleagues and myself have been engaged in a comprehensive investigation into the subject and that my report will be ready within a few weeks or months. It will be my pleasure today, and especially in view of the fact that the following speakers will present different reactions to the problem, to limit myself to a short statement as to some of the fundamental economic considerations involved in this difficult subject.

The first point is as to the character of the credit involved. It is commonly stated, as if it settled the question, that installment selling is an entirely new departure in that it adds to the old and well-tried system of producers' credit this new and illegitimate form of consumers' credit. Credit for production goods is one thing; credit for consumption goods is another.

As to this point, it may at once be noted that the ordinary distinction as found in our economic treatises between production and consumption is in great need of revision. In the first place the idea of production itself is very unclear. Does production mean the attainment of a surplus, as when we speak of a productive enterprise, or does it mean the actual creation of more goods and commodities, or does it mean the production of immaterial as well as of material wealth? Is society more interested in the production of wealth or in the production of welfare? In the second place, what do we mean by consumption? Ought we not to distinguish between using a thing

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and using up a thing? Using is equivalent to utilization, using up is equivalent to destruction. Must we not be careful, in a more refined analysis to point out that commodities may be utilized so as to increase production, as coal in the furnace; or to maintain production, as food designed to keep up one's activities, or to decrease production, as the use of injurious drink or excessive food? In other words, must we not supplant the idea of consumption by the concepts of productive utilization, of neutral utilization, and of wasteful and destructive utilization? That is to say, from the point of view of social progress must we not do much more than to distinguish simply between producers' capital and consumers' wealth, between producers' goods and consumers' goods, between producers' credit and consumers' credit? If I am correct, we must test the economy of installment selling, not by the old shibboleth of consumers' credit, but by a careful consideration of whether in each particular case it involves a productive or a destructive utilization of wealth.

In the second place the statement is often made as if it were decisive that we must draw a line between necessities and luxuries. To buy a house on the installment plan is defensible, but to buy a radio set or a piece of jewelry is illicit. Here again, we need a clarification of ideas. What is luxury, and is all luxury reprehensible? Voltaire pertinently asked: "In a country where all the inhabitants went barefooted, could luxury be imputed to the first man who made a pair of shoes for himself? Or rather was he not a man of sense and industry? And with respect to the man who first had a shirt washed and ironed, I consider him an absolute genius, abundant in resources and qualified to govern a state."

In other words, must we not recognize that progress consists in converting superfluities into conveniences and conveniences into necessities? Furthermore, even where a commodity may be called a luxury in the sense of being costly and expensive, must we not again distinguish between the various kinds of luxury according as they connote either productive or destructive utilization?

If the use of silk stockings by a working girl or the purchase of an etching to adorn her room is symptomatic of a struggle to attain a higher standard of life, is it necessarily uneconomic

or reprehensible? Ought we to lump together installment selling in the purchase of champagne and of washing machines?

Finally, when we attempt to analyze with what kind of credit we are dealing, is it not important to make a further distinction and to ask whether the utilization in question occurs before or after the down payment? If, to use a less extreme example, we take a pair of silk stockings which last three months, as compared with an automobile which may last five years or more, is it not a matter of importance to ascertain how much of the series of utilities embodied in any commodity remains after payment down and how much of a balance there is in the so-called repossession value?

In short, without stopping to discuss the matter in detail here, is it not obvious that in any treatment of the new form of credit involved in installment sales, we must make a much more careful analysis than is to be found in the ordinary haphazard, slapdash expressions of opinion?

After having satisfied ourselves as to what are the characteristics of the credit involved, the next question deals with its effects on the consumer or the one who utilizes the credit. Does installment selling tend to distort the judgment of the consumer or does it, on the contrary, tend to rationalize the consumer? Are we to deal, in this case, with the average man, or must we distinguish between different classes of men? Does the installment selling weaken the strong or strengthen the weak? That installment selling is susceptible of abuse in this respect is scarcely open to doubt. In cash sales the tendency to discount the future operates to discriminate against durable consumption goods. In installment sales the abstinence is in the dim future, and the reward is most pronounced at present. That sellers can take advantage of this and induce people to buy things which they think they want without really needing them is no doubt possible. But, on the other hand, is it not equally true that installment selling often leads the individual to look ahead with more care and to plan his economic program with a greater degree of intelligence? Is it not true that one of the great weaknesses in American economic life is the failure of individuals to construct a personal budget? Will not the very need of meeting periodical payments for commodities that continue to afford useful services,

lead to more accurate valuations and more intelligent judgment on the part of the individual? If a thing is really worth preserving, will the average man not work a little harder or be a little more economical in other respects in order to keep what has been partially paid for? Here again is it not important to distinguish among classes of commodities as well as among classes of men?

Under this same head it would be desirable to attempt to estimate the effects of installment selling on savings. The ordinary figures that are given as to the increase of savings-bank deposits and the like, and the ascription of this result to the eighteenth amendment or to installment selling, or to any other single cause, are of course of little value. An inductive study here seems well-nigh impossible. Consequently, we are thrown back upon general considerations. Is installment selling thrift or spendthrift? Here again is it not important to revert to our distinction between productive and wasteful utilization? Does it not depend largely upon the character of the consumption goods and the use to which they are put by the consumer? If installment selling leads the individual to buy something which he does not really need, or which satisfies only a passing whim, or which transcends his real prospective capacity to pay, it is entirely probable that the ensuing burden will so discourage him as to impair his desire to save. He will then be somewhat like the negro farmer who has gotten so hopelessly in debt to the cross-roads usurer that he becomes reckless and improvident. If the process repeats itself he will end by being permanently subjected to the creditor.

But is there not another possibility? If the commodity is in itself a really desirable one and if the individual would be inconvenienced or have his real productive efficiency diminished by his inability to purchase the commodity for cash, will not installment selling augment both his capacity and his desire to save in order to pay for it? Let us remember the story of the darky in Alabama who was recently seen driving a very disreputable-looking flivver. A passer-by accosted him and said "Sambo, how much have you paid for that wonderful machine?" "Ten dollars down, Massa," was the reply. "But why do you run it on its rims?" "Well, Massa, you

wait and see how long it will be before I save enough to put on the tires."

The next problem involves the effects of installment selling on market conditions. Here again we encounter not a few hoary fallacies. Does installment selling increase the demand or simply advance the time when the demand becomes effective? Some have contended that installment selling cannot result in an increase of general purchasing power and that any growth of present sales is certain to be offset by a decrease in future sales. Elaborate charts and arithmetical computations are added to prove this point. But all this assumes a negative answer to the preceding question. It takes for granted that there cannot possibly be any stimulus to the productivity of the individual as a result of his acquisition of the commodity. If, through the use of installment credit consumption, goods which in the long run minister to the efficiency of the individual are made available to some who would not otherwise be able to obtain them; if, in other words it puts such goods at their disposal at an earlier date than they would otherwise have been possible, does the aforesaid result necessarily follow? Does consumption never mean productive utilization? To the extent that it does, purchasing power is augmented.

Of a piece with this is the argument as to the increase of costs. Naturally if the costs are excessive or if the finance charges are cleverly concealed, it is clear that they may not only impose a countervailing burden on the cash purchaser, but actually reduce the amount otherwise available for the satisfaction of the consumer's wants. But if we may depend on competition to reduce the charges to a fair level, is the problem so different from that involved in paying for the services of the banker when he grants commercial credit for a price? From the economic point of view, the question is not as to the existence of the cost, but as to the worthwhileness of the costs. If the cost more than pays for itself in ultimate satisfactions, is it to be reprobated? If we pay little, we frequently get little; the best service often means the highest-priced service. Is there not an economy of high prices, as well as an economy of high wages?

In the next place, we are confronted by the question whether installment selling increases production. This is naturally a

matter of great importance to those in charge of our industries. The answer to this question, however, depends largely upon the preceding consideration. Does installment selling merely anticipate demand or does it augment purchasing power? Here again, is it not rash to make a comprehensive generalization? Is there not a difference, for instance, between installment selling in the paint business, where it has been a conspicuous failure, and installment selling in automobiles, where it has been a notable success? In the ten-payment plan in the clothing trade, the increased sales of certain concerns have been secured at the expense of decreased sales in competing concerns or of lower sales in other lines; on the other hand, is it not probable that in the case of refrigerators or washing machines, the economies of cost and energy may have meant an ultimate growth of purchasing power? Moreover, if we take installment selling in general, must we not consider carefully the problem of satiation of demand or the so-called saturation point, that is, whether the installment business in any particular enterprise is in its initial stage or has reached the stage where new products are bought largely for the purpose of replacing worn-out or discarded goods? The effect of installment selling on production will therefore differ not only with each class of commodity but possibly also with each successive period of time.

The final problem is that of the effects of installment selling on the credit structure of the country. This includes several points.

In the first place, are the risks attendant on installment selling peculiar to consumers' credit or do they simply constitute another version of credit risks in general? From one point of view, it would seem that consumers' credit does involve special risks because in comparison with producers' credit there is apt to be a somewhat less close calculation and a somewhat less accurate accounting. This is no doubt due to the fact that the anticipated income of the producer is measured in money, while that of the consumer is estimated in the more intangible terms of future enjoyment. Moreover, it is also true that consumers as a class do not possess the same skill in financial management as that displayed by business men. Consequently, expectations and results will probably coincide

more closely in the case of production transactions than in that of consumption transactions.

On the other hand, nothing is more familiar than the differences among individual producers or individual business men. Credit risks in ordinary business are classified not only according to categories of business, but more especially according to the credit standing of the individual. If Smith has a credit rating of A and Jones a credit rating of C, it is more than probable that a consumers' credit extended to A will be safer than the producers' credit extended to C. In other words, what is common to both producers' credit and consumers' credit, namely the rating of the individual, is more significant than any distinction between producers and consumers as a class. Installment selling may indeed need a technique of its own and may require a more careful and detailed examination into the solvency and reputability of the individual; but at bottom the problem is one affecting the grant of any kind of credit.

An analogous criticism of installment selling is based on the allegation that competition not infrequently leads to a mad desire on the part of the dealers to increase present sales at all costs, often even without due regard to ultimate safety, and accordingly to reduce the terms below the level demanded by ordinary prudence and business sagacity. That this occasionally happens is indubitable; and even more certain will then be the unfortunate consequences. But here again, can we say that such practices are peculiar to installment selling? Do we not find essentially similar phenomena in other fields, under the name of cut-throat competition? And does not experience show that such methods finally bring their nemesis with them?

The next question under this head is whether installment selling tends to accentuate the business cycle and by driving the peak somewhat higher prepare the way for a correspondingly deeper trough when the slump comes. To discuss this adequately would take more time than is now at my disposal. But attention may at all events be called to certain considerations.

While we do not yet thoroughly understand the causes of business fluctuations, we know at all events that they have thus far been a concomitant of our modern capitalist system. Be-

fore the advent of industrial capital and the factory system, periodic business crises were unknown. If, therefore, business cycles are due to the presence of capital and if credit connotes an addition to, or a more intensive utilization of, capital, it would follow that this new form of credit would be destined to intensify business crises.

This presupposes, however, that the credit involved in installment selling denotes a net addition to the volume of credit. Whether this is true is by no means assured. The ten-payment plan in clothing, in all probability involves no greater volume of credit than does the old plan of thirty-day collection. To the extent that in other lines installment selling replaces the system of open accounts there is again little if any net addition to the volume of trade. Moreover, when we consider the aid given by banks,—and that is the important point—we must remember three things: that a part of all installment sales consists of cash payments; that only a part of the installment business is managed by finance companies; and that at any given time the volume of outstanding installment paper is necessarily much less than the total amount issued. When we consider these facts it will be realized that the commitments of the banks due to installment paper are very much less than the total amount of installment sales and, moreover, represent a comparatively small part of their entire advances. The effect upon the intensification of the business cycle is accordingly apt to be less than is sometimes imagined by those who think in terms of total sales on installments.

To this must be added certain other considerations. If installment selling is largely dependent upon payments from the current income of the consumers, we must inquire what is the effect of a business crisis upon wages, as compared with profits. That profits disappear in a business crisis is certain; that unemployment grows is equally sure. But the unemployment is only partial, not total; and the aggregate amount of wages or salaries that continue to be paid even in a period of depression is still substantial. Profits stop, wages and salaries do not stop. From this point of view consumers' credit, which depends so largely upon wages and salaries, is likely to produce less effects on the business cycle than producers' credit, resting upon profits.

Finally, we must remember that there is a difference also in the liquidity of the loan. Not only are the loans due to installment selling in general of a shorter duration than in the case of ordinary business credit to producers, but there is also a distinction in the following respects: when the time comes to pull in sail, installment selling can cease forthwith; if the general business outlook is squally, the prudent dealer will stop selling on installments and with every succeeding week the total volume of outstanding paper will diminish, until within a few months it completely disappears. In the case of the ordinary business concern, however, it is precisely in bad times that the bank is compelled to continue to extend its credit to customers of doubtful solvency, in order if possible to tide them over the difficulty. A sudden and complete cessation of lending is in the one case a dramatic, in the other, a prosaic phenomenon.

It is perhaps true that as the volume of installment paper increases, it will approximate in this respect more closely to ordinary commercial paper; and that the lenders will be induced, by the pressure of events, to deal more considerately with the consumer, as the banks now do with the producer. At present, however, the balance, in this one particular, seems to be swinging in favor of consumers' credit.

If we take all these points into consideration, it follows that while in some respects consumers' credit tends to intensify business depressions, in other and more important respects, the opposite is the case. Frozen credits are often but not necessarily the concomitant of installment selling.

The problem of safeguarding the credit structure is one common to all forms of credit. Loan sharks are of hoary antiquity; installment sharks have grown apace with the new business. Blue-sky legislation has been enacted to protect the innocent investor; similar laws albeit with a new name, will no doubt soon appear in the installment field. In the endeavor to ensure safety and to minimize losses, much progress is being made. As an example we have only to call attention to the opposing arguments of the recourse and the non-recourse system in the automobile field, or to the controversy as to terms which has played so significant a role in the deliberations of the finance companies.

Furthermore, it must not be forgotten that installment selling, like every institution, is subject to the perils of novelty. If this were the time to deal with the subject fully, it could be pointed out that in the course of history credit has assumed manifold forms; and each new form of credit has had to fight its way to recognition after going through three stages: that of initial growth, that of the sloughing off of abuses, and that of the final emergence of the soundness of the principle. In the Middle Ages credit to the farmer was frowned down upon as usury. At the beginning of modern times when banks were introduced and when the abuses were rampant they were vehemently opposed. In our own country many a sad chapter of history might be filled with a description of the pet banks or the coon-box banks. No less an authority than Raymond wrote about a century ago in his treatise on political economy that banks in general promote extravagance and speculation, cause sudden fluctuations in the value of property, and consequently produce extensive failures. "None of the great and substantial departments of industry" he said, "can be prosecuted with money borrowed at bank interest". How far do we share those views today?

Finally, without attempting to formulate any conclusion or to forestall what the distinguished speakers of today will tell us, we may point out that installment selling has engendered new institutions and has created a new technique. While it has undoubtedly come to stay, all manner of abuses and of perils which it would be shortsighted to deny have crept in. What is needed is a sober and impartial analysis of its true significance. As the years roll by, outworn methods will be discarded; new corruptions will appear. Is it not the part of wisdom to separate the chaff from the grain; to be on our guard against the more obvious dangers; and to eliminate the improper practices until, precisely as in the case of our existing banking structure, we may be able to distinguish the sound from the unsound, the real from the specious. When installment selling comes to be measured by these criteria, may we not expect to learn that the innocuous and the salutary must not be confounded with the inappropriate and the regrettable, and that in its ultimate and refined forms, it may be recognized as constituting a significant contribution to the modern economy?

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THE RELATION OF INSTALLMENT SELLING TO THE CREDIT STRUCTURE.

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INSTALLMENT selling has become one of the topics discussed most in business circles. Opinions pro and con are freely offered by the friends and foes of the system, but reliable data sufficiently complete to justify definite conclusions are unfortunately not available. We are compelled to base our opinions largely on general estimates and on incomplete statistics, but some of the figures obtained are fairly reliable.

In the first place, let us survey the situation as it exists at present. There is nothing revolutionary or unique about installment selling—it is a system of granting retail credit, sometimes on a secured basis, with clearly specified payment dates. Whether we sell an article on sixty days' open credit or on terms requiring a down payment of ten per cent and installments of ten per cent a week makes little real difference, and all the elements of conservatism in such a case would be in favor of the installment sale.

It is also obvious that as long as the article purchased is directly or indirectly essential to the future productivity of the individual, it is to the interest of the community that he be placed in possession of it as soon as possible. In judging what are necessities and what are luxuries we must take cognizance of the great changes that have taken place in our social structure during recent years. An automobile is as much of a necessity to-day to a large percentage of our city and country population as shoes and clothing. If the price of the necessary article happens to be greater than is immediately available out of the individual's current income, the installment plan performs a lasting service to the community by placing him in possession of it at an earlier date than would be possible under the "save-and-pay-cash" plan.

Installment selling developed gradually for many years,

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largely along these sound lines. Homes, sewing machines, furniture, and other necessities have long been sold in this manner, doubtless to the benefit not only of the individuals concerned, but also of society as a whole. To a small extent luxuries were occasionally sold this way, but the total volume of such sales was an insignificant part of the total sales of the community. This was the first phase of the development of the business.

The second phase was the era of expansion caused by the advent of the automobile. The phenomenal success of the automobile companies in increasing their sales by this method attracted the attention of those in many other lines, notably washing machines, electric refrigerators, vacuum cleaners, heating furnaces, oil burners, etc., all of them doubtless entitled at least to some extent to come under the classification of necessities since they tend to increase, directly or indirectly, the productivity of the individual by the satisfaction of some of his reasonable wants.

But we now come to the third phase in which men engaged in all sorts of lines of business are entering the installment-sales field for no other reason than that they feel the necessity of obtaining what they consider their share of the consumer's income. They allege, doubtless with some degree of truth, that unless they grant installment credit terms, the purchases of the public will be deflected to other lines of trade and their business will suffer.

When viewed broadly from the standpoint of one interested in the operation of our *entire* economic structure and not merely from the standpoint of the individual interested solely in *one line* of business, installment sales seem to have the following effects on the total volume of sales:

1. *Temporary stimulation* arising from purchases made in anticipation of future income. In addition to to-day's egg, we induce the hen to give us to-morrow's also. We thus have two eggs for breakfast the first day, but thereafter we go back to our regular ration of one egg per day and should the hen ever return to her normal status, we should have to forego breakfast for one day.

2. *Permanent increase* to the extent that we increase the productivity of the individual by either bettering his living

conditions or putting him in a frame of mind which induces him to work more steadily or harder.

Many of the arguments in favor of installment sales—such as that it has made mass production possible, reduced prices and created employment—are true only from the standpoint of some individual industry that has profited (justly perhaps, if the commodity produced is a necessity) at the expense of other industries. On the other hand, to the extent that the stimulation of production is temporary, the ultimate result may be harmful, as it may induce overproduction and consequently a serious reaction when demand again becomes normal. It is evident that only by increasing the total income of society can we permanently increase its total expenditures.

Since installment sales are undoubtedly here to stay, the questions that present themselves are: Are we proceeding along the right lines? Have we gone too far?

I am inclined to the opinion that we have reached the point in some cases where the interests of the individual do not run parallel to those of society as a whole. The first and second phases of installment selling, which I described, were doubtless beneficial, but the third—in which business men are crowding into the installment field because they fear the loss of business in their particular line, and the diversion of sales to other lines—is bringing about an extension of the installment sales method into unsound channels.

Have we gone too far? Since the method has not passed through a complete cycle and since only experience can furnish the answer, we shall be in a better position to judge the matter when we have passed through the next period of business depression and unemployment. It is estimated that all funded debts in the form of federal, municipal and corporate bonds, mortgages, etc., amount to approximately one hundred billions of dollars and that bank debts amount to about thirty billions. We thus arrive at a total of about one hundred and thirty billions for the amount that one class of people in this country is lending the other. Estimating the amount of money advanced by the lending class to the other in the form of installment debt is difficult. Estimates of the volume of installment sales range from seven to ten billions per annum. A committee of the American Bankers Asso-

ciation, after a careful survey of such part of the field as furnished reliable information, estimated that about forty-two per cent of the annual sales is outstanding at any one time. This is considered by many to be quite a low estimate, but, using it as a basis, we arrive at a figure somewhere between three and four and a half billions as the amount outstanding at present. Some excellent authorities estimate the amount outstanding at five billions.

If we accept the latter figure and compare it with the total debts of all kinds amounting to one hundred and thirty billions, it does not seem important. But I am certain that the majority will agree that this is not the proper method of judging the position occupied by installment sales in our credit structure. A better method is to compare it with the thirty billions of bank, i. e., current debt. This, while nearer the truth, has the defect that it does not take into consideration the extent to which these installment debts have been funded by means of the capital stock and long-term bonds of the finance companies. Nevertheless, after liberally allowing for this, it is evident that installment sales have become a very important factor in our current credit structure.

The total retail sales of the country are estimated at about forty billions. Of this seven to ten billions are estimated to represent installment sales; certainly an impressive proportion. We have no means of knowing to what extent installment credit is merely a shift from other forms of credit formerly granted. A survey by the Federal Reserve Bank of Boston of the sales by Boston department stores indicated no material decline in the volume of regular credit sales after the inauguration of a "budget" or installment method. The latter seemed to create an additional volume of credit sales and not a shift from the former. Of course this survey of one section must not be accepted as a conclusive index of conditions in all parts of our country, but it is the result of a careful investigation by a disinterested agency and entitled to full consideration.

In conclusion it seems that during the present experimental stage, the business of installment sales must be carefully watched by all concerned. We must take a comprehensive view of its present status and the direction in which it is moving. Practices arising out of the desires or necessities of

individual firms or trades that do not harmonize with the good of the whole and are therefore fundamentally unsound must be discouraged. When, in legitimate lines of business, expansion seems to have reached the limits of safety, the brakes should be firmly applied.

All this requires a careful scrutiny of the methods and volume in each individual case and the application of proper remedies where necessary by the finance companies. In turn the policies of each individual finance company must be studied by the banks. A recognition of the fact that installment selling has a legitimate field within the limits of which it is entitled to every consideration, coupled with the cooperation of merchants, finance companies and the banks to keep it within such limits, will do much to prevent the serious results that otherwise might be expected.

CONTROL OF TRADE PRACTICES BY COMPETITIVE AND OTHER FORCES

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Introduction

THE industrial world appears to be swinging round a huge historical spiral, from medieval moral standards and controls through an unmoral period and a period of *laissez-faire* morals, back to something far more like the medieval attitude, though on an altered plane and a larger scale, and with different standards and agencies. In medieval times the economic unit was small; it recognized itself as a community and acknowledged and enforced appropriate responsibilities on its members by the forces of church, guild and state. The morality was based largely on an acceptance of the standard of living customarily suited to one's station in life: hence it was neither democratic nor progressive. It broke up with the coming of modern times and there followed a period of predatory, monarchic nationalism and after it a more enlightened period of liberty and *laissez-faire*, during which the progress of methods has made us so interdependent that we are in process of being forced, whether we like it or not, to organize our economic life into the form of a real community again. This new community is large, transcending the bounds of nations, and its morals cannot be merely customary, for it is making new customs every day. They must be democratic, voluntaristic, elastic enough to adjust themselves to rapid and unforeseeable change; and yet they must contain more binding standards of economic conduct and more positive mutual obligations than *laissez-faire* could furnish.

1. *The evolution of "free" exchange*

Business transactions are of so many sorts that the attempt to describe them all by one simple theory of "free" exchange is necessarily a failure. First, we have simultaneous ex-
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changes of goods—the sort of thing to which the idea of "free" exchange most nearly applies. But also there are agreements setting up continuing relationships: of employer and employee, landlord and tenant, debtor and creditor, and variants on these types. And these agreements are far more complex affairs than one ordinarily thinks. There is the "heart of the contract"—to borrow Justice Sutherland's phrase¹—consisting simply of the meeting of minds on the main features of the exchange: amount and kind of goods to be transferred, and amount and time of money compensation. But grouped around this are many other conditions and stipulations and incidental consequences, often of vital importance, but seldom scrutinized and made the objects of definite bargaining effort by the ordinary individual bargainer. Such are the "conditions" of labor, and the ultimate provisions for enforcement of credit obligations.

Matters of these sorts are usually either handled according to the custom of the trade, or by a standardized contract, usually on a printed form drawn up and supplied by one of the parties, who invites the other to "sign on the dotted line". In such cases there is generally no effective bargaining over these conditions; all the more so if, as often happens, the entire trade agrees on a standard form, or uses similar forms by an informal understanding, so that there is no competition in these matters. Such contracts are essentially monopolistic as to their standardized portions, and the individual is under real compulsion to accept their terms. It is, on the whole, desirable that contracts of this sort should be standardized. Indeed, it has often been noted that unlimited competition may virtually force the producer into unsound practices, such as overextension of credit, which are not for the good of the buyer in the long run. But it is not desirable that the standardization should be done entirely by one side of the transaction and in the interest of that side alone. Such contracts should properly be considered as "affected with a public interest", and should be framed with just consideration of the needs of all parties concerned.

Even in simple sales of commodities there are often im-

¹Used in the District of Columbia Minimum Wage Case (*Adkins v. Children's Hospital*).

portant surrounding conditions, such as provisions for service to machines and for rejection or return of goods. And even in the "heart of the contract" there may be things which free bargaining does not safely handle, such as the standards of safety in building construction, wiring, etc., which are often invisible and of which the individual is not in a position to judge effectively, even if he is competent, as he usually is not. Thus in many ways unregulated competition is not an adequate safeguard for the interests of the contracting parties, or for other interests which may be affected in one way or another.

In fact, "unregulated competition" is really a contradiction in terms, since business competition is in its very essence a regulated struggle; otherwise it would not be competition, but warfare. Competition is limited, most obviously, by the law: chiefly the definition and protection of rights of person and property, which bar out the most clearly and grossly predatory tactics. But the law itself is largely built upon the customs of the community, and is constantly supplemented by other customs not embodied in formal law. The expressions "cutthroat competition," "predatory competition", "unfair competition", and "lowered plane of competition" suggest dangers which require safeguards beyond those which the basic law furnishes.

There is a clear convenience in letting the trade do its own controlling, but there is also a danger that this may lead to quasi-monopoly and to prejudicing the interests of customers. It may extend to matters which should not be controlled by the trade alone, and in which the other parties should have the benefits either of competition or of a voice in the settlement of the standard terms and conditions. Competition is not expected to be made comfortable for the competitors, or safe for the less efficient among them, and self-regulation would have an almost inevitable tendency to make competition altogether too safe for the competitors, protecting them against legitimate rivalry, and framing contracts so as to resolve every doubt in favor of the trade. There may be numerous matters in which regulation wisely conceived in the interest of the trade will also be in harmony with the essential interests of the other parties; but this is not to be taken for granted without ex-

amination of each particular case. Sunday closing is, in general, in the interest of the trade without sacrificing any interest of the customers which is essential enough to justify a reversal of the policy; but there may be emergency needs for which some provision should be made.

Control nearly always focuses in some organization, and unorganized control has little chance of effectiveness. The public interest is most definitely organized in the state, and the trade interest in the trade association, which is coming to play a more and more important part in caring for the common interests of almost every trade. These associations are becoming the vehicles for formulating codes of trade ethics, and have even been invited to work with the Federal Trade Commission in drawing up standards of fair practice, to which the general law of unfair competition may subsequently be applied. Another potent source of trade discipline is the credit system which, by its weapon of credit ratings, may censor unsound practices quite effectively. Other possible foci include labor organizations, the Consumers' League, and other civic and scientific organizations.

If a trade refuses to control itself or exerts control in its own interests alone, the government may be forced to step in. But if the trade not only controls itself but invites the other interests to a real share in the work, then government action may be avoided except, perhaps, to reinforce the standards which the most representative members of the trade are already desirous of carrying out.

2. *Application to installment buying*

To apply these rather general remarks to the topic immediately at hand, we may ask whether installment buying should be left to unregulated competition or not: whether the terms of the contracts should be standardized, and if so, what parties should be heard and what interests should be safeguarded. There is very little likelihood that the matter will be left wholly to unregulated competition. The finance company, which discounts the accounts of those who have sold goods on time, has a direct interest in preventing unsound extensions of credit, and can exert disciplinary force on individual traders. And finance companies can easily get to-

gether sufficiently to form standards of practice which all shall apply. Powerful independent producers will probably always be able to finance their own installment sales and to decide their own terms and eligibility requirements, and this fact may serve to keep the standards of the finance companies in touch with some real competition, so that the actual outcome will probably be a mixed situation.

What are the dangers of installment buying? Old-fashioned thrift held up its hands in horror at any scheme whereby people were urged to buy expensive luxuries without having the money to pay for them on the spot, or to start housekeeping without having at least saved up the first cost of furniture and equipment. But now many of us have embraced the monster, and most of the rest are reaching a stage of open-mindedness at which it may be possible to discriminate between genuine dangers and a mere shock to our Victorian prejudices. We have become aware that the growth of installment buying need not be incompatible with the growth of thrift, even in the same persons. Indeed, the agencies of thrift are themselves making successful use of the installment principle. Nevertheless there are cases like one of which I was recently told, in which the carpet was sold off the floor to pay the second installment on the automobile—a Buick! And it is still a healthy principle that people should demonstrate some power to save before taking on large added expenses. If they cannot save at a lower level of expense, they will not be likely to succeed in meeting the payments without making sacrifices that should not be made. So the maxim might be laid down: “never buy on the installment plan unless you could pay cash”—making exception for genuinely productive goods or absolute necessities. For other kinds of purchases the maxim expresses a rough and ready index of ability to handle the payments without disaster to the budget. One reason why such cautions are called for is because most people have a bias by which the burden of a given payment looks much lighter if it can be distributed in small installments, and the installment salesman takes pains to cultivate this bias. And the penalty for an error—forfeiture of the goods when partly paid for—is more serious than the usual penalty for a miscalculation. There is also the danger of paying exorbitant interest rates in a concealed form.

There are, of course, dangers to the trade as well as to the purchaser. They must see that they do not lose money in case of forfeiture under ordinary conditions; and they must guard against the risk that a general depression will make a large proportion of their accounts bad, while at the same time undermining the value of their security. We do not need to have serious apprehension that these dangers will not be sufficiently well guarded against.

The services of installment buying are probably not as generally understood as its dangers. It enables persons to buy goods they could not otherwise buy, and sell goods they could not otherwise sell, and many would not question further. A more rational justification is that it makes possible the spreading out of certain heavy expenditures which come irregularly. The automobile owner, figuring the monthly cost of operating his car, charges, not the entire capital cost, but one-twelfth of the annual depreciation: he reckons the cost in installments whether he pays it in installments or not. Paying by installments, he will pay more nearly as he reckons (though of course the two will still be far from equal and synchronous). He will not have to save up the entire price, investing it temporarily and then disposing of the investments; and if he has already saved up this much and wishes to keep it as capital, he is not forced to sell it in order to buy the car. In short, he is enabled to treat the purchase as a peculiar form of capital expenditure, and to amortize it. This is a clear advantage—for expenditures that properly belong in this class.

But what purchases are entitled to this rating? This is a very interesting question. The essence of an industrial capital expense is that it goes into a long-lived asset which is productive, and can normally pay for itself during its lifetime. If we are to apply these ideas to the expenses of consumers we must, of course, broaden them to include as productive things which do not yield a direct money profit, but do serve to increase the general effectiveness of those who use them. Public improvements are in this class, and it may be extended to cover some uses of the automobile, and many household conveniences. But with public works there is a growing feeling against installment buying and in favor of a “pay as you go” policy. This is put on the ground that these expenses keep

on in a fairly constant flow, so that installment buying does not yield the service of distributing an outlay which would otherwise be unduly concentrated, but merely makes the cost lighter for awhile and then permanently heavier by the constant drain of interest payments. Quite the same would be true of a private individual who contracted the installment habit in a chronic form. Thus the crux of the matter would seem to lie, not in the productive character of the expenditure, but in its irregularity, throwing out the even flow of the budget unless distributed over a period of time.

Another service which is credited to installment buying is the cheapening of production through the larger output which can thereby find a market, the automobile industry being urged as a conspicuous example. *Prima facie* probabilities seem to favor this claim, but there is little doubt that, in the minds of those who urge it, the savings are exaggerated. Account should also be taken of corresponding losses in the industries from which the consumer's money is diverted by the calls of the installment collector. Thus the savings must be discounted, though there probably remains a net increase in the tendency toward concentration of production, resulting from installment buying.

This leads us to another claim, resting on the idea that installment buying does not merely divert money which would otherwise be spent for other things, but actually makes a net addition to the flow of production and consumption. If this is the case, the practice may be productive for industry as a whole, even if not for the individual buyer. This raises a nice question of economic theory. We are accustomed to say that supply of one thing constitutes demand for something else, and that therefore supply—of the right things—creates its own demand. This undoubtedly has truth in the long run, and explains why our enormous increases of productive power have found a market and have not merely resulted in a proportionate amount of unemployment. But there is a critical stage in the process, when enlarged productive power has not yet found its market and when the potential desire for goods has not yet been translated into effective demand. Perhaps it cannot be so translated until the product is actually made and the resulting costs and profits

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distributed to the participants, and this cannot happen until a considerable part of the goods are sold and the earnings realized by the producers; and thus a deadlock exists. It seems probable that installment buying can help an industry over this deadlock and facilitate the complex adjustments whereby sudden and large increases in productive power become converted into actual, realized product, turning back its income to swell the flow of effective demand for goods.

This is a doctrine to be accepted tentatively and with much caution. It sounds like proving that all we have to do to get rich is to spend money we do not possess, with the result that there is more money for everyone to spend. This is too good to be true as a universal rule, and the utmost that a skeptical economist should be ready to concede at present is that there may be conditions of transition under which the magic will work.

Other more specific matters also raise questions of public policy. Customers should be selected from among those who are capable of using this dangerous device without being exploited by it. Initial payments should be substantial, and the period of credit limited well within the useful life of the goods. Rates of interest should be kept within bounds and, preferably, indicated in the contract. Forfeitures should be few. And the question should be seriously discussed whether a defaulting purchaser should not have rights analogous to the surrender value of a life-insurance policy—that he should not always lose all he has paid, but might receive a rebate after the seller has been fully reimbursed. All these matters should receive disinterested consideration by bodies representative of all the interests involved.

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INSTALLMENT PURCHASING AND INSTALLMENT SAVING IN RELATION TO FAMILY WELFARE

LAWSON PURDY

Secretary, Charity Organization Society of the City of New York

THE subject of installment buying is a very large subject with many implications, and I shall attempt to deal with it almost exclusively from the standpoint of the Charity Organization Society as it affects the 3500 New York families from which the Society has received appeals for advice or financial aid.

All sorts of people buy on the installment plan—rich and poor, prudent and imprudent, people with stable characters and people without. There are all sorts of people selling goods on the installment plan. Installment buying has its advantages and its disadvantages, dependent, first, upon the people who buy and, second, upon the people who sell. It is reasonably clear that there is danger when the seller of goods is, at the same time, a seller of credit. In general, the seller of goods should be concerned exclusively with meeting the demand for the goods he has for sale. He should honestly represent those goods for what they are and the price of the goods for what it is. He should desire to get new customers and keep the old ones. It is to his interest to satisfy his customers both as to quality and price. The salesman should be sufficiently discerning not to force upon a customer goods that the customer does not need and with which he ultimately will be dissatisfied. Beyond that the responsibility of the salesman goes no further if the customer pays in cash.

A person who lends money is concerned primarily with the ability of his customer to pay and naturally he will lend no more than he believes the customer can pay. The lender charges for the accommodation a sum sufficient to pay all costs of the transaction and interest on the investment.

When goods are sold on the installment plan these two entirely different business operations are conducted by the same person and there is danger that the seller, in his desire

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to sell goods, will at the same time extend credit which is beyond the capacity of the buyer to pay, and the seller is tempted to induce the buyer to take goods not suited to his purse nor his station in life, and so impose an undue burden upon the purchaser.

Again, the cost of conducting the business of lending money must be included in the price of the goods and is frequently so concealed in the price of the goods that the purchaser is deceived as to what he is really paying for.

My society operates through nine district offices in the Borough of Manhattan and I asked the head of each one of those offices to give me her personal experience of the effect of installment buying upon the persons with whom she is acquainted. Without exception their replies were to the effect that the disadvantages exceeded any advantages; that articles are sold for much more than their actual worth; many things so purchased, particularly clothing, are worn out before they are paid for; articles that are not needed and ill afforded are frequently purchased, or a more expensive variety of a required article is purchased because of good advertising, and the easy payment method seems easy until tried. The realization of a constant debt is injurious coupled with the fear that things partly paid for may be lost through non-payment. Persons are encouraged to live beyond their income. Articles which for these particular persons are luxuries are purchased instead of necessities. When trouble comes the first thing that is dropped is the payment on account of the thing purchased on the installment plan. Instead of going to the dealer and stating the case fairly, the debtor frequently refuses to answer the door, tries to sell the goods sometimes, or put the goods in storage, or in other ways cheat the seller. In the case of furniture, if it is eventually taken there is hard feeling. They think they have put their money in it and do not realize that often they have had full value by paying rent for the furniture they have used.

The "X" family, very nice American people, came here three years ago. To avoid transportation expense they sold the furniture they had had and equipped a five-room apartment here on the installment plan. The breadwinner became ill just as the sixth child came. The family lost everything including three years' or more regular payments on furniture.

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In another case a young couple were helped to re-establish a home. They were referred to a second-hand shop of the Salvation Army, bought what was necessary for \$24, and the young man said, "Why didn't I know of this before! I bought \$250 worth of goods and lost every bit of it because I did not have the money to keep up the payments regularly. Now I know that I can gradually get what I need and that it will be mine forever."

It would be neither just nor expedient to stop here. We have examples in this city of dealers who have been in business for many years and who to a degree separate the problem of selling from the problem of lending money by establishing separate departments for these two functions. I have been aided in my inquiry by the house of Cowperthwait and Sons with a record of one hundred twenty years of business in the same family and sixty years of business in selling furniture on the installment plan. Their salesmen are instructed not to sell goods to an amount greater than it appears that the customer can fairly take. After the customer has made his selection he goes to another department which is concerned exclusively with his capacity to pay, and they must be satisfied with the capacity to pay before the order is approved. They sell goods for cash for 10 per cent less than when the payments are made over a period of eighty weeks. They think that difference of 10 per cent compensates them for all costs of collection and interest on the money. They come to this conclusion by comparing their goods with the goods of others who sell for cash. They say their losses on account of failure to pay for goods are small.

The house of Ludwig Baumann and Company has very kindly given me testimony which is similar to that I received from Cowperthwait.

We know in our experience that there are cases of families known to us in which it has been an advantage to buy necessary articles for which they did not have the money and that they have been encouraged to save by making their payments on the installment plan.

Certain things appear to me to be demonstrated by my brief inquiry. First, the business of selling goods and the business of extending credit should be divorced as far as pos-

sible. The cost of credit should be distinguished from the cost of the goods so that the buyer has no illusions about how much of the price is for the goods and how much is for the credit. The charge for the credit should be sufficient to meet the burden of expense.

Lastly, there will always be careless sellers and careless buyers and there is only one successful teacher, and that is experience. Whatever we do, let the government keep its hands off!

THE BASIC MEANING OF THE GROWTH OF INSTALLMENT SELLING¹

WILLIAM TRUFANT FOSTER

Director, Pollak Foundation for Economic Research

WHAT is the basic meaning of the extraordinary growth of installment selling which has taken place during the past ten years? It is this: *In a period of increasing productivity, industry turns out more consumers' goods than consumers can buy with their incomes.* That is the bed-rock fact. Any discussion of the subject which fails to take that fact into account is superficial. To overlook it is like making permanent plans for the traffic of a city on the assumption that the traffic does not increase, or on the assumption that each additional motor car brings with it its own parking space.

As a matter of fact, the piling-up of stocks that cannot be sold for cash, without a fall in prices, is a normal phase of business expansion. It comes about because industry does not pay consumers as much money as it expects consumers to pay for its products—as much money as consumers *must* pay if business is to expand and prosper. In other words, business is conducted at a profit. Consumers, moreover, have no source of income other than industry. Consequently, as the flow of goods into consumers' markets increases, the flow of money into consumers' pockets does not long increase proportionately. Presently, there are more goods on hand than the people can buy and pay for out of income, at the going price-level.

To take these goods away at current prices, therefore, consumers must spend enough of their savings to make up the deficiency of current income. That, however, consumers in the aggregate never do. On the contrary, they constantly in-

crease their savings, year in and year out, in war and in peace, in depression and in prosperity.

There are, then, these two main reasons why dealers cannot long continue to sell for cash, without a fall in the price-level, all the goods that are turned out: first, because industry does not disburse to consumers—as wages, interest, dividends, rent, and the rest—enough money to buy its products; second, because consumers, under the necessity of saving, do not spend even as much as they receive. Since, therefore, consumers cannot buy the goods with their current income, industry has resorted more and more to the device of handing them the goods, to be paid for out of future income.

If such an explanation of the remarkable growth of installment selling sounds like nothing but theory, and obscure theory at that, the facts themselves are plain enough. Nobody needs to delve into theory in order to find out what is going on. Take the facts in the automobile trade, for example. Nobody doubts that in 1925 this country alone turned out more than four million passenger cars and trucks. There are the cars, actually produced. The next concrete fact concerning which there is no dispute is that cars were sold in 1925 to the retail value of more than four billion dollars, with only about one third of that amount paid down. In 1926, the total figures were larger, but the proportions remained about the same. Consequently, there are now several million cars in the hands of consumers, on which at least one billion and a half of payments are still to be made.

Automobiles, moreover, are only one of innumerable commodities that are now sold on easy payments. To be sure, we have not yet been urged to buy chewing gum for a penny down and a penny a day, on the ground that, since it may last a week, we ought to buy it out of income instead of out of capital. "Chew as you pay" is one of the slogans which even the tobacco people have spared us. Many millions of consumers, however, have already bought dresses and rings and parlor sets on partial payments, not to mention kitchenware, pianos, refrigerators, oil heaters, table cloths, radio sets, and the rest. The Simple Simons of our day do not have to contend with many unprogressive Pie-men. "Show me first your penny" is not the slogan of the most rapidly expanding new industries.

¹ The theory which is here outlined is developed in more detail in *Business Without a Buyer*, a book by William Trufant Foster and Waddill Catchings, published by the Pollak Foundation for Economic Research, Newton 58, Massachusetts.

The actual sales price of fifteen kinds of commodities, bought on partial payment plans in the year 1926, appears to have been about six and one half billion dollars. Of that amount, the actual installment debt outstanding at any one time, with allowance for overdue accounts, must have been over forty per cent. So there must be in the possession of consumers at this moment, goods to the retail value of not far from three billion dollars, exclusive of securities, real estate and houses, which have not been paid for.

The plainest fact in the whole situation is that those goods actually were produced. Nobody needs an imposing array of graphs and statistics to convince him of that fact. Equally plain—at least to those who have to do the selling—is the fact that a large part of those goods would not have been sold at all, had buyers been required to pay cash for them. And just as plain, to any one who has studied the statistics of consumer income, is the fact that the people who bought those goods *could not possibly* have paid for them out of income.

That, however, is not the whole story. Had we not contrived to pass on to consumers about three billion dollars' worth of goods in excess of what they have yet paid for, most of those goods would not have been produced at all. Now, the people are perfectly able and willing to make the goods. That, as we have said, is the plainest of all facts. The people not only can, but actually do, make more motor cars, furniture, fur coats, washing machines, refrigerators, and no end of other commodities than they have the income to pay for. Nevertheless, in spite of this unquestioned ability and willingness of the workers, they would not have been allowed to make those goods, if the people who wanted to buy them had not been permitted to buy them on credit. In that case, a large part of the wages and dividends paid in connection with the production and sale of those goods, would not have been paid at all.

From these plain facts, we come to this plain conclusion: the expansion of installment selling has saved the country, up to this time, from a marked business recession. There is no doubt that industry has been more prosperous during the past four years, the volume of employment and production larger, and the national income and standard of living higher,

than would have been the case had it not been for installment selling.

Does any one question that conclusion? If so, let him consider what would have happened if three, or even one, billion dollars' worth of goods, which are now in consumers' hands and unpaid for, had not been made, or if a large part of these goods had been made and left in the hands of manufacturers and merchants. Would anything have prevented a chilling fall in prices? As a matter of fact, not even the huge installment sales of 1925 and 1926 prevented a sustained decline in the commodity price-level.

It is true that partial payment sales to consumers are only a small part of the total business of the country which is conducted on credit. We miss the point, however, unless we observe that installment sales have been increased by means of bank credit which is extended on the *consumer* side, whereas nearly all bank credit was formerly extended to business on the *production* side. To call two things "inflation" which are diametrically opposite, does not make them the same. Overstocking dealers' shelves on credit is far different from overstocking consumers' households on credit. In point of fact, an expansion of credit which results in a net increase in *retail sales* helps to render harmless, for the time being, an expansion of credit which results in a net increase of *output*.

We come now to the most important question of all: How much longer can installment selling delay a business recession? It may help you to answer that question if you will try to figure out how long you, yourself, could help to lift business to higher levels by increasing your installment buying. Let us suppose that in a given period of time, you can buy goods to the value of \$10,000, and you can buy no more unless you increase your installment purchases. Let us suppose, however, that an alluring offer of "dignified credit" leads you to buy an automobile, to be paid for "out of income, rather than out of capital." The deferred payments amount to \$1,000. For the period of time in question, therefore, your purchases are \$11,000. That is \$1,000 more than they would have been otherwise. You have done that much to increase the total sales of the country and to stimulate business.

In the next period of time, however, you must reduce your

cash purchases to \$9,000 in order to pay \$1,000 on your car. Clearly, then, you cannot continue buying at the \$11,000 level, unless you mortgage—no longer \$1,000—but \$2,000 of your future income. If you do so, the result will be that in the next period of time, you will have only \$8,000 to spend for goods. You can sustain your rate of buying in that period, therefore, only by committing yourself to \$3,000 of deferred payments. And so on. At that rate, how long could *your* installment buying help to keep business prosperous?

Now add to those budget figures the figures of all the other consumers who have boosted business by increasing their installment buying, and you see that consumers as a whole, having in one period lifted their buying to a higher level by increasing their debts on installment purchases, cannot even maintain that level of buying in the next period without doubling their debts; in the next period trebling their debts; and so on.

It is merely putting the same conclusion in other words to say that, if consumers improve business in one year by mortgaging their incomes, on the average, *one* month in advance, they can sustain business at that level, by that method, the next year, only by mortgaging their incomes *two* months in advance, the next year *three* months in advance, and so on.

There are differences of opinion as to how far into the future it is wise to carry that process; but no one who can master the mysteries of first grade arithmetic need deceive himself with the idea that the possibilities are unlimited.

Here the question may arise whether we ourselves understand the arithmetic of this case. Have we not made a crucial error? In our illustrations, we have assumed that the total income of consumers remains the same from year to year; whereas everybody knows that, if business expands with the expansion of installment sales, there may be an expansion of the money in circulation and of the income of consumers.

Such an expansion of money, it is often said, "automatically provides consumers with enough money to buy the expanded output." If that were true, the improvement of business which is brought about by the stimulus of a given increase in installment selling might be permanent. But it is not true. A moment's thought will show that the financing of installment

sales does not put into consumers' hands *enough* money to buy the goods in question, for additions to the volume of money which are made in connection with financing the production and sale of a given volume of goods are seldom large enough to cover the retail price of those goods.

That is necessarily so. Every individual piece of financing, whether to assist installment business or any other business, proceeds on the assumption that more money is to be received from consumers eventually for a given volume of goods than the banks advance in connection with the goods. If these expectations are not largely realized, a recession of business follows.

As a matter of fact, no producer pays out as costs, as much as he expects people to pay for the product—as much as they *must* pay if he is long to continue in business. In other words, he does not borrow and pay out in connection with a given expansion of output, as much money as consumers must pay for the output, if he is to make a profit. Consequently, the increased wages and other payments—that is to say, the total costs which are paid as a result of increased sales on installments—are insufficient to enable people to buy the increased output. Thus it is clear that sales on installments do not "automatically" enable people to pay for the goods in question. The goods increase faster than the income. The gap between the two widens. The "automatic" feature of the process is its culmination in a recession of business.

We conclude, then, that those who oppose installment selling are *right* in objecting to a solution of the problem of inadequate consumer demand which puts consumers deeper and deeper into debt.

Installment selling, moreover, cannot long do as much to *increase* prosperity, as it has done in recent years. The chief error of those who hold that it can, lurks in their assumption that if consumers go into debt three billion dollars in order to acquire certain commodities, industry will necessarily pay them an additional three billion dollars as wages, dividends, and the rest, wherewith the debts can be paid. The process is supposed to be self-sustaining—automatically so. It is not. The financing of increased production, as we have shown, does not "automatically" induce a flow of money into consumers'

pockets which is equal to the flow of goods into consumers' markets. Hence the stimulus to business of a given gain in production, brought about by a given gain in installment sales, is not lasting. Larger and larger doses of the stimulant must be injected merely to prevent a relapse.

If that were not so, business would not have been obliged, in the first place, to resort so largely to increased installment selling, in order to distribute its current output at current prices. The circuit flow of money by means of which installment selling is supposed to maintain adequate consumer demand would have yielded consumers enough income for the purpose, without resort to installment selling. Each addition to supply would have created its own demand. For example, the very increase in bank credit which enabled industry to turn out a million more cars would have given people enough additional income to buy the cars. In short, the self-sustaining process would have functioned without a piling up of consumer debts. The reason it did not so function is that—contrary to traditional economic theory—a given supply does not produce an equivalent demand.

On the other hand, those who favor installment selling are right in holding that production should not be curtailed, and workers thrown out of employment, and standards of living thereby lowered, for the sole reason that the people who want more goods do not have enough income to buy the increased output of prosperous business. Whatever the evils of partial payment selling may be, it is better for us to acquire goods on partial payments than not to acquire goods at all, simply because we have not been permitted to make them. Something must be done, more than we have done in the past, to enable the people, as consumers, to acquire and enjoy whatever they succeed, as producers, in getting ready to be enjoyed. To our exceedingly efficient system for financing production, we must somehow add an equally efficient system for financing consumption. We must find some means of doing permanently, on a thoroughly satisfactory basis, what increased installment selling has been doing temporarily, on a questionable basis. The way will not be difficult to find, once we are convinced that it must be found.

THE DEVELOPMENT OF INSTALLMENT PURCHASING

JOHN J. RASKOB

Chairman, Finance Committee, General Motors Corporation

UNDOUBTEDLY little new can be added to the thorough discussion which installment purchasing has received during the past year. Perhaps this paper will be more interesting if it is confined to opinions formed and lessons learned as a result of a considerable practical experience in the granting of *consumers' credits* to automobile purchasers; but first let us for a moment trace the development of *producers' credit* in our country. As E. R. A. Seligman, Professor of Political Economy, Columbia University, has said:

The early part of the nineteenth century was marked by the most extravagant distrust of banks—a distrust often justified by the sad results of early banking—first in New England, then in the Middle States, and finally in the West.

This early opposition to bank credit only slowly disappeared, until today it may be said that the entire business structure is built upon the foundation of credit; and that the banks have become the very center of our economic life. The abuses have been lopped off one by one and no one any longer doubts the effective contributions of our modern banking machinery to the maintenance and development of production.

The improvements that have been gradually made in bank credit are in large part the result of careful study and protracted experience. With every advance in the complexity of modern industrial life it has become possible to make a more detailed analysis of the interrelations of the various factors of credit. The successful banker today must be to a far greater extent than at any past period a man with adequate training and sufficient imagination to comprehend the influence of all the various elements in the problem. Banking today has become not only an art, but a science; with the result that our understanding of the scope, the functions, and the limitations of bank credit has reached a point where we can with considerable success distinguish between the use and the abuse of the institution. The result is that the bank, as an instrument of production credit, is now universally recognized as an integral and necessary part of modern economic machinery.

The most recent development in credit is its utilization to secure more durable goods for immediate consumption. The original form of this category of credit is found in the case of houses. For several generations now and especially in the United States home buying on the installment plan has become familiar to all. With the progress of the movement this form of credit was gradually extended to other commodities. A system of installment buying was applied to sewing machines, then to pianos, then to agricultural implements—still more recently to automobiles.¹

As in the case of most new developments, consumers' credit, in its rapid growth, has left in its wake various instances of misapplication and abuse which no one could conscientiously defend, but which serve to inspire criticism of the system as a whole. However, this situation is being corrected in the natural course of evolution.

From an economic point of view, is there any reason why the people of any country should not have all of the comforts that they are able and willing to produce?

Usually, before a thing is purchased, there must be an incentive to purchase it—an incentive which is born of a desire to have that thing. For instance, we produce food and clothing because the desire to keep from going hungry and cold is sufficient incentive to do the work necessary for such production. Love is an incentive to work, to produce and to secure those things which tend to the happiness of a family.

Aside from food, clothing and shelter, there is perhaps no greater or more insistent demand for anything than for automobiles—a demand which is prompted by the strong desire of mankind to go on wheels and to go fast. The desire to have automobiles is sufficiently great to inspire people to work, provided that through working this desire can be satisfied. Given, therefore, the desire to have an automobile and the willingness to work for it, we have only to supply the automobile on an economic basis and a practical means to purchase it. This latter means is afforded by the installment purchase plan.

Since a purchaser may not be able to purchase a given article unless he can pay in installments, the arrangement of the payments is vital to his purchase. A merchant, however, in selling goods on credit will make, or refuse to make, the

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sale, depending entirely upon whether he is willing to extend credit to his customer; whether the credit is to be liquidated in a single sum or in a series of installments is only one of the factors to be considered. If the merchant's investigation of the purchaser indicates that the latter is entitled to credit, the former will make the sale, and the fact that the purchaser may pay in installments would affect only one of the credit factors—that of the purchaser's ability to pay. I hope that the distinction is clear that in the development of sound consumers' credit, installments are simply the arrangement of the payments, while the fact that a purchaser is *willing* to obligate himself to pay in installments is in itself no reason for granting the credit. In reaching the decision to grant consumers' credit, regardless of the arrangement for the payment, the factors present are of the same kind as those which guide bankers in extending commercial credit. *In the proper appraisal of credit factors lies the whole foundation of consumers' credits.* Will merchants and bankers so administer the granting of consumers' credits that it will result in abuses and in encouraging consumers to buy all sorts of things which they really do not want, and many of which will be obsolete or worn out before payment is completed; or will they so administer it as to make the result an economic gain?

Because of the reason mentioned at the outset and also because of the fact that modern installment selling finds its chief application in the automobile industry, I shall venture to illustrate my general point by reference to our own experience. This experience clearly indicates that credit merchandising is constructive if properly used and not abused, and that consumers' credit so extended is wholesome and in every way desirable from an economic standpoint.

Many people feel that this is true, but ask what constitutes use as distinguished from abuse. It is difficult to indicate how far a banker or merchant may legitimately go in extending consumers' credit before bordering on abuse. Previous to 1919, most automobiles were sold on a cash basis. We recognized, however, that if the industry was to be as successful as we felt it should be, it would be necessary to sell automobiles on credit. With a view, therefore, to controlling properly the extension of consumers' credits and in order to learn by

practical experience what constitutes use and abuse, we organized the General Motors Acceptance Corporation in 1919 with an initial capital and surplus of \$2,500,000. To-day only twenty out of upwards of nearly thirty thousand banks in the United States have capital, surplus and undivided profits in excess of \$30,200,000, which the General Motors Acceptance Corporation now employs.

Its experience and results have been attained under the following general rules and regulations:

First. It may be interesting to call attention to the fact that in a few states, including New York, organizations like ours, which deal with consumers' credits, are required to operate under the banking laws.

Second. It functions in a manner completely independent of the sales and operating divisions of the General Motors Corporation, so that the judgment of its credit men in the extension of credit cannot be influenced or overridden by an overzealous sales department.

Third. The credit granted is in a reasonable relation to the purchaser's circumstances; the terms must represent the minimum accommodation which the purchaser needs, based in each instance upon a careful analysis; terms consisting of a certain down payment in cash and a fixed period of time for the balance are never arbitrarily assumed to constitute a good credit nor quoted to any seeker of credit in advance of any knowledge of his character, ability and willingness to pay.

Fourth. The dealer making the sale must accept responsibility for the purchaser's obligation through either endorsement or guarantee. This is in line with traditional practice underlying merchandising of goods in all trades. This endorsement or guarantee is perhaps the most vital factor in the direction of eliminating abuses in the extension of consumers' credits. No one can possibly have as intelligent a conception of the purchaser's character, ability and willingness to pay as the dealer whose endorsement or guarantee underwrites his judgment of the purchaser's character. While the physical security or collateral for credit is important, we should never permit ourselves to forget that *character* is the foundation of all credit. He is a poor banker who does not recognize character as the first essential of credit; and this applies as importantly to consumers' as to producers' credit.

The late J. Pierpont Morgan testified in the Money Trust Investigation in 1912 that the first thing necessary to commercial credit is character; it comes before money or property, and money cannot buy it; that he knew many business men who could borrow any amount not because they had money back of them, but because people believed in them; that he had known a man to come into his office and receive a check for a million dollars when he knew the man had not a cent in the world, whereas a man whom he did not trust could not get money from him on all the bonds in Christendom. When asked whether this was the rule all over the world, he replied: "I think that is the fundamental basis of business."

How little the opponents of consumers' credit appreciate the fact that the inherent honesty and character of our wage earners constitute the great foundation upon which consumers' credit rests!

Now let us look at the results of General Motors Acceptance Corporation's operations over the past seven years. During the years 1922, 1923 and 1924 it purchased consumers' obligations aggregating \$278,223,000. All of these have been paid except \$238,073, representing bad-debt losses. This loss is under 1/12 of 1%. It is true that these cover three years of prosperity, but few banks loaning money for producers' credit can point to as good a loss record for the same period. The 1925 and 1926 figures are not included because the experience is not yet completed, but the credit losses to date on \$444,573,000 of consumers' obligations purchased from January 1, 1925, to October 1, 1926, aggregate \$135,322, or about 1/30 of 1%.

The depression of 1920-1921 came so soon after the formation of the General Motors Acceptance Corporation that its experience can hardly be taken to represent what may happen in another depression. However, the losses on \$96,407,000 of consumers' obligations purchased in 1919, 1920 and 1921 were \$744,310, or only 77/100 of 1%. This is quite remarkable, considering the fact that the whole organization was new at that time and much of this loss can be directly attributed to lack of experience. It is also interesting to note that this record was made in a period of deflation, during which very substantial reductions were made in automobile prices, thus

materially affecting the value of our collateral. In connection with any period of depression or deflation it should be pointed out that the bulk of installment obligations held at any time liquidates very rapidly, thus escaping the usual effects of a protracted period of depression; for example, of the total consumers' obligations held, 36% would be liquidated in three months, 64% in six months and 85% in nine months.

From its inception in 1919 to October 1, 1926, there were purchased \$819,203,000 of consumers' obligations and the credit loss to October 1 on such obligations aggregates \$1,117,706, or about 1/7 of 1%. If we estimate possible losses on obligations not yet fully matured at \$375,000 (which is estimated in line with our experience to date) we have total bad debts of \$1,492,706, or less than 1/5 of 1%.

All of the foregoing figures concern only consumers' credits. The operations of General Motors Acceptance Corporation include also wholesale and foreign credits. The grand total of all its purchases from its inception in 1919 to October 1, 1926, aggregates \$1,572,858,000. Total credit losses to October 1 aggregate \$1,447,196. If we estimate possible losses on obligations not yet matured at \$400,000 (which estimate is in line with our experience to date) we have total estimated bad debts of \$1,847,196, or less than 1/8 of 1%.

You will naturally ask what the dealer's losses are on account of endorsement or guarantee of purchasers' obligations. The General Motors Acceptance Corporation's service charge includes an amount that is credited to dealers as a reserve to cover such losses. Of course, our books show no detailed record of dealers' losses on account of endorsement or guarantee, but we do know the above-mentioned reserves are more than sufficient to protect him. Periodic examination of dealers' accounts shows this. For instance, a survey of over 38,000 consumers' obligations purchased by one of our branches from August 1, 1925, to July 31, 1926, aggregating over \$22,000,000, shows that 271 cars were repossessed and that dealers' losses on said cars were less than \$5,000 up to that date.

The mere fact that consumption credit of the new kind, or installment buying, provokes criticism and arouses opposition, must not surprise us. Every form of credit had the same difficulties to meet at the beginning. It was only as the result

of long experience and careful analysis that what was sound in each form of credit was gradually differentiated from the unsound. Every phase of economic life has been attended by the addition of a new form of credit appropriate to its own conditions. Every great advance in the development of our nation has been first financed on credit and then paid for by the people in installments. Consumers' credit, paid in installments, is simply the adaptation of this principle to the individual's advance.

Let us return again to the purchaser. A banker has made this observation: "A man may be accustomed to spend all he gets and have nothing to show for it; he enters into an installment contract and still spending all he gets, he now has something to show for it. This converts him into a property owner and as a property owner he feels a new kind of self-respect and he also finds himself hungry for more property. It is said that in certain districts of the country, workmen formerly could earn wages enough to live on their accustomed scale by working only part of their time, so after the fourth or fifth day of the week they would quit and take holidays. But now this has been changed, for, with obligations under the installment plan, they find themselves in need of an income—an income to pay for articles they have undertaken to buy, which articles tend to bring them to a higher scale of living, and so the labor situation has been definitely improved through the installment plan. Now a man who has put aside so much a month for an automobile, a radio, a washing machine, etc., and has these things to show for his payments, must be in a better state of mind to see the point of paying so much a month for life insurance protection for his family than before he had had such experience."

Life insurance in force has increased from \$42,330,000,000 in 1920 to \$72,000,000,000 in 1925, while our savings-bank deposits have doubled in the last seven years and to-day represent 49½% of the total banking power of the country as against 49% ten years ago. In view of these data it is hard to escape the conclusion that payments are met through the increased earning ability of the purchaser, which, in the last analysis, means that he is performing a greater amount of work than would be the case if he did not have to meet payment of his obligations each month.

The foregoing line of reasoning and practical experience indicates that consumers' credit properly administered affords means under which the great desire on the part of the mass of the people to have motor cars is made possible of satisfaction, and the possession of these cars provides an incentive to work, thus affording a tremendous economic gain to the country.

In short, the desire to have and the ability to purchase motor cars provide an incentive to work that results in converting idle hours into the energy necessary to produce our motor cars at little or no economic cost whatever.

To me it seems that the record established in the prudent extension of consumers' credit in the purchase of homes, automobiles, sewing and washing machines, furniture and pianos, is its best defense. Many may feel quite nervous about consumers' credit and where it may lead because they do not enjoy the sense of security that has come to us in its use during the past seven years. But who among you is willing to assume the responsibility of prohibiting its use with the almost certain result of driving people to mortgage their homes, draw down their savings, borrow on life-insurance policies and to the extent that this will not supply money to purchase their requirements, have our factories reduce production, with consequent idle labor.

It used to be charged that the desire for automobiles led people to mortgage their homes to secure them. This is not so. Installment credit enables the purchaser who owns his home and has an income to budget that income to accommodate the automobile. This training to budget and spend for a good purpose is a worthy one and tends to make property owners of those who would otherwise fritter away their incomes.

The best estimates obtainable indicate that 75% of automobiles purchased are purchased under the installment plan, so this great industry can definitely be said to have been built up through the use of consumers' credit. Suppose the use of consumers' credit were denied with the result that its sales were cut in half, what would happen to our prosperity? Very few people realize how important a factor the automobile industry has been in the prosperity of this country. Yet if we stop to think of it, it is obvious that without the stimulation

which the rapid growth of this industry has given to numerous other industries and to business in general, the country could not have enjoyed so great a degree of prosperity as it has enjoyed in recent years, and that there would have been less employment of labor, a smaller aggregate consumer purchasing power, and a lower standard of living. It is certainly significant that the greatest automobile producing and using country in the world is also the richest country and has the highest standard of living. Of all the automobiles in the world (some 25,000,000), the United States has more than four-fifths.

The far-reaching beneficial effect of the automobile industry upon general business in the United States becomes more concretely evident when we consider that this industry in 1925 used one-eighth of all the iron and steel produced in the country, nearly one-seventh of the lead, a like proportion of the hardwood lumber, over one-fourth of the nickel and aluminum, more than half of the plate glass, and over two-thirds of the upholstery leather; that nearly one-eighth of the copper and more than one-seventh of the tin consumed in this country went into automobiles; while automobile production and use accounted for four-fifths of our gasoline consumption and for more than four-fifths of our consumption of rubber.

It is quite obvious that the demand for such amounts of important materials has contributed very directly to the activity of the industries supplying these materials and has given employment, and thereby provided consumers' purchasing power to many thousands of workers. The National Automobile Chamber of Commerce estimates that nearly 3,500,000 persons are employed directly or indirectly in the automobile industry. This is about one-twelfth of the total number of individuals shown by the 1920 census to have been gainfully employed in the United States in that year. These figures, however, do not include any estimate of the number employed in manufacturing machine tools and other production equipment for automobile plants, nor any estimate of the number employed in the large amount of road construction which has been carried on as a result of the wide-spread use of motor cars. If such employment were to be included, the total would be materially greater.

The automobile has been responsible for the rapid increase of good roads during the past few years, with the attendant improvement of conditions of rural life and stimulation of business in many sections. In rural highway improvement approximately a billion dollars a year have been expended during the past few years, all of which means employment and spells purchasing power.

The automobile industry now stands first among the manufacturing industries of the United States in value of products, the wholesale value of its output in 1925 being \$3,373,000,000.

The growth of the industry to its present size has unquestionably been made possible by the granting of consumers' credit. Without the development of installment buying no such expansion of the automobile industry with its attendant increase in general prosperity could have taken place. Since 75% of the automobiles are bought on the installment plan, it is perfectly clear what an enormous difference would have been made had no cars been sold except to persons who were able to pay cash down.

But although 75% of the cars sold are sold on the basis of consumers' credits, the fact is frequently overlooked that consumers' income has been quite sufficient to enable them to meet their payments and that at least four-fifths of all the cars now in use have been fully paid for. Thus the cars which are in process of being paid for at present out of current income represent not more than one-fifth of the country's total cars, and these are more than half paid for.

While the development of consumers' credit is no cure-all for industrial or economic ills, a higher rate of consumption of goods with its attendant higher rate of employment and enjoyment is a great stabilizer of national prosperity. Those of us who are studying this intensively often wonder if conditions in England, for instance, would not be better if idle hours were converted into productive energy through higher consumption.

Consumption requires production, production requires work, work demands wages, wages mean consumption and so the circle of prosperity is completed—the motor is work and the motive power a willingness to work.

When severe critics state that installment purchasing results

in conditions akin to slavery because of the debt contracted, it must be remembered that happy employment is not slavery. There is no greater happiness or contentment than that which comes from labor which has its incentive in a desire for better things for those we love. There are few, if any, successful men who have progressed without assuming some debt or responsibility which resulted in the incentive to work and accomplishment.

In conclusion, we may summarize the factors involved in the development of installment purchasing as follows:—

- (1) In principle, it is a natural evolution of credit.
- (2) As a credit development it must be administered upon the same principles as all good credit.
- (3) Experience with consumers' credit has proven it to be a sound and healthy thing when properly used and not abused.
- (4) Individual credit when prudently contracted creates an incentive to work and to produce more.
- (5) High consumption results in high production.
- (6) High production insures employment.
- (7) High production and consumption bring about a greater degree of individual progress and happiness.
- (8) Consumers' credit being economically sound in principle and practice, it remains for those concerned so to administer it that its benefits may be secured and its abuses eliminated.

DISCUSSION: INSTALLMENT PURCHASING¹

MR. BAILEY B. BURRITT (General Director of the Association for Improving the Condition of the Poor, in New York City):—In the long run family welfare will be affected unfavorably in so far as installment buying is identified with good business practices, and in so far as it has unfortunate features attached to it family welfare will be harmed. The Association for Improving the Condition of the Poor, however, is dealing with a group of families that does not represent quite the whole range of family welfare. If you were to talk with the individual visitors and nurses that visit the many families in their homes, through organizations such as the Charity Organization Society and the Society with which I am identified, you would find almost universal complaint against the installment system.

The reason is that we are dealing with families in which there has been a great disturbance of the economic situation. Because of the sickness or death of the wage earner, or his incompetence, or some other reason, these families find it impossible to make ends meet. Therefore we may find the factors of installment buying aggravated in these situations. At any rate, the first impression you get from talking with those who are in direct contact with the family is that on the whole the evils of installment buying under such circumstances seem to outweigh the advantages.

Nevertheless we recognize that there are distinct advantages where a boy, for example, was ready to go to his new job and because of sickness or some other emergency in the family was unable to procure the new suit that would make it possible for him to enter his new job as he would like to and as his family would like to have him, the purchase of the suit by installment payments was to the advantage of the boy, the family, and everybody concerned.

¹ A résumé of the discussion following the presentation of the papers by Professor E. R. A. Seligman, Professor John Maurice Clark, Mr. J. E. Rovensky, and Mr. Lawson Purdy at the first session of the National Conference on Business and Public Policy, November 17, 1926.

On the other hand, we are confronted with many situations in which the family has been induced to buy things, as has been indicated by Mr. Purdy,¹ that are beyond its ability to purchase, that are not really needed, and that in the long run have proven to be a burden to the already overburdened economic situation of the family.

It seems to us, therefore, that in installment purchasing, so far as it relates to the welfare of the families under our care, what is needed is a careful scrutiny, as was pointed out in one of the papers this morning, of the business methods of each individual business that is selling such goods. The group that we are dealing with lends itself to exploitation more easily than the average group in the community, probably, because of the fact that there is greater ignorance, less experience, less good judgment.

In so far as business organizations are guided by the aim of aiding the family to acquire a permanent, valuable possession, the situation will take care of itself pretty well. But in so far as there are concerns that are trying to introduce goods into families which cannot pay for such goods, and in so far as the main objective seems to be to get as large a first payment as possible and perhaps one or two subsequent payments, with every expectation that the article will come back into the possession of the seller for resale, not as new goods but as second-hand goods to similar families, installment purchasing proves socially injurious.

At any rate, it seems to us that a careful study of the business practices of organizations selling to families of low-range incomes would be advantageous. Such a study might indicate how far we could venture wisely in improving the contracts for perishable goods and, more generally, in standardizing business practices as regards that group of families whose lower range of income, greater ignorance, lesser experience make it less possible for them than for the average family to buy wisely under the installment plan.

DR. JOSEPH MAYER (professor of economics and sociology, Tufts College) pointed out that the installment plan really enabled the ultimate consumer to do what the manufacturers

¹ Cf. *supra*, pp. 108-111.

are already doing, namely, to transform future earning power into present purchasing power. This practice, he maintained, was justifiable in so far as it rendered possible intelligent, budgeted purchasing.

MR. BENJAMIN A. JAVITS (New York City:—Our economic system is sometimes called the credit system because it is based on the use of credit. Credit is the foundation upon which rests the negotiable character of private property, that is money, bonds, debentures, stocks, notes, etc. The negotiability of private property has brought our economic organization to its present position of power. Industry has constantly sought new spheres for expansion of the credit system. Our economic society, because of the profit motive, must ever continue to grow. Profit means that labor receives less than the selling price of the product. Labor is therefore left with insufficient means to buy back the things it produced, as Foster and Catchings point out in their recent book on *Profits*.

New markets or new credit facilities must therefore constantly be found in order to dispose of the surplus products so created. Capital has found virgin ground in its search for credit expansion in the field of the workingman's potential or stored labor power. Because industry must get rid of its surplus products, potential labor power has been permitted to sit at the table of the Knights of Credit and has been recognized as good collateral for merchandise.

Hence the present era of installment purchasing. Labor has, for the first time, been permitted to enter the Court of Capital. What significance has this for the present scheme of things?

As installment selling develops, the owners of industry, it appears to me, will be forced to guarantee that the workingman's stored labor power will continue to be used, that it will continually have a cash value, and that labor's earnings will not be interrupted. Capital is going to insure to itself, as well as to the laborer, that the market for this newly found "security" (potential labor power) will continue to be good. This might, in a way, provide one explanation of the new habit in our purchasing and distribution of goods which has been called "hand-to-mouth" buying. Logically, this goes hand

in hand with installment purchasing because "hand to mouth" buying provides more even employment and therefore further increases installment transactions through the stabilization of the employment market.

Industry in continuing its expansion will keep on producing and labor will have to be enabled to pay for more of the things produced, or in other words, get a larger line of credit. Wages will therefore have to be constantly increased. We know that the more labor is supplied with its wants the greater do its wants become. Capital has, in effect, said to labor, "You buy my goods and pay me out of your future wages and I will see that you are constantly employed."

Installment purchasing of commodities is here to stay. It is the duty of labor, industry and finance to stabilize themselves and find the scientific way of maintaining this newest development in the credit system so that it does not become a curse or go off in our hands like a stick of dynamite. Uncontrolled and unregulated it may do more harm than any group of lunatics could do in overthrowing the whole social order. With intelligent direction, it may be made a blessing for the age. We have our choice but choose we must. I therefore suggest the formation of an organization called the Installment Council of America, or whatever name you will, which shall study, counsel and advise with all those interested in the practice of installment sales, and so organize them that our economic ship may avoid the shoals upon which it must ground if it continues its adventurous journey without a pilot on what is yet an uncharted sea.

DR. A. L. WILKINSON of Baltimore, Maryland, humorously reminded the audience that medical service was to a considerable extent purchased on the installment plan, and more seriously emphasized the importance of teaching children the principles of prudent installment purchasing.

MR. WILLIAM TRUFANT FOSTER (see page 112).

MR. JOHN BALCH BLOOD, of New York City, asserted that the installment system was an intermediate method of participating in the use of property, between renting, where there

was no ownership by the user, and owning, where complete title vested in the user. He thought it untenable to criticize an intermediary method as harmful to business interests where both of the ends, of each of which it savored, were beneficial.

MR. W. T. DONNELLY, of New York City, speaking from the viewpoint of the engineer and the inventor, maintained that prosperity depends primarily upon inventions, and that installment buying affords to the purchaser an opportunity to develop character and foresight.

MR. HUGH FOX, of New York City, brought out the point that installment purchasing in some cases tended to divert the demands of consumers, as for instance, from theatre and concerts to radios. He also raised the question whether the dangers of overextended installment buying would become apparent only when the business rounded the cycle from prosperity to depression.

MR. RALPH J. WATKINS, of the Ohio State University, emphasized the importance of the time factor. The ten payment plan now extensively used in the sale of men's clothing involves a down payment of twenty per cent and ten weekly installments. This plan is equivalent to deferring the payment of the whole purchase price only thirty-one days, whereas the average time outstanding under the open-account system ranges from seventy to ninety days. In this case, installment selling means a decrease, rather than an increase, of credit privileges.

MR. J. E. ROVENSKY corrected certain misunderstandings regarding the practice of savings banks.

MR. EDWIN A. KRAUTHOFF of Kansas City, Mo., observed that the Great War was financed on the installment plan; life insurance companies were selling estates on installments; bonds were being liquidated and stocks sold on the installment basis. The variety of state laws on installment purchasing, he added, created a wealth of legal distinctions which were not unprofitable to the legal profession.

PART III

THE PROSPECTS OF INDUSTRIAL CIVILIZATION

THE PROSPECTS OF INDUSTRIAL CIVILIZATION

RAMSAY MUIR

Former Member of Parliament

A VISITOR from the other side of the Atlantic may be permitted to begin by congratulating you upon being able to select, as your topic for discussion, "The Problems of Prosperity." To us, alas!, that must still appear a rather academic theme. There would be something grimly ironical in an Englishman's undertaking to discuss "the problems of prosperity" at a moment when we have not yet emerged from a coal stoppage that has lasted two hundred days, and when, apart from the miners, we have a million and a half unemployed, not to speak of some other burdens upon which I need not dwell. "The Uses of Adversity" would be a more appropriate theme. Perhaps that is why, in the topic which is assigned to me, I am permitted to float up into the clouds, and to discuss a highly speculative and theoretic subject.

In truth, I feel a good deal of hesitation in interrupting the very concrete and practical subjects you have been discussing, with a topic so vague and sweeping. I hesitate all the more because it is plainly impossible to say anything of value on such a theme within the compass of a short speech after dinner. It is like trying to take a kodak snap-shot of the solar system. My only excuse is that, though my subject has no very direct bearing upon the "problems of prosperity," it seems to arise naturally from your general subject—the relations between business and public affairs; and I shall confine myself to that aspect of my vast theme.

I think we must all feel that we stand at one of the great turning-points in the history of civilization; so much so that one sometimes feels that if this generation takes the right decisions, we may be about to enter upon an era nobler in possibilities than our fathers ever dreamed of; but if it takes the wrong decisions, our whole civilization may go down into the abyss, as other civilizations have done in the past.

Perhaps it may be best that each of us should do what nearly all of us have been doing—that we should wholeheartedly pursue our particular jobs, not troubling ourselves about the movement of civilization as a whole, but leaving the outcome to chance, or to the blind forces that control us, or to the Providence that shapes our ends; and abandoning the notion that humanity can in any degree consciously guide its own course of development. This sort of light-hearted fatalism is very common to-day, especially among the prosperous, probably because the issues that face us are so gigantic as to be beyond the grasp of our imaginations, and those who try to discuss them are apt to seem “unpractical.” The place of such thoughts, we often seem to assume, is in the preaching of “uplift” to audiences of earnest ladies. Are we not very ready to believe that speculations upon the trend of civilization are harmless and even pleasant relaxation for idle hours, but that they ought to be kept strictly in their own sound-proof compartments, where they cannot disturb those practical interests that are confined to a narrow range and to a short future? That is the “commonsense” view. Perhaps it is also the right view. One wonders.

Let me briefly outline two tremendous issues that are upon us. The first is the fact that science and industrialism have placed in the hands of the White Man, quite suddenly, the domination of the whole globe, and have imposed his modes of civilization upon all the peoples of the earth. Quite suddenly, I say; for the thing happened mainly during the nineteenth century, and was only consummated by the feverish “imperialism” of the period since 1875. Suddenly the whole world has been brought within a single political and economic system, dominated by the great White States. And the first outcome of this momentous event was the Great War. It was the first event in human history in which all the races and tribes of mankind were concerned, and knew they were concerned. It was also the first evidence of what world-unity under White leadership might mean.

Whatever you may think of the methods by which this tremendous event, the establishment of the White Man's supremacy, was brought about, the result itself was inevitable,

because the devouring energy of western industrialism needed the products and the markets of the whole world, and would not be denied. Nor can there be any question but that the effects of this economic exploitation of the world would have been immeasurably more ugly and cruel if it had not been regulated by civilized governments: that is the *ex post facto* justification for the extension of their political authority by the leading White States. Anyway, here is the great fact which stares us in the face: we are watching the dawn of a sort of world unity, under the leadership or domination of the White Man's industrial civilization. And henceforth the whole world is interdependent, every part of it affected by the fortunes of every other part: when one member suffers, the whole body suffers.

But this tremendous change has not taken place without producing profound unrest and dissatisfaction—an unrest that is greatest in those regions, such as China, where the “peaceful penetration” of western industrialism has not been regulated by effective governments. We have poured the new wine of industrialism and of democratic ideas into the ancient wine-skins of China and India; and no one dares foretell what will be the outcome of the resultant fermentation. Even among the primitive peoples of the world we have brought about an immense upheaval. Tribes in the dim interior of Africa which no white man had seen till Livingstone visited them fifty years ago are being forced to abandon the old accustomed ways of life. They wear blankets made in Belgium from Australian wool and eat canned food from America with the aid of can-openers made in Germany; and they pay for these things by producing rubber for the automobile factories of Detroit, or oil for the soap-vats of Port Sunlight.

The whole world is being rapidly industrialized. And the great problem of to-morrow is this: Can any unified guidance be given to this mighty process, so that the world may reap the benefits which it offers, without suffering possible ruin from the upheaval which necessarily accompanies it? That is a question which surely arises very directly from your topic—the relations of business and public affairs. Does not business, as well as humanity, demand an answer to this question? If no common guidance is possible, shall we not have to regard

humanity as a Frankenstein, who has called up the monster Industrialism, but is quite unable to control it? Is the huge locomotive engine of material progress unequipped, and incapable of being equipped, with brakes and regulators? If so, it is apt to leave the rails, and carry us to perdition.

Some sense of the necessity for a common regulating and moderating authority, in a world whose members are now indissolubly interdependent, helped to bring about the creation of the League of Nations. If that body is ever to fulfill its ends, its economic functions will turn out to be not less important than its political functions. For, if we are to come through the whirlpool in safety, either the League or some other body must be in a position to secure for the backward peoples the chance of healthy development without unjust exploitation; and it must be able to secure for all the energies of the world equal access to all the resources of the world. Whatever its merits or defects, the League of Nations is at this moment not merely hampered but crippled by the abstention of the greatest of industrial states. I have no intention of discussing that vexed question; I am only recording facts. The abstention may be wholly justified. But I ask whether, at this juncture, some common regulating authority is not needed. And if that is so, I ask further whether those who are dissatisfied with the imperfect device already instituted ought not to work out the scheme of a better alternative, not merely for preventing war, but for guiding humanity through a difficult place. For surely we all equally share responsibility for the tremendous difficulties and opportunities of a unified world.

One alternative, indeed, has been hinted at, in surprisingly different quarters. Mr. Henry Ford, the optimist manufacturer, and Mr. Bertrand Russell, the pessimist philosopher—I love to couple them together—both seem to hope that the world will be saved from chaos by the assumption, on the part of a group of industrial magnates, of a sort of irresponsible dictatorship. This new dominion, if it ever comes, will rest wholly upon material and not upon spiritual grounds. We need not, perhaps, take this anticipation very seriously, except in so far as it reflects the widespread distrust of existing governmental institutions which marks our time. The great ques-

tion still remains, and no generation of men have ever had a more difficult problem put before them by the sphinxlike Fates, who will exact the uttermost penalty for a false reply. Is it too much to say that the prospects of industrial civilization, and the prospects of world-unity, depend upon the kind of answer we give to this question during the next generation?

Turn now to another aspect of the same problem, which concerns us still more intimately. Not only has the industrial civilization of the White Man conquered the world, but in all the White societies it is itself undergoing a rapid transformation which must have profound social effects. Am I not right in saying—indeed, Mr. Filene has already used the phrase—that we are in the throes of the second industrial revolution?

The first consisted in large-scale production by machine-power, in the use of the new power of steam, in new methods of communication, the railroad and the telegraph, and in new and elastic modes of finance through the joint-stock bank and the limited liability company which enabled enterprises to be undertaken that were beyond the powers of the individual. The second revolution consists in mass-production upon an unheard-of scale, in new ingenuities of mechanism, in new forms of power, in new methods of transportation, and in extensions of credit devices hitherto unimagined.

The first industrial revolution took us by surprise, especially in England, where it began. And because it took us by surprise, and we had no means of guiding it, it brought to us not only increased wealth but some very undesirable social consequences. It condemned us to a dirty and coagulated urban civilization. It severed work from ownership, and from the pride and responsibility of ownership. 'It caused very painful strains and stresses in the body politic, and a state of social war which was extremely unhealthy, and even ruinous. Slowly we awakened to the necessity of regulating this change, and of using the powers of the State for those purposes for which the State exists—for ensuring to all its citizens, in every sphere of life, peace, justice and liberty. The result was an immense increase of the functions of the State in every civilized community, an increase that has been going on pro-

gressively for more than a hundred years. But because we had never thought out the principles of State action in this sphere—because we had never discussed and defined what the State ought to do and what it ought not to do—a great deal of what we did was ill-conceived, clumsily improvised, excessive at one point and defective at another.

What are we going to do about the second industrial revolution now upon us? Are we going to try to guide it intelligently so that the community may gain from it the maximum advantage at the minimum cost of dislocation and suffering? Or are we going to drift and improvise, as we did a hundred years ago, and have been doing ever since? Is it not time that we thought out, as clearly as may be, the principles of state action in the industrial and economic spheres? And can there conceivably be any questions which can be more appropriately addressed to such a body as this Academy than those which I am now putting to it—the questions, how far is it possible for the community to guide and regulate a tremendous economic change, and what are the functions which the State can profitably perform to this end? I am aware that I am here treading upon a thin crust of hot lava, and may easily crash through into the most volcanic controversy. For there are two rival slogans which seem to have a sort of philosophy behind them, and which have to some extent been driven into the public mind by the thunderous clamour of rival hosts. And both of them seem to me to suffer from the not unimportant defect that they have no relation whatsoever to the facts.

There is the slogan of Socialism, which asserts that the State should have everything to do with industry, that "all the means of production and distribution" should be nationalized, and that because the ownership of capital is badly distributed, it should all be concentrated in the hands of the State. This slogan seems to me to overlook the fact that the driving force of all progress has always lain in individual initiative and inventiveness, and that the true remedy for bad distribution is not concentration but better distribution. And on the other hand there is the slogan of *laissez-faire*, which seems to be undergoing a strange revival in these days, perhaps because of our growing disillusionment about the working of

the machinery of democratic government—the slogan that the State must have nothing to do with industry. This cry involves an even more fatuous disregard of the facts than the other, because it disregards the obvious and glaring fact that the State always has regulated industry, and does so in every country more actively to-day than ever before. If we are uneasy about our machinery of government, that is a good reason for overhauling and improving it, and for strengthening the steering-gear that is working badly: it is not a good reason for throwing the steering-gear overboard. It is every bit as foolish to imagine that the locomotive engine of progress can run safely without brakes and regulators (which must be powerful in proportion to the power of the locomotive), as it is to imagine that the brakes and regulators can somehow be made to perform the function of the steam.

It is one of the dangers of democracy that we are prone to carry on our community-thinking mainly by the trumpeting of slogans, and slogans are the worst enemies of clear thinking. There is no respect in which this is more true than in regard to the vitally important subject which I have been trying to discuss. May I not, indeed, say that it is not only a vitally important question but an eminently practical and urgent question? Is there any need greater than that, at a turning point in the history of civilization, and in the midst of a tremendous transformation in the conditions of human life and in the relation of human societies one with another, we should try to think out and to define clearly what the State can and ought to do, and what it cannot do and should not try to do, in the economic sphere? Is there—putting aside the slogan-mongers on both sides—any clear and intelligible body of accepted thought on this subject in any country? I think not.

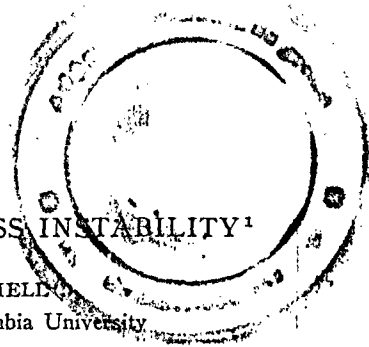
The functions of the State (and of public bodies subordinate to the State) are already of vast range and importance, and must and will become far greater. Do not let us imagine that law and regulation involve a restriction or impairment of liberty; on the contrary, if rightly conceived, they provide the positive conditions without which liberty cannot exist. In this, as in every other sphere, liberty is dependent upon law,

and created by law, and every enlargement of liberty is the result of an enlargement and refinement of law. Badly conceived and badly designed laws, due to muddled thinking, may impair liberty and stunt individuality, but even so they are better than no laws at all. A bad currency system or a bad banking law may damage industry gravely, but industry can scarcely exist at all if there is no State regulation of these matters. A bad land system may hamper productivity, deny to the citizen access to the chance of utilizing his powers, and enable the holders of land to mulct and exploit the community; but there must be *some* common regulation of the conditions on which land may be held. A bad system of company or corporation law may render possible many abuses and injustices, and I am inclined to think that we have not yet adequately addressed ourselves to the problem of creating a system of regulation for trading companies, which is adapted to the practice of to-day; but without *some* system of corporation law business could not go on at all, and the State is responsible for whatever system exists. A bad system of law regarding associations (for example of employers and employed) may on the one hand deprive the community of necessary modes of cooperation and self-help, or may on the other hand expose the community to be hurt by the strife of factors it is unable to control, as the English community was by the faction-fights of groups of barons in the Wars of the Roses; but the State is responsible for whatever power these organizations possess.

In other words, we *must* have a system of State regulation of industry. There is no getting away from it. It may be a good or a bad system, a wise or a foolish system, but it always must exist. Whether it is wise or foolish will depend upon whether it is based upon clear and courageous or muddled and makeshift thinking. Governed by our foolish slogans, we have not enough clear thinking to-day upon this momentous question. And this is peculiarly unfortunate just because we all feel that we are at an extraordinarily critical point in the history of our civilization, when wise guidance of the community in these matters is supremely important, and when easy catchwords and slogans are peculiarly dangerous. The future very surely depends upon the way in which this generation

uses its opportunities and accepts its responsibilities. And there is no sphere in which the help which an Academy like this can give is more plainly needed than in the discussion, the analysis and the diffusion of sound thinking as to the right relationship between the public regulation and guidance, on the one hand, and the private enterprise and driving force on the other, which are both necessary if the engine of progress is to draw us safely to a happy destination.

PART I
PURCHASING POWER AND
BUSINESS STABILITY



THE PROBLEM OF BUSINESS INSTABILITY¹

WESLEY C. MITCHELL

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SOCIAL changes in the past history of mankind have seldom been the results of conscious planning. For the most part they have come about from the clash of social and natural forces, the existence of which was but dimly known, and over which society exercised no conscious control. Even today our knowledge of the forces which are shaping our social destiny is elementary and uncertain. But there are daring souls who believe that by taking thought they and their successors may be able to achieve better understanding of human nature, of social institutions, and of the environment. If men can gain sufficient knowledge of themselves and of the world in which they live, they should become more able to guide social changes in the directions they desire.

The Academy of Political Science shares in this belief and strives to contribute toward realizing this ambition. Its part is to attack such problems as can be treated by the common-sense methods of science, hoping to acquire bit by bit the kind of social knowledge that is social power.

Our present session is devoted to an economic problem: "Plans for Stabilizing Business." In recent years much has been learned about the causes and consequences of business instability. Various plans have been put forward for mitigating the violence of seasonal and of cyclical fluctuations in the production and distribution of those goods which constitute our incomes. Nor are all of these plans mere paper schemes: certain of them are being tried in practice with an encouraging measure of success. Indeed, there are few cases in which the prospects of exercising a salutary social control over processes which touch the lives of every member of the community seem brighter than in this problem of stabilizing business.

¹ Remarks as Chairman of the morning session of the National Conference on Stabilizing Business, held by the Academy of Political Science at the Hotel Astor, April 8, 1927.

Nor are there many problems in which the common interest is so clear. Business instability is an evil both to the great majority of capitalists and to the great majority of employees. Whether we think of ourselves as producers or as consumers, as making money or as spending money, almost all of us would be better off if the uncertainties and hazards of business, which now loom so large, were diminished.

According to the best available estimates, the income of the American people shrinks by a quarter in periods of severe depression. That staggering loss is due to no natural cause and to no human obliquity. We must charge it against certain social institutions which we have gradually evolved and which we can change if we gain sufficient wisdom. The stakes for which we are playing exceed even the enormous values which I have suggested, because no estimates we can make take account of the disorganizing and demoralizing effect of recurrent depressions upon both business men and wage-earners. When we learn how to reduce appreciably the instability of business, we shall also raise the level which national income attains in prosperous years.

To canvass the current phases of this problem is the end we have in view. The several speakers will review the recent fluctuations of business and industry: they will discuss the partial successes which have been attained by stabilizing policies; they will consider plans for making further progress. What will be said is based upon patient observation and analysis of actual processes. From the discussion the Academy expects to develop no infallible cure for business instability. But we do believe that we shall gain clearer understanding of the problem, and thereby make ourselves more efficient in our future efforts to promote stabilization, whether as students or as practitioners.

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THE GROWTH OF PRODUCTION AND THE RISING STANDARD OF LIVING

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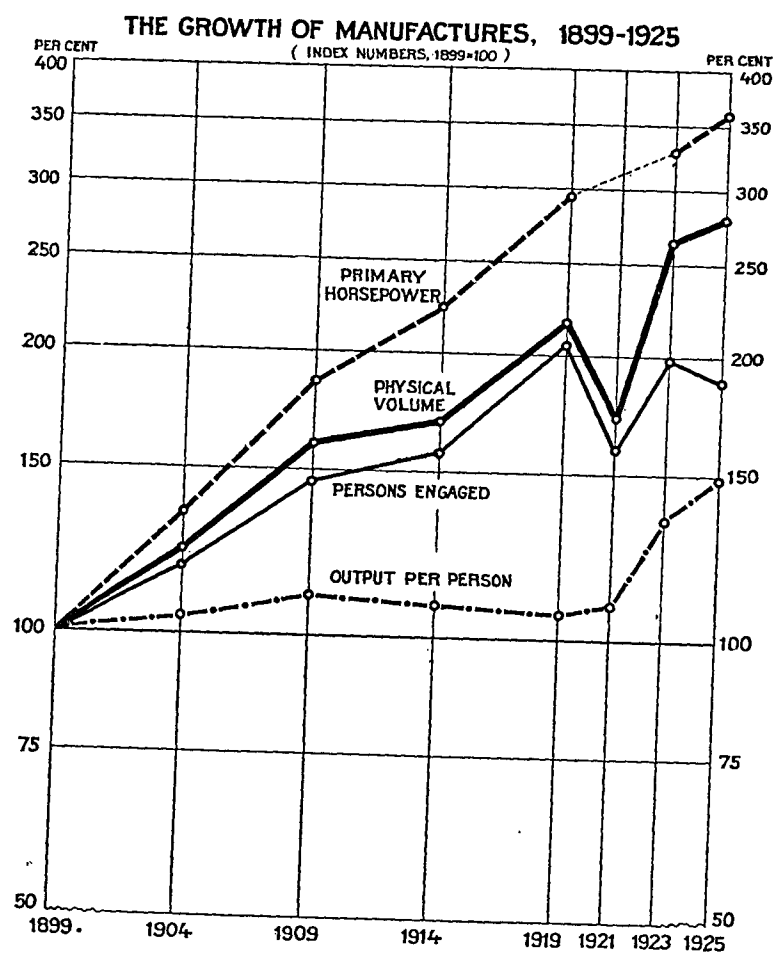
ACCORDING to estimates based on census figures, the physical quantity of manufactures produced by American factories increased by 178 per cent in the 26 years from 1899 to 1925, while additions to the number of persons engaged in these factories amounted to only 87 per cent—indicating a growth of 50 per cent in the output of manufactures per person. In the production of minerals the increase has been even more phenomenal and in agriculture remarkable improvements in technique have permitted a substantial growth in output without an increase in the utilization of man-power. In the post-war period these increases in production per worker, particularly in manufacturing, have been especially notable.

These statements raise interesting and important questions concerning the trend of industrial development with respect to types of goods produced, inter-industry relationships, the effect on wages, profits, and prices, on the balance between production and consumption, and on so-called standards of living. Answers to these questions, if obtainable, may throw some light on the fluctuations of the business cycle, and especially upon the recent state of affairs in which business volumes have continued to increase, with minor fluctuations from year to year, while prices have shown a tendency toward decline.

The facts as to what has actually happened in industry are not always clear and their interpretation is subject to a wide range of variation depending upon the observer's viewpoint, but a few developments have been sufficiently pronounced to provide a basis for analysis. The accompanying charts illustrate a number of recent developments.

The first chart shows the growth by census years from 1899 to 1925 in the physical volume of manufactures produced,

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in number of persons engaged in manufacturing, in primary horsepower installed in factories, and in output per person engaged. Figures from which the chart is drawn are given in Table I. The production index has been computed from the physical quantity statistics provided by the census of manufactures. The number of persons engaged in manufacturing includes proprietors, firm members, and salaried employees, as well as wage-earners. Some of the increase in production per wage-earner has been effected by enlarging the force of salaried employees—by cost accountants, technicians, research men, and

experts of various sorts. The horsepower data give "the rated horsepower of all engines, motors, etc., which serve as primary power machines in the establishments reporting." The percentages of increase shown on the chart for persons engaged and for horsepower are derived from totals for all manufacturing industries, but the production index covers only those industries for which physical quantity statistics are available—about fifty per cent of the total. The industries included, however, are of such a basic nature that they indirectly represent a large number of other industries, and tests indicate that for manufacturing as a whole the composite index is a fairly adequate representation, with probably some understatement of the

TABLE I. THE GROWTH OF MANUFACTURES, 1899-1925

[INDEX NUMBERS, 1899=100]

Year	Physical volume	Number of persons engaged	Primary horsepower installed	Production per person
1899	100	100	100	100
1904	122.1	117.5	133.6	104.0
1909	159.1	145.1	185.0	109.7
1914	169.0	156.2	222.3	108.1
1919	216.5	204.3	292.2	106.0
1921	171.6	158.1	—	108.6
1923	263.4	196.7	329.8	133.9
1925	278.4	186.9	356.1	148.9

growth which has actually taken place, because the index can not satisfactorily make allowances for improvements in quality of goods produced. This index and a large portion of the other data presented in this paper are taken from a census monograph, soon to be published, on the growth of manufactures, prepared by Professor Edmund E. Day with the speaker's assistance.

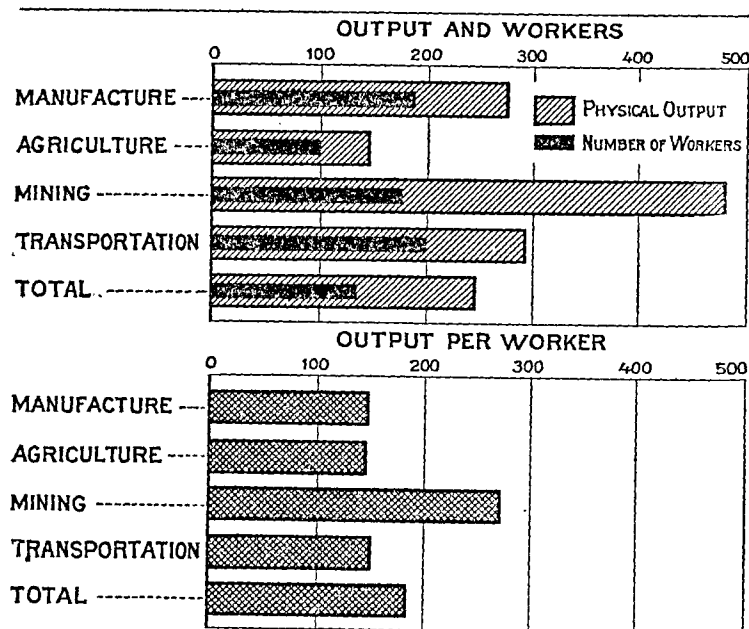
The figures show a steady expansion from 1899 to 1925, with some retardation of the rate of increase in 1914, a year of moderate depression, and a sharp drop in 1921, a year of extreme depression. The growth in physical quantity of manufactures has been at the average rate of four per cent per year, the same rate applying to the first decade from 1899 to 1909 and to the period following from 1909 to 1925. Production per person engaged increased in the twenty-six

years by nearly fifty per cent. Primary horsepower installed showed a total increase for the period of 256 per cent, giving a decrease in production per unit of horsepower of twenty-two per cent. The more rapid growth in horsepower and the less rapid increase in persons engaged than in quantity output illustrates the substitution of machinery for labor in production.

Developments since 1919 have been particularly remarkable.

GROWTH IN PRODUCTION PER WORKER, 1899-1925

(INDEX NUMBERS FOR 1925 WITH 1899 EQUALING 100)



On the basis of census figures for 1919 and 1925 an increase of nearly twenty-nine per cent in quantity manufactured is indicated, while the total number of persons engaged in manufacturing decreased by nearly nine per cent and the addition to primary horsepower installed was only twenty-two per cent. The year 1919 was one of notoriously inefficient industry because of post-war readjustments then in process. The next preceding census year, 1914, was characterized by depression, and output per wage earner was temporarily reduced. There-

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fore 1909 seems to be the most recent census year unaffected by any unusual influence of great importance. From 1909 to 1925 physical production increased by seventy-five per cent, the number of persons engaged by nearly thirty per cent, and primary horsepower by over ninety per cent. There was an increase in output per person, all of which has been brought about in the past five years, of thirty-six per cent, or at the rate of 1.9 per cent a year, which is twice as large as the average increase in the period from 1899 to 1909.

Estimates of increases since 1899 in output per worker in mining, agriculture, transportation, and for all these types of

TABLE 2. GENERAL INDEXES OF PRODUCTION AND WORKERS, 1899-1925

	Workers (000)			Index 1925 (1899=100)		Value of output	
	1899	1925	Index for 1925 (1899 =100)	Quantita- tive index of output	Output per worker	1899	1925
Agriculture.....	10,500	10,500	100	145	145	3,500	12,400
Mining.....	600	1,065	177	480	271	600	4,300
Manufactures....	5,200	9,772	187	278	149	4,830	26,800
Transportation (Railway)....	929	1,846	198.5	293	148	1,300	5,620
Total or Average (Round figures)	17,200	23,200	135	247 ¹	183 ²	10,230	49,120

production combined, as shown in the second chart and Table 2, were made by Dr. E. Dana Durand of the Department of Commerce. Although the quantitative output of farm products has increased about forty-five per cent since 1899, the number

¹ Computed by giving the above percentages weights according to the relative importance of the several branches in 1899, as determined by value of product.

² Obtained by dividing the average index of increase in output (247) by the actual ratio of total workers in 1925 to the total in 1899 (137). The figure exceeds the weighted average of the indexes of output per worker in the several branches, because the increase in number of workers between 1899 and 1925 was confined to branches in which the average value of output per worker is greater than it is in agriculture.

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of persons gainfully employed in agriculture has shown no appreciable change, and consequently the gain in output per person is indicated by growth in total output. This gain in agriculture almost equals that estimated for manufacturing and for transportation in the same period. Mineral production per worker in 1925 was nearly three times as great as in 1899, reflecting the influence of the substitution of machinery and power for labor. A good part of the large increase in output of minerals per person was caused by growth of petroleum production, which requires little labor, rather than by any substantial changes in individual industries, although examples of these are not entirely lacking.

The total volume of production of the farm, the mine, and the factory, and of the service of transportation in 1925, was nearly two and one-half times as large as in 1899, while the number of workers increased by only about one-third. Comparison of these two figures indicates a gain in the quantity of output per worker of eighty-three per cent for the entire period.

The causes of the growth in output per person, as given by various observers, may be briefly enumerated. First are those which operate in individual industries and plants, and the most important of these, of course, is the increasing use of machinery, whereby power is substituted for labor. There have also been significant economies in the use of power. Witness, for example, the growth in the consumption of electric power, which is generally more efficient than other forms, and the substitution of oil for coal. Large-scale operations and mass production resulting from the mechanization of production and the willingness of American people to accept standardized articles have aided in increasing the productivity of industry. Among other factors are labor-saving methods and devices of various sorts introduced into factories, elimination of waste, and the careful planning of production in respect to fluctuations of general business.

The growth, however, has been due not only to larger output per person in individual industries but also to developments within the industrial system as a whole, caused by the shifting of enterprise from industries requiring a great deal of labor to those which make most use of machinery and power, and by the rise of entirely new industries which depend chiefly upon the

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machine process. Evidences of these changes are numerous: petroleum for coal in mining; cement for brick, stone, and lumber in building construction; bakers' bread for the home-made product; and the growth of the highly mechanized automobile industry—these are a few illustrations. Later the growth of

TABLE 3. INDEXES OF GROWTH BY GROUPS OF MANUFACTURING INDUSTRIES, 1899 TO 1923 AND 1919 TO 1923

	1899=100			1919=100		
	Phys- ical volume	Wage- earners	Output per wage- earner	Phys- ical volume	Wage- earners	Output per wage- earner
All groups	263.4	188.2	140.0	121.7	97.5	124.8
Iron and steel and man- ufactures	303.7	205.1	148.1	131.2	96.4	136.1
Non-ferrous metals and their products	400.3	203.5	196.7	125.7	96.8	129.9
Chemicals and allied pro- ducts	417.9	206.4	202.5	126.2	95.0	132.8
Stone, clay and glass pro- ducts	231.2	150.3	153.8	155.6	116.6	133.4
Lumber and manufac- tures	101.3	135.5	74.8	110.1	108.5	101.5
Paper and printing	374.6	179.2	209.0	137.1	105.0	130.6
Textiles and products	202.5	167.1	121.2	122.9	106.7	115.2
Leather and products	151.3	138.8	109.0	105.6	98.8	106.9
Food and kindred pro- ducts	210.6	208.2	101.2	111.6	91.8	121.6
Tobacco	237.1	111.9	211.9	109.8	94.4	116.3
Vehicles for land trans- portation	3,618.0	348.3	1,038.8	180.9	108.2	167.2

production in individual industries will be discussed and it should be noted that those industries of increasing importance and those new industries which have come into prominence are characterized by a highly mechanized process of production or are used in furthering mechanization of other industries, whereas those showing less rapid growth are relatively more dependent upon labor.

In determining the effect of these changes in production upon consumers' living standards it must be demonstrated not only that the quantity of goods produced per person engaged in production has increased, but also that, as a result of this increase in the efficiency of productive enterprise, the per-capita

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supply of goods that are used by consumers and go to promote individual welfare has been made more abundant and relatively cheaper, in other words, that the output of consumers' goods has increased. Has industry simply transferred workers from direct production of products to the making of machines by which the same products can be made with a smaller direct utilization of labor? Or has a real gain to the consumer grown out of the process? An investigation of the growth of production and of the kinds of products sharing in this growth throws some light on this point.

It is impossible here to present the facts of growth in all industries, and therefore figures for only the principal manufacturing groups, according to census classification, and for certain industries in which the largest increases have occurred, are presented in Tables 3 and 4. References, however, will be made to outstanding cases among the various industries and products. The data by groups in the tables, it will be noted, extend only to 1923, as 1925 figures in detail are not yet available. The principal tendencies noted, however, showed little change in the two years from 1923 to 1925. The three sets of data given in the tables—physical output, number of wage-earners, and primary horsepower—are here presented as evidences of the relative growth of the various groups rather than for the purpose of comparing output with the number of workers and utilization of power. Although it is believed that the production index is a reliable measure of changes in output for manufactures as a whole and for a number of individual industries, yet in a few groups, owing to limitations of data, the index is not typical of the entire group represented. This is undoubtedly true of wood products and probably of the food and the paper and printing groups. Phenomenal gains in output per person have occurred in a number of individual industries and are pertinent to this inquiry, in so far as they have been a factor in the shifting importance of different industries, but the data presented here are not in all cases adequate for a discussion of increased productivity by industries.

Available evidence, partly shown in the tables and partly taken from more detailed records, indicates that the largest increases in production have occurred in two different types of industries—

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TABLE 4. GROWTH OF SELECTED INDUSTRIES, 1899 TO 1923

	Percentage of increase in		
	Physical volume of production	Wage-earners	Horse-power
I. <i>Luxuries</i>			
Automobiles, plus bodies and parts.....	68,600.0	17,967.2	27,301.5
Phonographs .....	....	1,518.6	3,705.2
Photographic equipment and supplies ..	....	836.4	2,354.7
Silk goods.....	259.7	91.5	265.4
Confectionery and ice cream .....	....	232.2	1,282.3
Food preparations, n. e. s. ....	....	220.9	1,054.5
Producers' goods			
Iron and steel (industry)	203.7	105.1	308.8
Non-ferrous metals (group)	300.3	103.5	467.5
Petroleum refining	888.1	446.9	982.5
Foundries and machine shops .....	....	100.0	375.0
III. <i>Labor-saving devices</i>			
Electrical machinery, apparatus and supplies.....	....	459.1	1,001.3
Steam fitting and heating apparatus....	....	377.0	1,299.8
Cash registers and calculating machines. ....	....	624.4	2,130.3
Typewriters and supplies .....	....	245.1	404.4
IV. <i>Mechanized consumption goods</i>			
Canning and preserving, fruits and vegetables	415.0	56.7	417.3
Butter, cheese and condensed milk	260.0	164.8	123.7
Bread and bakery products .....	....	172.4	761.1
Millinery and lace goods .....	....	224.6	750.6

(1) The most striking increases were in those industries manufacturing goods which are devoted to recreation and diversion or which have brought about radical changes in manners of living—in many cases so-called luxury goods, which have become, in fact, necessities. Familiar examples, in which percentages of increase run into four and five figures, are the automobile and its related products, gasoline and tires, and also phonographic equipment and supplies, silk goods, confectionery, ice cream, cigarettes, and, in recent years, rayon and radios.

(2) The second group of industries showing outstanding increases are those making so-called producers' goods—industrial machinery and equipment, manufactured fuels, and materials for further production. Examples are iron and steel, non-ferrous metals, machinery, petroleum, refining, and by-product

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coke. The expansion of these industries reflects, and also facilitates, the growth in the first group and likewise the increasing mechanization of production which has taken place in nearly all industries.

A set of industries which have expanded rapidly and which are something of a cross between the two groups mentioned are those which provide labor-saving devices for office and home, as well as for the factory—electrical appliances, typewriters, calculating machines, cash registers, heating apparatus, and, to some extent, automobiles as well.

Other examples of growth of industries which contribute to the saving of time and effort for individual members of society are found in the mechanization of the production of staple consumption goods. An appreciable increase in the consumption of staple articles of food and clothing is not to be expected—in fact it is undoubtedly true that the clothing requirements for women, measured in bulk per capita, have diminished considerably during the last quarter-century. The production of flour per capita has apparently decreased since the beginning of the century and the output of leather and products has about kept pace with the increase in population. But the character of goods consumed and the methods of producing consumers' goods have changed, for in a number of cases production has been transferred from the home to the factory. Outstanding examples are manufactured dairy products, canning and preserving, and the manufacture of millinery goods.

The phenomenal increases in the manufacture of goods used by consumers to provide recreation and diversion and to satisfy other desires which may not be considered by moralists as necessary to existence, the growth in the output of labor-saving devices for use in office and home, and the expanding factory production of staple articles of food and clothing formerly produced by individuals with much labor, all indicate that living conditions of the American people have been broadened. The growth in the production of producers' goods has been a necessary accompaniment of the other—supplying the machinery, equipment, and materials necessary and facilitating improvements in technique. The increase in production has been aided by the greater efficiency of enterprise which has been brought about by means of individual efforts in the intro-

duction of labor-saving devices, in the elimination of waste, in the more effective utilization of power, and in the exercise of other economies through large-scale production of standardized articles, by the shift in production from industries requiring a large labor supply to those using machinery more extensively, and by means of many other factors such as improved railroad facilities and the greater exchange and use of business information. This increase has occurred in agriculture, mining, manufacturing, and transportation and is evidenced by a larger output per worker and by economies in the utilization of power. And if Mr. Stuart Chase's estimate, that 20,000,000 units of man-power are idle or misused out of an able-bodied working population of some 40,000,000, is anywhere near accurate, industry has not yet begun to be efficient.

No reference has been made to wages, costs, profits, and prices, because, although they are important aspects of the relationship between production and living standards, it was intended that this paper be confined chiefly to quantitative comparisons. It may be stated briefly, however, that, according to census figures, annual wages per worker have steadily increased in each inter-censal period, and total wages have borne a fairly constant relation to total value of product and to value added by manufacture—i. e., the labor share of production has remained constant. In recent years, however, some decrease in the proportion of wages to value added by manufacture has been noted, particularly between 1923 and 1925, indicating a reduction in total labor cost, although not in wages per worker.

It would be expected that an increase in output per worker, if accompanied by no corresponding increase in wages and other costs, would bring about a reduction in prices. The limited amount of information available as to prices of manufactured commodities indicates that they have declined since 1923. Most of the manufactured commodities in the Bureau of Labor Statistics wholesale price index, except food products which are affected largely by the agricultural situation, were lower in 1925 than in 1923, and a number were lower than in 1922. Since 1925 prices have declined steadily, the indexes for clothing materials and housefurnishings have reached new post-war low points, and those for metals, chemicals and drugs,

and the manufactured fuels are close to the low levels of 1922. Reductions in prices of automobiles, accompanying improvements in quality, are well known.

The business community has not yet become accustomed to the far-reaching changes in relationships within the industrial structure caused by the greater production per person, the resulting expansion in the consumptive capacity of the population, and the growth of new industries making products formerly considered unnecessary. One group of observers views with alarm consumers' expenditures on automobiles and so-called luxury goods, and another wonders when the large investment of savings in new building and equipment will result in overproduction. There is a limit to the amount of staple products of consumption that may be used; therefore any growth in consumers' capacity must be reflected in demands for new products; and the production of these new products must require larger capital equipment. This in brief is what analysis of the recent growth of production indicates has occurred.

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THE MODERN TECHNIQUE OF MASS PRODUCTION AND ITS RELATION TO WAGES

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1. *The Recent Increase in Physical Productivity*

THE past six years have witnessed in this country the most extraordinary increase in per capita productivity in manufacturing and mining which has probably ever occurred in a similar space of time.¹ During the twenty years from 1899 to 1919 the volume of physical production in this country of manufactured goods, as Professor E. E. Day and Mr. Thomas will show in their forthcoming study, increased by 116 per cent. The relative number of wage-earners in manufacturing increased during this period by 93 per cent, making the per capita increase one of 12 per cent. But since modern manufacturing methods called in 1919 for almost twice as many office and clerical employees for every hundred wage-earners as in 1899, the total number of employees increased by 108 per cent. Thus if both clerical and manual workers are taken into account, the increase in per capita productivity was but 4 per cent. The following table shows the relative movement of physical production and output per wage-earner and per employee in the various census years during this period.² Down to 1914 and even to 1919 therefore, the American manufacturing system under capitalism had not shown any appreciable increase in efficiency of production. During the fifteen years from 1899 to 1914, output per employee had gone up at slightly less than one-half of one per cent per year. During this period moreover, the average real earnings of employed workers in manufacturing had not advanced.³ It

¹ This material on the increase in productivity was prepared before the writer knew that Mr. Thomas was to read a paper specifically dealing with this subject.

² I am indebted to Professor E. E. Day for the statistics given.

³ See my paper, "The Recent Movement of Real Wages and Its Economic Significance," *Proceedings 38th Annual Meeting American Economic Association*. (Supplement, *American Economic Review*), March, 1926, esp. pp. 33-37.

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TABLE 1. TOTAL RELATIVE PHYSICAL PRODUCTIVITY IN MANUFACTURING INDUSTRIES AND RELATIVE OUTPUT PER WAGE-EARNER AND PER EMPLOYEE. (1899-100)

Year	Relative physical output in manufacturing. (Day-Thomas ² Index)	Relative number wage-earners employed	Relative output per wage-earner	Relative number total employees (wage-earners plus salaried employees)	Relative output per employee
1899	100	100	100	100	100
1904	122	116	105	118	103
1909	159	140	114	146	109
1914	169	149	114	158	107
1919	216	193	112	208	104

was not at all certain that capitalism, when judged from the standpoint of productive efficiency and of improving the lot of its workers, had really made good. Nor was the situation much improved in the first of these respects in 1919. The physical output per worker was actually three per cent lower in this year than it had been in 1914 and although the average real earnings were higher, this was rather because of an increase in the relative exchange value of the average output in manufacturing and not because of an increase in its physical quantity.

It has been therefore, since 1919 and more particularly since 1921 that our great increase in physical productivity and in real earnings has come. This is shown by the indexes of production of the Federal Reserve Board,¹ of Day and Thomas,² and of the Harvard Economic Service.³ These are given below.

It will be noticed that the indexes of the Federal Reserve Board and of Day and Thomas agree closely for the period which they have in common while the Harvard index from 1922 on runs somewhat higher. On the whole it seems safest to use the Federal Reserve index as probably the best measure-

¹ See *Federal Reserve Bulletin*, March, 1927, pp. 175-177.

² In their forthcoming monograph for the Census Bureau.

³ Ada M. Mathews, "Physical Volume of Production in 1924," *Review of Economic Statistics*, Vol. VII (1925), p. 215; *ibid.*, Vol. VIII (1926), pp. 144-52; *ibid.*, Vol. IX (1927), pp. 14-15.

TABLE 2. INDEXES OF PRODUCTION IN MANUFACTURING 1919-1926 (1919-100)

Year	Fed. Reserve Board	Day-Thomas	Harvard
1919	100	100	100
1920	102		106
1921	79	80	82
1922	103		110
1923	120	122	130
1924	112		120
1925	125		133
1926	129		

ment of the movement of production since it includes¹ (when combined with the mining index) "nearly 80 per cent of the total industrial production in the United States."

The above statistics however give us only the relative total productivity, whereas we are also interested in knowing the relative productivity per wage-earner and per employee.

The relative number of wage-earners and of all employees in manufacturing in 1921 and 1923 as compared with 1919 and the consequent indexes of productivity per worker run as follows:

Year	Relative number of wage-earners	Relative output per wage-earner	Relative number of employees	Relative output per employee
1921	76	104	76	104
1923	97 ²	124	96	125

In 1923, therefore three per cent fewer wage-earners and four per cent fewer employees produced twenty per cent more physical product. This was an increase per worker of 24 and 25 per cent respectively. Five-sixths of this increase had occurred since 1921.

The Census Bureau has just published its tentative summary of the census of manufactures of 1925 which shows the average

¹ *Federal Reserve Bulletin*, February, 1927, p. 100.

² The Federal Reserve Board's index of employment which gives 4 per cent more employment in 1923 than in 1919 (*Federal Reserve Bulletin*, February, 1927, p. 111) seems almost surely to be in error on this point. The Census of Manufactures for 1923 shows 8.73 million wage-earners as compared with 9.0 millions in 1919. This would be a decrease of 3 per cent.

number of wage-earners to be 8.38 millions¹ as compared with 8.77 millions in 1923 and 8.99 millions in 1919. This was therefore five per cent less than the number employed in 1923 and seven per cent less than in 1919. This indicates that the index of employment compiled by the Bureau of Labor Statistics, which showed a nine per cent drop in employment for 1925 as contrasted with 1923, somewhat overstates the decline which has actually occurred in the volume of employment. The Bureau is probably correct, however, in showing the number employed in 1924 to have been one per cent less and those in 1926 one per cent more than the 1925 index.² This would mean that if we take the number employed in 1919 as 100, the relative number employed would be 97 in 1923, 92 in 1924, 93 in 1925, and 94 in 1926.

If we accept these figures for the relative number employed, this would mean that the relative average annual output per wage-earner as compared with 1919 was 122 in 1924, 134 in 1925, and 137 in 1926. Thus in seven years the output per worker increased by almost 40 per cent; eight-ninths of which was concentrated in the last five years. This increase in physical productivity at an average rate since 1921 of nearly seven per cent per year is probably unparalleled in the history of the world.

These statistics on the relative increase in productivity tend in the main to be confirmed by the investigations which the Bureau of Labor Statistics has made into the productive efficiency of eleven manufacturing industries. The relative total output in each industry in physical units has been divided by the relative number of total man-hours worked in that industry during each of the given years. From this an index of relative physical output per man-hour has been obtained. The movement for the eleven industries since 1914 is shown in

¹ See mimeographed summary issued by the Census Bureau.

² *Monthly Labor Review*, January, 1927, Vol. XXIV, p. 171. This greater drop may have been caused in part by the fact that the Bureau's index necessarily does not include: (1) new and rapidly developing industries such as the manufacture of rayon and of radio equipment and (2) new and developing factories within the established industries. The index covers well-established plants in well-established industries and these are probably not completely typical of all manufacturing industry as a whole.

TABLE 3. RELATIVE PRODUCTIVITY PER MAN HOUR IN ELEVEN INDUSTRIES, 1914-1925 (1914 = 100)

Year	Iron and steel	Boots and shoes	Leather tanning	Slaughtering and meat packing	Petroleum refining	Paper and pulp	Cement	Automobiles	Rubber	Flour milling	Cane sugar refining
1914	100	100	100	100	100	100	100	100	100	100	100
1919	100	105	101	93	92	104	103	136	130	96	79
1921	94	115	126	119	11	94	124	193	190	118	82
1922	136	116	130	125	126	118	...	249	...	...	...
1923	139	107	134	128	135	116	...	270	266	128	102
1924	137	107	131	129	163	128	143	262	301	...	114
1925	159	106	126	127	183	134	161	272	311	140	128

Table 3.¹ Save in the boot and shoe industry,² the increase in productivity per man-hour is in general greater than the per capita increases which we have previously computed. This is only to be expected since there has been an appreciable decline in the standard number of hours worked per week, so that if the yearly output per worker were to rise, the hourly output would have to rise even more.

Nor has the increase been confined to manufacturing alone, for the output per worker has also risen in the mining and transportation industries. Thus in mining, the index of total production since 1919 has been computed by the Federal Reserve Board to be as follows:³

Year	Index of Mining Production	Year	Index of Mining Production
1919	100	1923	135
1920	116	1924	125
1921	91	1925	129
1922	96	1926	138

The great improvement in the productive efficiency of the railroads during the last five years is evidence that the output per worker has also been advancing rapidly in transportation.

While the average productivity of the building workers has beyond doubt increased above the low figure of 1920, it is not at all certain that it has returned to the pre-war level. There have indeed probably been fewer advances in this line of industry than in any others. It has been possible, however, for the wages of the building workers to rise over their 1919 level be-

¹ *Monthly Labor Review*, January 1927 (Vol. XXIV), pp. 35-49; see also *ibid.*, July 1926, pp. 1-19; October 1926, pp. 10-21; November 1926, pp. 30-40; December 1926, pp. 30-40. Also Ewan Clague, "Productivity and Wages in the United States," *American Federationist*, March 1927 (Vol. XXXIV), pp. 285-296.

² The failure of the boot and shoe industry to show a larger increase was doubtless caused by the multiplication of styles in the trade. The output of standard makes has beyond question increased greatly as is shown by *Bulletin 360* of the Bureau of Labor Statistics. Thus in 1895, 236.1 hours were required to produce 100 pairs of shoes of a given make while in 1916 only 142.7 hours and in 1923 106.9 hours were needed. This would be an increase for 1923 over 1895 of 117 per cent and of 33 per cent over 1916.

³ *Federal Reserve Bulletin*, March 1927, pp. 175-77.

cause the value of each unit of their work has increased, even though its quantity may not have done so.

The increase in productivity should not blind us to the fact that there has probably been an increase in unemployment during this period. The index of employment for manufacturing as stated shows four per cent fewer workers in 1926 than in 1923, and in turn three per cent fewer men in 1923 than in 1919. To this apparent decrease of seven per cent, moreover, there should be added the increased number of persons who would naturally be expected to seek manufacturing employment, because of (1) the oncoming age-groups and (2) the effect of the agricultural depression in forcing from the soil several hundred thousands of agricultural workers. As the population has been growing at the rate of approximately two per cent per year, if manufactures were to continue to employ the same percentage of the population as in 1919, one would expect to find about a million and a quarter more employees rather than between five and six hundred thousand less. When the agricultural workers are considered, it is apparent that there are well over two million workers who are not employed in manufacturing, agriculture, or railroad transportation, whose industrial whereabouts are unknown. It would, of course, be wrong to imply that these groups must be unemployed, since a great many have been absorbed in such occupations as the building industry and the construction of our highways, upon the latter of which we are expending close to a billion dollars a year, and in such service trades as garage-keeping, filling stations, etc. But even after making all such allowances the evidence from public employment agencies and from charitable organizations seems undeniably to indicate that there is a rather high percentage of unemployment and of short-time in the country. The lot of these unemployed is not happy, although interestingly enough their presence and their competition with those employed has not operated to reduce the wage-rates.¹ Despite this unemployment however, and despite the unprosperous condition of certain specific industries, such as the northern textile mills, the country as a whole has prospered greatly during the last five years. This is also

¹ Nor has the high percentage of unemployment done so in England. This is a subject which well merits further research.

demonstrated by the estimates which the National Bureau of Economic Research has made of the national income in recent years. This has amounted, in terms both of current and 1913 price levels, to the following figures.¹

TABLE 4. THE GROWTH OF THE NATIONAL INCOME, 1919-1926

Year	Current dollars (in millions)	1913 dollars (in millions)
1919	67,254	37,600
1920	74,158	36,300
1921	62,736	36,200
1922	65,567	40,400
1923	76,769	46,900
1924	79,365	48,400
1925	86,461	51,100
1926	89,682	52,900

When reduced to a per capita basis, the average income in the various years amounts to the following:²

AVERAGE PER CAPITA INCOME		
Year	Current dollars	1913 dollars
1919	640	358
1920	697	341
1921	579	334
1922	597	369
1923	689	421
1924	700	426
1925	752	445
1926	770	455

Thus in units of constant purchasing power there has been a gain of \$97, or twenty-seven per cent, since 1919 and of \$121, or thirty-six per cent, since 1921. Since the real income of the farming class has beyond doubt decreased since 1919, this means that the gain for the industrial population has been even greater.

Most Europeans, smarting under the prospective burden of

¹ *News-Bulletin*, National Bureau of Economic Research, no. 23 (Feb. 21, 1927), p. 2.

² *Ibid.*, p. 3.

repaying their war debts to us, have ascribed this increase in our prosperity to the war, and have charged that we have fattened at their expense. This, of course, is an erroneous conception. Save for the relatively insignificant interest payments made by Great Britain, we have received virtually nothing in return for the nine billion dollars worth of credit which our government advanced to Europe for food and for other supplies. Secondly, as the above statistics clearly demonstrate, our increase in prosperity did not come with the war but really began to develop three years after its close. There are many ways in which America, to my mind, has fallen short of her international obligations during these last eight years, but she cannot legitimately be accused of prospering at the expense of others. Our prosperity has been caused by the extraordinary increase in production and not by the misery of those overseas.

2. *The Causes for the Increase in Productivity*

There have been three patent causes for the long-time increase in productivity plus a further imponderable one. These are: (1) the rapid increase in the supply of capital; (2) the rapid development of American technical methods, including, as its most notable feature, the moving conveyor; (3) the large internal market within which complete free trade prevails; and finally (4) the relative inability of workmen effectively to oppose changes in technique in our large-scale industries.

Our supply of industrial and commercial capital has increased with extraordinary rapidity. I have recently completed a tentative index of fixed physical capital in this country for the period 1880-1922 which eliminates changing price levels and any capitalization of earning power and which is instead based upon units of physical capital weighted by their values. The index covers farm buildings, farm machinery, livestock, manufacturing buildings, manufacturing machinery, railroads, street railroads, telegraph and telephone services and the electrical industry. Highways and commercial buildings are not at present included, although it is hoped to cover these in the future. In brief, the fixed capital in this country in 1922 seems to have been six and a half times larger than in 1880. This was an increase at the rate of five per

cent a year compounded, whereas Cassel estimates the growth of capital in Western Europe at only three per cent per annum. The population in this country, on the other hand, has been increasing at the rate of approximately only two per cent a year. This has caused the amount of capital per person to increase even more rapidly here, as compared with industrialized Europe, than would be indicated by the figures of growth in total capital alone. During these forty-two years, indeed, the number gainfully employed only doubled, causing the amount of capital per worker in 1922 to be approximately three and one-sixth times as great as in 1880.

It should also be remembered that there has been an appreciable shortening in the length of the standard working week, which according to my computation averaged in 1924 for approximately a dozen manufacturing and mining industries sixteen per cent less than the average of the 1890's. It seems safe therefore to estimate the decrease in the length of the working week since 1880 as at least twenty per cent. This would mean that although there were twice as many gainfully employed in 1922 as in 1880, approximately only sixty per cent more man-hours were expended. The amount of capital mixed with each man-hour of labor was therefore slightly over four times as much as in 1880. Such a rapid multiplication of capital has probably never before been witnessed.

The second factor which has contributed to our prosperity has been our development of automatic and efficient machinery and of effective technical processes. Probably the most distinctive contribution which we have made in this direction since Eli Whitney developed the principle of interchangeable parts is that of the moving conveyor. This was first applied on a large scale in the Chicago stockyards, where it was used to expedite the dismemberment of a raw product into a multitude of parts. It has been taken over and developed by a large number of other industries and has reached the height of its efficiency in the automobile factories. Here it reverses the stockyard process and assembles from a multitude of parts a finished product. The moving assembly has indeed been the chief cause for the virtual trebling of output per man-hour which has occurred in this industry during the thirteen years. Effective loading machines for coal mines with fairly thick

seams have also been developed and should remove much of the hard labor which now characterizes that industry.

Not only has the moving conveyor enormously lessened the amount of moving which the workers would otherwise be compelled to do but it has also economized space by enabling more men to be packed within a given area. By having the work flow by them at given heights, it has lessened the fatigue of bending and it has permitted a much more minute division of labor, of which the Ford factory is but the most notable example. It has moreover given to the employer the power of controlling the tempo of the factory by his control over the speed of the moving conveyor. This has in turn lessened the difficulty which employers have had with such methods of payment as time-wages and piece-rates. It is no longer so necessary to offer payment according to output with all the attendant dangers of piece-rate cutting and pegging of output, in order to draw out the best efforts of the workers. The moving conveyor takes the question as to the speed at which the workers shall work out of their hands and places it primarily in those of the employer. He can set the pace of the conveyor and pay the workers a day wage. They must keep pace or quit.

The principle of the moving conveyor is indeed the greatest technical contribution which America has made to industry during the last century. It has penetrated many other aspects of our life as well. What indeed are moving stairways and cafeterias but applications of the same principle? The Gary or "platoon" system in education and the group clinic and the affiliation of specialists in medicine are further exemplifications.

The third factor which has enabled American industry to expand productively has been the large internal market characterized by complete free trade and by the absence of tariff walls. By a strange paradox this has occurred in a country whose people show an obstinate determination not to recognize the advantages of the geographical division of labor between nations. Despite the efforts of economists, the great majority of our citizens have permitted themselves to be deluded by the manufacturers of the East and by other special interest groups and have persuaded themselves that it is actually to their advantage to purchase commodities which are produced here at

greater money and physical cost than they are abroad. But by the happy accident of nature, the union of the states has itself expanded so that it now comprises an area as large as Continental Europe with a total purchasing power which is probably not much, if any, less. This has not only permitted a widespread geographical division of labor within our own borders, whereby the South can specialize in cotton, the Middle West in corn, pork, and wheat, and the mid-mountain states in mining and grazing; but it has also given a wide market for our manufacturing concerns. The division of labor, as Adam Smith remarked, is limited by the extent of the market. If we, like Europe, were divided up into over a score of nations, each trying by means of high tariffs to be self-sufficient, our manufacturing enterprises would have to be smaller because of the smaller market available for each. Such concerns as Hart, Schaffner & Marx, the American Telephone and Telegraph Company, the General Motors Company and the Ford Motor Company would be physical impossibilities were we composed of such mutually exclusive national states. Our wide market has made possible our gigantic industrial concerns and consequently the minute division of labor within enterprises which has been such a force in increasing the volume of our manufactured goods.

We are at present overrun with a large number of foreign visitors who are seeking the secret of our prosperity.¹ If they return merely to copy the external features of the Ford production process, they will have missed one of the vital elements in our success. Europe can only hope to attain our prosperity if she sweeps away the tariffs which are now raised on every side and through a Zollverein permits the free flow of goods across national boundaries. Only thus can she realize the advantages which flow from a broad geographical division of labor and a wide market. Napoleon saw this in his lucid moments over a century ago and even today after the disastrous world war there are still some who, like Count Coudenhove-Kalergi, see it.² Thus the example of the United States is

¹ For two recent books see Austin and Lloyd, *The Secret of High Wages* (1926), and Julius Hirsch, *Das Amerikanische Wirtschaftswunder*.

² See Coudenhove-Kalergi, *Pan-Europe*; Heiman (edit.), *Europäische Zollunion, Beiträge zum Problem und Lösung*; Woytinsky, *Die Vereinigten Staaten von Europa*.

the best testimony for that doctrine of freedom of trade which the intellects of most Americans have for so long been too benumbed to grasp.

I turn now to a possible cause of our material prosperity upon which it is more difficult definitely to pronounce judgment. In our basic industries, the capitalistic class has had little effective opposition from the workers in reorganizing the technique of production. It is generally said that large-scale industry creates unionism, but in this country at least, unionism is weakest in those industries which are characterized by mass production. The iron and steel industries, the metal trades, the chemical, rubber, textile, packing, petroleum and automobile industries have little effective unionism. Unionism is strongest in technically retarded industries such as building and coal-mining; in small-scale industries, such as cigar-manufacturing and printing; and in skilled trades such as pattern-making. The American workers, therefore, do not have the opportunity of protesting, as the strongly organized British and German workers have, against the reorganization of their working life which is entailed by modern production methods. Since workmen, like everyone else, tend to be conservative when it comes to readjusting their methods of life, this very absence of organization has removed in America one of the barriers which exist in Europe against improvements in production. The dominance of the employing class in the United States has made the organization of industry much more autocratic than in Europe but it has probably produced more goods. It is of course not ideal since it weakens labor's power of securing a larger share of the products of industry and it affords little or no protection against unemployment. What is desirable, of course, is that trade-union organization and industrial productivity should not be mutually exclusive but rather that they should be common characteristics of industry.

Fortunately there are many straws in the wind to indicate that the American labor movement will be more anxious to promote technical improvements in the future than it has been in the past. As illustrations of this tendency, I have only to point to the well-known example of the Amalgamated Clothing Workers; to the union-management cooperation plan which

the machinist's union is carrying out with the Baltimore and Ohio, the Chicago and Northwestern and the Canadian National Railways; and finally to the offer of so conservative a labor leader as President Lewis of the United Mine Workers to have that union cooperate with the coal operators in improving the technical methods of mining.

It may well be objected that the causes which have been assigned for our increased productivity were all operative before 1921. How then can they explain the enormous increase which has taken place subsequently? We can only say that the rate of growth of capital and the use of better methods of factory production have been greatly speeded up in the last five years. We seem to be saving much more than ever before, while the modern business manager seems more anxious than ever to make technical improvements. The reasons for this revolution in the mental attitudes of our business men are probably many. In part they proceed from the fact that the shutting off of the supply of immigrant labor, depriving them as it did of their former plentiful labor reserve, made them realize that they must abandon their old methods of driving labor and turn for a substitute to a more effective organization of their methods of production. Second, the fact that the wage rates of the skilled and semi-skilled workers were not cut commensurately with the fall in wholesale prices during the depression of 1921-22 also forced them to increase efficiency in order to survive. Finally the fifteen years' discussion of scientific management and of efficiency made the managers of our industries aware of some of the great wastes which existed and gave them the technique, particularly in the arrangement of production sequences, whereby they could lessen these losses.

There is one other change, moreover, which occurred during this period and which should not be overlooked. This is the advent of national prohibition in 1919. In many respects the experience with prohibition has been disappointing and it is difficult to get at all the results. While it is dangerous to make any definite appraisal at this time, I can only say that from all the evidence which I at least can secure, it has helped to raise the productive efficiency of the American workingman. Monday-morning absences seem to have decreased greatly and the working force carries production on through the week with more vigor.

3. *The Relation Between Production and Wages*

What then is the relationship between the great increase in per capita productivity and wages? The supporters of the marginal productivity theory declare that it has been the increase in productivity which has made possible the increase in real wages of all workers—an increase since 1919, according to my index, of approximately nineteen per cent. Since workers now produce much more in a day or an hour than formerly, employers will offer more, in terms of real wages, in order to secure their services. The competition of employers, not only within but also among industries, is thus relied upon to increase wages as the natural consequence of an increase in per capita productivity.¹

This increase has been participated in by workers in industries such as the building trades where there have been no notable increases in physical productivity. This fact is sometimes cited to disprove the contention that only an increase in productivity will permanently raise wages. But what does of course determine wages in specific industries is not so much physical productivity as value productivity. Where the output of industry in general is increasing, the exchange value of each unit in these specific industries whose output is not increasing will necessarily advance. In consequence, wages in these technically stationary industries will rise.

The flow of labor from the low-wage to the high-wage industries will also tend to create an equilibrium when an equality of gain has been made by all those with equal skill even though in differing lines of work. This will of course cause a reduction in the total output of those industries whose value product per worker has not advanced as rapidly as that for all industry as a whole and an expansion of output in the case of those industries whose per capita value product has risen more rapidly than the general average.

¹ Provided of course that the increased productivity is not absorbed by added payments to capital or to the owners of natural resources. I have outlined some of the forces which determine the relative gains per unit secured from an increase in productivity by the various factors of production in an article which is to appear in the forthcoming memorial volume to Professor John Bates Clark and which I am also developing in greater detail in a volume on the theory of distribution.

In recent years, a reverse statement of the interrelationship between productivity and wages has found increasing currency—namely that high wages are necessary as a prior cause to enable the goods produced under improved technical conditions to find a market at a profit. This theory has been advanced at varying times by representatives of labor who have sought either to increase wages or to prevent a reduction, but it has gained its chief vogue from the utterances and assumed practices of Mr. Henry Ford. Thus in his autobiography,¹ Mr. Ford declared:—

I believe in the first place that, all other considerations aside, our own sales depend in a measure upon the wages we pay. If we can distribute high wages, then that money is going to be spent and will serve to make storekeepers and distributors and manufacturers and workers in other lines more prosperous and their prosperity will be reflected in our sales. Country-wide high wages spell country-wide prosperity.

To this statement, however, Mr. Ford added the saving clause, "provided, however, the higher wages are paid for higher production."

In a later work, Mr. Ford made an even more direct statement of this principle.²

Nor can little business grow big on the theory that it can grind down its employees. The plain fact is that the public which buys from you does not come from nowhere. The owners, the employees and the buying public are all one and the same and unless an industry can so manage itself as to keep wages high and prices low, it destroys itself, for otherwise it limits the number of its consumers. One's own employees ought to be one's best customers.

The real progress of our company dates from 1914 when we raised the minimum wage from somewhat over two dollars a day to a flat five dollars a day, for then we increased the buying power of our own people and they increased the buying power of other people and so on and so on. It is this thought of enlarging buying power by paying high wages and selling at low prices which is behind the prosperity of this country. It is the fundamental motive of this company. We call it the wage incentive.³

¹ Henry Ford, *My Life and Work*, pp. 124-25.

² Henry Ford, *Today and Tomorrow*, pp. 8-9.

³ For somewhat similar statements, see *Today and Tomorrow*, pp. 151-55. "The right wage is the highest wage the employer can steadily pay. That is where the ingenuity of the employer comes in. He has to create customers

This idea of the necessity of high wages to provide a wide market, which has been also expressed by other business men, has been taken over by a number of European writers.

Now, it is plain that this theory of the necessity of high wages is either implicitly or explicitly based upon the assumption that if wages are "low" (waiving for the time being the precise meaning of this word) there will not be enough monetary purchasing power to take off from the market the huge volume of goods produced. The productivity theorists therefore do not fully meet the objections of this group by saying that an increased productivity of goods will of itself subsequently cause wages to be increased.

What concerns this group is rather how the increased volume which results from technical improvements can be sold unless there is an appreciable increase in wages. If wages move up slowly because of the time-lag in industry, or if through the reluctance or agreement of employers wages are not bid up commensurately, then the supporters of this doctrine reason that there will be insufficient monetary purchasing power available for buying these commodities. Business will in consequence be compelled to curtail production and men will be laid off. Industry will thus be cursed with the very fact of its own productivity. On the other hand, an initial act of faith in raising wages, it is said, will build up the fund of consumers' purchasing power and thus either prevent business from suspending or actually stimulate it to further production.

It is well to point out in the first place that, to the extent which such a theory is valid, it is for all industry as a whole and not, as Mr. Ford and some of his followers have at times

and if he is making a commodity, then his own workers are among his best customers. We have about two hundred thousand customers in our own company... in the people we directly pay wages to... and we are creating more customers every day in the workmen of the people we buy from... It is an ever widening circle of buying; paying a high wage has the same effect as throwing a stone into a still pond. There can be no true prosperity until the worker upon an ordinary commodity can buy what he makes... If you cut wages, you just cut the number of your own customers. If an employer does not share prosperity with those who make him prosperous, then pretty soon there will be no prosperity to share. That is why we think it is good business always to raise wages and never to lower them" (p. 154). Mr. Ford adds, however, that productivity must also be increased.

argued, for individual enterprises or even for entire industries taken separately. For, if an individual concern increases its wages bill, it builds up the purchasing power for its products not in an equal proportion but to only an insignificant fraction of the increase in wages. Our society is one in which most of the monetary income of a worker comes from a given industrial source, but where he spends it upon a multitude of objects other than those which he produces. The boot and shoe worker whose wages are advanced by twenty-five per cent will not spend all of these added dollars on more shoes. If budgetary studies are any guide, he will not spend more than a fiftieth of this addition for shoes, and he may very well spend a large portion even of this on shoes produced by companies other than that by which he is employed. He will also tend to buy such other things as more and better suits of clothes, more fruit for his table, better living quarters, more amusement, and more education for his family. When, therefore, Mr. Ford appears to argue that an increase in wages or a decrease in hours of work will increase the demand for Ford cars commensurately with the increased possession of money or of leisure, he forgets what should be obvious to all, namely, that even in America men have other desires to gratify than that of driving his particular type of automobile.

In the main, therefore, it would be suicidal for individual businesses or industries to increase wages in the hope that they will thereby create an appreciably larger market for their product. Other industries would profit from the increased monetary demand which would be created, whereas the group which increased wages would suffer. But, it will be argued by some, the other merchants, manufacturers and farmers whose monetary incomes have been thus increased will have more money available with which to purchase the goods of the industry whose wages have been increased and therefore the bread which has been scattered upon the waters will ultimately return. That there will be some such tendency is, of course, undeniable; but these men in turn will certainly have no greater desire to spend their increased income on one particular commodity than the workmen employed in that industry. Mr. Ford's analogy of increasing wages and the throwing of a stone in a pond is correct, but the moral is that the effects of the

impact are diffused and are not confined to the point of origin. The overwhelming proportion of the purchasing power will be scattered to other industries and will not return to the industry in question.

Plainly then, if the theory is applicable, it is one for all industry as a whole and not for individual parts. To get such voluntary action by all employers in increasing wages synchronously would, of course, be a virtual impossibility. The argument therefore fundamentally implies that either some employers should sacrifice themselves for the benefit of industry as a whole, which is directly opposed to the principle of the profit system, or that trade-union pressure and governmental enactment should be employed to increase the wage scale.

The query then arises as to whether such an increase in wages for all industry as a whole would actually increase effective demand. If the supply of bank credit is so expanded that the increase in money wages is accompanied by proportionate increases in interest and money profits, then prices will rise proportionately. The orthodox economist, accustomed to think in terms of value, will point out therefore that neither the purchasing power of the workers nor that of any other class has been increased. There would be more money in people's pockets but it would not enable them to secure more goods.

But what if the increase in wages came out of the sums previously paid to capital, land, and management? Then of course the workers would be able to buy a larger and the other factors a smaller share of the total product than before. Similarly, if the money income of these three other factors of production were not to be altered, but labor alone were to be paid more, then although prices rose, they would not increase in the same proportion as wages, and hence the workers would have increased purchasing power. Since the workers buy in the main standardized products, manufactured on a large scale, while those in the upper income groups spend a much larger proportion of their income on personal services and individualized commodities which have been produced under handicraft conditions, this means that the demand for factory goods increases, while that for the more individualized products decreases.

Can this, however, be said to be an increase in demand? Is it not rather a transfer in demand from the proprietary classes to the manual workers?¹ Such a transfer would normally be expected to increase the total amount of human happiness, yet the orthodox economist would not grant that it increased the total supply of purchasing power. It should be noted that increased monetary purchasing power has been placed at the disposal of those industries which in practice have shown the greatest increase of physical productivity and that the withdrawal of purchasing power has been from those occupations in which there has been little or no increase of production.

But this consideration raises the further question why factories need an increase of available monetary purchasing power in order to find a market for their increased volume of goods? The orthodox economists, led by J. B. Say, have asserted for over a century that there cannot be such a thing as a general overproduction of commodities, for, as they declare, the production of goods constitutes the demand for goods. Will not this great increase in production, therefore, merely mean that all of the prospective purchasers will enter the market supplied with more commodities than before and hence will generally be able to command more in return?

It is true, of course, that the value relations between the commodities may indeed well change not merely because of differing increases in the quantity produced but also because of differing elasticities of demand. To increase the supply of one commodity by twice the average increase may mean that its exchange value per unit will be halved; while in the case of other commodities it may be decreased by much less or by much more than half.² But while the value relations may change, the demand will still be there. Since ultimately goods are exchanged for goods, Say maintained, to increase produc-

¹ This point has not been given sufficient recognition by such members of the overproduction school as Rodbertus.

² J. M. Keynes in his biographical *Memoir of Alfred Marshall* ascribes to him the discovery of unit elasticity as the point of division between elastic and inelastic demand and lists this as Marshall's greatest contribution to economics. Cournot, however, had clearly pointed out this distinction in 1828 in his *Recherches Mathématiques*.

tion is merely to give producers more commodities with which they may barter.

This reasoning of Say's was taken over by James Mill and McCulloch to refute the overproduction theories of Sismondi, Robert Owen, and Malthus, who on this subject ranged himself with the unorthodox. Ever since, it has been accepted in the main by the economists of the orthodox tradition. But this supposed refutation rests upon an extraordinary error in logic which was detected almost a century ago by the Englishman John Gray,¹ and recently by Foster and Catchings,² in their brilliant and suggestive writings.

These writers have pointed out that in an industrial system which is conducted in terms of money prices, goods are not directly exchanged for each other, as under conditions of barter, but rather through the medium of money. An increase in the physical volume of production, unless it is accompanied by a corresponding increase in the supply of money or of commercial credit, will therefore cause a reduction in the general price level. The goods can be purchased but only at a lower price level. But this lower price level creates many difficulties for business. The raw materials and the labor which are embodied in the finished product have been purchased previously at a higher price level and now in their fabricated form must be sold at a lower price level. Since profits constitute the difference between costs and selling price, even a slight shrinkage in prices will make severe inroads upon the amount of profits. Thus when profits have been five per cent on turnover, a fall of five per cent in the price level will, by obliterating all of the profits, cause a decline of one hundred per cent in their amount.

Business cannot continue to look forward with equanimity to that shrinkage in inventories which must necessarily result if the volume of production is to continue to increase faster than the volume of the circulating medium. In order to protect themselves, industries will accordingly restrict production or close down. But by throwing men out of work they will destroy purchasing power still further and lessen the market

¹ See John Gray, *The Social System* (1830); *Lectures on Money*, 1848.

² Foster and Catchings, *Profits*, pp. 247-418; also *Business Without a Buyer*.

for goods in general. Thus, once the breakdown is started, the depression will become cumulatively worse.¹

Such an analysis as this seems to me to be fundamentally sound and to indicate at least one of the major causes of industrial depressions. Foster and Catchings are deserving of great praise in pointing out the real nature of overproduction in our economic system; it is not general overproduction as such writers as J. A. Hobson² have at times argued, but rather overproduction at a given price level. The increased quantity of goods can be sold but only at a lower price level. This lower price level is not, as J. S. Mill and others have reasoned, a matter of indifference, but because production has been carried on over a long period of time, present commodities have embodied within them past prices. If these past costs cannot be recouped out of present selling prices, business will suffer a pecuniary loss and under our present system of industry cannot continue to produce at the full rate of output. Within recent years the improvement of our railroad service, the speeding up of production within factories, and the growing practice of hand-to-mouth buying have combined to lessen the length of time which an individual enterprise holds a commodity and consequently have decreased the risk of loss in market values. The abundance of our gold reserves has also permitted an expansion of credit roughly commensurate with the increase in production. The Federal Reserve System now contains a large amount of "idle" gold which could be used as the basis for a considerable expansion of credit. There

¹ The Danish economist Birck has pointed out an additional way in which business depression cumulates. "Let a commodity", he writes, pass through three stages and the monthly sale be 10 units; then the last producer must buy from the second one half-finished goods for 10 pieces and he again from the third producer, raw material for 10 pieces. Now the demand shifts and only eight are sold; the first producer has then 2 left and believing that he will not be able to sell more than 8, he only buys 6 from the second producer, who in turn has 4 left and judging his future sale to be only 6, buys only 2 units of raw material from the last producer; the latter has then 8 units on hand and stops altogether." J. V. Birck, "Theories of Over-Production," *Economic Journal*, Vol. 37 (March 1927), pp. 19-20. J. M. Clark was the first to point out this tendency in his article, "Business Acceleration and the Law of Demand," *Journal of Political Economy*, Vol. XXV, pp. 217-35.

² J. A. Hobson, *The Economics of Unemployment*.

would seem therefore, to be no imminent danger of a shortage of monetary purchasing power. But in the long run there is no more surety that the supply of bank credit can increase in proportion with the increase in the volume of commodities than there was a century ago that the supply of gold and silver would increase in an even ratio with the advance in productive output. When such a coincidence, which tends to be largely accidental, does not occur, then our pecuniary mechanism is subjected to a great strain through the efficiency of our industries, mines, railroads, and farms.¹

In such a situation an increase in money wages, even though secured at the expense of other classes, would throw more purchasing power into the market for those very commodities which are being produced in increased quantities. For it is in factory products, turned out under conditions of large-scale production, that the big increase in output has come and it is this type of commodities in which a fall in the price level is at once the most possible and the most dangerous. A transfer of purchasing power from the wealthy to the workers would cause the prices of services and of luxuries to fall. But since the price of these services and articles generally is less significantly related to utilization of raw materials already produced and to manufacturing processes already paid for, the shrinkage in values would not be so disastrous.

Viewed in this light, an increase in money wages which did not come directly out of money profits and interest payments but which was instead financed by bank credit, would also create added monetary units of purchasing power which would serve to balance the increased output of factory and mineral products and prevent the price level from falling.² To the degree in which it would decrease the real income of the other economic classes, it would serve to lessen in some measure the amount annually invested. Since their needs are sharper, the

¹ If the increase in productivity is confined to one country, relief can be found, of course, in large part by virtue of the fact that the lowered prices will cause exports to increase and thus will cause more gold to be imported in return. This in turn will check the further fall in prices and restore them to an international level.

² The increase in money wages might of course be so great as to cause the price level actually to rise, despite the greater volume of commodities.

workers would probably spend more of this income for present wants than would the wealthier classes. The resultant decrease in savings would lessen the rate of growth in the volume of future output and hence would help to lessen the danger of catastrophic price declines—but, and this should not be forgotten, only at the price of securing a smaller quantity of goods. It should be recognized, however, that a general increase in the money incomes of all classes would also help to avert the fall in the price level and consequently the decline in business prosperity. The primary need is for stability in the price level of those goods manufactured under the present technique of mass production and this can be secured by a general and proportionate increase in the supply of monetary purchasing power and not merely by a transfer of it.

There is a further conclusion which deserves attention—namely, that the greater the equality in the distribution of the national income the less is the danger of a business decline following a given absolute increase in industrial productivity. When as in Great Britain before the war, a half of the income is enjoyed by one-ninth of the population and, indeed, over one-third by approximately three per cent,¹ the amount of relative purchasing power which is left in the hands of the masses would be less than in countries such as our own, where in 1918 the corresponding group did not receive more than twenty-two per cent of the total.² Consequently, when a great increase in mass output took place there would be fewer monetary units to absorb this output and prices would consequently decline much more rapidly than where there was a closer approach to equality of distribution.³

It is difficult therefore, suddenly to introduce modern technical methods of production in semi-closed economic societies characterized by great inequalities of income. If great ad-

¹ Chiozza Money, *Riches and Poverty*, also J. C. Stamp, *British Incomes and Property*.

National Bureau of Economic Research, *Income in the United States*, pp. 85-87. Pareto's assumed law of the equal proportionate distribution of income in the various countries has of course received its *coup de grâce* from Dr. F. R. Macaulay.

³ For an interesting article indicating methods of computing coefficients of inequality, see S. N. Procopovitch, "The Distribution of National Income," *Economic Journal*, Vol. 36 (1926), pp. 69-82.

vances in output are to be made, there must be a considerable volume of purchasing power ready to absorb it. This, too, is a lesson which Europeans who are pondering over the possibility of Fordizing Europe should take to heart.

4. *Some Lines of Action for the Future*

If the analysis which has been made is sound, then society should in some way see to it that monetary purchasing power be augmented sufficiently to prevent prices from falling. But precisely how should this be done? At the moment, the reserves of our banking system are amply sufficient to provide for this. It is probable, however, that a large portion of this gold will ultimately return to Europe where it will be needed to stabilize European monetary systems. If our production continues to expand, we may be faced with the necessity of increasing the money side of the price equation. The effects would naturally depend upon the form in which the new purchasing power was created, the agency by which it was issued, and the classes receiving it.

If the percentage of the gold reserve in our banking system were to be lowered so that banks might loan more to commercial enterprises, the difficulty would not be fully solved, since businesses would use this added credit to increase productivity still further. While the prices of consumers' goods would temporarily be bid up by the workers in capital-producing industries, who would have more money in their pockets than they otherwise would have had, this rise in price would not be maintained permanently. For the added flow of consumers' goods produced under the profit system would cause prices in the future to fall as the result of building up in the present still more privately owned capital.

Perhaps the best way would be for the government to expend purchasing power for the construction of public works, which would thus give purchasing power to the workers and stabilize the price level. Since the services of these public works would later largely be offered gratuitously to the public, they would not enter into the volume of commodities offered for sale and hence would not create a fall in the price level. The government could secure the funds by borrowing from the banks, although doing so might require the lowering of the legal reserve ratio. This would retain something of a check

on the amount of bank credit which was created, but it would give to the banks the interest paid upon these fresh units of monetary purchasing power, and create a liability which ultimately would have to be repaid.

If proper safeguards could be provided to prevent inflation instead of such borrowing, I would personally favor an issue of paper money on the part of the government to pay for the materials and labor utilized. In this way society could get needed public works constructed without any added cost to itself. Labor which would otherwise be largely unemployed would be used instead to construct needed roads, buildings, playgrounds, etc.

Obviously great care and restraint would be needed to prevent such an undue issuance of paper money as would enable the government to bid up unduly the prices of commodities and of labor. In order to meet the need at least three standards to guide the issue should be followed. The issue should be so limited as: (1) to prevent the index of unemployment (the present lack of which is one of the shames of American official statistics) from rising above, let us say five per cent; (2) to prevent the general price level from rising by more than two or three per cent; (3) to prevent the foreign exchanges from being dislocated.

Whether it would be possible for governments to exercise such self-restraint is doubtful, of course, but if the danger of inflation could be avoided, the balance of advantage would seem to lie in financing such public works by a managed currency. This may seem heretical to those who, having been reared in the fiery opposition of Eastern creditors to the green-back and free-silver movements, have come to feel that only gold can constitute money. But there is no intrinsic merit in gold itself save that it imposes a natural limit to the quantity of money which can be issued and thus preserves man from the possible consequences of his own folly. But if a combination of philosophers and economists, endowed with courage as well as with judgment, could be given control over our monetary supply, it would be possible for us largely to prevent business depressions and to build up, at little expense to society, a large amount of social capital which would raise the level of life of the main body of the people.

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THE DECLINE IN THE PURCHASING POWER OF AMERICAN FARMERS SINCE 1900

HON. FRANKLIN W. FORT

Congressman from New Jersey, Newark, N. J.

OUR discussions in Congress have been devoted more to the decline in the purchasing power of the American farmer since 1913 than to the decline since 1900. The reason for this trend of public debate is probably to be found in the fact that the decline in the relative economic position of the farmer as contrasted with other men, rather than the decline in his positive economic status, has been chiefly productive of political friction.

Heretofore—and by that I mean prior to 1900, and perhaps 1910—the American farmer occupied a middle status in the economic scheme of things wherein, being both a capitalist and a laborer, he enjoyed the highest social and economic position of any man who worked with his hands. That status, he feels—and perhaps properly—he has lost, through no fault of his own, in the last ten or twenty years, because of the increase in the economic and social status of other hand-workers. He wants what they have. His production will not buy it.

Now the reason that his production will not buy it, as contrasted with 1900, is not that the unit value of his product has not kept pace with the unit price at wholesale of what he must buy.

In 1900, farm products were approximately 87 per cent of the general index of all commodities at wholesale. In 1924 they were over 90 per cent; in December of 1924, approximately equal. Consequently, the decline in the purchasing power of the American farmer is not due to the fact that his wheat or milk or what you please has not risen in the same proportion that the wholesale prices of other commodities have risen, but it is due to some other cause. One of those causes has been that the farmer has become tremendously more of a retail buyer while still remaining a wholesale seller. Another

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cause is the decrease in production on many farms of those things which formerly were raised on the farm for consumption on the farm. That is one of the troubles in this problem, but it is perhaps not so much economic as social. As was stated in one of the great farm magazines of this country within the last three or four months, the farmers in certain sections refuse to do dairying because dairying is peasant farming and they would not enter into that type of effort. There are large farming sections which are actual importers of milk, cream and butter—indeed, actual importers from other sections of practically their entire food supply for their own consumption. That is one of the reasons for the farm problem, as we know it.

But more than that, the farm problem today—and when I say the farm problem I mean exactly what the title of my address calls it, namely, the decline in the purchasing power of the American farmer—rests upon fundamental causes that even a cure of this food-raising situation would not completely ameliorate. The gross income of the American farmer has increased since 1900 about 100 per cent. All farm products in 1900 were valued at about \$6,500,000,000 and are now valued at something over \$13,000,000,000.

In the same period, the number of workers has increased only about 20 per cent, the number of farms by about 20 per cent, and the number of harvested acres by about 20 per cent, but the product has doubled in value. Normally that would seem adequate to take care of a rise in the all-commodity index of only 50 per cent, or perhaps, as contrasted with 1900, of about 70 per cent. However, three major things have happened, one of which is that the value of American farm property has risen from \$20,000,000,000 to \$80,000,000,000 in that period, or 400 per cent. Now by all farm property I do not mean merely the acreage value of land but I mean land, improvements, implements, stock and the other items of investment in farm property. In other words, the production of the farm in money value, has risen 100 per cent, while the investment value has risen 400 per cent, and on that investment value the mortgage debt has risen 400 per cent. The interest on the investment of American farmers has risen in the twenty years between 1900 and 1920 from approximately \$1,200,000,000 a year to \$4,800,000,000 a year. In the same period, the taxes

of American farmers have risen over three times, probably over four times, above what they were in 1900. The service of the \$4,000,000,000 mortgage debt—as contrasted with approximately \$1,000,000,000 in 1900—has of course tremendously increased, not only for interest, but, in order to prevent foreclosure, in the down payments on principal.

This situation is only partially the result of speculation. In 1900 the majority of American farms were still in the hands of original owners who had gotten those lands in many instances as free grants and in almost all instances at exceedingly low cost. The lands have in the meantime, since 1900, passed either by inheritance or by sale (and where by inheritance, after divisions among heirs which have required the placing of substantial mortgage indebtedness) into the hands of persons to whom they represent a tremendously enhanced value—a value much greater than that on which earnings had to be made in 1900.

All of this has operated to produce fixed charges by way of taxes and interest and service of debt which have taken out of the gross income of the American farmer what used to be his cash margin for outside purchases.

The total income, and the total income per worker, on the 1900 basis of capitalization of farms, would have produced as much purchasing power, relatively, today as it produced in 1900, if there were not the additional overhead charge which in 1900 did not exist.

One other thing that must be borne in mind in connection with the decline in the farmer's purchasing power is this: that that decline is not national but sectional. I remember that many of the farms of New Jersey in 1900 were absolutely deserted, and farmers who lived there had serious difficulty making both ends meet. Today they are quite prosperous, and indeed it is said that one county in the state of New Jersey has the largest cash income from agriculture of any county in the United States. The difficulty is that it is the greatest staple crop farmer of America, chiefly centralized in the cotton states and the grain states of the Middle West, whose purchasing power has disappeared; the difficulty is that the type of farming which prevails in the East today, largely due to the circumstance of location, is a type which lends itself to quantity pro-

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duction. It is capable of expansion along the lines of dairy and fruit and truck farming, which makes for an increase of dollar return per acre—with the available market for the perishable products much higher than any possible increase in staple crop production per acre can yield.

In addition to that, the eastern farmer has no overseas competition, practically speaking, whereas the western farmer is passing through a period exactly like that which the eastern farmer passed through forty and fifty years ago. He is attempting to raise staple crops in competition with the virgin lands of other nations, just as our eastern farmers forty years ago were attempting to raise staple crops in competition with the virgin lands of the West.

There is another factor that time does not permit me to go into, but on which I have commented briefly and should like to enlarge. It is the tremendous increase in the cost of retail distribution of everything in the United States, as contrasted with the increase in wholesale prices. The farmer is a wholesale seller and a retail purchaser, to a degree and in a manner that is not true of other men, and if there be one form of waste in our present economic scheme in the United States more serious than others, it is the waste of money in our systems of reaching the consumer through retail distribution. The effect on the relative status of the farmer is enhanced by the fact that he used to raise and consume on the farm a great deal that he now buys, and on which consequently he must now pay the equivalent of the freight out and the freight back, in contrast to his former position of securing the product on his own property without hauling and delivery charges.

There are cures for some of these troubles and it is vital that we find them. It is in such groups as this that they may be found. May I say parenthetically that while the kings are not economists, there is a real effort, I believe, in this nation and I believe abroad, to lend an ear of sympathetic attention—at least—to the economist in the study of these problems, where they are governmental, a real willingness to study indices and charts, and a real desire—on the part at least of the average member of Congress—to get his constituents to think in terms of economics. In this you can be of tremendous help, in the solution of all of the problems where the government can be of

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aid, not so much in scolding us as in helping us to create the proper public atmosphere that will permit a man who thinks along economic lines to remain in public life.

Some of the ways in which the farmer can to some degree solve his own problem I will try to sketch very briefly. One of them, of course, is the increased industrialization of the farm. It is significant that the only substantial increase in farms in the United States in twenty years was in the farms of over 5000 acres. In small farms, the increase was only twenty per cent. In large farms the increase was one hundred per cent. The increased industrialization and mechanization of the farm, assisting in producing a greater unit production per hand, will help solve the problem by decreasing costs of production. Then if more products are raised on the farm and less bought, that will help. It is possible, I believe personally, that legislation can help to some extent through evening out, without too strong a hand, the speculative and distributing processes which generally today do not operate in favor of the farm but against it. But in the long run, in a world of mass production, in a world of increased production per worker, the only ultimate cure is to be found not as some think in the enhancement of unit prices to a point out of line with unit prices of other commodities, but in an increase of the total production per pair of hands employed.

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SALESMANSHIP AND CONSUMPTION

STUART CHASE

Director, Labor Bureau, Inc., New York

I HAVE been asked to give you an idea of the particular subject which I have been working on during the past year in conjunction with an engineer, Mr. F. J. Schlink, of the American Engineering Standards Committee. We have been concerned with the general problem of the quality and dependability of what the consumer gets for his money. Instead of following the usual economic procedure of analyzing production, we have attempted to enter the more unexplored field of the economics of consumption. Particularly we have been analyzing the plight of the consumer in the present era of spirited salesmanship.

Now that Mr. Bruce Barton has made the gentle Nazarene the first of advertising men, it would seem that there are no heights to which spirited salesmanship may not aspire, and indeed there are none. As ultimate consumers, we are all Alices in a Wonderland of bright colors, soaring words, dazzling lights, unlimited service, fancy packages, Olympian claims, and almost impenetrable ignorance. A thousand firms and scores of embattled trade associations are importing counsels on public relations—they do not call them advertising men any more—to make us shoe-conscious, straw-hat conscious, plus-fours conscious, personality-perfume conscious, raisin-conscious, yeast-conscious, refrigerator-conscious, copper-shingle conscious, sauerkraut-conscious, plumbing-conscious, mouth-conscious, coffin-conscious—before our bank accounts become unconscious.

The technique of spirited salesmanship is a fascinating study. I can only give, in the time allotted me, the very briefest outline of the channels down which it may run. Perhaps the most important one, from the economic point of view today, is installment selling, which, as you all know, has this year borrowed from future years purchasing power to the tune of some \$5,000,000,000 or \$6,000,000,000. On the average we pay about fifteen per cent more than the ordinary cash price for a given product bought on the installment plan. We have

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indeed achieved the envy of philosophers in thus being able to lift ourselves by our bootstraps. We have increased purchasing power relatively and absolutely—during the year in which mass installment selling first comes into the picture. How long this process can continue is a matter that others can determine a great deal better than can I, but it seems to be the consensus of opinion that a day of reckoning must sooner or later come.

Secondly, there is the technique of pushing annual models. Once we have a motor car, a sewing machine, a calculator, or what-not, producers strive to stimulate turnover by making changes in the model, sometimes quite unnecessary changes from the technical standpoint, but appealing to the eye—dandy little jiggers on the dashboard, new lines on the body, a coating of nickel in a new place. I am recently informed that the furniture people have embarked upon a campaign to give us annual models in drawing-room furniture!

Then there are the slogans with which the spirited salesmen attempt to impress their product on our mind: "Have you a Little Fairy?" "Four out of Five." "I'd Walk a Mile." "Next to Myself I Like." "You Just Know She Wears Them." "Like a Shower of Kisses." "It's Off Because It's Out." All follow the psychological law which the National Outdoor Advertising Association laid down so well in a recent advertisement: "Repetition is Reputation"—Not quality, not durability, not meeting the consumer's specific want, but rather impressing upon his consciousness by infinite repetition the psychological urge to buy.

Akin to the slogan is the enormous multiplicity and complexity in brand and trade names, a process which is growing all the time. Go through the advertising pages of *The Saturday Evening Post*, for instance, and note some of them. I have listed about eighty in one magazine. You will find names such as Celotex, B V D, Feenamint, Bondex, Protex, Textone, Kernerator, Ceco, Dim-a-lite, Ozite, Whale Bone-ite, Florazona. . . . What is the purpose of these trade names? Of course, the original purpose was clear: to impress upon the consumer's consciousness the product of a specific manufacturer, to set it off from the common classification of soap, wall board, cotton underwear, refrigerators. . . . I have a quotation from an advertising agency which brings this point home

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very forcibly. "The final purpose of advertising is not to prove the comparative superiority of the article in competition. The object of advertising is *to take it out of competition*, so that it will no longer be compared but will be accepted by the buyer." But, alas, as the number of brands and trade names grows, the consumer becomes increasingly confused. He can no more remember all of them and what common goods they represent, than he can remember the provinces of Siberia.

There is the 15 per cent yearly increase in house-to-house canvassing with its ever more beguiling and intensive methods. There is the technique of selling us the package by virtue of its glitter and splendor rather than the intrinsic value of what the package contains. Thus wheat at 4 cents a pound becomes Puffed Wheat at 68 cents a pound; corn at 2 cents a pound becomes Corn Flakes at 30 cents a pound; rice at 5 cents a pound becomes Puffed Rice at 50 cents a pound. Package goods serve a distinct economic purpose; they are convenient; they enable us to keep things in better condition—but is that any reason for taking them entirely out of the area of comparative prices per pound, which so often happens? There is the enormous dealing in "sucker lists"; there is the elaborate and costly testimonial technique; there is the interesting phenomenon of sales quotas. An economist heard a district manager in Texas once rise to the dignity of a Joshua. There had been a drought in his area, but he brought his one hundred per cent fist down on the table and shouted, "Drought or no drought, West Texas has got to buy its quota! Sales resistance has stiffened, has it? Well, then, we'll smash it!"

There are the channels of market surveys, of full line forcing of substitute uses for a given commodity. Recently we have been shown one hundred and one different uses for the simple commodity, salt. Listerine advertising has gone through a series of substitute uses. Yet the American Medical Association notes that it takes \$495 worth of Listerine to equal the antiseptic effect of one cent's worth of corrosive sublimate. A recent substitution drive is that of the mineral-oil people: Mineral oil for internal use is, they say, an excellent material for lubricating sardines in cans.

Why is this massed and intensive drive on consumer's consciousness? It is a beautiful psychological phenomenon. It

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is excellently done. It frequently works. Intensive salesmanship is implicit in certain of the factors which have been discussed this morning, as I see it. It is a part of what has been called the "new competition," arising from the fact that mass production has been operating to decrease costs continually, and thereby building up excess plant capacity, while purchasing power has not increased sufficiently to absorb the goods which mass production is capable of turning out. Consequently the great problem of the business man—the practical, concrete problem—is not how to produce goods but how to get rid of goods, how to market and distribute them. Production can be guided by reliable engineers at \$3500 a year, but breaking down sales resistance requires "go-getters" at \$20,000 and \$50,000, anything, provided they sell the goods. That applies not only to individual firms but to the cooperative sales campaigns of the trade associations, of which there are now some eighty-nine actively in the field.

Mr. Schlink and myself have been interested in the question of whether or not a *reductio ad absurdum* is going to be ultimately reached, a point at which the consumer is baffled beyond all hope of determining the quality and durability of the goods that he buys, and is ready to organize to secure a specific and reliable source that will tell him which among these conflicting claims are true.

The Bureau of Standards at Washington gives us a working model of what might be done. With an expenditure of some \$2,000,000 a year, it is reliably estimated that the Government saves in its purchases, \$100,000,000 per annum. If that technique could be extended to the consumer at large, by setting up impartial laboratories to which the consumer might appeal for reliable tests on competitive products (not on luxuries, or on the things that we buy for the flair they give our personalities, or for the gloom they give the Joneses), perhaps some liquidation of the enormous burden of ignorance, misinformation, and downright adulteration, might be brought about. Such laboratories would make the beginning of a genuine science of consumption, and, one hopes, go far towards reducing the present fantastic costs of distribution, and so bring the very real economies of mass production within reach of the ultimate consumer.

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DISCUSSION¹

MR. A. S. LELAND (New York City): I want to ask Mr. Thomas if he doesn't feel that mass production has very nearly come to an end when one reads this from Babson's report: "In 1924, a year of poor business, but 1 concern out of 4 was successful. Furthermore, only 162 corporations out of 417,-421 made 29 per cent of the total profits of the whole group. An actual deficit was suffered by 43 per cent of nearly 500,000 corporations. Of these making any profit at all, one-half made less than \$2000 and three-quarters less than \$10,000."

I would like to ask Mr. Thomas if it isn't nearly time to obtain statistics from the corporations which have handed in their reports, according to Babson; if this mass production hasn't very nearly reached its end; and if installment buying and the tremendous increase of the bonds that have been put out by all the states, adding to the amount of money expended, haven't had something to do with this mass production?

MR. WOODLIEF THOMAS: I don't know the answer to your question but I imagine that if you take the statistics of income of the United States put out by the Bureau of Internal Revenue, you will probably find that the corporations that have made the profits are the ones that are doing the mass production, and those that have had the losses are the smaller ones. Whether mass production has come to an end or not, I cannot say; I am not a technical expert. Mr. Chase has written a good book on that topic, and he says not.

HON. W. R. GREEN (Council Bluffs, Iowa): Mr. Chairman, while I doubt whether I can add anything important to this discussion, as a Member of Congress representing a purely agricultural district of the Middle West, I have been very much interested in the able presentation of the difficulties of the

¹ The informal discussion following the addresses and papers by Mr. Woodlief Thomas, Professor Paul H. Douglas, Hon. Franklin W. Fort, Professor Ernest M. Patterson and Mr. Stuart Chase at the Morning Session of the Conference is here reproduced in large part, with the omission of platform amenities and with some abbreviation.—ED.

farmer which has been made by my colleague, Mr. Fort. It is by far the best exposition of the causes of the agricultural depression that I have ever heard.

Let me say in connection with part of his remarks, that I think there can be little inference drawn from the increase of mortgages on the farms of the Middle West. That was largely due to speculation which induced a rapid sale of farms; some owners fondly imagined that they were going to be able to retire on the profits of rising speculative prices. In this connection also I might refer to the remarks of another speaker as to the benefits which might accrue from, as I took it to be, an inflation of currency. We of the Middle West are inclined to attribute a great deal of our trouble to the fact that the Federal Reserve Board in the years after the war saw fit to inflate currency and credits to the extent of \$2,000,000,000 and thereby brought on that active speculative rise in values of farms. As the result finally showed, and, as Mr. Fort specifically pointed out, the rise of prices increased the capital investment to such an extent that a profitable return can no longer be made thereon.

Now just a word with reference to the tariff. It was pointed out by one speaker that the United States had received—as it undoubtedly has—great benefits from the fact that the principles of free trade are applied throughout the vast extent of this country with all its great resources, but I doubt whether the inference can be drawn that free trade or freer trade would result in the same way if we undertook to put the whole world under its influence. It certainly would cause a great readjustment of the business situation and of the manufacturing situation, especially in this country. Our mass production that now exists in this country would probably, under such circumstances, be transferred to the fields of Europe, where labor is so much cheaper than it is here. Possibly in the long run that might be to the benefit of the world, if all of the world would join in the readjustment, but there comes the trouble. Here in the United States, while we have not a homogeneous population, still we exist largely under the same laws and the same customs. Consequently, when industry fails in one locality, those who are engaged in it can easily remove to another and perhaps engage in some profitable enterprise, but that cannot

be done so easily where conditions are such as they are in Europe, nor would it be done so easily if we were to undertake to have this ideal condition of free trade throughout the world.

MR. DONALD M. MARVIN (Montreal, Canada): In connection with Dr. Douglas' answer to Foster's and Catchings' proposition, I would like to know how you are going to achieve two ends at the same time: one, regulating the money supply with relation to unemployment and prices, which is an internal factor; and in the second place, regulating the money supply in regard to foreign exchange, which is an external factor? I can see how either one of the two can be done but I cannot see how both can be done.

CHAIRMAN MITCHELL: This question is addressed to Professor Douglas, who, I fear, is not present.¹ He was called out. Unless some one of the other speakers will volunteer to make an answer for him, I am afraid we shall have to treat it as a rhetorical question.

COLONEL MALCOLM C. RORTY (New York City): On this problem of stabilizing business in general, I might refer to the work of the Federal Reserve Board, to the achievements of the railroad systems, or to the growing feeling on the part of business men, industrial leaders generally, that they have an obligation to the country as a whole, to their own employees and to themselves in particular, to lead their business in the paths of stability. These things are all-important.

It seems to me that this problem of stabilizing business goes back perhaps to Plato's *Republic*. As you know, he discussed at great length the problem of getting a willing following for intelligent leadership, and that I think is the great problem of business and of society and of politics. In so far as we are approaching a greater stability in business, it is due to the fact that we are acquiring leaders in business, in industry and in politics who are intelligent and who deserve to be trusted because they are using their intelligence in the public interest; they are recognizing their obligation as leaders in industry, business and politics. Above all else, the ordinary man who is not a leader, who perhaps lacks the qualities of intelligence

¹ See Dr. Lindsay's explanation, *infra*, p. 55.

to fit himself for leadership, is beginning to follow the intelligent leadership which does exist, because he has confidence in that leadership.

I emphasize this aspect of the problem because I have been traveling to a good many of the far ends of the earth in the last three or four years and have found conditions of instability based almost wholly upon untrustworthy or unintelligent leadership, thoroughly distrusted by the masses of the people. When you are looking for stability in business or in politics or in any other direction, you go right back to Plato's old problem.

The one specific thing that I would like to speak of today is Professor Mitchell's own work. My own inclination is to use dynamite on an economic fallacy. Professor Mitchell applies the solvent of his genial personality and of his incisive reasoning, and the fallacy vanishes never to be seen again. I have had the privilege of reading some of the advance text in his *Analysis of Business Cycles*, and I am quite certain when he finishes that work that no business cycle will dare to conduct itself in any other way than as he points out.

PRESIDENT LINDSAY: Mr. Chairman, I would like to say a word about Professor Douglas. I am sure all of those who know him will be already assured that he is one of the last men to run away from a discussion. I think perhaps it ought to have been stated at the outset this morning that he came here at great personal sacrifice, which we much appreciate, to take part in this meeting, in connection with another engagement made long previously to make an address at Amherst College this evening, and in order to make that connection he had to leave on a twelve-o'clock train, so he left the room some little time ago to make that train connection.

I hope that the Chairman himself will answer Mr. Marvin's question. No one here is probably as competent to give the audience the answer that ought to be made to that very interesting question.

With reference to the remarks that Judge Green made,¹ it is very gratifying to have the participation of the distinguished Chairman of the Ways and Means Committee, who honors us so often with his presence on these occasions. Unless I mis-

¹ Cf. *supra*, p. 53.

understood Dr. Douglas, I gathered that his statement with reference to free trade was intended not to advocate or even suggest the necessity for the adoption of world-wide free trade or free trade between the United States and other countries. If I did not misunderstand his statement, it was to the effect that if Europe wanted to find the reason for our prosperity, one great element was the wide range of area over which free trade existed between our states, and that perhaps a similar arrangement between the various countries of Europe, occupying a less wide area, might produce somewhat the same result.

I have no authority to speak for Dr. Douglas. I do not know what his views on free trade may be. It may be that he would want to take up the question that Judge Green put and advocate a wider extension of the principle to which reference was made in his address, but as far as the address here this morning went, if I did not misunderstand it, I think it was confined to the possible results of free trade between countries in Europe.

CHAIRMAN MITCHELL: I should be very glad to answer the question which Mr. Marvin put to Professor Douglas but if I started on it there would be no one to apply the five-minute rule which must be strictly enforced, and more than that, I would be glad to leave a small company of people for at least a short interval of time with the illusion that the charming remarks of Mr. Rorty have no doubt created in your mind. I will do nothing at all to disturb that illusion.

REV. JAMES DE HART BRUEN (Belvidere, New Jersey): Mr. Chairman, I would like to ask a general question. What effect has mass production had on the terrible crisis in China, and what had we better do about the mass production introduced in China?

CHAIRMAN MITCHELL: Is there someone among the speakers or someone among the audience who is in a position to comment upon this broad problem? I am afraid you have floored us.

COMMANDER HUGO W. KOEHLER (Naval War College, Newport, R. I.): Congressman Green commented on the fact that if we had free trade, because of the cheap labor abroad our mass production would probably leave us. I

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am no particular free-trader, but I would like to ask two questions about it. In the first place, mass production requires relatively little labor, and cannot use cheap labor. Would it, then, migrate to obtain cheap labor? Secondly, is labor abroad really cheaper, or will it continue to be so as long as Europeans are fed pretty generally on wheat that is grown at American wages? Their labor comes pretty near to being what ours is, for the cost of labor to industry certainly is not the same as the amount of wages. Most of our people who have gone into manufacture over there tell us that labor is really cheaper in this country than it is abroad, although wages are less there. For instance, the International Harvester people, who tried to make plows in Russia, found that it always cost them a great deal more to make them there notwithstanding much smaller wages, and I could multiply examples of that sort of thing. So I would submit that it is not a foregone conclusion—indeed, it isn't even likely, that a lower tariff or free trade would deprive America of mass production.

MR. W. R. GREEN: I would rather let that question be answered by the great American manufacturers who insist they need tariff protection against cheap labor abroad.

HON. FRANKLIN W. FORT: Mr. Chairman, I didn't take the time in my earlier remarks to comment on what Dr. Douglas had said. In view of this discussion and particularly the last question from the floor it is of interest to observe that Mr. Frank W. Murphy of Wheaton, Minnesota, one of the outstanding spokesmen for those who desire legislation for the relief of agriculture, presented to the Committee on Agriculture of the House a very interesting analysis of the American economic system, which bears directly upon this question of Mr. Koehler's. He calls our system the American protective system, in which the protective tariff is but an incident. The American protective system as it relates to the need or the lack of need for a protective tariff or for farm-relief legislation consists not only of tariff but of immigration restriction, of legislation limiting the hours of labor, of compulsory workmen's compensation and pension systems in many states, of rate regulation of utilities and railroads, and of the centralized control of credits through Federal Reserve Banks.

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We are not, as a nation in competition with the other nations of the world industrially, either hampered or benefited, therefore, solely by tariff protection. We are hampered or benefited as your viewpoint may be, by a complete code which has built a wall around industry and labor alike and around finance and transportation simultaneously. My only reason for this comment is that, candidly recognizing, as I think most men who have thought on economics at all do, the scientific desirability in an ideal world of universal free trade, I believe that the United States has reached a point in governmental development of all of its relations to its people and its industries, which demands that the system be consistent, either in the affording of equal protection to agriculture, industry and labor or in the wiping out of all the protections to any of them.

Therefore, bearing in mind the practical implications of an effort to wipe out all of the protections, bearing in mind that that effort would probably result, if economists were kings, in their ceasing to be kings, it seems to me that it is up to all of us to bend our minds to the perfection of the system that we have, in order that its burdens may bear as little as possible, where they are burdens, and that the benefits may be extended as widely as possible where they are benefits.

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PART II

SOME INTERNATIONAL ASPECTS OF BUSINESS STABILITY

REPERCUSSION UPON INTERNATIONAL COMMERCE OF REDUCED PURCHASING POWER

ERNEST MINOR PATTERSON

Professor of Economics, University of Pennsylvania

THIS rather cumbersome title is not the invention of the writer. It is taken verbatim from the agenda of the International Economic Conference starting in Geneva on May 4th. Perhaps its awkward phraseology is due to an original formulation in French and subsequent translation into English. But no matter what the explanation, further translation may be necessary.

Presumably it is proposed for discussion because it is thought that the purchasing power of certain countries has been reduced and that the world's foreign trade has been affected. A *prima facie* case is established for this view by the report of the Preparatory Committee of the International Economic Conference. From 1913 to 1925 world population increased five per cent and the foreign trade of the world gained by exactly the same percentage. But in Europe (excluding Russia) population was four per cent greater in 1925 while the quantum of trade was six per cent less or only 94 per cent of that in 1913. In 1924 it was only 89 per cent of the 1913 amount. In these calculations every attempt has been made to allow for changed price levels, for altered national boundary lines and for all other disturbing factors. The foreign trade of North America, the Caribbean region, Asia (excluding Asiatic Russia) and Oceania has grown more rapidly than the population of these areas. The trade of Europe (including Asiatic Russia), South America and Africa has grown less rapidly than their populations and in each instance is actually less than in 1913. It may be that the decline in foreign purchases and sales is a reflection of a reduced purchasing power in these areas; that each country concerned has produced less, exported less, and as a result has been able to import less than formerly.

But hasty conclusions should not be drawn. A recent article in an American journal is entitled "Business Has Wings."

Economic life is dynamic. Shifts in the direction and volume of trade may come suddenly and for a variety of reasons. My sales to a customer may decline for other causes than a sudden reduction in his purchasing power. For example he may be purchasing as much or even more than before but from some one else whose prices are lower or whose goods have a superior attractiveness.

In the field of international trade many factors are involved. British exports to Italy might fall because of hydroelectric development in the latter country which lessens the demand for British coal but is not to be interpreted as on the whole an evidence of a reduced Italian purchasing power. Russia may import fewer goods because of the lowered purchasing power of that country, but there may also enter into the situation an outside hostility to Russian economic and political theory and practice that aids in slowing up the foreign trade of that country. British India is buying less cotton piece goods from the United Kingdom, but this is not necessarily due to a reduced purchasing power of the people of India. We must inquire whether they have merely shifted their purchases to some other country or perhaps are manufacturing more cotton goods of an equivalent grade in domestic mills. Perhaps there has been a shift from the use of foreign cotton goods to those of home manufacture, of the same value. In many cases the explanation may be found in import restrictions, such as high tariffs. These obstacles to trade, rather than reduced purchasing power, may be the more immediate and direct explanation.

Then, too, it is not easy to be sure that purchasing power has altered. We might fancy that reduced productivity means reduced purchasing power. A business crisis, many bankruptcies, a large number of unemployed, factories idle, a decline in the volume of transportation—all these suggest a reduced purchasing power. Yet the country affected may have excellent foreign credit and maintain its imports by the use of borrowed funds. Purchasing power is the equivalent of demand as economists ordinarily use the term. It is desire plus ability to purchase the article in question. It does not matter whether the ability to pay is secured by the sale of goods just produced or by borrowing abroad. There is also often a delay

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in purchasing—a lack of will to buy even when there is an abundance of purchasing power—due possibly to a hope that prices will decline.

Then, too, what shall be said of annual interest payments made by the government of a given country or by its nationals? Before the late war the United States was a debtor country and each year paid several hundred million dollars to foreign owners of American securities. To that extent the people of the United States were delivering goods and services for which they were taking nothing in exchange. It might be said that American purchasing power was reduced to that extent. Germany is to pay large sums each year on reparation account; various other countries are similarly obligated to make large external payments, the United States government and its nationals being the chief creditors. To the extent that these sums are paid the ability of the people of these foreign countries to take our products is reduced. For practical business purposes their purchasing power is reduced and there are repercussions upon our foreign trade—a pressure to increase our imports while the aggregate of our exports may tend to diminish.

Three illustrations of reduced national purchasing power that have already had repercussions upon international trade may be considered here, each one briefly. They are British India, Germany, and Great Britain.

British India

Valued at 1913 prices, the imports of British India in recent years compared with 1913 as 100 have ranged from 65.5 per cent in 1923 to 77.6 per cent in 1920. In 1924 they were 74.8 per cent of the imports in 1913. During most of that time the exports also were below those of 1913, although in 1924 they were 2.4 per cent above.

This reduction in imports reflected many things. One was a disorganized financial condition that hampered foreign trade. Import duties have also played a part. Yet there seems to have clearly been a reduced purchasing power. Exports in many lines declined. Tea held its own, and jute cloth increased as did cotton and cotton-piece goods. But cotton yarn, jute, rice, wheat, cotton seed and other articles declined, some of them to a very serious extent.

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This reduced purchasing power has shown itself in a number of interesting ways. One of the most important is in the consumption of cotton cloth which may probably be classed as a necessity for the Indian. The amount worn, especially by the average man, can not be materially lessened for, as one writer has put it, while an Englishman wastes his clothes the Indian merely clothes his waist.

The yardage worn by his wife is much greater and is, I believe, largely determined by custom or social law. When purchasing power is lowered the amount worn may be lessened but much more can be done by shifting to the cheaper grades of cloth. For twenty years the number of yards of cotton goods produced and imported per capita has not changed appreciably except for a rise in 1911-15 followed by a corresponding slump in 1916-20. The average for twenty years is about 13 yards. But the amount imported has fallen from seven yards per capita in the period from 1896 to 1910 and eight yards from 1911 to 1915, to only four yards from 1916 to date. Cotton cloth produced on hand looms was about three yards per capita twenty years ago but for ten years past has been some four yards per capita. Production by the Indian mills has increased from two yards per capita to five yards per capita in the same period. As the price of cotton cloth has risen as compared with his purchasing power, the Indian has used more of the cheaper goods of local manufacture.

Not only have the cotton-goods imports been reduced in amount but the origin of the imports has altered. In 1913-14 the United Kingdom supplied 97 per cent of these imports and in 1923-24 only 89 per cent of the greatly reduced amount. Japan in the same period increased her share from three-tenths of one per cent to over eight per cent. The imports from Japan were of a cheaper grade. The effect of this and of similar changes in other parts of the world on British export trade is reflected in the distressing condition of the cotton manufacturing industry of Lancashire.

Germany

Germany's productivity declined very rapidly in 1923. For several years ending with 1922 industry and agriculture had been very active. Reacting from the depression during the

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war, stimulated by the world-wide inflation of 1919-20, and then by her own inflation there had been a remarkable recovery. Although fixed capital was abundant there was a growing shortage of working capital. With the invasion of the Ruhr early in 1923 there came a general let-down which spread over the entire country. The crisis late in the fall was followed by many months of depression. In spite of the stimulus of loans under the Dawes plan and otherwise there is even yet only a partial recovery.

Nevertheless the most serious reaction was in 1923 and the early part of 1924. Monthly production of coal fell from ten or eleven million tons to some six million tons in 1923; of pig iron from 650,000 tons to slightly more than 400,000. Unemployment which was only six-tenths of one per cent of trade-union membership in June 1922 was over twenty-eight per cent in December, 1923. Everywhere there were signs of decreased productivity.

Ever since the war German exports had been low and in 1922 were only 61.3 per cent of 1913. In 1923 they fell to 52.8 per cent and in 1924 to 50.8 per cent. Imports also declined. In 1922 they were 58.5 per cent of 1913 and in 1923 only 44.6 per cent.

For a time the combination of problems faced by Germany caused a weakened foreign trade. Both imports and exports declined. Reduced productivity was not only giving less for domestic consumption but less for export. Reduced exports meant a shortage of foreign exchange and consequent difficulty in buying abroad. Many goods that were imported found a slow sale because of the unemployment and consequent low purchasing power of the German public.

But this lasted only a short time. In 1922 (to repeat) imports had been 58.5 per cent of 1913 and in 1923 they fell to 44.6 per cent. In 1924 they rose sharply to 62.9 per cent and in 1925 to 83.6 per cent. In 1926 they declined, but no calculations are available as to the percentage of 1913 at the 1913 price level. Exports changed in a very different manner. From 61.3 per cent of 1913 in 1922 they fell to 52.8 per cent in 1923, to only 50.8 per cent in 1924 and then rose to 65.4 per cent in 1925. In 1926 they gained slightly, exceeding the imports for the year, although in the latter half of the year the balance was distinctly unfavorable.

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Germany's experience shows a reduced purchasing power sharply and promptly reflected in both imports and exports, especially in exports. Then imports promptly recovered, reaching in 1925 the highest post-war level, i. e. 83.4 per cent of 1913. Exports gained more slowly and in 1925 were still far below pre-war and at 65.4 per cent of 1913 were only a little above 1922. The explanation is to be found partly in the fact that German credit was temporarily weak. With financial improvement of 1924 loans abroad were readily floated and with the proceeds goods were purchased for import. This is an illustration of reduced productivity with a temporary reduction in national purchasing power and a prompt reaction on foreign trade, followed quickly by an increase in purchasing power. The purchases were made from borrowed funds in confident anticipation of a renewal of German productivity.

The United Kingdom

We have used India to show how reduced national purchasing power may be diverted into new channels, either foreign or domestic, and Germany to illustrate how national purchasing power may persist or be revived by the use of foreign credits. Many more suggestions could be found if time permitted a detailed discussion of either country. The United Kingdom's experiences also illustrate many points, but only one or two will be emphasized.

British productivity has clearly been less during the last few years than it was before the war. Unemployment figures, though large, are not the only evidence. They may be, as some argue, little more than an evidence of a growing population. The increase in unemployed may perhaps just about equal the addition to the working population in the last few years. But other indices are present. Ignoring the disasters of 1926, there is clear evidence of a decline in productivity. Coal, pig iron, shipbuilding and other lines show a smaller output than in 1913. Exports at 1913 prices were in 1921 only 49.9 per cent of 1913, gradually rising to 80.6 per cent in 1924 and then declining slightly to 80 per cent in 1925. Imports fell in 1921 to 74.3 per cent of 1913 and then rose until in 1925 they were 111.1 per cent of 1913.

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Here is a period during which imports were down particularly because of a decline in exports. Inability to sell manufactured goods abroad meant that orders for raw materials were reduced and imports declined. Later imports increased much more than did the exports.

Just how this could occur is revealed by an analysis of the two groups of trade. In terms of 1913 prices total imports were greater in 1925 than in 1913 but this gain is attributable to one group, i. e. food, drink and tobacco. Still speaking in terms of the 1913 price level, imports of food, drink and tobacco were worth £295,000,000 in 1913 and considerably more than £300,000,000 in 1925. Imports of articles mainly unmanufactured, i. e., raw materials, fell from £270,000,000 to less than £200,000,000 and of articles mainly manufactured from £201,000,000 to about £185,000,000. Great Britain relies on the outside world for food and raw materials and markets. Food imports have been maintained to feed a growing population even though markets have been poor and raw materials could not be purchased as before.

How serious this is we may see if we examine the balance of payments of Great Britain for several years past. In pre-war days the balance was favorable and large. The Board of Trade now estimates it at only £86,000,000 for 1924, at £54,000,000 for 1925 and finds an unfavorable balance of £12,000,000 for 1926. If this is correct the British overseas investments in 1926 were more than offset by borrowing abroad. This reduction in capital may not be repeated, but the decline in income available for investment overseas has been going on for several years.

In conclusion brief reference may be made to the debtors of the United States and their purchasing power. It is often observed that our large export balance of trade may be modified or reversed at some future date. Our private foreign investments total probably \$11,000,000,000. In 1925 interest and dividends on our holdings of foreign securities was estimated at \$520,000,000 and it is growing each year. Combined with the amount due our government under the funding agreements the total per annum is now \$700,000,000 or more.

We are still making new loans, most or all of them to countries already our debtors. Many of these countries have a

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reduced purchasing power and for that reason are borrowing from us to secure commodities they need. We buy their securities, i. e. we lend to them. They use the proceeds of the loans for purchases in the United States and our export trade is maintained.

Presumably in time this movement will be retarded. Demand for loans at least in some countries will diminish. The interest due us each year will be very large and perhaps not all of it will be reinvested. At any rate the volume of new flotations of foreign issues in our markets may decline. There will be something of a tendency for other countries to press their payments on us in the form of imported merchandise. Their reduced purchasing power leading to loans now with a consequent stimulus to exports may in time bring a marked growth in imports.

When this change comes there will be an interesting and curious development. These debtor countries may have a very high productivity and under other conditions a large purchasing power. Their products sent to us would be a demand for our goods, for our exports. But in so far as their products are sent us in payment of interest due on loans their goods will not be a demand for ours. Our exports will be curtailed as we receive what they owe us. Their purchasing power will be lessened in the future because we are lending them so much now. However, their aggregate productivity in the future and the total volume of foreign trade in the years to come may be so great that these items will be of only minor importance.

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FOREIGN CONSUMING POWER AND AMERICAN BUSINESS EXPANSION

VICTOR M. CUTTER

President, United Fruit Company, Boston, Mass.

THE first quarter of the present century has furnished the greatest era of industrial and commercial expansion, together with the greatest development in transportation and communications, in the world's history.

The vast increase in production of goods and the improvement in means for distributing them all over the world have created many problems, and among them the question of whether there is sufficient consuming power to absorb present-day production without shutting down the industrial and commercial machinery of the world.

There is undoubtedly a steadfast belief on the part of American business men, if not of American economists, in a rising tide of wages, standards of living, and business prosperity, accompanied possibly by crests and troughs, but nevertheless always rising. This belief echoes the economic history of the world. Our problem is to make the rising tide flow in smoothly, without business storms with their crests of inflation and troughs of unemployment and suffering. In our own country production has been largely solved and now bids fair to run into overproduction. With a surplus on hand the next step appears to be distribution of this production to consumers all over the world and, following distribution, an accurate measuring and developing of consuming power, not only of our own country but of the entire world, before we resort to governmental aid to business or other untried remedies.

The markets of the world are now one market and should in the future be regarded as one. Nations, companies, and individuals buy and sell all over the world regardless of debts or other factors. International commerce has steadily increased from the beginning of history and as it has increased so has the world steadily progressed through the ages, and economic growth, production of goods, and finally higher standards of

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living and culture have followed foreign trade and commerce, but have never preceded it.

If our problem were national only and we were isolated from the rest of the world, the solution would be much simpler. Cooperation in our industries, governmental expenditures in times of depression, and other devices would largely solve our problems. Under present conditions, however, America has responsibilities in the interdependent world market and there is no hope of extricating ourselves from them. Any assumption of economic independence by any nation today is absurd. We can control to some extent our own economic factors, but we are faced with the difficulty of being dependent on the rest of the world for so large a percentage of the goods for which we have created desires and which we must import, that we lose our independence on this count alone. We must have rubber, wool, chemicals, nitrates, silk, flax, hemp, jute, potash, nickel, tin, manganese, vegetable oils, tea, cocoa, rice, spices, coffee, and other foreign products.

Even if we were able to dispose of our surplus goods within our own boundaries, it would still be foolish not to take advantage of world markets. Of our total trade of some eighty billions nearly ten are foreign trade. Regulation of production by law would not help us to any great extent because it would limit us and would not control the rest of the world. Government expenditures for non-productive public works on a large scale are worthy of careful consideration, but are an unproven remedy for overproduction, unemployment and business depression. To the average business man government expenditures would probably appear to provide an artificial remedy which would have no beneficial effect upon, and might easily be more than offset by, business depression in other countries.

The foreign consuming power of the world, on the other hand, offers vast opportunities, not only for great expansion of our trade, but also for stability. With present-day means of transportation and communication, no economic discussion should be limited by national or political boundaries.

There is no necessity here for statistics on the economic situation of the rest of the world. For purposes of solving our own economic problems we may dismiss Europe from con-

sideration with the statement that for years to come there will be the usual interchange of manufactured goods and absorption by that continent of a certain proportion of our raw materials, but without much hope for helpful expansion of our trade in that continent.

If recent trends are an indication, it is probable that within five years over one-half of the world trade will be outside of Europe. At present about eighty per cent of our foreign investments are outside of this continent. The other three great continents (Africa, Asia and South America), containing the greater part of the world's population and therefore the bulk of its potential consuming power, the greater part of the world's undeveloped resources, with the richest soil and most equable climatic conditions, need no statistics to awaken visions of their effect on the expansion of our trade, the stabilization of our industries, as soon as we have sufficient imagination and energy to begin the simple process of widening the markets for American brains, methods of production, capital, surplus raw materials, and manufactured goods.

We do not know how much higher our own consuming power—the highest in the world—may be driven, nor do we know the exact methods for increasing it. On the other hand, we do know that the vast masses of other humans in the less developed countries of the three continents mentioned have at present an extremely low consuming power, and we also know that this power can be raised at least to approach our own level. Further, we have had experience and knowledge of sure methods for raising their standard of living and consequently their consuming power.

The greatest industrial organizations of today, those which are most stable, least subject to fluctuations in earning power and the steadiest in payment of dividends, are those which have a world market—telephone and cable, steel, oil, electric, etc. It logically follows that the greatest producing country should, for purposes of stability and expansion, have the widest markets. The fact is that business creates business. An enterprise as it grows becomes more and more a development of entirely new markets so extensive that competition and local depression have less effect.

Economists point to our tariff as hampering imports and to

the impossibility of selling to the rest of the world more goods than it can pay for. Nevertheless, the volume of our imports has steadily increased in spite of our tariff, and our volume of exports in spite of huge amounts owed us. Any lag in exports in recent years has been generally due to falling price levels and not to volume of business. Exports of American manufactures of unrivaled quality have increased steadily during recent years in spite of the alleged inability of the debtor world to pay. In other words, the economic theories least likely to work are those which fail to make allowance for higher standards of living and human growth, and for expansion of money and other necessary media for development, business expansion, and widening of markets.

In this discussion of utilizing the consuming power of the world outside of our own country as a means of expanding our own business, some limitations on international or foreign trade must be kept clearly in mind. First, there should be a definition of foreign trade, which we usually visualize as exports and imports made directly and requiring direct payments and directly affecting the balance of trade as between the countries involved. This does not correspond with present-day facts. Foreign trade today might better be defined as an international exchange of goods, machinery, capital, exactly similar to all economic exchanges which take place within any one country. It is no longer a simple matter of import and export with a few countries. Today it signifies world contacts and exchanging a national viewpoint for an international one.

Foreign trade should not include imperialism, which leads to discord and possibly war. Further, as an economic policy imperialism is of doubtful benefit. For instance, about one per cent of the foreign trade of Great Britain is with her African possessions. In the case of Indo-China, where French influence and laws give preference to France, the fact is that most of the trade of that dependency, both import and export, goes to other countries. Our own Philippine Islands have never been profitable as a possession.

Foreign markets should not be looked upon as a dumping ground for surplus products, but as places in which we can exchange our surplus of the goods which are most economically produced in this country for the goods which are produced under similar conditions in other countries.

Foreign trade should be developed carefully and consistently, just as we develop our industries within this country. It certainly should not be pursued to an extent which would involve lowering our own standards of living and wages. If removal of tariff protection involves lowering of these standards, we should accept the handicap of retaining the tariff, although it hurts our foreign trade. In other words, foreign trade should not be a scramble or fight for markets, but an orderly process of distribution of goods and capital governed by economic needs in various parts of the world.

There is to-day some difference of opinion among our best business men and economists as to whether there will be a surplus of goods after the next ten years. This should not, however, prevent our making intelligent plans for foreign commerce and extension of our markets in an orderly way, with confidence that power developments and mechanical inventions will continue to add to our capacity for production in the future as in the past. There is, in any event, a rather strong consensus of opinion that we cannot find an outlet for surplus capital in our own country. It is quite possible that investment of banking capital abroad may become the most important factor in our export trade.

Development of international trade should not be considered a remedy for any industrial crisis which may be facing us within the near future. The building of such a trade is a slow process over a long period of years, but once built it does offer the most nearly permanent proven remedy for business depression and means of stabilization in any given country.

National Foreign Trade Council figures show that the world is short more than two hundred billion dollars' worth of exports which would have been added to international trade except for the economic disturbances caused by the world war. In 1913 the seventy-two nations doing ninety per cent of the world's export business had a trade of over nineteen billion dollars. Twelve years later, in 1925, the corresponding figure stood at only twenty billion dollars, allowing for reduction to the 1913 buying power of the dollar.

For thirteen years preceding the war the annual growth in world exports was a little over six per cent, allowing for the inflation of gold. In twelve years since 1913, there has been

an increase of only three and four-tenths per cent in the actual value of exports circulating in the world. Had the pre-war growth continued, the world would have been doing over forty billions of export trade at 1913 values, instead of twenty billions, the actual figure. At 1925 dollar values it would have been over sixty-two billions instead of just over thirty billions.

In the last three years there has been a gain of more than ten per cent annually in world exports, but even at this rate it will take years to make up ground lost during the war. Our country has gained almost thirty-two per cent in exports since 1913 and has made the greatest gain of all nations in volume of trade acquired; yet we are more than two billion dollars behind the export trade we would probably have enjoyed if the pre-war gain had been uninterrupted. We are at least ten years short of catching up with our normal foreign trade, and the rest of the world is at least thirty years in arrears.

During the last quarter-century means for transportation—ships, motor cars, airplanes, roads—and facilities for communication—telephone, telegraph, wireless—have enormously increased. Our own country leads in development in all of these instruments of modern commerce. The automobile, unquestionably the largest single factor in our present prosperity, will undoubtedly do for the rest of the world what it has accomplished for us. We produce ninety per cent of the automobiles of the world. In the marketing of this product alone throughout the world we have a vast opportunity for stabilization and expansion of our own industry.

Latin America is the one trade area of the three vast ones mentioned which we should especially cultivate. Geographically and politically it is the most favorably situated, and its countries are and will remain for a long period of years agricultural and will need our manufactured goods. A large proportion of our foreign loans are now in South America and banking connections have been made. The influence of the motor car has been felt and this has started for the first time in the history of Latin America the era of road-building, the one essential factor in releasing the vast potential wealth of these countries. It is safe to predict a greater growth in Latin American trade in the next ten years than we have witnessed in all the years since the Spanish Conquest.

An example of the possibility of increasing consuming power in undeveloped countries is the case of my own company, fifteen years ago doing a merchandise business of three million dollars in the undeveloped coastal regions of the Caribbean, and to-day doing a business of ten million dollars, and this with a negligible increase in population.

Surely the facts presented must convince us of the importance of the latent consuming power of the undeveloped continents as a possible means of stabilizing and expanding our own commerce.

It is impossible to see how we can attain our ideals without an exchange of goods, especially with the undeveloped countries. Such an exchange is necessary to enable backward nations and peoples to raise their standards of living and consuming power. Our own growth was at first entirely dependent on the entry of England and Europe into foreign trade. If we now withhold our methods of production, splendid machinery, capital, and business experience from the rest of the world, we shall delay for many years the progress of all mankind, including ourselves. Our economic future depends directly upon our own vision and initiative. We should begin immediately to take our rightful place in the markets of the world.

THE RELATION OF INTERNATIONAL DEBT PAYMENTS TO DOMESTIC PURCHASING POWER

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THE paper which follows is an analysis of principles rather than a study in statistics. The central problem is the relation of international debt payments to domestic purchasing power. This question has two sides, namely, domestic purchasing power in the debtor country and domestic purchasing power in the creditor country. My central proposition is that the payment of international debts reduces domestic purchasing power by an amount equal to the payment in the debtor country, and increases domestic purchasing power by the same amount in the creditor country. Under varying conditions, which I shall analyze, this proposition will need qualification, particularly with respect to the amount of time required for the principles to work out.

The Essential Preconditions

In one extreme case the proposition clearly is not true. When the movable wealth of the debtor country is forcibly seized and thrown upon the markets to bring what cash it may in payment to the creditor country, the loss in domestic purchasing power in the debtor country far outweighs the gain in domestic purchasing power in the creditor country. This was exemplified on a great scale in connection with the seizure and sale of Germany's mercantile marine and other movable assets in the period following shortly after the War. The loss to Germany was enormous, and the gain to the Allies was not very great. It has been true also at times in connection with deliveries in kind under governmental control. Governments are not good merchants. They can easily demoralize markets by their clumsy efforts at merchandising. I hasten to add that deliveries in kind under the Dawes plan have involved the cooperation of merchants and producers, and have been de-

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signed to obviate difficulties of this sort. The proposition that the gain to the creditor equals in money value the loss to the debtor in money value is maintained only on the following assumptions: (a) that ordinary commercial methods are used in making the payments, (b) that both debtor and creditor countries are firmly fixed on the gold standard, and (c) that the world's markets are reasonably open to the international movements of goods.

Further qualifications are necessary. (a) The magnitudes of the payments must bear a reasonable relation to the wealth and income both of the debtor and of the creditor. In this connection, it may be observed that the sums to be transmitted from Europe to the United States make a very much bigger percentage difference to Europe than they do to the United States. The combined annual income of Great Britain, France, Italy and Belgium is decidedly less than the annual income of the people of the United States. (b) Serious complications can arise if only one large payment is made, and complications somewhat less serious may arise if large annual payments are suddenly inaugurated, whereas if the payments begin with moderate annual installments and work up gradually to large sums the process of adjustment may be relatively simple. Conversely, it may be noted that a high schedule of payments, established for several years and then suddenly ceasing, may likewise bring about serious problems of adjustment which could be avoided if the schedules contemplated a gradual tapering off toward the end.

The Process of Payment of International Debts

Given favorable conditions with reference to the foregoing points, the process of the payment¹ of international debts is as follows:

1. The debtor country accumulates through taxation within its own borders a fiscal surplus, an excess of taxes over public expenditure, equal to the payment that has to be made in a given year.
2. The creation of this fiscal surplus means that the people of the debtor country have just that much less to spend than

¹ See *Chase Economic Bulletin*, Vol. I, no. 4 and *ibid.*, Vol. IV, no. 1, with reference to this matter.

they would otherwise have to spend, and reduces their domestic buying power by this amount.

3. This fact alone means that the prices of commodities in the debtor country tend to be lower than they would otherwise be, since the people are producing more than they are able to buy at the prices which would otherwise have prevailed.

4. This makes the debtor country a good market in which to buy and a poor market in which to sell, and, consequently, tends to increase its exports and to diminish its imports.

How the Foreign Exchange is Absorbed

5. Consequently, there is an increased demand in the foreign exchange markets of the world for drafts and bills drawn in terms of the currency of the debtor country on the debtor country, and also a reduced supply of such drafts and bills. The exchange markets are, therefore, ready to absorb an increased amount of exchange drawn on the debtor country.

6. Under these conditions, the stage is set for the next step, which is the sale by the debtor country of its own currency in the foreign exchange markets in order to obtain the foreign currencies needed for making payments in the creditor countries. As the debtor country presses the sale of its own currency in the foreign exchange markets, it forces the price of its exchange toward, or to, the lower gold point, and this lowered price of its currency in the foreign exchange markets gives an additional advantage to its exporters and imposes an additional handicap upon its importers, tending still further to increase its exports and to reduce its imports.

7. If the exchange rate of the debtor country is forced down to the lower "gold point," so that an outflow of gold begins, the central bank in the debtor country will be obliged to raise its discount rate with a general tightening of the money market. This gives an additional incentive to domestic producers and exporters to market their goods, and imposes an additional limitation on importers in the purchase of foreign goods, with the result that exports are still further increased and imports still further retarded.

How the Payments are Received

8. Meanwhile the receipt by the creditor country of funds in its own currency obtained from the sale of the debtor's currency in the foreign exchange market increases the aggregate income of the creditor country. There are three uses which the creditor government may make of the funds thus received: (a) it may remit taxes by an equal amount, which increases the buying power of the general public; (b) it may spend the money itself, again increasing the combined buying power of the public and the government; or (c) it may use the funds in paying off public debt, which puts new funds into the capital market, which will be invested and spent, again increasing the aggregate buying power of the country. Under these conditions, prices tend to rise in the creditor country and the creditor country becomes a good market in which to sell and a poorer market in which to buy. Its imports, therefore, tend to increase, and its exports tend to be checked. The increase in its buying power enables it to absorb a correspondingly greater volume of goods. If, in the process, some gold comes in, this tends to relax the money rates, which makes it easier for exporters and producers to hold back goods from the markets, and makes it easier for importers to finance goods from foreign markets, tending still further to increase the imports and to diminish the exports.

The Quantitative Balance

The foregoing analysis shows the way in which the mere fact of debt payments through the creating and transferring of a fiscal surplus via the exchange markets from a creditor to a debtor country leads to increased exports and diminished imports in the debtor country and to increased imports and diminished exports in the creditor country. In principle, the gain in imports plus the loss in exports in the creditor country should equal the gain in exports plus the loss of imports in the debtor country, and the fiscal surplus transmitted should be an equal amount, while the amount of money received by the creditor country should equal any one of the other three quantities.

Smoothing out the Discrepancies—Exchange Rates and Prices

There are certain minor discrepancies in these relationships. The amount received by the creditor country will be less than the amount paid by the debtor country to the extent that the exchange rate of the debtor country is depressed toward the lower gold point. Further, since incomes in large measure come from the sale of goods, there will be a secondary loss in domestic purchasing power in the debtor country, and a secondary gain in domestic purchasing power in the creditor country, to the extent that the forces at work have made different price levels in the two countries. But here again equilibrium factors are at work which limit very definitely these differences. The losses in exchange are limited under the gold standard to variations within the gold points. The discrepancies in price levels might in certain cases be substantial, but, properly handled, need not be. This point will be amplified in the next paragraph.

The tendency toward lower prices in the debtor country is initiated by the reduction in the income of the people through taxation, which is not made up for by increased expenditure on the part of their government. The creation of a fiscal surplus for transfer means that the people and their government are unable to consume at current prices all that the people produce. Domestic purchasing power is reduced by the amount of the fiscal surplus, and the ability of the people to resist foreign demand is correspondingly weakened. When, however, the fiscal surplus is fully transmitted, and goods in equivalent amount have been taken out, the ability of the people to resist further foreign purchases is restored, and their prices tend to come into equilibrium with world prices again. Conversely, when the full amount has been transmitted to and spent by the creditor country, its ability to outbid other countries in the international markets for goods ceases, and its prices tend again toward the world level. In the foregoing analysis it was assumed that a full year's fiscal surplus was created and a full year's accumulation of funds was made before transfer began. This is a needless assumption. If the payments are made monthly or, for that matter, if the debtor country will make monthly purchases of foreign exchange out of the fiscal surplus being created for the purpose

of making the international payments, the price movements may be very slight, while, with a skillful day-by-day purchase of foreign exchange in moderate amounts, with remittances at frequent intervals of moderate amounts to the creditor country, the disturbances and discrepancies can be almost entirely removed. An enduring equilibrium can be reached, with prices in the debtor country only slightly lower than they would otherwise be, and with prices in the creditor country only slightly higher than they would otherwise be, and with the exchange rates averaging only a little lower than would otherwise be the case.¹

Domestic Purchasing Power in Debtor and Creditor Countries

Under these conditions, we can assert the following approximate equivalences: increased imports plus diminished exports in the creditor country are equal to increased exports plus diminished imports in the debtor country; either of these is equal to the fiscal surplus created for transfer; this fiscal surplus created for transfer is equal to the payment received by the creditor country; and either of these sums is equal to the reduction in purchasing power in the debtor country and to the increase in purchasing power in the creditor country.²

The Movements of Goods, and Adjustments in Production and Consumption

There are yet a number of complications to be considered. I have been assuming that the markets are reasonably open to the international movements of goods, not only in the creditor country, but also in other countries. If only the debtor and creditor countries had trade relations with one another, and if the debtor country produced goods of a kind which the creditor

¹ A third discrepancy is possible, so far as the commodity export and import equation is concerned, to the extent that actual gold is used in payment. This may be very substantial if one large payment is made, or if a heavy schedule is suddenly inaugurated, but is of minor importance in any long schedule of payments.

² The analysis ignores emigrants' remittances, tourists' expenditures, and a number of similar "invisible items" in the international balance sheet. Their inclusion would complicate the statement of the case, without altering the essential conclusions. In a statistical study they would have to be dealt with, of course.

country could not easily use—if, for example, both were primarily agricultural countries with similar latitudes and climatic conditions—the difficulties would be great, if not impossible. But where each country has widely diversified production and where the general world markets are reasonably open, the problem is simple. The debtor country increases its exports of a variety of products to whatever countries in the world are prepared to pay most for them, and the creditor country increases its imports of a variety of products from whatever country is prepared to sell them most cheaply. The creditor country would ordinarily increase substantially its direct imports from the debtor country, but might easily take part of its increased imports from a third country which produces things for which it had more use and at prices which it liked better to pay. The milreis exchange produced by German manufactures sent to Brazil, for example, might be used by France to pay Brazil for coffee which she wished to import; and the dollar proceeds of German manufactures sold in the United States might be used by France to pay for cotton purchased in the United States.

When, however, trade restrictions are multiplied, complications arise, and the narrower the channels of international trade, the greater is the difficulty in increasing the flow of international payments.

If, for example, the creditor country refuses to receive an increase in imports, the problem may become one of extreme difficulty. Receipt of payment does not in that case take place by an increase in imports, but rather by a reduction of exports. If the goods formerly exported by the creditor country are goods which it can use at home as, for example, food in an impoverished country whose people would gladly eat more if they could afford it, then the check to exports constitutes a gain to the creditor country. Its people are better fed than before. If, on the other hand, the creditor country is rich and its people are already abundantly fed, and the check to its exports affects an agricultural surplus, then serious difficulties may arise.

Given time, the creditor country can make a readjustment which will enable it to receive payments even without receiving an increase of imports. It may submit to a permanent reduc-

tion of its agricultural exports. It may increase its production for the domestic market, not only of goods, but also of services. Reducing agricultural exports and agricultural production, it may shift part of its agricultural population to factory work, domestic service, or other types of non-agricultural activities. When the adjustment is completed, it can, by virtue of the payments that are being made to it, enjoy a larger consumption in the aggregate than before—an increase in consumption equal to the payment received and equal to the diminished exports. But the process may be prolonged and painful and involve serious financial losses. During the process there may be such disorganization of trade as to mean that the net result is loss rather than gain in domestic purchasing power.

Such a country, on the other hand, if it were willing to receive additional imports of manufactured goods, could readily absorb them, since manufactures take diverse forms, appeal to the higher and not easily satiated wants, and the increased imports of manufactures given in payment of debts would not diminish aggregate demand for domestic manufactures, though they might alter its direction. When such goods, given in payment of debts, are sold in the markets of the creditor country and the proceeds turned over to the government, they really pay for themselves, since the funds turned over to the government constitute, as we have seen above, a net addition to the buying power of the country as a whole.

The Influence of Foreign Loans

The analysis, so far, has ignored the matter of lending on the part of a creditor country and borrowing on the part of a debtor country. If private investors and bankers of the creditor country will lend to the debtor country, in the course of a year, the funds which it needs to make the current payments, this obviously increases domestic buying power in the debtor country which checks the export of goods and facilitates the import of goods. If exactly as much is lent by the creditor country to the debtor country as the debt payment amounts to, obviously export and import relations in both countries are unaffected by the debt payments. If the creditor country lends to other countries in the outside world, whether to the debtor country

or not, it may, while such loans continue to be made adequately, prevent an increase in its imports or a decrease in its exports. It is obvious, however, that transactions of this kind merely defer the problem. If the debtor country borrows as much as it pays, it is not paying its debt, but merely shifting its creditors. If the creditor country lends as much as it receives, it is not receiving payment but merely shifting its debtors.

The problem is not merely deferred by transactions of this kind, it is also intensified. The debt grows under these conditions by compound interest, and the annual loans required on the part of a creditor country, to keep a given relation between its exports and imports, grow increasingly. The efficacy of foreign loans in protecting a trade balance steadily diminishes. With respect to this point, the following figures for the United States are significant and interesting:

EXPORTS AND IMPORTS OF THE UNITED STATES AND FOREIGN SECURITIES¹
PLACED IN THE UNITED STATES (1921-1926)

(In thousands of dollars)

Year	Exports	Imports	Excess of Exports	Foreign Securities
1921	4,485,031	2,509,148	1,975,883	526,517
1922	3,831,777	3,112,747	719,030	631,211
1923	4,167,493	3,792,066	375,427	267,085
1924	4,590,984	3,609,963	981,021	996,570
1925	4,908,743	4,224,226	684,517	1,086,161
1926	4,808,465	4,430,890	377,575	1,145,100

In this connection it may be observed that the tendency toward easier money in the receiving country and dearer money in the paying country would naturally lead to a certain amount of lending by the former and borrowing by the latter, and this tendency is especially to be relied upon to ameliorate unusual tension which may arise at times in the process of payment. This aspect of the matter has been greatly exaggerated in recent years, however, by the altogether abnormal expansion of bank credit in the United States, growing partly out of our very excessive gold holdings, and partly out of the rediscount and open-market policy of the Federal Reserve banks. In the absence of this the volume of our foreign loans would have

¹ Refunding excluded.

been smaller than it has been, and continued bank expansion cannot safely be relied upon as an indefinite source of loan funds in the future.

Intergovernmental Debts and Private Foreign Investments

In conclusion, let me say that the problem of transferring intergovernmental payments is in all essentials the same as the process of transferring payments on private international debts. The difference between them comes, not in the process of transfer, but rather in the process of accumulating the funds to be transferred. It is ordinarily easier to pay interest and amortization on debts privately contracted for commercial and industrial uses than it is to pay interest and amortization on war debts contracted by governments, because the debts privately created have usually given rise to increased production and increased paying power, whereas war debts are usually contracted under circumstances which diminish the wealth and income of the borrowing country.

It is further to be noticed that so far as the position of the United States to-day is concerned, international debt payments are primarily payments to private creditors rather than to the United States Government. So far as the transfer problem is concerned, the interallied debts are very decidedly less important than the debts to private investors, in annual dollar volume. With the continued growth of our foreign investments, this will be increasingly the case for many years.

PART III
GOVERNMENT EXPENDITURES AND
BUSINESS STABILITY

FEDERAL EXPENDITURES AND THE CONSTRUCTION INDUSTRY

HON. WESLEY L. JONES

U. S. Senator from Washington; Chairman of the Committee on Commerce

THE people seem to think that a member of Congress knows all about every question that is brought to his attention. This is a very high compliment, but it is most undeserved. There may be some members who think they are competent to advise those engaged in any line of business how best to run their business. I am not one of them.

I am not a business man. I have never engaged in business. It is not for me to tell the business man what his problems are or how to solve them. He knows his problems better, or ought to know them better, than anyone else; and those who know the problems best are best able to solve their problems.

As a legislator I feel that I can best serve the people by getting the advice and counsel of those who have a practical knowledge of the problems to be met. I often find that what appears to be an ideal solution of a problem from a theoretical standpoint is clearly impractical when tested by actual experience. Therefore, instead of my telling men of affairs how to run their business, I feel that I can best serve them by seeking their counsel and advice. The banker who is honest and patriotic, and most of them are, is better able to suggest a way to meet his problems than a man who knows nothing about them, no matter how learned he may be. And so it is with the merchant, the manufacturer, the farmer and the laborer.

Consequently, when I am asked to tell the business man how to manage his business so as to bring him the best results as well as to furnish more steady employment to labor, I cannot help but feel I am on dangerous ground.

It does not take an experienced business man to realize that steady employment for capital and steady employment for labor are very desirable. How to bring this about is the problem that calls for practical knowledge and experience together with ability and a certain modicum of unselfishness.

There are many earnest, practical men working on this problem, the solution of which means so much happiness to men and homes and stability to business. If our business men will determine the principles to be followed in meeting the situation we will work out the legislative phase of it.

Near the close of the last session of Congress a resolution was introduced by Senator Pepper providing for the appointment of a committee to study the problem of stabilizing industry and business so as to minimize if not do away with the cycles of business depression that have affected business in the past. The Commerce Committee, of which I am Chairman, reported it favorably but it failed to pass. As Chairman of the Committee I have been asked to discuss the problem involved. I feel my inability to do so. I want to get information rather than to give it.

There seems to be general agreement among economists concerning the principle of a Federal "prosperity reserve" for public works in order to expand public works during periods of depression and to do less than the average during periods of active industry. This was recommended by President Harding's Conference on Unemployment, in 1921. In 1922 Senator Kenyon, of Iowa, introduced a bill to authorize the President to advance or retard the commencement of certain forms of public works in accordance with the condition of general business, which attempted to put into legislation the recommendations of the Unemployment Conference. This bill did not pass, but Congress made a large appropriation for public roads with the specific understanding with the governors of a number of states that the work would be undertaken as rapidly as possible during the then prevailing unemployment. Municipal bond sales had been stimulated by the President's Conference on Unemployment for the purpose of expanding public works.

Administratively the principle has been tested. In 1923, when business was active, Secretary Hoover advised the President that it would be unwise to undertake a Federal building program at that time because it would compete with private employers for the same men and materials, and might pyramid the costs for both. As a result the Federal Government did not start its public building program until 1926, and then on a

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very small scale. The Senate Committee on Public Buildings, of which Senator Furnald was Chairman, agreed to an amendment calling upon the Secretary of the Treasury to take into consideration the relative activity of private construction, and to be prepared to expand public buildings work when private construction should fall off.

During the recent session of Congress, Senator Pepper appeared before the Senate Committee on Appropriations proposing that in addition to the usual appropriations for public roads there should be a special authorization for the same purpose to take effect only when private construction should fall one-third below the volume of 1926. The Senate Committee on Appropriations did not feel that it had jurisdiction to introduce this principle as new legislation, and therefore Senator Pepper introduced the resolution to which I have referred and which did not come to a vote because of the crowded condition of the calendar during the closing days of the session.

The basic principle of expanding and contracting Federal appropriations to correspond with fluctuations in the price level of labor and materials has of course also a large field of possible application in appropriations for Federal supplies, although here it would doubtless be more difficult to secure effective regulation. In the sums of money and magnitude of operations involved the greatest application of all is doubtless in the field of state and municipal finance, but for that fortunately we are not responsible in Washington, or at least only indirectly. We have troubles enough of our own. Of course many of the Federal appropriations for public works such as public roads are made on condition that they shall be matched by like appropriations on the part of the states. Presumably if the "prosperity reserve" were adopted as a policy it would exert a great influence upon the adoption of a similar policy to be applied to the matched appropriations of the states. Certainly the example of the Federal government would have a far-reaching influence upon both state and municipal expenditures.

As I stated at the beginning I am unable to do more than say, with regard to this proposal, that I view it with interest and that it merits further study and examination, as was pro-

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vided for in Senator Pepper's resolution, which the Commerce Committee reported favorably. The Department of Commerce has been studying this question for several years and many closely allied problems as well. It has helped me to get together some facts and suggestions on stabilizing construction, which is a very important part of the basic problems involved in the "prosperity reserve" proposal and in any consideration of government expenditures in relation to stability of employment and consumer purchasing power. These I give to you in the hope that they may be tested by the experience of practical business men, and that which is good may be used and that which is bad may be rejected.

From my study and from what I have heard this afternoon, I find that great strides have been made in stabilizing construction. The remarkable trend in the construction industries, in distributing building activity more evenly during the twelve months of the year, is among the outstanding achievements in American industry during the past four or five years. The average building trades worker has been employed probably a fifth or a fourth more days in the year than before the World War. This means directly that building trades workers have not had to go through so many nerve-racking periods of unemployment, and it means that our recent building programs have been executed with at least a hundred thousand fewer building trades workers than would otherwise have been possible and yet with more steady employment for all.

The toll which the American people were directly or indirectly paying because of the fact that their construction program was on a seasonal basis, late in getting under way in the spring, not reaching its period of great activity until June, July, or even August, and falling off sharply after September, with a virtual shutdown during the winter months, becomes apparent when it is realized that from six to seven billion dollars a year, or from seven to ten per cent of the total national income, is devoted to new construction each year. This enormous total exceeds the annual value of the nation's exports or imports and is comparable with the gross operating revenues of its railways. In addition to the hundreds of thousands of building trades workers who are employed directly in construction, a steady building program penetrates into every

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avenue of our social and business life. A few illustrations will make this clear.

Active building means, first of all, that building trades workers are well employed, and that they and their families, a very substantial element in our population, are receiving a steady income. It means that they are good customers of retail stores. This furnishes business to manufacturers and farmers and diffuses prosperity on all sides. When building falls off, on the other hand, as it did customarily in the winter months, the baker, the grocer, the butcher and practically all other retailers suffer. The stoppage of purchases by builders and contractors and the limitation of the purchasing power of the unemployed in the construction field also affects employment in other fields of production. Without new orders there is a decrease in activity and employment in plants producing lumber, brick, cement, iron and steel, tile, glass, hardware, pipe, lath, lime, doors, sheet metal, stoves, furnaces, radiators, plumbing equipment, bath tubs, lighting fixtures, elevators, paint, varnish, stains, wall paper, and a hundred other items running into hundreds of millions of dollars annually. Practically all the people in great areas where lumbering is the leading industry face hard times when building slackens. Many a small town in which building material plants are located suffers likewise. The retailers, wholesalers, and producers of building materials, adding their overhead expenses during the winter to the cost of doing business, either lose money, make smaller profits, or have to pass part of the added cost on to the purchaser. Periods of unemployment in building have often prevented home ownership, resulting in the lapsing of many insurance policies and have kept large numbers of children from receiving the educational training they would otherwise have received.

Thus far we have been considering in the main the immediate effects of our custom of limiting building to times of favorable weather. Let us look back of a large construction program which includes not only homes, apartments, schools, hospitals and other kinds of buildings, but roads and harbor works. Beyond employment for the building trades worker, an active building program means employment to truckmen delivering materials from cars, vessels, warehouses, or storage

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yards. Back of this we find increased employment in thousands of retail establishments, followed by the placing of new orders with producers, and these new orders mean increased transportation both by rail and water and increased employment in factories and shops. It requires thousands of cars and scores of ships to transport the lumber used in New York City alone during a single year, most of it coming from distant points, such as the South, the Great Lakes states and the Pacific Northwest. It takes about one ton of coal to burn one thousand bricks, one ton of coal to produce three tons of lime, and about one ton of coal to produce three tons of cement. Stabilizing construction tends to stabilize the use of coal cars and the output of coal at the mines which means more steady employment for the miners. Stabilizing construction tends to stabilize transportation, mining, manufacture, and vending, to a considerable degree. Back of the steel used in construction come delivery, rail and water transportation, activity in rolling mills and blast furnaces, ore shipments, and mining. Furthermore, it affects the present uneven production of hundreds or thousands of different articles of hardware.

These were some of the considerations which until four or five years ago only a handful of men of unusual insight were beginning to study. An occasional business man of vision expanded a plant at times when plenty of building trades workers were available, and an occasional home-owner left his repairs until a time when a friendly contractor promised that he would be able to give him the services of some of his best men.

But the inertia of centuries of traditions kept building and general construction work a highly seasonal activity. It seemed natural to the prospective home-builder to start building in the spring in order to have a home finished by autumn. It was natural for contractors and building-material dealers to make the greatest efforts for new business at the time when prospective owners were most likely to think of building.

No single group could act alone to put building on a year 'round basis. In 1923, however, a systematic program to unite all groups in a program to make an immediate attack on the problem was devised. The President's Conference on Unemployment, on its adjournment in October, 1921, had recom-

mended a continued study of the causes of periodic unemployment and means of remedying them; and a Committee on Business Cycles and Unemployment, as a result of more than a year's hard work, had suggested some ways for business men to reduce periods of business depression and unemployment. It pointed out that building booms and slumps in the past had actually aggravated the excessive ups and downs of general business activity, whereas construction, taking the nation as a whole, should be used as a balance wheel, speeding up when other industries were slack, and not competing for labor and materials when they were at a peak. But how could prospective builders and all the different groups connected with the construction industries be made to start projects, or hold them back, so as to come at a time when building trades workers and an adequate supply of materials would be available? This problem was very much the same as that of remedying seasonal variations in building activity—in either case the industry and prospective building-owners would have to plan ahead. A number of leaders in various industries and professions connected with construction saw the need for concerted action, and arranged to cooperate with the Department of Commerce in making a study of seasonal operation in the construction industries. A committee was formed, including representatives of building material manufacturers and dealers, real estate men, building trades labor, construction, finance, engineers, architects and contractors. The division of building and housing of the Department of Commerce was asked to obtain the facts on which constructive recommendations could be based. After a year's study the division reported:

Building trades workers in the average American city, it appears from the information gathered in this survey, are employed less than three-fourths of the time at their trade. In the average year these men must be paid enough to support themselves and their families for twelve months on wages received for seven to ten months' work. For most contractors, twelve months' overhead costs of maintaining their offices and staff must be charged against the jobs carried on actively during seven or eight months.

Building supply dealers must maintain establishments big enough to handle a large amount of work during four or five months. These establishments are practically idle during at least three months, and are operating at only a fraction of their capacity during the rest of the year.

Building material manufacturers also have to maintain unnecessarily large plant and equipment or else stock up materials during dull seasons in order to meet peak demands. This of course adds to the cost of their product.

Architects find their office work crowded largely into the first six months of the year, although their field work is often active for some months later.

Intermittent employment conditions keep young men from taking up the building trades, and account in large part for the high hourly wage rates which have lately attracted so much public attention, and give a false impression of actual earnings.

It was found that custom, not climate, was mainly responsible for seasonal idleness in the construction industries, and that cities in the South and on the Pacific Coast were affected much like those on the Canadian border. Practically all the cities studied showed a large percentage of idleness in the building trades, not only from December to March but in other months as well. The difficulties of outdoor construction during winter weather have been lessened by modern methods and materials, and stormy or excessively cold weather was found to interfere with outdoor building probably less than fifteen full working days during the months from November to March in New York. Furthermore, it was found that concrete and masonry work could be well protected from freezing, and that the quality of construction need suffer in no way from cold weather. All that appeared necessary was to get away from old customs and habits of mind. The committee showed the importance of local campaigns based on careful study of the facts by all groups interested. In some communities uniform leasing dates, particularly in the autumn, caused speculative builders to complete a large number of projects at the same time and increased the peak in the business, not only of builders and real estate men, but of telephone, gas, electric, storage, warehouse, and public service companies.

The recommendations showed each group connected with construction how it could help. They received very wide publicity and the situation has improved substantially. Not only has employment in the building trades become steadier, but a striking change in attitude toward the problem has taken place. Builders now tell their customers that the winter is the best time to undertake minor repairs, and the average home-owner

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sees the point. It has become the custom rather than the exception among architects and engineers to consider the probable supply of building-trades workers and materials available in timing the commencement of a building project. This attitude has kept building costs remarkably free from inflationary tendencies during the past few years of active building and may well be credited with a share in preserving generally prosperous business conditions.

Some of the local group efforts, such as that of the New York Building Congress, have had excellent results. A basic study of employment by months in each of the principal building trades showed the months in which there was customarily unemployment. These data have been used as a basis for a series of appeals stressing the importance and advantages of stabilized building activity. In many cases where owners have started work during a period of peak activity they have wisely suspended operations until men became available, whereas formerly it would have seemed natural to them to bid against each other for men and materials. In New York the Building Congress has summarized the case for winter building on large structures, as follows:

1. The direct additional costs due to construction carried on in cold weather are but a small percentage of the total cost of a building.
2. Such direct winter costs are more than offset by savings in other ways.
3. These conditions extend down the scale at least to operations as low as \$100,000.

The indirect savings, which more than counterbalance winter costs, may be enumerated as follows:

1. Elimination of labor bonuses.
2. Reduction of labor turnover.
3. Spread in overhead expense of contractors throughout the year, reducing organization and equipment costs.
4. Tendency of contractors to lower their margin of profit with the idea in mind of securing sufficient work to keep their organization intact during the winter months.
5. Seasonal discounts on materials.
6. Seasonal rates by transportation companies in order to relieve the congested periods.

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7. Saving of interest and taxes on investments lying idle.
8. Earlier returns on investment.

It has followed up such statements with many appeals like the following which have been a feature of similar campaigns in many other cities.

1. Painting and paperhanging: Do interior painting and paper-hanging from December to April.

2. Plumbing: Make alterations and additions from December or January to April. Clean out grease-traps when houses are closed; do not wait until they are open again.

3. Heating: Overhaul and repair your heating plant when you shut down in the spring; plan major repairs and replacements of heating plants during the winter so that work can be started April 1.

4. Electric wiring: Overhaul fans, motors and other equipment from January to March.

5. Masonry, Carpentry, Plastering, Lathing, etc.: Do miscellaneous interior remodeling, patching of plaster, etc., from December 1 to April 1. This is a good season to replace fences, and outdoor work on steps and porches may also be done at this time.

6. Screens and Awnings: Arrange for these during the fall and winter months.

In Rochester, New York, a Community Conference Board, including representatives of the City Government, Board of Education, Chamber of Commerce, Real Estate Board, Builders' Exchange and architects, makes a monthly survey of employment based on reports from contractors. The amount of prospective building activity is analyzed and made public. When a slackening appears imminent, owners are urged to undertake work which will keep building trades craftsmen employed. As one result the Board of Education in that city authorized 38,000 hours of repair and remodeling work during one winter, of which over 18,000 hours was of a type formerly done during the summer vacation period. It has been estimated that the building season has been lengthened by at least twenty per cent in that city.

Philadelphia, Boston, Portland (Ore.), and St. Paul are other cities in which active campaigns to promote winter building have been carried out.

In practically every city in the United States extensive building operations during the winter are becoming commoner each year. The organized group efforts are succeeding.

A substantial contribution to the movement has been made by groups representing producers of building materials and seeking to stimulate winter building. Some of them, working with progressive contractors, have improved the technique of winter work so as to avoid dangers from defective construction.

In the field of road-building, contractors have cooperated with state government officials in many states in programs for putting highway construction on a stable economic basis. In some cases contracts are let in the fall and winter for work to start in the spring, in order that contractors may move their equipment and some of their materials to the job and be ready to start with the first good weather. In other cases a special effort is made to award contracts in the late fall for grading and such other work as may be carried on during the winter months. In Illinois the chief highway engineer reports that the greatest volume of contract-letting occurs from November to March and that it enables him to utilize his engineers for surveys and preparation of plans during the fall and winter months and for construction during the construction season. This not only avoids lay-off of forces and consequent turnover, but also distributes the transportation of road materials over a longer period of time and helps to stabilize the construction industry.

Studies made by the Department of Commerce indicate that the period of full employment for building-trades workers, which formerly was not commonly reached before June, July, or even August, is now reached earlier in many cases, and that instead of extending only two or three months it is apt to continue until very near the end of the year. There is a third to a half more employment of building-trades labor during the three winter months now than was the case five years ago.

This more even distribution of building during the twelve months of the year has enabled the American people to carry out larger construction programs each year and obtain more for the money that they have put into construction. At the same time many thousands of men, probably more than 100,000, who might otherwise have been required for construction, have

been available for other tasks. Practically every owner of a new building has profited directly or indirectly from the work which has proceeded during the winter months, and millions of workers in many different industries have benefited from steadier employment and higher annual earnings.

The movement for seasonal stabilization has not been confined to construction. The Association of Railway Executives took up the problem of placing its maintenance of way and construction repair work on as nearly a stable basis as possible. According to an analysis by the Department of Commerce,—

the subject was brought before meetings of railway officials and technical experts, and the practical results are shown by the fact that for every hundred men employed during the most active month of the years 1924 and 1925, respectively, 78 and 77 men were employed during the least active month. In 1922 and 1923 the corresponding figures were 69 and 70. The average monthly variation from the yearly mean has decreased from 11.4 per cent to 8.2 per cent in five years. This one field in which the regularity of employment of several hundred thousand men is affected, is a concrete illustration of what has been accomplished in a branch of the public utilities where stable operations are especially hard to maintain.

The construction industry has set out to make its business year steadier. It is doing this in a fine spirit of cooperation among the various groups of which it is made up. Architects, contractors, labor union officials, and others have united in frank recognition of the fact that alternate periods of great activity and dullness are bad for the industry, unfair to the people who pay for completed construction, and unnecessary. It may well serve as an inspiration and example to other groups—and there are many who are wrestling with the same problem.

You may wonder when I am going to reach the question that the Chairman said I was going to discuss, that is the matter of cooperation upon the part of the national government. I have discussed that just about all that I am going to discuss it. I do want to say this, as I said in the beginning, that the practical business men, the men who are experienced and intimately acquainted with the problems that they have to meet, are the best men fitted to submit to Congress the problems that face them and the solution of those problems from the practical standpoint.

What I should like to see during this vacation, instead probably of the resolution that failed of passage, is the appointment by the business men who are interested in this proposition (and they all are) of a committee of outstanding business men to consider the various phases of this problem during the summer and, if they possibly can, unite upon the method which they believe will solve it. Then let them come to Congress with a concrete plan and submit it to the Committee, with their reasons for the conclusions that they have come to. That would be a greater contribution to the solution of this problem than would come if any committee of Congress should start out to attempt the solution of problems about which many congressmen know little, from a practical standpoint.

A movement that means so much to capital and labor, so much to industry and the home, so much of comfort, happiness and stability, must not and will not stop. It should have all the encouragement and aid the government, the state and the nation can give, and I want to say to these business men, Mr. Mallery largely in the lead, if they will come to Congress with a concrete proposal based upon their experience and their intimate knowledge of the problem and tell us the way to solve it, I think an agreement can be reached. If they will work out this concrete proposition we will work out the legislative part of it.

A FEDERAL DEPARTMENT OF PUBLIC WORKS AND DOMAIN:

Its Planning, Activities and Influence in Leveling the Business Cycle

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THE organization of the Federal Government has grown to large proportions. No one anticipated its growth either as to size or ramifications, consequently there has been no design or plan by which its development has been guided. It is not surprising therefore to find that the organization is a hodge-podge; that there is overlapping, duplication and even incongruity. A study of the contractual relationships of the Federal Government has disclosed that there are over three hundred statutes relating to the same; that many of the best and most reliable dispensers of materials, equipment and services do not bid for government business because of the nuisances and delays attached to such business; that many who do bid add twenty to twenty-five per cent to their estimate to provide for the losses which experience has demonstrated are attached to doing business with the government.

The three hundred statutes conflict in many instances. So inconsistent are they that should the Secretary of one department execute a contract identical with one of the Secretary of another department, the latter would be fully within the pale of the law whereas the former would be liable to a congressional investigation and prosecution. Fortunately this situation is being corrected. Situations of a similar character in other directions are as bad and are not being corrected.

That the Federal Government should be reorganized is recognized both within and without official circles. In recent years official studies have been made but attempts at reorganization have been of no avail. In our judgment a wholesale reorganization can not be accomplished. It would involve too many interests, the accumulated resistance of which would defeat any well considered effort. The only hope of improve-

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ment is through piecemeal efforts. By executive order President Coolidge has brought about some helpful changes such as the transfer of the Bureau of Mines and the Patent Office from the Department of the Interior to the Department of Commerce.

As early as 1881 the engineers of the United States realized that the public works functions of the Federal Government were badly organized. In that year the American Society of Civil Engineers passed a resolution favoring the formation of a Federal Department of Public Works, wherein would be concentrated all of the architectural, constructional and engineering work of a non-military character directed by the Federal Government. At intervals since 1881 the architectural, construction and engineering groups have jointly endeavored to secure such an alignment of the public works functions. Some three years ago these groups again started a movement in this direction. The American Engineering Council was selected as the agency through which the work should be conducted. This Council is now actively pursuing the matter. Some months ago the Council appointed a committee¹ composed of experienced and influential management engineers to make a thorough study of the situation and to draft a proposal of the best possible organization to set up. The report of this committee is one of the most thorough and constructive statements that has been prepared on the subject. In the closing days of the last session of Congress, Congressman Wyant of Pennsylvania introduced a bill proposing a Federal Department of Public Works and Domain, which department would supersede the Department of the Interior. When Congressman Wyant introduced the bill he made an address in advocacy thereof and obtained permission to print the engineers' report in the *Congressional Record*.²

The report shows that there is only slight provision for co-

¹ This Committee was composed of E. O. Griffenhagen, Chairman, Griffenhagen & Associates (Ltd.); Wallace Clark, Industrial Engineer; John Price Jackson, New York Edison Co.; J. L. Jacobs, J. L. Jacobs & Co.; Elwood Mead, Director of Reclamation; Sanford E. Thompson, The Thompson & Lichtner Co. (Inc.); W. F. Willoughby, Institute for Government Research.

² 69th Congress, Second Session, Dept. of Public Works and Domain, Extension of Remarks of Hon. Adam M. Wyant, House of Representatives, March 3, 1927.

ordination of the engineering functions of the Federal Government. These functions are now distributed among ten executive departments and independent agencies and thirty-six bureaus, offices or commissions. The Wyant Bill contemplates placing all of the public works functions in a functionalized Department of Public Works and Domain. Thus the public works and domain functions, instead of being directed by thirty-six Bureau Chiefs in ten Cabinet offices or Commissions, would be concentrated in seven bureaus within the proposed new department. The seven bureaus would be the Bureau of Architecture and Public Buildings, taking over the Supervising Architect's Office from the Treasury Department; the Bureau of Waterways and Ports, taking over the civil functions of the Army Engineer Corps and similar functions from other departments; the Bureau of Public Roads, as it now exists in the Department of Agriculture except the Rural Engineering Division; the Bureau of Geological Survey, taking over all geological and mapping work in the Federal Government; the Bureau of Reclamation and Power, taking over the Bureau of Reclamation and the Federal Power Commission.

The Public Domain bureaus would care for the National Parks, the General Land Office, Indian Affairs, etc. It is further proposed that a Bureau of Utilities be later organized for the administration of such government-owned utilities as telephone and cable lines, the inland waterways service and others.

This engineering report proposes that the functions of these bureaus, where transferred, should be reorganized in accordance with well established principles of organization, which may be summarized as follows:—

First: The allocation of functions and activities to the major branches of the Department of Public Works and Domain should be along natural lines, conforming to operating requirements, and bringing together into the same bureau those activities that relate to the same subject matter and can be handled by the same staff and plant.

Second: There should be strong, unifying, central control and direction to insure coordination and continuous cooperation. The exacting policy-making functions of the department head as a member of the Cabinet should not be under-

estimated, and ample provision for deputizing executive authority should be made.

Third: Responsibility for each function and commensurate authority, both original and delegated, should be definitely and positively placed throughout the organization.

Fourth: The plan of delegation of authority should provide for a progressive separation of executive and routine functions and should limit the number of officers at any point in the scale of authority to the number that can be adequately directed and supervised by the official in the next higher rank.

Fifth: The service functions in any unit of organization—that is, those things that must be done to make it possible to carry out the main purposes of the unit—should be centralized and consolidated as far as practicable. This is to say that such commonly necessary operations as purchasing, accounting, record-keeping, filing and handling supplies should each be taken care of by one office for the department, or at least, for each main operating branch, and not scattered among the various divisions.

Sixth: The objective of each unit of organization and the way to reach it with directness and efficiency should be held as of primary importance, and no dogma of form or method or fetish of uniformity should be permitted to outweigh them. In other words, the organization structure for each activity should be adapted to its particular needs and be such as is best suited for the accomplishment of the particular purpose for which it exists.

One of the most important proposals of the committee of engineers—which proposal is included in the Wyant Bill—is that there be established within the Department of Public Works and Domain a Board composed of representatives from the various bureaus. The principle duty of this Board shall be to assist the Secretary of the department to formulate a general, long-range public works program. Through the efforts of such a Board it is reasonable to expect that long-range planning of all public works will be effected even though administrations change, new policies are developed and new alignments within the government take place. This Board, under the coordinated plan encompassed in the formation of a Department of Public Works and Domain, should be able so

to project governmental construction as to have a most substantial influence in leveling business cycles.

The potentialities of such planning are made apparent when the extent of the expenditures for Federal construction is understood. The Bureau of Public Roads is now spending, and has for some years past spent, in excess of \$75,000,000 annually for the construction of public roads. During the next fiscal year the Federal Government will spend over \$60,000,000 on river and harbor improvements. The Supervising Architect's Office alone, will erect \$165,000,000 worth of Federal buildings during the next six years, as the result of a single authorization of Congress. This money is to be expended at the rate of \$25,000,000 per annum outside of the District of Columbia and the balance of the annual allotment is to be spent in the District of Columbia. The foregoing and other large services will spend in excess of \$200,000,000 during the fiscal year ending June 30, 1928—more than three-fourths of which sum will be for construction work.

All of the contemplated expenditures referred to will be made without any consideration of the business cycle. The trend of the supply and demand for material will not be given consideration for as much as six months in advance of the need. The situation as to employment will scarcely be considered.

Undoubtedly the expenditures to be made for the erection of Federal buildings, highways, and river and harbor improvement are justified. We hold, however, that it is exceedingly unfortunate that the Federal Government has not provided means whereby a considerable amount of such appropriations could be retained until such time as business conditions became so depressed as to threaten a large degree of unemployment, then release it for public construction. An attempt was made in the last session of Congress to secure the passage of a resolution authorizing the appointment of a committee of five members of the Senate to (1) investigate the problem of the cyclical recurrence of periods of business depression and unemployment, with a view to determining the relation of the construction of public works to the stabilization of employment and industry; and (2) report, by bill or otherwise, upon methods of stabilizing employment and industry through the advance

planning of public roads projects, rivers and harbors projects, and public buildings projects, and the expansion of such works during such periods of business depression and unemployment.

This resolution was favorably reported by a Senate Committee but failed in the legislative jam at the close of the session. Riders attached to the Building Bill and the Roads Appropriation Bill were defeated. These riders proposed to provide that a certain amount of the appropriations for any given year be withheld until such time as the volume of construction done in the United States should fall twenty-five per cent below that of 1925. A provision also stated that as soon as this occurred the funds so accumulated for Federal public works should be expended for the purpose of helping to maintain business on an even keel.

In addition to approximately \$150,000,000 to be expended during the next fiscal year by the Federal Government for the construction of public works a tremendous volume of public works construction will be done by the states. According to conservative estimates the states spent between \$300,000,000 and \$500,000,000 for such purposes in 1925. The total expenditure by the Federal and state governments is a very appreciable percentage of the entire construction volume in any year. In 1925 an aggregate of \$5,000,000,000 was so spent.

The Federal Government has no control over the expenditures of the states. It is believed, however, that if the Federal Government should set an example of utilizing its expenditures for public works construction as a means of leveling the business cycle, the several states and municipalities would in time do likewise. Certainly if an appreciable amount of Federal, state and municipal expenditures for public works construction were taken off the top of a boom and placed in the trough of a depression it would materially alleviate the serious consequences of a business depression. Such a procedure would be far more sensible and wholesome in its influences than unemployment doles, or unemployment insurance, or bread lines. Such a procedure would enable public works of every kind to be constructed at a lower cost, because in periods of depression price levels are lower than in boom times. Thus the masses would secure comforts and enjoyments in a greater measure and with greater ease, as taxes need not be so high.

Even the advantages cited may not be the most valuable results of long-range planning. The mere fact that it would be known that a money reservoir of large proportions would be tapped at the first significant sign that a business depression was about to ensue would have a tremendous psychological effect. It is well known that attitude of mind has a good deal to do with the starting of a depression as well as with the depths to which it goes. We have learned such a lesson in connection with our banking system. Good banking principles demand adequate bank reserves. The Federal Reserve Bank, in addition to its actual cash reserve, imparts confidence in our national banking system by its very existence. Soon after its creation it wielded a tremendous influence in removing fear of financial difficulties.

That the remarkable possibilities of such a reserve are being recognized in high places is evident. Permit me to quote the following from an address by President Coolidge before the Associated General Contractors of America:

The idea of utilizing construction, particularly of public works, as a stabilizing factor in the business and employment situation has long been a plan of perfection among students of these problems. If in periods of great business activity the work of construction might be somewhat relaxed; and if in periods of business depression and slack employment those works might be expanded to provide occupation for workers otherwise idle, the result would be a stabilization and equalization which would moderate the alternations of employment and unemployment. This in turn would tend to favorable modification of the economic cycle. . . . The first and easiest application of such a regulation is in connection with public works; the construction program which involves public buildings, highways, public utilities, and the like. Most forms of Government construction could be handled in conformity to such a policy, once it was definitely established. . . . This applies not only to the construction activities of the Federal Government, but to those of states, counties and cities.

More than this, the economies possible under such a plan are apparent. When everybody wants to do the same thing at the same time, it becomes unduly expensive. Every element of costs, in every direction, tends to expand. These conditions reverse themselves in times of slack employment and subnormal activity, with the result that important economies are possible.

I am convinced that if the Government units would generally adopt such a policy, and if, having adopted it, they would give the fullest publicity to the resultant savings, the showing would have a compelling influence upon business generally. Quasi-public concerns, such as rail-

roads and other public utilities, and the great corporations whose requirements can be quite accurately anticipated and charted, would be impressed that their interest could be served by a like procedure.

And again we have from Secretary Hoover:

If, in the first instance, through an agency of the Central Government, we could have an adequate study and preparation of plan and method made of these problems of engineering development over the next fifty years, viewed solely in their national aspects, we would have taken the first step toward the adequate provision of an increasing standard of living and a lower cost of living for our descendants.

The second step is to determine that our Government will be a government of cooperation, limiting profits surely, but holding to individual initiative as the single hope of human development. In order that we shall have some central point in the Federal Government where these problems may be adequately considered, from which they can be ventilated for the verdict of public opinion, where the business brains of the country can be called into conference and cooperation with the Government, and therefore with the people, the engineers of the United States have proposed time and again that a cabinet department should be established in Washington, either new or to replace the Interior Department, to which should be assigned the whole question of public works.

You are familiar enough with the advantages of such a department from an everyday administration point of view, and enormous saving to the Government from the duplication or competition of the six or seven departments now engaged in engineering construction work of this character. But on this occasion I wish to call your attention to the fact that such a department has become an essential from the point of view of proper consideration and presentation to the American people of these broader national engineering problems, upon which the next generation must depend if our country is to march forward.

The pronouncements of President Coolidge and Secretary Hoover contain the essence of the motives that are actuating the architects, contractors and engineers. Their proposal that a Department of Public Works and Domain shall supersede the Department of the Interior is based upon their experience and conviction that such a reorganization of the public works functions would:—

1. Promote economy and efficiency through having functionalized public works under one department head,
2. Simplify budgeting and appropriation methods,
3. Provide clearer and more uniform methods of securing funds for public works purposes on a long-range planning basis,

4. Provide a long-range planning board which would utilize an appreciable proportion of public works construction to level the business cycle,
5. Blaze the way for similar plans and action on the part of state, county and city officials.

The Wyant Bill provides for such measures. It will be re-introduced at the first session of the 70th Congress, which will convene in December. Those groups that I have the pleasure of representing cannot within themselves achieve the goal. It is a matter of great consequence and importance to the American public. The best public policy demands that an appreciable proportion of expenditures for public works construction be used for leveling the business cycle. We therefore earnestly beseech the active aid of all persons and organizations to the end that this worthy endeavor may come to a successful issue during the 70th Congress.

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THE PLANNING OF GOVERNMENT ORGANIZATION AND EXPENDITURES TO PROMOTE BUSINESS STABILITY—WITH PARTICULAR REFER- ENCE TO STATES AND CITIES

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THE general subject for this afternoon's discussion—especially the theme assigned to me—is so worded as to call for attention to two different problems:—the planning of government organization, and the planning of government expenditures, each with reference to business stability.

These questions lie on the border between the lands of the political economist and those of the political scientist and it would be presumptuous for one in a profession which has not even an accepted name to venture more than a suggestion here and there as to how to reduce the obstacles standing in the way of effective government cooperation in the stabilization of business health and how to improve the government structure to make it possible to control public acts in the interest of business stability.

Before attempting to discuss either the problem of organization structure or of financial policy, we should consider for a moment what the functions and responsibilities of local government are with respect to the problem of stabilization. It is probably safe to say that the government should be planned to do those things that are necessary to insure domestic tranquillity and to promote community welfare, where the things to be done require joint action by all members of the community or, by the nature of the acts involved, can be better done by formally established and mandatory cooperation than by the voluntary action of individuals or groups.

One of the things necessary to the tranquillity and welfare of society is certainly a condition of security for the working-man who is willing to work and of prosperity for the business man who shows more initiative and energy than his competitor.

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But violent fluctuations in business activity, prices, earning power, and buying power dictated by the vagaries of mob psychology in times of boom or panic are as merciless in their effects as were the plagues and famines of old. They are equally harsh on the wage-earner, the manufacturer, and the merchandiser. They give advantage to the speculator and the contract-breaker. They wipe out the rewards that should come to the manager who is willing to progress by perfecting the details of his business procedure and by watching the minor wastes and leaks. They make such painstaking work seem futile.

If the government can do anything directly that cannot be done by any other agency to help prevent these recurring disasters, it surely will be strictly within its proper field, and if it can so conduct its own affairs as to help to mitigate the severity of cyclical fluctuations, it should surely do so.

Let us first review the functions that government might well assume in meeting this problem directly. We may classify the possibilities as follows:

1. *It can help business to help itself.* Notably, under this head, is the furnishing of statistical information as to conditions and trends. The government—particularly the Federal government, but to a lesser extent, the states also—is in a better position disinterestedly and effectively to collect, interpret, and issue economic information for the guidance of business than any other agency. Also whatever the government can furnish in the way of leadership and education in the promotion of stability (e. g. the work of the Department of Commerce on simplification) comes under this head.

2. *Government can put pressure on business to help itself.* Several phases of public utility control come under this head. So also in a way do such measures as compulsory unemployment insurance which, although really alleviating measures, keep the costs and dangers of over-optimism and lack of planning ever before the employer. States rather than cities have the responsibility here.

3. *Government can prevent business from hurting itself.* The outstanding possibility under this head—the control of the cost of securing credit—must be a federal rather than a local government function. Control of the issuance of securities and supervision of financial institutions are also to be included in this class. These are state functions, largely.

4. *Government can help the community to be less susceptible.* Measures under this head come closer to the field of local government but are all indirect in their bearings. They relate to a variety of objectives most of which fall into one or the other of three groups:

(a) Diversification of industries to spread the times of incidence and thus reduce the local violence of trade depressions.

(b) Vocational education of citizens and the diversification of their skill.

(c) Improvement of community facilities for doing business and consequent increase of community ability to meet depressions.

The first of these measures has been left ordinarily to business organizations. Vocational guidance and education should not inspire much confidence as a potent preventative measure. Measures in the third group can hardly be considered preventatives but are bound to reduce the violence of cyclical effects.

From this analysis it does not appear that state or local governments need take on any important additional or radically new functions for the special purpose of dealing directly with the problem of business stability. The problem of organization is not therefore a problem of organizing new and different activities but one of securing greater effectiveness and continuity in existing activities.

We are therefore right back to the general problem of efficiency in government and obviously must leave the solution of that for another day.

But we have said that we can see two ways in which government can affect our problem, first by the functions it assumes in dealing directly with the causes and effects of the cycle and second by the way it conducts its own affairs during the various stages of the cycle.

Now we are ready to consider the second, namely; how the way in which the government handles its own business and particularly how its spending policy and practices influence, or can be made to influence, the stability of business conditions. There are three aspects of government expenditures that might have a bearing. The amount of the expenditures, the

purpose of the expenditures, and the time of the expenditures. We may dispose of the first two aspects summarily. They may be taken together. Any amount economically spent for a purpose that increases the productivity or the welfare of the community is well spent, and comes right back. Any amount that goes for useless things, or that brings no return, is waste and is a burden on everyone in good times and bad. Waste in government like waste in industry, holds back the progress of civilization. It may be a cause of poor business but hardly a cause of business instability.

But if government expenditures are not constant throughout the business cycle then they will obviously have a bearing according to the amounts and times of the variations, and so we have the very logical and attractive suggestion (ably advocated by Mr. Mallery and others) that expenditures for public works be retarded in boom times and accelerated, or in fact "plumped", on the eve of a serious depression.

But before we can come to discuss the practical problem involved in thus adjusting capital expenditures, let us see what might be done with operating expenditures. It might seem at first glance as though these must necessarily be constant or on a gradual incline. While it is true that the volume of routine public business is fairly steady and that the net effect of business conditions on public operating activities is not material, still operating costs are lower in times of depression because of lower material prices and contract labor costs. Moreover there is a natural tendency to reduce expenditures in hard times to permit tax reductions.

But even beyond this natural fall in costs it would be entirely feasible to make further marked reductions through a control of the wages of the permanent staffs that call for such a large portion of our total public expenses. Attempts to establish the basis for such a control have been made in a number of jurisdictions and the machinery is fully provided for wherever the modern idea of a uniform and equitable plan of classification and compensation of public positions has been put into effect. The essence of this idea is that each position should first be analyzed and classified, each distinct kind of position appraised on the basis of duties and qualification requirements, and then a wage scale established for each kind that will be

right in relation to that prescribed for every other kind. Any change in total can thus be brought about by applying a single decision as to how far to lower or raise or telescope or extend the structure. The relationships among positions will remain right. And it would seem that a reduction of expenditures for personal services in the public service ought to be made in times of business depression.

If those in the public service will yield some income, it will, of course, mean that those more directly exposed to business storms will have to suffer that much less. That salaries and wages in the public service should be adjusted to conform to changes in the cost of living seems to call for no argument.

But let us come back to capital expenditures. The motives that make every business man want to manufacture and sell when everyone is buying and prices are rising do not control government policy. So why—the argument runs—does not the government do the other thing and offset the effects of this periodic hysteria? Why doesn't it hold back when business is active and spend when it is dull and unemployment is prevalent?

There are many strong practical reasons why the government does not do this, but only one why it may not be wise to do it. This last statement no doubt calls for prompt explanations.

If any public project is not useful it should not be carried out at any time. If it is worth while it will begin to earn a return the moment it is completed. Who can say in any given case that the postponement of the investment and, in the meantime, to the loss of the benefits that are to come will not outweigh the desirable effect that this postponement will have on the business cycle. The daily answer from our hard-pressed city and state officials seems to be that it will. At least, hospitals, roads, sewage-disposal plants, street lights, and all the needs of our modern life are being supplied as rapidly as money can be secured.

But let us assume that some one with the courage to answer this question has answered it for us and we are now sure that part of our resources for capital expenditures should be reserved in prosperous times regardless of the need for the facilities they would buy, and released when those times threaten to come to an end. What are the practical difficulties? They

cannot be better stated than they have been by Feldman in his *Regularization of Employment*. He summarizes them as due to "inefficiency of governmental machinery, lack of continuity of policy, and inherent indisposition to plan." He might well have added that our governmental affairs are handled by a multiplicity of interwoven and overlapping bodies and that unity of action even in a single metropolitan area is exceedingly hard to secure.

Perhaps this gloomy picture may be brightened a bit by a few suggestions that hold out hope for constructive progress. Let us see what we need, to overcome these difficulties and provide for long-range planning and a spending policy that at least will not aggravate the tendency to business instability. We need in each governmental body:

1. A centralization of control for each major function or group of functions. There should be a grouping into departments of all educational activities and institutions, all charitable and correctional institutions, all public works, in each case under a single administrative head.
2. A permanent body of technically equipped specialists in control of planning and operating.
3. A single agency charged with responsibility for considering the financial needs of all departments and activities present and prospective.
4. A budget system in all of its implications. This presupposes elimination of such restrictions as special funds, the ear-marking of certain revenues for certain purposes, and statutory salaries. It also assumes collection of all revenues into one pool available for any expenditure according to plan.
5. A central administrative authority with power to initiate and act.

It hardly needs to be said that such a set-up will make long-range planning and a stabilizing policy of government expenditures not only possible but inevitable. Let us see how.

Each department (be it a state department of roads or of charities and corrections or a city department of bridges or of fire) will consider the needs of its physical plant for years to come and plan, design, and estimate its construction well ahead. Each time when appropriations are up it will forward its whole program to the budget agency.

The budget agency will assemble the proposals coming from all departments and will advise with the department heads and the administrative head of the state or city as to the wisest allotment of revenues and resources in view of the relative importance of the various projects and of business conditions present and prospective. The statistical work of the national and state departments of commerce will have been perfected to the point where a clear picture of existing business conditions and a definite indication of the trend will be available for the financial and administrative officers.

The suggestions of the budget agency, when approved by the executive, will be transmitted to the appropriating body and left to its tender mercies. But as the idea of the budget becomes better understood, there is less and less tendency on the part of the legislative bodies to make any material changes in the plans thus submitted.

A few words should be said with regard to the method of authorizing the capital expenditures that the administration is to be permitted to defer until in its judgment the time is right to make them. In this connection two suggestions have been made: one, that the future issuance and sale of bonds be authorized: the other, that a reserve be set up, presumably in cash to be earmarked and laid aside. Without going into a detailed discussion of the advantages and disadvantages of the bond issue as against the pay-as-you-go plan, it may be said that there is no reason why a clause cannot be attached to the appropriation made in any one year, providing that the expenditures under such appropriation need not be made until the executive finds it desirable in his discretion to make them. Or, if this is not considered sufficient, the legislature can attach a provision that the expenditure should not be made until the executive, acting on the advice of a specified agency, finds that business conditions and the indications of a probable approach of a period of depression make such expenditures desirable.

Under conditions which provide for a pooling of all resources and revenues of the state or city, any appropriation of this kind remaining unexpended for a time will be represented merely by an appropriation incumbrance on whatever current assets there may be rather than a physical segregation of assets into a special fund.

The conclusions to be drawn from this analysis of the requirements that must be met to put a public body into a position where it may plan and control its expenditures with relation to business conditions, is that the *same* simplification and directness in government organization and procedure are needed as are required to bring about effectiveness in public administration in general.

It is possible to paint a very discouraging picture of the existing weaknesses in our government structure and procedure and of the long road that must be traveled to provide these prerequisites of good administration, but when we consider how far we have gone in the last twenty years toward these very objectives, we need not feel any discouragement whatsoever. Most cities have simplified their departmental organization (although the problem of consolidating government agencies in metropolitan areas is only now being seriously attacked.) Many states have been reorganizing along functional lines as suggested in these remarks. Practically every state and city has a budget system in some form. The idea of the short ballot and the elimination of constitutional restrictions is meeting with favor. The progress of the civil service idea is making for permanent and competent technical staffs in the government service.

Mention should also be made of the great improvement that has taken place in recent years in treasury administration which has a distinct bearing on the main subject of this discussion. The old system of holding cash in treasury vaults has largely been abandoned and the sums so tied up have been restored through the banks to the channels of trade.

Moreover the tendency in most governmental bodies is towards centralization of treasury transactions, but a great deal yet remains to be accomplished. In the selection of depository banks and the allocations of cash to active bank accounts, time deposits, and deposits subjected to withdrawal on notice, and in the stabilization of state deposits, the treasury can assist in the stabilization of business conditions. If deposits are distributed because of political expediency and if sudden ill-timed withdrawals of large sums are made from small country banks havoc can be wrought with local business. On the other hand, it is possible to work out allocations of deposits to banks that will assist them in meeting seasonal demands.

In closing, let us summarize some original data on this subject, many of them furnished by the busy officials of a number of our states and cities—in most cases from the Governors and Mayors themselves—who have been interested enough or courteous enough to furnish information as to what has been done or attempted in their jurisdictions with respect to some of the measures we have been discussing.

On the question of what has been done to expand construction at times of unemployment and business depression or to restrict it in boom times, the practice in 31 states seems to be as follows:

Twenty-two do nothing.

Three have made attempts to adjust construction in a measure—two in road construction and one in after-war construction.

One says that more construction is naturally done in hard times because bids are low.

Two have made it the policy, although there is no formal procedure for it, and no reserve set up.

One of these states is Massachusetts and refers to statistics proving that the volume of work has varied inversely as business prosperity has varied. This, it should be noted, is a state that has a clean-cut functional organization of departments, a central financial agency (the Commission on Administration and Finance), good budget habits, and wise executive direction, in fact, most of the requisites enumerated in the foregoing remarks.

Three states, Pennsylvania, California, and Wisconsin, have legislation on the subject. But there seems to be a note of skepticism in the comments of the officials in each case. Pennsylvania says that the initial \$40,000 appropriated in 1917 was spent in 1921 and "no other effort has been made". Wisconsin says, "there has been a theoretical effort to expand state construction during periods of unemployment... however, the construction work is carried on in specific projects authorized by the legislature biennially." Wisconsin, referring to its law, says, "There are those who think that a finance and construction program covering a period of years would have to be provided for before this law would be effective."

In nineteen large cities the practice in this same connection is that:

Eight do nothing.

Two try to provide employment in winter.

Four expand construction in dull times but do not restrict it, consciously, in boom times.

Five say they do conform to business conditions and cite examples of their action during the recent depression to prove it.

Not one of 31 states and 19 large cities covered by this summary has any systematic policy or plan for the adjustment of operating expenses or the salaries of permanent staffs with relation to the development of the business cycle. Most of them pointed out that salaries had been raised to meet the higher cost-of-living levels since the war, but none recalled any revision downward. St. Paul, as you may know, has been making periodic increases according to changes in a cost-of-living index and says the test will come when the index points downward.

An analysis was also made of the attitude of these same states or cities toward the desirability of diversifying the industries upon which their citizens are dependent and thus making their communities less liable to a slump that would hit nearly everyone at the same time. It developed that this idea has not been given any serious consideration. About eighty per cent of them leave to chambers of commerce the work of attracting new industries. Others cite the work of certain public agencies that are charged with the dissemination of information regarding local resources and advantages for the purpose of increasing the general volume of local industrial activity rather than developing a balanced variety of industries.

There is nothing to be found in this analysis of a considerable body of data on the practice of our states and cities, and on their reasons for following the policy (or lack of policy) they do, to change the conclusion stated above that, so far as local governments are concerned, they will do more and more to exercise their functions and to plan their expenditures in the interests of business stability as they perfect their methods of financial and administrative control. Extraordinary measures aimed to force them to act wisely in these particular matters will probably be no more successful than would special measures to make them do the right thing in carrying out the thousand and one other responsibilities with which they are charged.

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STATE AND MUNICIPAL BORROWING IN RELATION TO THE BUSINESS CYCLE

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THE term, "the business cycle", is sometimes used in a much more exact and definite sense than the facts of business history warrant. It is, none the less, a useful scientific term for designating the undoubted, even though irregular, succession of revival, prosperity, reaction, depression, and revival again, through which business passes. Some students see the whole explanation of the business cycle in the upward and downward movements of the general average of commodity prices, and see the whole explanation of the movements in the average of commodity prices in the phenomena of expanding and contracting money and bank credit. Believers in this doctrine usually look upon the business cycle as an unmitigated evil, and feel that it is possible and desirable to eliminate it by controlling the quantity of money and bank credit in such a way as to keep the level of commodity prices constant. I believe the views of this school to be unsound.

If the business cycle had a simple, single cause and if that cause were subject to control, the problem of controlling it would be very simple. But the business cycle is in fact a complex body of phenomena, growing out of a complex body of causes, and no single, simple remedy is to be found for the evils which it manifests. Moreover, the business cycle is not, by any means, an unmitigated evil, and the important thing is to prevent the extreme fluctuations rather than to try to keep industry and prices on a dead level at all times, even if this were possible. The industrial causes of the business cycle are, for the most part, more important than the causes connected with money and banking. Much could be accomplished if part of the very intense demand could be removed from the crest of the period of prosperity, when industrial capacity is over-strained and can not respond to further stimulation, and reserved for application as an energizing influence in the succeeding period of depression when the general volume of demand is lower.

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There is widespread agreement among students of the problem that a great deal could be accomplished if large, long-lived institutions, including railroads, great industrial corporations, universities, colleges and churches and, above all, governmental bodies, states, cities, counties, and the Federal Government, would make far-reaching plans in connection with their construction work and in connection with that part of their buying of staples which can readily be retarded or accelerated, so that they could concentrate their purchases and construction in dull periods, and withdraw in considerable measure from the markets in periods of intense activity. The advantages to these institutions of such a policy are obvious. Their purchases and construction work would be put through more cheaply if they could pursue such a policy systematically. Their budgets would gain by such a procedure. The advantages to general business, on the other hand, of being relieved from strain at a time when production is already at maximum, and of having production encouraged at a time when there is much unemployment and dull business, would likewise be very great.

The extemporizing of public work as a remedy for unemployment, such as municipal woodyards or publicly conducted roadbuilding and the like, represents an old expedient as an alternative to poor relief. Such activities have been tried many times in our history. They have had the merit of being less pauperizing and less wasteful than outright poor relief. They have not, however, as a rule contributed very effectively to general business revival. Much more is gained when public expenditures of a kind which would have been made in any case are made *through the usual channels of trade*, rather than through publicly conducted business of an unusual emergency character. What is proposed here is not that public money be spent which would not otherwise have been spent, but rather that the spending of public money for purposes which can be deferred or anticipated be so timed that it falls chiefly in periods of depression, and is withdrawn largely from periods of intense business activity. It is proposed that such expenditure be made in the usual way, and through the usual avenues of trade and industry, so that it may have its usual effect in stimulating related trades and in quickening activity throughout the whole industrial situation.

The present paper is primarily concerned with certain aspects of the financial policies of states and municipalities which at present interfere with the application of a policy of this sort, and with suggestions as to how financial dangers which such a policy might involve can be avoided. Almost always when such a policy is undertaken by a state or municipality it is done with borrowed money. Almost always this money is borrowed on long-term bonds when construction work is to be done with it—the general principle being that the bonds issued usually have a life only slightly less than that of the life of the improvement.

When state and municipal construction is put through in regular amounts every year it is very much more likely to be paid for out of current taxes than when it is concentrated in periods of depression. There is, first, the difficulty that tax revenues are likely to be falling off in depressed periods, leaving little margin for construction work. In the second place, the current tax revenues of one year would, in any case, be inadequate to do several years' work. Is it possible for states and municipalities to apply a policy of this sort without a general increase in their aggregate indebtedness, an indebtedness which is already increasing much too rapidly? I think that it is possible, and I think that a conscious adaptation of state and municipal financial policies to this problem would also assist in holding down the general growth of public debt. The central point in the solution is to be found in a policy of rapid amortization of state and municipal borrowings. Such borrowings should be used, not to increase the aggregate of state and municipal expenditure, but rather to give flexibility to the financial program, and to permit concentrated expenditure at the most appropriate times.

The larger municipalities in the United States have, as a rule, a great deal more flexibility in handling their public finances than the states themselves have. There is frequently more continuity in the policies of city governments than is to be found in the policies of state governments. Changing administrations and successive legislatures all too frequently reverse the policies of their predecessors, or even more frequently ignore them and proceed without reference to the accumulated experience of their predecessors.

Unpleasant experience in earlier generations in connection with state borrowing has led, in many cases, to rigorous constitutional restrictions on further borrowing by the states. This is especially true of certain of the Southern states whose credit was abused during the Reconstruction Period and which, after the Reconstruction, inserted in their constitutions very drastic restrictions on further borrowing. Frequently a special referendum to the people of the state is necessary before a bond issue can be floated. State legislatures are thus, as a rule, quite unable to make an effective and intelligent use of the credit of the state in the orderly handling of public expenditure.

The philosophy lying behind these restrictions is partly political and partly financial. The political arguments, as frequently stated, are that legislatures can not be trusted to be economical, that the pressure of particular interests seeking state appropriations is exceedingly strong, that log-rolling in legislatures is inevitable, that the legislature will spend, wisely or unwisely, all the money available to it. When it has only the proceeds of taxes to spend the political check is fairly easy, since taxpayers will resent excessive tax burdens and will put adequate pressure upon the legislature to hold expenditure down. When, however, the legislature has free access to borrowing, the taxpayer does not immediately feel the burden and is less vigilant, and the total expenditure of the state will mount rapidly.

The financial argument is that the state should live within its income. State expenditure is primarily for communal consumption rather than for further production. If the state borrows it diverts capital to consumption purposes, reducing the capital fund available for industry. Public borrowing cannot create new capital. It can only divert existing capital from other uses. Moreover, if the state engages in borrowing in ordinary times it may find its credit impaired when great emergencies arise which make large borrowing highly essential even if not vital to its existence. It is held that the state should pay as it goes, should live within its income and should not undertake current expenditures or construction which exceed the present ability of its taxpayers to meet.

There has been a great deal of unfortunate political ex-

perience to justify the political arguments above outlined. Restrictions on the legislatures do prevent bad legislatures or careless legislatures from engaging in a great deal of extravagance. On the other hand, they make it difficult for an intelligent administration and an intelligent legislature to deal efficiently with the affairs of the state. Probably we shall need to introduce into our state governments a sound, unified budget system, and observe its operations for a time, before the American people will be willing to give much discretion to their state legislatures in the matter of public borrowing.

But the principle of pay-as-you-go, rigorously interpreted, involves a loss of flexibility in public expenditure. There are two major reasons which will justify short-term borrowing, even by a well developed state with abundant capital.

The first has already been indicated. If state expenditure for construction and other purposes is to be concentrated in periods of depression, the state must spend more in certain years than it collects in taxes in those years. It must ordinarily borrow for this purpose. If the borrowing follow the conventional line with an amortization period approximately as long as the life of the improvements to be made, public debt will inevitably grow. If, however, the amortization period is brief, say approximately the length of an average business cycle—six or seven years—then the effect of the borrowing is primarily to give flexibility to public expenditure rather than to increase public debt, and to increase the total of public expenditure.

A second major reason for relatively short-term borrowing as a modification of the strict pay-as-you-go policy, is to be found in the point raised by Governor Smith with reference to the excessive difficulties of systematic, well ordered state construction work if it must be done solely out of current taxes. The Governor has instanced public works which ought to have been put through in a year or two at the most and which would have been put through in that time if funds had been available, which have been delayed six or seven or eight years, when the effort has been made to pay for them out of taxes, because of the inability of the legislature to make adequate appropriations in any one year to enable a full year's work to be done. Under these conditions work done may deteriorate

before the finishing touches are put upon it and the meeting of pressing needs may be deferred very much too long. Here again, short-term borrowing would be economical and justified. If the work could be done out of taxes in seven or eight years, then the state would be justified in borrowing the money to do it promptly on an amortization basis of say eight or nine years.

What is really called for is that the state should have an effective fund of working capital, so that it can concentrate expenditures, otherwise spread through several years, into a period of one or two years. It would be particularly desirable, of course, that it should concentrate these expenditures in periods of depression when construction can be done most cheaply and when public expenditure will benefit the general business situation.

The desirable policy would be a policy of rapid amortization and reissue. The state should have a revolving fund of credit. It should seek to maintain a reserve of bond-issuing power. It should use its borrowing power, not for the purpose of increasing its total expenditure over a period of seven or eight years, but rather for the purpose of concentrating parts of its expenditure in short periods when unusual expenses are necessary in the interests of economy, or when depressed business conditions make such concentration of expenditure a helpful stimulus to business.

Our states might very well indeed make use of the proceeds of inheritance taxes as a means of building up a revolving fund of capital. The tax on inheritance is a tax on accumulated capital. When the proceeds of such a tax are spent for current purposes it represents the conversion of capital into income, and the dissipation of capital. It is eminently desirable that as far as possible the proceeds of inheritance taxes should be used for capital purposes.

A rich agricultural county in one of the border states of the South, which had unfortunate experiences in connection with bond issues in the period following the Civil War, needed a new court house. A bond issue for building it was several times proposed to the voters of the county, being overwhelmingly defeated on each occasion. The amount called for was not great in proportion to the wealth of the county, and the pro-

posal was finally made that a special tax levy for three years be made which would put the county in possession of the necessary funds. This proposal was adopted by a very large and enthusiastic majority and the court house was built. There are many communities where a measure of this sort is perfectly feasible. A special tax levy of two or three years, on the other hand, might easily involve so large an increase in taxation for a short time as to be seriously inconvenient and the state, county or city might well be advised to engage in moderate borrowing with a view to avoiding sharp variations in the tax rates.

Taxes are important elements in business calculations. Sharp variations from year to year in the rate of taxes are disturbing to business. Public bodies may well be justified in paying interest for eight or ten years and, consequently, collecting more taxes in an eight or ten year period than they would otherwise collect, in order to avoid unduly high taxes during the first two or three years. Public borrowing in a well-developed community is primarily to be justified by considerations of this sort.

Long-term state and municipal borrowing, running for forty or fifty years, is ordinarily to be justified only in two cases, (a) where the borrowing is for a commercially productive use, as for municipally owned public utilities, and (b) in relatively undeveloped communities where natural resources are great, where the prospects of rapid growth are good, where local capital is inadequate and local interest rates are high. The State of New York as a whole should not engage in long-time borrowing. Individual municipalities within the State of New York, however, may well be justified in such borrowing under special circumstances. The City of New York, which must ordinarily build a new schoolhouse a year, should pay for such construction out of current taxes, or at all events, with short-term borrowing in anticipation of taxes. A small municipality, building a new high school, which will not have to be duplicated for twenty-five or thirty years, may be justified in a relatively long-term bond for such a purpose in order to avoid a too sharp temporary increase in local tax rates. Sweeping general rules are difficult to lay down and are subject to many exceptions when the special circumstances are studied. Two main principles, however, are clear. (1) Public borrowing

should not be permitted to ease off the pressure on current taxes in such a way as to permit new extravagances in current expenditure. (2) Public borrowing is primarily useful for the purpose of permitting flexibility in public expenditure, so that relatively large expenditures may be concentrated in short periods of time to be offset by reduced expenditures in other—preferably preceding—periods.

Certain changes in procedure in connection with the expenditure of public moneys would be necessary in most of our states in order to time the expenditure of funds for construction purposes in such a way as to concentrate them in periods of depression. The legislature, meeting annually and sometimes biennially, could not itself direct such expenditures. The legislature, on the other hand, would of course be reluctant, even if the constitution permitted it, to surrender its power of appropriation and control to administrative boards or executive officers. It should not involve, however, a wide departure from existing constitutional procedure for the legislature to authorize construction and to make appropriations out of the future proceeds of bond sales, leaving it to a board of the executive officers of the state to determine the precise time when the bonds should be issued and the construction undertaken. Such a board should be required to justify its course by a subsequent report to the legislature in which it would present evidence based on figures for unemployment, commodity prices and other relevant *indicia* of prosperity or depression. In connection with this each state might well develop a body of statistical reports bearing on industrial conditions within its own borders—as the State of New York has already done in connection with employment figures.

Perhaps the most essential point in connection with the sound application of the policy of concentrating state and municipal construction in periods of depression is that this policy be definitely held in mind and firmly adhered to in periods of prosperity, and that reserves be accumulated in prosperous times, so that they may be available in times of depression. Borrowing should be held to an absolute minimum during prosperous times, so that it may be greatly expanded when depression comes. If the policy is thought of only—as is usually the case—in times of depression, then it is almost inevitable that public debt will grow faster than it should.

DISCUSSION¹

MR. WALLACE CLARK (Consulting Management Engineer, New York):—Mr Wallace has pointed out many of the advantages of the proposed Department of Public Works and Domain. The establishment of such a department will bring about a mobilization of engineering personnel and equipment which can accomplish results unattainable with the present scattered organization. Such a consolidation would also make possible extensive economies in overhead, similar to those achieved by the various large industrial consolidations of the last decade.

One of the important reasons for this proposed department is to put idle equipment to work. There are now thirteen separate governmental bureaus building roads. The Engineers' Corps handles improvements of rivers and harbors, while other commissions and bureaus do similar work. As there is a duplication of construction equipment and there are long periods when it is not used, the interest, depreciation and deterioration of idle equipment is a heavy drain on the taxpayer's pocket.

Even more severe than this drain on the taxpayer is that on private industry resulting from the idleness of its machines.

We have heard this afternoon from Mr. Griffenhagen² and Mr. Wallace³ how government expenditures can be used to avoid the extreme depressions of business which periodically increase the idleness of equipment. However, this will not affect the idleness of machines under normal business conditions.

Paper-making is one of the best organized industries of this country. In a report of the fine paper industry⁴ for the year

¹ The informal discussion following the addresses and papers by Mr. L. W. Wallace, Mr. E. O. Griffenhagen, Dr. Benjamin M. Anderson, Jr., at the Afternoon Session of the Conference, is here reproduced in large part, with some abbreviation and omission of platform amenities.—Ed.

² Cf. *supra*, p. 111.

³ Cf. *supra*, p. 102.

⁴ *Paper Trade Journal*, February 24, 1927, p. 76.

1926 the idleness of these machines is shown to have been seventeen per cent. Since 1920 it has varied from fourteen to thirty-seven per cent. This is probably one of the best records in American industry, for the data have been kept for several years and have focused the attention of these managers on the importance of keeping their machines running.

If an industry so well organized runs its machines only eighty-three per cent of the time, what is the record of the average industry? In my work as an engineer I have had records kept in a number of plants in different industries and have found that the majority actually ran their machines only about forty to sixty per cent of the time. The reasons for idleness can be roughly classified as follows: lack of material; lack of tools; lack of power; repairs; lack of help; lack of orders. This last reason, lack of orders or sales, is usually accountable for seventy-five to eighty per cent of the idleness.

Many of the published statements are misleading as to the percentage of capacity at which certain industries are running, for they include only capacity unused due to sales. In actual practice, when sales approach the real capacity of a plant, the other reasons for idleness, such as repairs, lack of tools, etc., disappear, for they are taken care of outside of the regular working hours. The actual capacity is thus much greater than is indicated by the usual routine reports.

There are comparatively few plants in which dependable records have been kept and therefore the full extent of idleness of producing equipment in this country is unknown. However, the indications are that our machines on the average do not run more than fifty to sixty per cent of the time.

This is a heavy burden on industry, for the interest on the investment in buildings and equipment, the depreciation, supervision and other costs of keeping the plant ready for work go on at the same rate whether machines run or not. Every machine that runs has to bear the expense of maintaining another machine that stands idle. Idle machines reduce and sometimes eliminate the margin of profit.

It is not so difficult as might be supposed to secure dependable records of unused capacity; in fact it would be possible by accurate charting methods covering only one month's time to ascertain the amount of idleness in any American industry.

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One of the major problems of American industry is to determine whether to reduce productive capacity until it matches effective demand for goods, or to increase the purchasing power of consumers to keep pace with a productive capacity that is constantly growing. The American standard of living is now the highest ever recorded for any nation, but it should be raised to a level far higher. Our present living standard, as reflected in consumption of goods, will have to be increased by at least one-third in order to absorb the normal unused margin of American industrial capacity. To the engineering mind the solution of this problem inevitably lies in the increasing of purchasing power, for it is inconceivable that the expansion of American industry can be arrested.

MR. OTTO T. MALLERY (Philadelphia, Pa.): The previous speakers have advocated the principle of long-range planning of public works for the purpose of stabilizing business.

We may agree on the principle but still require agreement on the right method. Mr. Griffenhagen has done us a good service by pointing out that so far as known no city or state has adopted any practical method of creating a prosperity reserve of public works. What is most needed at this time is research on method, not only in one city but in many. I hope there are within sound of my voice several economists or business men or students who will undertake to find out what method would be practicable each in his own city.

These are some of the questions which will come up:

1. Is it practicable for a city administration, upon taking power, to lay out the public works program for its whole tenure of office, say four years?
2. What are the obstacles and motives which might deter the administration from being willing to do less than one-quarter in any year until a depression comes and then try to finish the whole program during the depression?

Can these motives and obstacles be overcome by a clearer understanding of the value of such a policy on the part of the Chamber of Commerce or a similar organization and the exertion of influence by it upon the city authorities?

3. Can a certain portion of the borrowing power of the city be reserved for use during a depression? At present there is a tendency during periods of prosperity to sell bonds of the

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city so rapidly, as real estate valuations rise, that little remains when real estate valuations stand still during a depression.

4. What should the signal be for releasing the prosperity reserve and undertaking public work vigorously during a depression? Would it be a good yardstick to use the volume of contracts for new construction let in the United States and release the reserve when this volume falls off for a period of three months one-quarter below the corresponding three months of 1926? The merit of this yardstick would seem to be the ease with which the fact can be known. Moreover anyone can see that the falling-off in general construction can be met in part by an increase in public construction. The thought is that if the federal government should first adopt this principle of a prosperity reserve and use this yardstick, the signal would be transmitted rapidly over the country. All those cities which had prosperity reserves would then release them.

This program avoids the problem of postponing public works of immediate necessity. It avoids laying aside funds out of annual appropriations to be used in future years of depression. It requires for its successful operation only the will to do so, conceived during periods of prosperity, and checking of the spendthrift impulse of exhausting the borrowing power when the skies are clear.

At least two city Chambers of Commerce are trying to apply this principle to their local administrations and will, in course of the effort, doubtless find other obstacles and ways of overcoming them. I would be very glad to act as a clearing house for all those who may undertake to help in finding a method applicable to any city.

What a comfort it would be for each of us when the next period of depression comes not to feel that all we can do is to subscribe to a soup kitchen, not to listen helplessly to the cries of suffering and the threats of the desperate; but to be able instead to sit back in a comfortable chair, smoke a good cigar, and feel that advance preparation had been made by our efforts in creating prosperity reserves of public work against human suffering and economic waste.

MR. H. R. WOODS (of the Associates for Government Service): Stability in industry and a great saving in cost of

supplies both by state, county and city institutions can be aided by organized central purchase. Yearly individual and separate local purchases of these institutions total \$1,000,000,000. If the lowest price that one of ten institutions pays for any given article be obtained for the other nine, a material saving for all is obtained; but if a saving can be secured on the price the lowest of the ten pays, a greater saving can be obtained for all.

My long identification with the textile business shows me that in staple lines the question of profit or loss for the whole year is dependent upon wise purchase of raw materials. The individual purchasing agent of such institutions cannot be expected to have technical knowledge of all the various supplies he must obtain.

Forty-three states and thirty-eight principal cities have already centralized their purchases.

The program of the Associates for Government Service is to centralize all these purchases through a distribution to all purchasing agents of its sales catalogue of certified commodities. With such a volume of business to place, a saving carefully estimated as at least ten per cent can surely be obtained and stability of industry aided by long-time contracts placed for articles in constant need. The carefully selected dates for contract delivery secure lowest prices and aid industry over periods of inactivity.

A further aid to industry will be gained through an end of the prison contract system and prison-made goods now competing unfairly with free labor, used entirely in state, county and city institutions.

Mr. Mallery, in *Business Cycles and Unemployment* (McGraw, Hill Book Company, 1923, edited by the National Bureau of Economic Research), states that: "The regulation of purchases to stabilize manufacturing inevitably leads to the harnessing of the combined purchasing power of many states and cities, so that it can be used to increase production during times of unemployment."

MR. DARWIN J. MESEROLE (Brooklyn, N. Y.): My first interest in this subject was largely from the humanitarian standpoint, with regard to the man out of work, who could not get employment and who naturally, with those dependent upon

him, was sometimes starving in our times of business depression. I came to see that the stabilization of business in the times of depression that we get periodically and quite regularly in this country was so linked up with the problem of human suffering of the unemployed, that these two problems were in actuality a single problem, and it seemed to me in this country of untold natural resources, unimpaired labor power and financial resources, that there should be enough intelligence to provide what we might call continuity of employment.

We have seen this afternoon that even Federal expenditures of, say, \$100,000,000 a year, and whatever is spent by the cities and states, would be but a mere bagatelle to employ the 5,000,000 or 6,000,000 men and women who are periodically thrown out of work in this country for from six months to a year at a time. Therefore, four or five years ago a group of men and women organized themselves into the National Unemployment League, with but one simple object; simple, I say, from the standpoint of simplicity in stating it, but very difficult from the standpoint of getting it adopted by the legislatures of this country. That is, that in times of business depression the Federal and state governments should at once inaugurate great public works such as road-building, reforestation, reclamation of waste lands, the development of water power, to the extent of the need of the unemployed and of the business conditions for stabilization.

I realize that that goes considerably further than what has been outlined here this afternoon in the way of planning of public expenditures over a period of years, a decade perhaps, taking the money from the prosperous years and spending it in the bad years; but I think that we have got to go further than that, and have it stated as a general principle, that business men and the unemployed workers themselves are entitled to protection from the conditions that obtain in times of business depression in this country—in other words, that there is no possible excuse for a cessation of industry in the United States, with the untold natural resources we have, the unimpaired labor power and the financial strength. It seemed to us very simple, so simple that we introduced a very mild bill as an initial step, to the effect that a commission of three should

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be appointed to blue-print the country, to see where public roads, reclamation of waste lands and reforestation could be devised so that in times of business depression this work could be inaugurated at once. That bill has not been passed yet but we hope it will be. We hope also that these bills for the long-range planning of public works, of which Mr. Mallery has been the exponent so many years, will be passed. There is room enough for them all. But our one thought has been that in public works is the solution, because there may be procured the extended purchasing power which will keep the wheels of industry going even in times of such serious business depressions as we have had twice in one decade, 1914-1915 and 1920-1921.

MR. WOODLIEF THOMAS: All this discussion worries me. I am afraid that some will take it seriously and go to Congress and ask them to refrain from doing some building which is very badly needed in Washington right now. Also, I hope that they won't stop the expenditure on public roads that we need to take care of our present prosperity, so that we can use our automobiles and so that we can develop suburban areas and build more homes and continue the prosperity that we have. I find here a surprising faith in the fact that we are going to have business depressions. I have been looking for a business depression now for three or four years and I haven't found one, and I am wondering when it is going to come. I wonder if we are going to keep our rattle-trap buildings in Washington, in which we have records that might be burned up any minute, if the buildings do not fall down first, until we have another business depression. I am in favor of continuing prosperity right now! I think that the principle is good, but there are exceptions, as Mr. Mallery pointed out, and I am wondering if this isn't an exceptional period.

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PART IV
THE FEDERAL RESERVE SYSTEM AND
BUSINESS STABILITY

WHAT THE FEDERAL RESERVE SYSTEM IS DOING TO PROMOTE BUSINESS STABILITY

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THE great temptation in dealing with the subject that has been assigned me is to overstate the case, and I want to preface what I have to say with a word as to necessary limitations. It is really premature to make a speech about what the Federal Reserve System does to stabilize business because we shall not know until about twenty years from now what the results truly are. The Federal Reserve System has had a life of twelve brief years. The major part of that life was passed in the storms of war and does not offer us true indication of what the future has to offer in normal years.

In the years since the war the operations of the Federal Reserve System have been so intermingled with other important changes in our economic structure that the untangling of the facts as to Federal Reserve operations in such a way as to draw any final conclusions is next to impossible.

This is a scientific audience. If there is one law of science, and particularly a law of the social sciences, which bears upon this discussion it is that you need many cases before you can draw a conclusion. Moreover, you need to segregate your data as far as possible. We have not enough cases, and we cannot segregate our data concerning Federal Reserve operations from various economic complications.

For example, those of you who heard the paper offered by Mr. Thomas today learned in cold facts of the change which every business man knows has taken place since the war, the change in economic processes, in per-capita production of the worker, which has constituted a real economic revolution in this country. When you have an increase in the wage-earner's purchasing power of twenty-five or thirty per cent, accompanied by a tremendous upheaval in industrial processes, partly forced as a result of wage increases, it is difficult to say whether that or some other phenomenon is the cause of our prosperity.

Again, I think you would have to look through many pages of banking history to find a period in which a bank of issue in an important country has been in the position of the Federal Reserve System, with a reserve ratio so high that it could be neglected in the determination of credit policy. It would be difficult to find another example of easy money bulwarked by such a large mass of reserves, which offers stability and a guarantee of some continuance of stability.

The unusual nature of the economic circumstances of the past few years makes one cautious in making any claims with regard to what the Federal Reserve System has done for the stability of business.

About all that we can do is observe the operations of the system and see how the machinery works. Does the machinery operate in such fashion that it looks as though it would go forward in normal years and grind out a result which will help toward business stability?

I think we might say that there are three functions of a bank of issue, as they relate to business stability in any country. The first function is to preserve the gold standard. Perhaps at some future time that may not be recognized as one of the functions of a bank of issue, but as far as our experiments have yet gone the gold standard seems our best guarantee of monetary stability. The second function is to perform fiscal operations for the government. The third is to adapt the credit and currency supply to the needs of business. Let me take those up in order, briefly.

The Federal Reserve System through the World War did preserve the gold standard in this country. We were fortunate, of course; our resources were not drained in so large a percentage as the resources of other nations. Before we entered the war we had a vast gold inflow of perhaps a billion dollars which raised our reserves to a point where they could stand a degree of strain that the reserves of no other bank of issue in the world could stand. Through the functioning of the Federal Reserve System, with this bulwark of fortune, if you will, we did remain on the gold standard throughout the war and we were the only important country engaged in the war that remained on that standard.

More broadly I take it that the function of a bank of issue

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in maintaining the gold standard has a wider scope than the preservation of that standard at home. You cannot have normal gold movements and normal gold payments in one country unless you have them throughout the major countries of the world. There again I think we may say that the Federal Reserve System has played a part in the restoration of the gold standard throughout the world by extending aid to the Bank of England in the spring of 1925 and to the Bank of Belgium this past year. But more of that later.

The second point I think I need only mention, and that is the function of a bank of issue in carrying on the fiscal agency operations for the government. The instance that Mr. Case has given you¹ illustrates the type of operation which the reserve bank ordinarily carries forward from day to day, from month to month, for the government. It offers an agency through which government receipts of various types and government expenditures may be carried forward in large amounts without disturbing the money markets.

The third point of course covers a vast field and all that I can do in the moments that I have is to suggest a few of the points, a few of the things which I think may safely be said with regard to the function of the Reserve Banks in adapting the supply of currency and credit to the needs of business. The first test is the day-to-day test or the month-to-month test, and there I think the best evidence that can be introduced as to the adaptation of the flow of credit and currency to the needs of the country's business is the evidence of interest rates. There are two bits of evidence of changes in interest rate that I think most of you are familiar with. One is the change that has taken place in the seasonal movement of interest rate. There seems to be clearly a change which may safely be ascribed to the presence of the Reserve System. In the old days we had a distinct seasonal movement of interest rates which had a range of something like twenty-five per cent. Rates were low in January when the currency flowed back into the banks from the Christmas holiday trade; they rose again to a peak in March; they went down again in the summer to a low point in June, started rising in June or July, and reached their high point in October, slumped off a bit after the October

¹ Cf. *infra*, pp. 148-152.

peak of harvesting and of wholesale trade, but then were maintained substantially high throughout the balance of the year.

This wide swing in interest rates was so typical that looking over the raw figures on a chart one could easily see the movement in practically any year. It is clear that a change has taken place in that movement. Instead of having a swing in interest rates from fifteen per cent above the yearly average to ten or fifteen per cent below, we now have a swing which can only be estimated in amplitude, but a swing perhaps five per cent above the yearly average to five per cent below, or a swing of about ten per cent compared with the swing of twenty-five per cent before the Federal Reserve System was adopted.

It is easy enough to see how the Reserve System tends to diminish such interest-rate fluctuations, for the additional funds that business requires can now be secured easily through the mechanism of the Reserve System without drawing down the reserves of member banks to a point where interest rates rise sharply.

The change in rate fluctuations perhaps is not of large importance. It doesn't make much difference to most business men whether they pay four per cent for their money or five per cent; if the transaction is profitable it will be undertaken anyway. But I think the point of real significance is that the change in interest rates was an indication of a change in credit conditions. At the peak of the year in the fall when interest rates were high, the banks were less willing to lend to their customers; it was harder for the business man to get his money and was, of course, particularly difficult for those who had to borrow at that time of the year. The farmer was one of those borrowers. In ordinary years perhaps this circumstance was not important, but I think it is an interesting fact that the great financial crises of the country have frequently broken in the fall of the year at the time when this seasonal movement of rates brought them to their October peak.

Another objective test of the change that the Federal Reserve System may have made in the day-to-day and month-to-month adaptation of currency and credit to the needs of business, may be found in the call-loan rates, the most sensitive of all of our money rates. A computation covering a period of

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years which we have made appears to indicate that the fluctuations in call rates have been about cut in half in their amplitude since the establishment of the Reserve System. This again is perhaps not a startling economic change, but it indicates a more stable monetary position under which the business man may be more constantly assured of getting the funds that he requires.

But now turning from those short-term movements, what can we say about the longer movements? What is the presence of the Federal Reserve System doing to the business cycle? I think the plain fact is that we do not know. Since the Federal Reserve operations became adjusted to something like normal, in say 1922, we have had a period of remarkable prosperity. If you compute the volume of trade in relation to the trend of past years or any normal line, it only dips under that line about once since 1922, and that is in the summer of 1924. So you have, as the fact in the case, a period of great prosperity. It is not safe to assume from that, however, that the Federal Reserve System is a guarantee of continued prosperity. Since 1922 we have had only one complete business cycle, beginning in 1921 and ending in the summer of 1924. There are those who will say that that was not a complete business cycle but is still continuing. And even if it be regarded as a complete cycle, one business cycle affords no conclusion as to what the Federal Reserve System is likely to do to business cycles. Since the Federal Reserve System began its more normal operations, we have simply this one example colored by a good many different circumstances, like easy money, a high reserve percentage, an industrial revolution, all of which might be expected to help in producing the favorable result which is actually taking place.

One can say this, however, that the Federal Reserve System has been conducted with a view to helping to cut down the amplitude of the business cycle. The theory that Senator Jones has propounded¹ is fairly generally accepted in the Federal Reserve System—the theory that it is part of our business to try to cut off the tops and the bottoms of some of the business cycles. When business is running at its top the thing to do is to exert the influence of the Federal Reserve

¹ Cf. *supra*, pp. 89-100.

System towards moderately firm credit conditions. When we hit the bottom, the thing to do is to try to make credit conditions a bit easier to aid in the recovery. I think if we will follow through the history of the policy of the Federal Reserve System in the past five years we will see that that theory has been generally acted upon. It is perhaps most definitely exhibited in the open market operations. We reached the bottom of a trough of a cycle in the summer of 1921 and then started up. About that time the Federal Reserve System began to purchase government securities in large amounts. With funds so obtained member banks were enabled to liquidate some of their indebtedness and found themselves able to lend somewhat more freely. As the cycle began to reach its peak in the latter part of 1922 and the early part of 1923 the movement was reversed, and the Federal Reserve System began to sell securities, making it necessary for the member banks to come in and borrow more heavily, and this condition in turn made them less ready to lend in large amounts, made them more careful of their loans, and thus helped in reducing the top of that business cycle.

At the end of 1923 business had begun to slide off, reaching its bottom in 1924. In December 1923, the Reserve Banks began the purchase of securities, and between that date and about September 15, 1924, acquired a portfolio of five hundred millions. The funds thus put into the market enabled the member banks to pay off their indebtedness, and placed them in a position to lend somewhat more freely to their customers.

Business recovery beginning in the summer of 1924 climbed rapidly to a high peak early in 1925 and the Federal Reserve System sold something like two hundred millions of securities. This action operated to increase the indebtedness of the member banks at the Reserve Banks and make them a little more cautious in their lending policy. Since that time the business movement has been pretty even and the holdings of securities of the Federal Reserve Banks have been at a pretty steady level, with the exception of one slight movement last year.

In view of these facts, while I think we cannot say that they prove that the presence of the Federal Reserve System has reduced the swings of the business cycle, we can say, I think, that its influence has been in that direction.

There is a third type of test which I want to deal with briefly, and that is the long-time test of the adjustment of credit to business. Here we encounter those much-banded words, "inflation" and "deflation." We have had a distinguished economist from the West recently asserting that the Federal Reserve System has been deflating the country in the past two years. We have had an equally distinguished economist nearer home asserting that in the past few years the Federal Reserve System has been inflating the country. I think one might safely take a compromise position and say we have been neither inflating nor deflating the country.

I wish there were time to analyze the positions taken by those economists and others, because there is a good deal of meat in their statements and they need a good deal of analysis. That would lead us afar into the problem of what price index needs to be used when you consider the relation of credit and prices; it would lead us into the problem of the relationship between the volume of credit and prices and into a good many other controversial problems; so I am going to keep discreetly away from any attempt to analyze their positions.

I do want to say this, however, that in much of the discussion too little attention has been paid to one important problem of Federal Reserve policy, and that is the gold problem. That problem has constituted, I think, the most serious problem that the Federal Reserve System has faced in the past five years and perhaps will face in the next few years. You are all familiar with the general facts. In 1921 when the world was thoroughly upset gold began to flow to the United States in a perfectly tremendous stream. In the year 1921 we gained over \$660,000,000 of gold and in 1922, 1923 and 1924, the amount each year was close to \$300,000,000. That is, in that period of four years we took in a billion and a half dollars of gold.

The economists of the world, with some few exceptions, were very definite about what would occur as the result of that gold flow. They were convinced that we would have a tremendous price inflation in this country. As a matter of fact that did not occur. There are a number of reasons, but the main reason was that at the beginning of 1921 the member banks owed the Federal System something like \$3,000,000,000 and when the gold came in and was received by the member

banks, they used most of it to pay their debts to the Federal Reserve Banks instead of for a gold inflation. The operation was not the result of some mysterious credit policy which the Federal Reserve System exercised.

That is not the whole story. While the gold flow was abated in 1924 it is still with us as a possibility. In 1924 I think one of the most important events in Federal Reserve policy took place. At the end of 1923 and moving into 1924, we were in a period of some business depression. The skies were a bit dark in this country, and the world over there was a good deal of disturbance because England was not yet back on a gold basis, and most of the other countries of the world were in great uncertainty. The Dawes Plan had not yet been concluded, although the experts were working on it. Agricultural prices were on the toboggan. That was the time when in my opinion a great man had a great idea; the man was Governor Strong and the idea was that the Federal Reserve System had a responsibility that went far beyond our domestic situation at that time alone. The idea was further that this country could never hope for a permanent groundwork of prosperity until the world was back on a gold basis, and the world could never get back on a gold basis until we helped it. One way we had to help was by making conditions here favorable to the return of the world to gold.

What happened was that the system went into the market and bought \$500,000,000 of government securities. Up until that time the interest rate in London had been steadily lower than the interest rate in New York; so that New York was attractive for funds and London was less attractive for funds and sterling was constantly depressed. As a result of a policy of putting money into the market here and enabling member banks to pay off their debt at the Reserve Banks, money was easier in New York and the interest rates crossed for the first time and New York money was cheaper than London money. That is a dangerous thing to do: when you make money easy it may produce inflation. But for the world as a whole the thing that happened was that sterling began to climb upward, that some balances moved from New York to London, that in the spring of 1925 England was able to go back on the gold standard and with her many other countries of the world; and

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the groundwork was laid for the restoration of world trade to a gold basis.

We have not solved this gold problem yet. As a matter of fact, Federal Reserve credit policy moves in a narrow strip, if you will, and that strip can best be illustrated by the strip of interest rates. The London rate on ninety-day bills at the present time is $4\frac{3}{16}\%$. The time rate in New York is $4\frac{1}{2}\%$. There is a huge volume of funds of banks of issue and of other banks which may move in either direction, New York or London, depending in part upon the interest rate. If the interest rate here is forced to five per cent, I think there is little question but that you would have a continuation of the gold inflow which threatened to swamp us before and may make us a good deal of trouble again. On the other hand, if the rate here in New York is maintained moderately low relative to London, the London market will get its share of the funds and the gold flow will not come to us in tremendous volume. That movement of gold is an ever-present possibility and constitutes one of the factors to which Federal Reserve policy must give continuous attention.

Let me summarize by repeating what I said at the beginning, that it is too early to know fully what the results of the Federal Reserve policies are. We do not even know what they were in the past. I referred to the policy of 1924. The fact is that while a policy was adopted which would aid toward world recovery, there were other movements in the air, the establishment of the Dawes Plan for Germany, a business recovery in this country, and other factors tending toward the gradual recovery of world trade. We do not know how much was the effect of Federal Reserve policy and how much the effect of other forces. The data are too limited to permit final conclusions. What we can say truly, I think, is that in the day-to-day and the month-to-month operations we have evidence that the Reserve mechanism is in specific ways aiding in business stability and in the broader operations we can have hope that it will be one of many factors working toward greater business stability.

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INCOME TAX PAYMENTS AND THE STABILITY OF THE MONEY MARKET

J. HERBERT CASE

Deputy Governor, Federal Reserve Bank of New York

THE Academy of Political Science has, in my judgment, performed an important service in fostering the union of the academic and the practical. The officers of the Academy are an interesting mixture of men of affairs and men of learning. The Committee which has arranged this program is composed of captains of industry and scholars. The program that we have before us this evening illustrates admirably the ideals of the Academy, for our speakers are an operating official of a huge transportation concern, a distinguished economist, and a representative of our Congress.

This feature of the organization under whose auspices we meet gives me the opportunity to say something which I have had on my mind in the last few years. As an illustration of the principles for which this organization stands, I want to take this occasion to bear testimony to the debt which the Federal Reserve Bank of New York owes to the sciences of economics and statistics.

For a good many years I have been an operating officer of some bank, and since 1917 of the Federal Reserve Bank. I think I can speak from the point of view of the operating officer, who has had no bias in favor of economics or statistics. In fact, I may confess that some years ago I should have been extremely skeptical as to the value of these sciences in practical bank operations. In the past seven or eight years, however, we have gradually developed as a part of the organization of our bank an economic and statistical service: we have tried to bring to bear upon all of our important banking problems something of the academic as well as the operating point of view. We have tried to use the tools of science in our daily operations.

The result is that we are now thoroughly committed to the maintenance of a statistical and economic service as an integral part of the bank. As an operating officer of the bank I should

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find it difficult to carry through the day's transactions without the constant aid which I receive from this service.

Let me illustrate what I mean by reviewing very briefly the events of the quarterly tax period on and following March 15 last. The Government operations on any tax day involving as they do, the redemption of maturing obligations, the issuing of new ones and the collection of income taxes, and a number of related transactions, are very large and are apt to disturb the money market. But the operations this past March were unusually heavy.

Treasury transactions for the country as a whole included: the redemption of \$660,000,000 of Treasury notes, the largest maturity in some years; the issuance of two new series of certificates of indebtedness, \$170,000,000 at $3\frac{1}{8}$ per cent for six months, and \$314,000,000 at $3\frac{1}{4}$ per cent for one year; the issuance of \$1,355,000,000 of Treasury $3\frac{1}{2}$ per cent three to five year notes in exchange for a like amount of Second Converted $4\frac{1}{4}$ per cent Liberty Loan bonds, redeemed with interest to May 15, 1927; the payment of \$90,000,000 of interest; the withdrawal of \$192,000,000 of Government deposits from depository banks; and the collection of over \$500,000,000 of income taxes. The total turnover of Government funds on and about March 15 was well over three billion dollars. Much of this, particularly the collection of income taxes, was spread over a number of days and distributed about the country.

The first day of the tax period, the 15th of the month, is always the heaviest day, however, and in all such operations between one-third and one-half of all transactions takes place in New York. As a consequence, the volume of operations of the New York Reserve Bank of March 15 was one of the largest for any day in its history. The total turnover of funds on that single day, including both transactions for Treasury account and ordinary banking operations, was close to two billion dollars. This total was made up roughly as follows:

Fiscal Agency Operations

Securities redeemed	\$343,000,000
Securities exchanged	548,000,000
Subscriptions to new issues	136,000,000
Interest paid	32,000,000
Income taxes collected	8,000,000

Total \$1,067,000,000

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Banking Operations

Checks and other collections	\$530,000,000
Wire transfers	243,000,000
Currency payments and receipts	28,000,000
New loans to member banks	10,000,000
Member bank loans paid	75,000,000
Total	<u>\$886,000,000</u>
Total—all operations	<u><u>\$1,953,000,000</u></u>

Certain of these very large Treasury operations have no effect on the money market beyond some churning about of funds. They do not involve any gain or loss to the market. The exchange of $3\frac{1}{2}$ per cent notes for Second Liberty $4\frac{1}{4}$ s, for example, neither withdraws funds from the market nor puts funds into the market. Similarly, the issue of new certificates does not affect the money market, since these certificates are largely paid for by deposit credit to the account of the Government on the books of the subscribing banks, and there is no withdrawal of funds until the Treasury from time to time makes calls upon these deposits as it has need for funds. The Treasury operations which did exercise an important effect upon the money market were the redemption of maturing notes, the payment of interest, the call of funds from depository banks, and the collection of income taxes.

The immediate effect of Treasury operations on March 15 was to pour into the money market about 265 million dollars of funds, because payments by the Treasury to redeem maturing notes and to pay interest were immediately available, whereas the actual collection of income tax checks by the Treasury was spread over a number of days. The money market problem, in which the Federal Reserve Bank was concerned, was to prevent this huge gain in funds by the market on March 15 from upsetting the market.

When you consider the fact that the money market is so delicately poised that a loss or gain to the market of fifteen or twenty million dollars frequently makes a difference of half of one per cent in the money rate, you can well imagine that the pouring into the market of more than 250 million dollars in a single day would result in complete disorganization, unless this

huge outflow of funds were in some way absorbed. It was our responsibility in the bank to see that the money market was not completely disorganized by this huge artificial movement of funds resulting from Treasury operations.

As a basis for dealing with this problem we had available three instruments devised by our statistical department:

1. A careful analysis and explanation of previous tax day operations.
2. An estimate of the course of events on this tax day.
3. An hourly balance sheet of gains and losses to the market, which gives us a continuous picture of the changes that are taking place.

With this information at our command the problem became a comparatively simple one. The huge amount of extra funds poured into the market by the Treasury were absorbed in the five following ways:

1. Member banks in New York City allowed their reserves to run below requirements for a few days prior to March 15, so that they came to March 15 with an accumulated deficiency of 85 million dollars.
2. On March 15, banks repaid the Reserve Bank 65 million dollars of loans.
3. In addition, 18 million dollars of Federal Reserve credit was retired through decreases in holdings of bills and government securities under sales contract.
4. The Reserve Bank made a temporary sale of 63 million dollars of Government securities to several member banks.
5. Maturities of 25 million dollars of securities from the System's holdings were not replaced until the following week.

By these means the greater part of the 265 millions of excess funds was withdrawn from the market and as a consequence there was no disorganization—no serious overage of funds in the market. Money rates in the stock exchange market ruled at four per cent all day, on March 15, and only went below four per cent for a few hours on March 16; on March 17 and 18 the member banks resold to the Reserve Bank the securities they had purchased, and on March 18 they found it necessary to borrow 117 million dollars from the Reserve Bank to bring their average reserves up to requirements. Thus money conditions were maintained at a stable level during the week.

I cite this case not with any desire to take credit to ourselves for the success of the operation, but, on the contrary, to illustrate how the application of scientific method may so clarify a complicated banking situation as to indicate clearly the type of action which is required. It is an illustration of my reason for believing that much is to be gained in practical affairs by such a union of the academic and the practical, as this association stands for.

If there is hope in the future, and I believe there is, for greater stability in business, in manufacture, and in employment, for more continuous prosperity, with fewer interruptions, I believe that hope lies in a cooperative undertaking between scholarship and experience.

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PART I

FOREIGN INVESTMENT PROBLEMS

THE WORLD'S PRESENT AND FUTURE DEMAND FOR CAPITAL

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I HAVE been asked to discuss very briefly from the point of view of the practical banker a subject that covers a wide area and a long period. I shall be able to pass only lightly over important subjects and shall try to present to you a fairly broad, but very impressionistic picture of the field of international finance as it now appears. For the purpose of this discussion the world demand will mean the international demand and will not include those domestic capital demands which are filled at home. The present will be the period of time from the ending of the war up to the present. The future will be a very indefinite period extending an uncertain distance ahead of us. Capital, for which various definitions may be given, in this case will be wealth from which its owners expect to receive an income, and is for the most part represented by promises to pay in the form of bonds, or by evidences of ownership in the form of shares. As the banker uses the word, capital is surplus income collected in large and small amounts from the people and corporations and investment trusts of the city, the town and the village, and directed here and there in the world to assist nations to rehabilitate their factories, homes or fields, to balance their temporarily disarranged budgets, or to extend their public works; to make it possible for railroad, public utility and industrial corporations to extend their facilities, or for the empire builder to open up and develop unused natural resources. There are two major requisites which capital requires from the borrower. He must offer a satisfactory rate of interest and must command confidence.

Up to the time of the Great War this country was little interested in foreign investment. We had placed comparatively small amounts of capital in the nearby countries of Canada, Mexico, Central and South America, but ours was a partly developed country where interest rates were attractive, and our

public did not have to seek far to find a field for investment, nor did we have sufficient knowledge of foreign countries to feel confidence in their credit. The financial capital of the world was London, as it had been Amsterdam previous to the Napoleonic wars; while France, Germany, Holland, Switzerland and Sweden also contributed large sums to the international markets. America was a debtor nation. It was in a moment of time, however, that we became the principal money market of the world. There were many factors which contributed to this sudden change. Our immense exports during and after the war, our newly formed Federal Reserve System, which so greatly expanded our credit facilities, our Liberty Loans which taught us how to mobilize our resources, combined with the advanced state of our own development, and our newly acquired knowledge of the world, all helped to make it possible for us to take advantage of the exhaustion and financial chaos which almost everywhere else existed.

During 1918, while the war was in progress, international demands were financed by the national government, but immediately upon the conclusion of the war the banker resumed his occupation of trying to meet the requirements of needy borrowers. During 1919, some \$550,000,000 of new foreign loans were issued in this market to borrowers of the very highest credit, namely, Great Britain, Canada, Switzerland and Scandinavia, with very scattering amounts to Latin America. The real problem of post-war finance, that is the rehabilitation of nations whose resources and credit had been most seriously affected by the war, was not touched. It was out of a bank credit to Belgium to purchase wheat that the first effective effort in this direction developed. Belgium, of course, was starving. Short-term credits totaling \$50,000,000 had been arranged so that the Government could buy wheat and other essential commodities. When these credits began to mature the franc had declined from a gold value of 13 cents to 7 cents. To repay these gold credits of \$50,000,000 by the purchase of exchange in a franc worth half of what it was worth when the credit was granted seemed impossible. Bankers who had arranged the credits were approached by the government and asked in the emergency what could be done. The bankers didn't know. Perhaps they could float a loan of \$25,000,000.

They would do what they could. After long and careful deliberation, a loan bearing 7.5 per cent interest, payable by lot at 115 over a period of twenty-five years, was agreed upon. Every resource of publicity was used, and finally, urged on by the feeling that the sympathy of the American public would respond to Belgium's appeal for aid, in June, 1920, a nationwide banking group, composed of the strongest banks and bankers in the country, was organized to issue \$50,000,000 bonds. The subscription books were kept open for three days, a very unusual procedure; every resource the banker could command was used to induce subscription, and finally the books were closed with a subscription of \$53,000,000. The loan was over-subscribed and a very vital step forward in our entry into the field of international finance was accomplished. Loans to France and Italy soon followed and then the first industrial loan to Belgium. The work of rehabilitation was begun and has continued up to this time. In 1921 there were additional loans to France and Belgium, and a largely increased demand from Latin America. Australia was added to the list of borrowers, and 1922 added Czechoslovakia, Netherlands, Yugoslavia, Dutch East Indies and the first corporation loan to France. In 1923 came the first loan fathered by the League of Nations, that to Austria, also loans to Finland and Japan. During 1924 were made the first loan to Germany to consummate the Dawes Plan and League of Nations, loans to Hungary and Greece, a large loan to Japan, and the first loan to Japanese electric light and power companies. In 1925 there were very heavy loans to German states, municipalities and industries; the first Italian industrial corporations of importance borrowed here, and there was heavy borrowing by Japanese public utilities. In this year Holland, Switzerland and Sweden, who had been heavy borrowers, did not appear and began to repurchase their own dollar securities. Nineteen twenty-six added Bulgaria and Luxembourg to the list of borrowers, and 1927, Estonia and the Free State of Danzig. So that now a very large majority of the nations of the world are our debtors, and several who are not would like to be.

Looking back over the period from 1919 to the present, financial progress seems to have been made very normally during very abnormal times. At the beginning of the period lack of

confidence in European stability and credit, and lack of knowledge of world finance, was combined with the fact that every credit facility of the country had been employed to aid in the prosecution of the war, and comparatively little investment capital was available. Canada, her provinces, municipalities, and industries were so well known to us that they could borrow on terms only slightly less favorable than the terms required of domestic borrowers. Among South American countries, Argentina, Chile and Uruguay were best regarded by American bankers. In the other hemisphere, the credit of England and her dominions, Scandinavian countries, Holland and Switzerland were rated highly, and so it was to them that our first loans were made. For other countries to obtain capital required courage and effort on the part of the banker, and it was the other countries, of course, who most needed assistance. The episode of the loan to Belgium was repeated time after time with other countries; in fact, with practically every new country which came to this country for credit. Every resource of the banker and the press have had to be used to familiarize the investing public with financial, economic and political conditions in France, Italy, Czechoslovakia, Jugoslavia, Austria, Hungary, Germany, Greece, Japan, the Dutch East Indies and the countries of Latin America. In each case the original borrowing has generally been for the national government. Once the financial condition of the country has become known and favorably considered, the municipalities and industrial corporations have quickly applied for and received the capital necessary to carry on the reconstruction planned and begun by the central government. Briefly, to tell of the history of the financial reconstruction of any one country by itself would take much more than the time allotted to me. There was borrowing to balance budgets before the political situations would permit of taxation sufficient to make income equal expenditure, and borrowing to transfer the floating debt from a country to us because the nationals did not have sufficient confidence in their own country to renew their short advances; there were the over-issue of bank notes, the depletion of bank reserves, the unfavorable balance of trade, each factor a problem in itself; finally there was a reconstruction programme in which

each element was provided for and a loan, generally international in character, to provide gold cover, to help carry the budget until new taxes provided by the plan could be collected and confidence restored and capital repatriated. Finally, there were loans to states and municipalities for public works to provide employment, to mortgage banks for reloaning to farmers in order that food might be provided, and to private corporations to buy raw materials and to modernize their plants so that the industries of the country might compete with the industries of the world and restore a proper international balance of trade without which the nation could not exist. That is a short résumé of what has happened in many countries of the world in the last few years. In some the programme has been complete, in some the problems have been less in number, and the bankers' difficulties have thereby been diminished.

Consideration of this résumé will show that out of necessity many initial loans were for purposes far from productive, but that there has been a gradual progression toward loans of a productive character. In the early years after the war it could not have been otherwise. The nations had first of all to fund the carry-over from the war, and in many cases to find food for a starving population. Gradually, as the reconstruction has progressed, the capital supplied has come to be used almost entirely for productive purposes, and the banker is more and more requiring that this shall be the case. The period of financial reconstruction is now nearly at an end. The return of France and Italy to a gold standard at a not very distant future date seems not difficult of realization. There are still countries which need a doctor, but they are the smaller nations that do not so vitally affect the welfare of Europe. This must not be taken to mean that Europe has left her financial problems behind her. That is far from the case. Each country has immense problems; but they are, for the most part, problems that intelligence, industry and saving will solve.

The foregoing paragraphs have referred largely to Europe, but they are applicable to a lesser extent to Canada and to Latin America. They, too, had their post-war problems, their unbalanced budgets and their floating debts, but in general their borrowings were of a productive character sooner than

those of Europe. Nothing, of course, has been said of Russia and China. Their capital requirements in recent years have not been a cause of concern to the banker.

During the years under discussion we have publicly issued in this country, according to figures of the United States Department of Commerce, loans to foreign borrowers aggregating about \$7,000,000,000. Of this amount \$3,000,000,000 went to Europe, and of this approximately \$1,100,000,000 to Germany; \$1,500,000,000 were loaned to Canada, \$1,600,000,000 to Latin America, and the balance to the rest of the world. The above aggregate is regarded as a very conservative figure and some statisticians have compiled an amount considerably larger. The figure does not include enormous amounts of capital provided by domestic corporations in connection with the extension of their business in foreign countries, such as Armour, Swift, General Electric Company, Singer Sewing Machine Company, Ford Motor Company, Aluminum Company, International Paper and others too numerous to mention. The amount which has been expended outside of the country by such corporations is impossible to compile accurately and difficult to estimate. Some figures are as high as \$5,000,000,000. But it is probably little exaggeration to say that within the last eight years we have placed abroad \$10,000,000,000 of capital in every quarter of the world for every purpose. States, municipalities, mortgage banks, railroads, public utilities, industries of every nature; in Canada, paper, pulp, automobiles, aluminum; in Latin America, sugar, copper, nitrates, meat products, oil; in Europe, steel, electricity, fertilizer, chemicals, mining; from everywhere for every purpose demands have poured in.

Financial world reconstruction has not, of course, been accomplished with the aid of America alone. Always England has contributed her knowledge and experience, and, within an amazingly short time after the war, her money. Almost entirely by herself she has taken care of the financial needs of her dominions and her colonies, excepting Canada and some in Australia. In spite of her numerous war losses she has, during the last four years, shared largely in loans in all parts of the world, and though she cannot now be as lavish of her resources as formerly, she loaned externally during 1926 about £122,000,000. Holland, Switzerland and Sweden, to a lesser

extent, as soon as their exchanges permitted, shared in many international loans. We are, therefore, not alone as a lending nation, nor should we wish to be, but we have joined the list of creditor nations, and until some catastrophe changes the situation, will doubtless remain so. In all that has been accomplished during recent years, there has been constant and increasing cooperation among international bankers. It is earnestly to be hoped that this will further increase and continue. It will greatly aid in international understanding.

So far the discussion has tried to show how we have gone through a very abnormal period, whose end seems near; how in cooperation with other nations we are now lending throughout the world for productive purposes; and how we have come to the point where we must consider the future.

From the bankers' viewpoint, nations may be divided into three classes: developed, partly developed and undeveloped. Developed nations, under normal conditions, are not borrowers. The post-war period of finance will have ended when the developed nations cease to borrow. Germany must be excepted from this statement, as reparations make her position abnormal. Now if developed nations are not normally borrowers but lenders, it is obvious that demands for loans from many countries of Europe, to which we are now lending, will cease, and that our future demands will come from the partly developed and undeveloped regions of the world. The first thing we can count on in the future, therefore, will be to continue as we have now begun, to furnish capital to partly developed countries all over the world for their normal development, just as it was furnished to us by England and by other countries prior to the war. Loans will be made for purposes very similar to those for domestic loans, and it will be more or less easy to interest the public in them as the character of the domestic loans, which they resemble, is popular or unpopular with our investing public. Requests for capital for some traction companies may have difficulty, irrespective of their intrinsic merits. Power and light companies will find a cordial reception. Some fertilizer and textile companies may be inspected with great caution, while steel and electric manufacturing companies will meet approval. We will, also, doubtless directly, or through holding companies, acquire ownership of or an interest in,

various enterprises, as is contemplated by the American and Foreign Power Company, the International Telephone and Telegraph Company, or the International Match Company. In other words, we will share in the growth and development of various countries as we share in our own growth and development. The more accustomed we become to foreign fields the more varied will be our interests. Little by little as capital becomes more confident and experienced, we will join in the development of undertakings of a more hazardous character until we gradually become closely associated with the development of the undeveloped countries. The era after the Napoleonic wars was an era of world expansion of trade and industry made possible by the application of steam to industry, and by the opening up of new territory through the building of great railroad transportation systems in various parts of the world. Prior to the outbreak of the Great War, economic pressure was again exerting its influence towards various new railroad-building programmes of which the war, of course, prevented the completion. Now again, however, we see these programmes revived and extended. In North and South America, Africa and Australia important railroad projects are under way, carrying along in their wake the movements of population and the building of territories, which are a necessary adjunct of the projects. We can look forward to very great and immediate development of the character that followed the Napoleonic wars. Our capital will join in these new developments and doubtless in Africa we will help to consummate the dream of Cecil Rhodes of a Cape-to-Cairo railroad, or in some other part of the world will supply the capital for another Suez Canal, or a Nile Valley development.

Today, moreover, a number of elements combine with steam to make great developments possible. Vast areas, which were previously uninhabitable by white races, and some even by native blacks, are made available through the great progress of medical science in the control of sanitary conditions. American engineers succeeded in building the Panama Canal when the French failed, not because they were better construction engineers, but because they could control sanitary conditions. When the Belgians built the first railway past the falls of the Lower Congo, their laborers died like flies. Today they are

widening and improving the railway with little, if any, difficulty in that respect. There are other factors that must be considered of vital importance in modern development, three of them of a major character; electricity, the internal combustion engine, and the great improvement in technical processes of production, with particular respect to chemistry.

One of our prominent public utility operators has a conundrum which he is fond of asking. It is this: If a public utility company has gross earnings of \$30,000,000 a year, and these earnings increase at the rate of 10 per cent a year, and it takes \$4.50 of capital to produce each dollar of gross earnings, how much new capital will that company need in the next twenty years? I am not going to give you the answer to that particular problem, but I am going to apply it to the power and light companies of the country, as a whole, and the answer is that on that basis over a period of the next twenty years they will require \$65,300,000,000 of new capital. So that you may not feel that this figure is too fantastic, I will say that during the last eight years the gross earnings of the electric power and light companies of the United States increased an average of more than 11 per cent a year and \$4.47 was required to produce \$1.00 of gross revenue. Remember that the rest of the world is far behind us in the use of electricity. Apply this formula, and assume that they will try to catch up to us, and see where it leads, and then add to power and light companies, telephone companies, telegraph companies, radios and the other vast uses of electricity.

The internal combustion engine probably spells to all of us automobiles, trucks, busses, tractors and aeroplanes, in spite of its countless other uses. There are in this country 22,000,000 automobiles, trucks and busses against 5,500,000 automobiles, trucks and busses in the rest of the world. From the point of view of capital demands, visualize only the amounts required for road construction, which would be necessary outside of countries where good roads now exist, if a small percentage of our requirements at some time seemed necessary to the rest of the world. As for improvement in technical processes, one has only to consider the constant stream of visits to this country by committees of foreign industrial experts to study our manufacturing methods, and the loans which have

been made by us to various industries to rebuild their plants in order that they might place themselves in a position to compete for world trade. Or one might mention an expenditure by the Bethlehem Steel Company of \$150,000,000 during the last four years almost solely to reduce costs, not to increase tonnage. Another good example is the fact of Germany's imports of nitrates before the war to the amount in 1913 of 775,000 tons, while today she exports more than she imports, and the consequent damage to the Chile nitrate companies who are now, on their part, developing a process which will permit them again to produce their product on a most favorable competitive basis. And there is the distillation of coal for oil, now apparently commercially profitable in Germany, and a thousand and one other things each tending to economy, but requiring capital to install.

There is one last demand for capital which requires consideration and it is a most agreeable one. It is the demand created by the improvement in standard of living, occasioned by industrial progress and world development. It needs no words to describe to you the character of this demand. You, who live in a surrounding in which the standard of living is the highest the world has ever known, see it all around you.

One more word. Bankers are often regarded as pretty hard individuals. Some of them are, but I should hope rather that they might be thought of as trying by caution and sound judgment to safeguard the interests entrusted to their care. Upon them falls much responsibility for the uses to which capital is put. It is not an easy task to guide it into productive channels; and one sees every day, on every side, failure of individuals and of corporations to do so. The great steel companies of this country with their experienced and efficient managements, in normal times earn less than six per cent on their invested capital. In these years which are before us it is going to take knowledge, judgment, caution and patience on the part of both bankers and investors in order that America may intelligently accept her responsibilities and reap fully the benefits of her position as a creditor nation.

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THE RELATION OF FOREIGN INVESTMENTS TO THE FLOW OF WORLD TRADE

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“THE Relation of Foreign Investment to the Flow of World Trade” is a subject which comprehends, in my judgment, much more than can be fully discussed in one such paper as mine. Consequently, I am going to take the liberty of narrowing its scope somewhat materially. I shall consider that what the Program Committee really had in mind was American investment in other countries, and its relation to the American export trade, and that it did not desire an attempt at consideration of the whole field of British, French, Dutch and other investments in Bolivia, Chile, China and all the other hundred and odd territorial divisions of the world, with any consequent effect such investments might have upon the imports and exports of all of them combined.

It is sufficiently intricate, complicated and difficult, even with this limitation, to set forth anything that is susceptible of real proof and that warrants a statement of positive and fair conclusions. Vast volumes of words have been uttered, written and printed on this theme. A considerable variety of opinion has been expressed. Much more than a modest modicum of contention has been aroused, chiefly, it seems to me, by the lack of precision with which one side or the other, or both, have set forth their views.

It has been attended, moreover, by one spectacle which, to me at least, has been both amusing and irritating. There has been a tremendous tearing to pieces of straw men. The destruction has been incalculable. I doubt whether the joy this has rendered the destroyers is sufficient compensation for the waste of good straw.

The discussions of these meetings ought to deal with a maximum of fact and a minimum of assumption. But the debate of the investment and trade question has partaken very

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largely of the chief feature of the average tariff talk, assumption of the *post hoc ergo propter hoc* variety.

Certain facts stand boldly forth in the trade and investment records of the United States for the last twenty-five years. Take South America, for illustration. In 1890 only 10 per cent of South America's imports came from the United States. At that time our investment in the southern half of the western hemisphere was little better than negligible. In twenty years, that is, just before the outbreak of the world war, our trade had grown so that we were supplying about 14 per cent of South American imports. Our investment there had expanded to about one hundred millions in the same period.

But in 1925, the last year for which we have the full trade figures, we supplied more than 28 per cent of South America's imports. And our investment there had grown to something like one and a half billions. We are selling merchandise to South America today at the rate of more than a billion a year.

Consider Central America. In the four-year period from 1910 to 1913 we furnished, on the average, fifty per cent of Central American imports. Today we are furnishing more than sixty-five per cent of them. There, too, our investment has grown to well over a billion, and is approximately, barring recent financing, equal to the figures for South America.

It is to be noted, moreover, when considering these percentages of their imports, that total imports for both Central and South America have increased enormously during these years, save that the actual gain in volume of trade is much larger than the mere percentage figures show.

It is difficult to deal in general terms with our capital advances to South America. In the Argentine and Brazil, for instance, such advances have largely taken the form of loans to national governments, provinces and municipalities, with little, if any, accompaniment of American managerial participation. In both these countries there has been a certain amount of private American investment in productive enterprise, with a certain measure, sometimes complete, of American managerial supervision on behalf of the investors.

In Chile, on the other hand, private investment has been a very large factor in American capital advances, notably in the copper and nitrate fields, and loans to government or municipalities are probably subordinate in volume.

But in all these countries both loans and private investments have surely helped to increase purchasing power, immediately or remotely, and consequently have tended to stimulate trade.

Now take a brief glance at Cuba. In 1902, when we set up the first free government for that country, she had a population of just over 2,000,000 and a total trade of about \$70,000,000. Today her population is about 3,000,000, a gain of 50 per cent. But her total trade is over \$600,000,000, a gain of something like 700 per cent. Meanwhile, American investment in Cuba climbed to the colossal figure of a billion and a half, approximately equal to that in all of South America, or all of Central America.

These figures begin to look like proof that investment is a trade developer, but they are by no means the whole of the story. If I were to attempt to deal technically with my subject I should start, I suppose, with an analysis of the term "foreign investment" to try to see exactly what it means: loans, flotation of securities, individual purchase of securities, or individual purchase of property intended to be productive in some way, loans by one government to another, by banks to a government, by banks to banks, or by banks to corporations, and so on. It would require very much more time than I have been able to give, to prepare such an analysis, and the rest of this month, probably, to present it.

American investment, as I shall use the term here, means rather the putting of capital into productive enterprise by men who expect to participate in the management of that enterprise directly or by representatives, and to profit from the result, rather than the purchase of bonds or stocks by investors who want to put their savings where they believe they will get a sure and safe return without having to bother to look after the business all the time.

Precisely that, as I understand it, is the character of the great part of American investment in Cuba. It has gone into enterprises that increased the productivity of Cuba and facilitated the trade in the products. Such investment, it seems to me, is always bound to increase trade. Cuba, for instance, has produced very much more sugar, because of those American dollars, than she ever would have made without them. In a case of that kind the relationship between foreign invest-

ment and the flow of world trade is direct, immediate and plain.

But the cases are by no means all of that kind. Foreign investment is a thing of infinite variety. It ramifies all across the horizon, and at the other pole from the Cuban case cited we have such a case as the famous Tijuca Drive about Rio. The lenders of the ten or fifteen millions of borrowed American dollars which built that beautiful drive will have to search long and earnestly to discover any way in which that road earns a nickel toward the service of the loan. This helps illustrate, also, the difference between an investment, of the Cuban sort I have been talking about, and a loan. If the American lenders of the money that built the Tijuca Drive had been investing it in the enterprise for themselves, instead of the bonds of the city of Rio, they would have made it a toll road with charges high enough to get interest and amortization.

Loans, however, are probably seldom as unproductive as that which built the Tijuca Drive. Even loans to governments and municipalities, go for the most part, I presume, into something that yields some kind of return with which to meet the service obligation. And so, presumably, most loans also have their effect in stimulating trade. It seems a fair assumption.

But proof is a different thing, and if anyone is inclined to accept the fact that the trade of a country to which foreign loans have been made, or in which foreign investments have been placed, has expanded thereafter, as proof that the loans or investments caused that growth, he is likely to meet some cases that will give him a little pause. For instance, Americans have loans and business investments in China to the aggregate of seventy million dollars. These are intended and supposed to be directly productive. We also have uplift investments in China, for missions, schools, hospitals, and the like, aggregating \$80,000,000, remotely and indirectly, if at all productive. Now the total of foreign loans and investments in China is about \$2,500,000,000; that is, six per cent of the foreign investment in China is American, counting both business and uplift. But we have over eleven per cent of China's trade, and it has made, roughly, the same forward strides in the last twenty years that our trade with other parts of the world has made, including some parts where our in-

vestment has grown with great rapidity and is now very large in volume. Which is only another way of saying and showing that even though loans and investments may be a strongly influencing factor in trade stimulation, perhaps even the chief factor, there are other factors which must be taken into account, and some of these obviously have been at work in China.

From the point of view of the lender or investor it is true, of course, that loans and investments have a direct effect in producing exports. No new discovery in economics is announced in the statement that the proceeds of a foreign loan floated in this country, and the capital of American investments in other countries go abroad as merchandise exports, of one sort or another at one time or another. I will not pause here to discuss the gold and service alternatives. It seems sufficiently precise to say that every foreign loan and all foreign investments probably mean merchandise exports.

And here we come to that deadly field so widely and thickly strewn with the mangled remains of our straw men. For there is a great difference of opinion between industrialists generally on one side, and investment bankers and certain professional economists on the other, as to the trade-producing effect of foreign loans, and particularly as to whether or not the full potentiality of such trade stimulants is always evoked by the investment bankers in arranging such loans.

Here is where the general-in-chief of the army of straw men, Field Marshal Tying-in Clause, advances majestically upon the line of vision. He is a fellow of at least double, and perhaps treble appearance. To the average investment banker, loan underwriter, or professional economist, he is of frightful and forbidding mien, and possessed of menacing, if not lethal potentialities. But to some industrialists, though I am glad to be able to say advisedly, not to all industrialists, he is a figure of mildness and hope, filled with possibilities of great things. Very likely one opinion is as good as another about this figure which has been the center of so much discussion in this country since the United States became a creditor nation. Both have points of merit and both have points of no merit.

I will not pause to define the tying-in clause. No doubt everyone in this room fully understands it. I merely say that I personally hold with the fairly large group of American

business men who believe, that although there are many cases of loans to which the tying-in agreement, whether by specific stipulation in the loan contract or by understanding reached during the loan negotiation, is not applicable, and should not be used or sought, at the same time we believe that there are cases where it would be applicable, where the understanding might be reached, and where continuing benefit to American trade would result. And we ask our investment bankers always to have this possibility in mind when they are negotiating a foreign loan, and to see to it that if the possibility does exist, it is not neglected.

Now I submit that that position is very different, essentially, from what the investment bankers and some professional economists habitually describe as the demand of the industrialists. I have heard scores of speeches and read more scores of articles and hundreds of editorials in which speakers and writers asserted that the demand, if you please, of the industrialists, is for use of the tying-in clause as a condition precedent to the granting of any foreign loan.

That is a straw man, and nothing more. During the six or seven years in which I have been giving considerable attention to this subject, I have known only one American industrialist to advocate even the general use of the tying-in clause, and none to advocate it as a condition precedent. The subject has been presented to each of the last five or six National Foreign Trade Conventions, and from each has come the same declaration, asking the investment bankers always to keep in mind the possibility of promoting our foreign trade, *and whenever they find it feasible* to arrange, if they can, for expenditure of part of the loan proceeds in the United States.

Why the bankers and economists habitually ignore this reasonable position in their public utterances I do not know. Why they seem always to feel it necessary to trot out the "condition precedent" straw man and furiously tear him to pieces I can never imagine. But that is precisely what, for the most part, they do. I once heard one of our most distinguished investment bankers, a great authority on foreign relations, deliver a vigorous argument for half an hour on the folly of trying to enact a law to make the tying-in clause a condition precedent of foreign loans, and when I asked him who advocated

such a law he could not, or at least did not, name a single person.

There is another straw man whom the banker-economists love to parade. That is the proposition that use of the tying-in clause would force the poor defenseless borrower to buy what he needs, in the most expensive market, to his great disadvantage. We have all heard that alleged argument until we can say it backward in our sleep. What I want to ask the makers of this argument, and I am glad to have this opportunity of doing so, is why they habitually assume that the United States is the most expensive market in which foreign borrowers of our dollars can buy, and why they habitually assume that if the foreign borrower does buy here he does so to his own disadvantage.

These questions at once lead to several more. One of them is, what attention do the users of this argument pay to the trade figures of the United States, and how do they explain them? How does it happen that if this is the most expensive market, and foreigners buy here to their disadvantage, they keep on buying here, year after year, in increasing numbers and expanding quantity? We are exporting today, and for years have done so, many millions more than any other country on earth. By far the largest single class of our exports is finished manufactures. If we take in finished and semi-finished manufactures, and manufactured foodstuffs, we have about two-thirds of our total exports, and that total runs close to five billion dollars a year. It requires 1,183 categories in the Department of Commerce statistical records to give the different classes under which American goods are exported, and the statisticians have to do some very strong-arm grouping to keep the list from being much larger. If the foreign buyers of even a small portion of all these exports are buying to their own disadvantage, all I can say is that a tremendous number of poor devils all around the world are getting badly stung.

But, of course, they are not buying at a disadvantage. They are buying at a great advantage. No one knows it so well as they. That is why they keep coming back for more. That is why our exports keep growing. That is why we sold more to Latin America last year than England, France and Germany combined, sold. That is why their percentage of

that trade is going down while ours is going up. That is why they are promoting the most vicious anti-American propaganda throughout South America that has ever been seen, and that is why this furious propaganda has not dented our trade.

But I hope the straw men are nearly all used up. Before long, I hope, the discussion, if it has to continue, will get down to the real facts in the case. Imagination, fancy and prejudice will play smaller parts.

New foreign loans, it may be taken for granted, mean new exports. New foreign investment may, and probably does, mean new exports. The point I urge is that if the loan underwriters and investors have the will to help build up our foreign trade, and keep the possibility in mind when lending or investing, they may occasionally, perhaps often, shape matters so that continuing exports will follow the new ones. And that is the heart of the matter.

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RELATION BETWEEN REPARATIONS AND THE INTERALLIED DEBTS

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THE foreign governments which are our debtors have always insisted upon the close relation between reparations and their debts to us. They have always wished and tried to have them discussed and settled together. The United States has consistently refused to admit the relation or to permit them to be discussed or settled together. We have so far refused ever to put into our debt settlements the so-called "safeguard" provisions—i.e. the provisions which call for reconsideration, if Germany fails to pay, or if exchange stability is endangered.

There are two fundamental reasons back of this stiff attitude of our government. They practically determined that attitude in the beginning, and they are influential now. First, recognition of the relation had a strong tendency to make reduction, perhaps cancellation, of our debt necessary. We knew from the beginning that the reparation debt was absurdly high and must somehow and sometime be reduced. If the two were considered together, inevitably reduction of our claim must be considered. Second, recognition of the relation tended to make us the indirect creditors of Germany. To put it concretely, our government wanted to collect from France or Belgium, but did not want it to appear plainly that their pressure upon Germany was based in any measure upon pressure upon them by the United States.

The Allies, our debtors, on the other hand, thought that our money contribution should be regarded as part of the united effort to win, and should not be collected at all. They had doubts of their ability to pay, if they collected reparations, and felt sure they could not pay, if they didn't collect, and the thought of paying their own foreign war debt in full and canceling in whole or part Germany's war debt to them was intolerable.

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The United States therefore always vetoed any suggestion of considering the two things together. This veto was a very serious factor in retarding a sensible reparation settlement. There were other serious factors, so that no one can really say that the Dawes plan—or some other solution—might have come earlier except for the United States' veto. But we failed to help in this obvious way, although we were urging the Allies to reduce the reparation debt to a sensible figure, a position which always seemed to them inconsistent and unfair. The Allies were gradually forced by other factors to the solution, the Dawes plan, without our having yielded upon this point. And in the solution we insisted upon and obtained on account of our legal claims a part—not too large, if we were to take any—of the Dawes plan payments, reducing thereby the sums coming to the Allies, already utterly inadequate to compensate for their losses.

Then (excepting Great Britain) we used our power over private international loans to force our friends and Allies to walk up to the captain's office and settle with us and we did this, in the case of Belgium and France, at a time when their financial condition was most critical and difficult. The French settlement negotiated at this time has not yet been accepted by France.

In those settlements, we adopted capacity to pay as a basis, which is a great advance upon our former position of no cancellation whatever, though it is a mistake to regard it as a real concession. It is not a concession to give up something which it is impossible to get. But our estimate of their capacity is on a basis which is liberal to them, if we assume that reparations are to be paid the Allies as provided in the Dawes plan, so that our settlements do constitute in effect a slight concession.

But our attitude, on the whole, has been such that this concession, whatever it is, and our leniency, not wholly voluntary, during the period preceding the settlement, count for little or nothing in the general impression we have made upon our friends and partners in the war. And in my own judgment we have not yet come anywhere near doing the fair thing. Take the case of France, for instance. If the situation were reversed, if France were in our position, and if we had been through what France has been through, and were now in the

position in which France is, we should feel that France was a terribly hard creditor and had failed to take into account elementary principles of fairness. Our general public opinion has never been educated to this point of view. About all it knows is that France owes a debt which it does not pay.

Without arguing the question of fairness in detail, I insist on emphasizing here one point which has been almost wholly ignored, i. e. that the burden which payment imposes upon our friends, who are our debtors, is far greater than the benefit of the payment to us. A dollar means more to them than it does to us.

I should like to see our attitude changed, particularly with respect to France, which has not yet made a settlement, but it is difficult to see how this change can be brought about now. There will certainly be an opportunity sometime in the indefinite future, and it is of that opportunity that I wish to speak at the moment.

Leaving out of account the possible increase of the German annuity under the Dawes plan, the top figure of her annual payment will be about \$600,000,000. The principal of her reparation obligation is still \$32,000,000,000. So that the annuity is only two per cent interest with no amortization of the principal, and there is at best some doubt of the possibility of transfer of the two per cent, though I see no reason to doubt that Germany can pay the marks to the Allies. In theory, these annuities continue indefinitely.

If time and experiment prove that the transfer cannot be made, then some modification of arrangement must come. Whether the transfer of the annuity can be made or not, it is obvious that some time the principal of the reparation debt must be made to correspond with the possible annuity, and that the final end of the annuity must be fixed. It is of no use to agitate this question at present, even for us, and for Germans to do it as they occasionally do, is pure folly. Time and the facts will bring it about.

But when that time comes, our attitude toward our claims against the Allies will again be important. If we stick to our theory that there is no relation between reparations and interallied debts, and refuse to help when the time comes, we shall again be an obstacle to the clearing up of international

relations, and increase the impression among our debtors of our hard-heartedness, and our unwillingness to bear a fair share of the war burden.

What are some of the factors which relate reparations to the interallied debts?

First, both reparations and interallied debts grow out of the war. Both make good in part war losses and payments. We almost ignore this relation. In the case of reparations we have no doubt that the obligation is just, though there would be much difference of opinion as to why it is just. In the case of the debts, the fact that our payment took the form of a loan is our basic, probably our only, justification. We have to ignore any comparison of losses and suffering. We have to ignore the comparison between our own financial strength and our debtors' weakness. The best we can say is "You owe the money, you must pay as much as you can".

Second, reparation is an asset of our international debtors. As such an asset it is inseparably wedded to their ability to pay us. Before our settlement we hardly admitted even this obvious relation; but we can now, and do, point with some satisfaction to the fact that our important creditors can pay us out of their reparation payments. We do point this out, though we still refuse to recognize the relation in its most important aspect to them. We still refuse to admit a possibility of revision of our demands if reparations are not paid. And in all this we ignore the fact that reparations ought in justice to go first to repair not our own losses, but the far more serious losses of our allies. We are taking, on account of our debt, money that ought to make good such things as the devastation in France and Belgium.

Third is the fact that they are tied together to some extent because of their relation to and their effect on exchange. And anything which affects exchange seriously is tied up with everything else related to exchange, an international spider's web of exports and imports, trade balances, international and national price levels, gold reserves, balancing of budgets, currency stability. So reparations and interallied debts really are married and there is no possibility of divorce.

There are some very striking illustrations in the arrangements our debtors have themselves made of the inevitable tendency to

relate the two. The Italian Government has continued a *Caisse d'Amortissement* into which go all receipts from reparations and which is to be devoted to payment of its war obligations. They cannot afford to devote this money to repairing or recouping their losses at home. Great Britain makes its demands upon Germany and the Allies dependent upon the amount of the United States' demands upon Great Britain. France and Great Britain accepted German obligations in payment of part of Belgium's debt, which we also were to do under Wilson's arrangement which we never ratified.

In speaking of reparations, one naturally thinks almost wholly of Germany, but the fact that other countries are subject to a reparation burden ought not to be forgotten. Austria, for instance, has been rehabilitated by the League Relief Plan, but her reparation burden was not removed. It was postponed for twenty years, and in fourteen or fifteen years Austria and the world will again be face to face with it.

As I have said, our government has refused to discuss reparations and the Inter-allied debts together, largely because such discussion tended inevitably to put the United States directly or indirectly in the position of a creditor of Germany—directly if we should take reparation obligations in payment—indirectly, if the payments to us were made to depend on the amount of Germany's payment to the Allies.

And yet in substance that is just what is going on today. The United States is to a considerable extent substituting German obligations to the United States for Germany's reparation obligations to the Allies. This is going on not through Government operations, but through non-governmental channels. The flood of our long-time loans, our short-time advances and the credit given to Germans by our exporters, is in part supplying the exchange which Germany uses to pay reparations to the Allies. Incidentally, we should have been making the same sort of advances to France, if the United States Government had not placed an embargo on loans to France, in order to force France to settle with the United States. Within reasonable limits this is sound. It is the thing which helps to make our exports possible. The fact that it is helping to make transfers under the Dawes plan possible also makes it desirable. But it is both interesting and amusing

to see that our advances are helping to pay reparations and that reparations are at the same time helping to pay our other loans.

To how great an extent can this process be carried and still be desirable and safe for Germany or for our investors and exporters? I do not pretend to know the answer. I can see that a considerable part of the huge total of advances to Germany in which other nations as well as ourselves participate, constitutes a quick call loan payable by Germany in foreign exchange, and that every item of it, however long deferred by its terms, nevertheless may at any time translate itself through attempts to realize into an indirect but practically quick call on Germans for foreign exchange. So long as exporters and bankers renew credits and investors retain confidence, this call on Germany will not be made. But we might need the money, or a severe shock to Germany's international credit might be followed by this call. Neither Germany nor the outside world in general, nor the countries interested in payment of reparations can afford to have this possibility of a call upon Germans for foreign exchange reach dangerous proportions. Germany as a whole is somewhat in the position of a bank which must be able to meet the calls of its depositors whatever they may be. It cannot rely upon new depositors to furnish money when old depositors are creating a run on the bank. Beyond a certain point, Germany cannot safely depend on renewals and new loans and credits to pay reparations and old loans and credits, for the payment of which it has no excess of exports available.

Germany has, of course, accumulated resources to meet calls upon the country for foreign exchange. Like a bank, it has reserves or cover for probable calls, and there is no critical situation as yet. But the reparation payments under the Dawes plan will increase considerably in the next two years. Even assuming that no other factor is affecting Germany's international credit, the increasing importance of this factor attracts attention and is naturally leading to more critical discussion of Germany's exchange position.

Will foreign exchange be available to make possible the transfer to the Allies of the increased amount which Germany pays in marks? Germany's reserves, though large, are limited.

The excess of exports is not yet apparent and no foreign country is helping to make it easy for Germany to increase her exports. Obviously, if we or someone else should lend enough money to Germany or Germans, exchange will be available, but whether such loans will be forthcoming is in the lap of the gods, who up to date seem most favorably inclined. I venture no predictions, particularly no pessimistic predictions.

The recent discussions about our advances to Germany have centered about one point in particular. What would happen to our non-governmental loans to Germany if they came into competition with Germany's reparation obligations? Suppose that at some time there should not be enough foreign exchange available, will the use of exchange to meet non-governmental obligations be restricted?

We have on this point to deal with the powers of the German Government, its obligations under the Treaty of Versailles and the Dawes plan, the powers of the Transfer Commission under the Dawes plan, and the powers of the Reparations Commission under the treaty and Dawes plan.

The Transfer Commission has power to make transfers, i. e., to purchase exchange, but only to such extent as in its judgment does not endanger Germany's currency stability. It cannot restrict the purchase or use of foreign exchange by Germans for other purposes. It can, of course, make suggestions to Germany herself and Germany is under a general obligation to cooperate in making reparation transfers possible.

Germany herself has sovereign power to place legal restrictions on exchange transactions. Such efforts are in the long run futile and even harmful and they are now quite out of fashion.

The Reparations Commission's present powers seem limited to the priority given to reparations by Article 248 of the Treaty of Versailles, which seems limited to the assets and revenues of the Reich and the constituent states. Even this is not strictly a prior lien, but what is technically known as a "floating charge", not applicable when there is no default, and there is in my judgment no likelihood of default, for Germany can certainly pay the marks to the Allies. The fact that reparation payments, after being made in marks, cannot be trans-

ferred is not a default. There are other features which seem to safeguard Germany's non-governmental obligations against the possible application of Article 248, but we need not go further.

This rough analysis of the legal possibilities shows no cause for alarm. But as a matter of fact it is hardly worth while to consider the legal technicalities. The fundamental safeguard in the situation is the obvious fact that it would be financial folly for any one to place obstacles in the way of providing exchange for the service of these non-governmental loans. Germany's credit is bound up with them. Any failure to meet them would destroy that credit. Reparation payments are dependent on Germany's credit. It took five years after the Armistice to drive this lesson home and make the Dawes plan a reality. It is inconceivable that any government should ever want to learn that lesson over again.

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AMERICAN INVESTMENTS IN SOUTH AMERICA

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THE subject of American investments in South America is so huge that the treatment of it must be defined and limited in advance. In order to bring this paper into manageable limits I am going to confine my discussion mainly to a consideration of these investments as they would naturally be viewed by an American banker, and by those to whom he gives investment advice. The complex, kaleidoscopic, colorful background of historical, political and racial problems interwoven with the economic problems, has got to be dealt with too, but only as a background. For comment on these background points, I still prefer to rely on Lord Bryce's book,¹ although it was written some fifteen years ago, and I shall occasionally refer to it.

American investment in Latin America (including Mexico, Central America and the islands of the Caribbean) is of two kinds: investment in corporate development as a proprietor, and investment in bonds as a creditor. These two types of investment occur in states or groups of states, where the United States appears to have four different kinds of relationship. Thus, in Mexico, we seem to be exceedingly unpopular, and the policy of our Government there may perhaps be characterized as baffled optimism, without any particular sense of direction. In Cuba, Porto Rico, Haiti, San Domingo, the Virgin Islands, Nicaragua and Panama, it seems to me that we exercise varying degrees of direct influence, ranging from a definite legalized status to a highly doubtful one. In this second group of states, however, I should say that our government had displayed courtesy and lofty motives, tempered at times by specific considerations focusing on the political and military aspects of the Panama Canal. A third group of states might well include those portions of Central America

¹ *South America: Observations and Impressions*, by James Bryce (New York, 1912).

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where we have not exercised any of the attributes of suzerainty, but are feared and disliked because of our relations with the neighbors of these states. A fourth group comprises the states south of the Canal, where our own attitude is one of respect and friendship, but where we are nevertheless subjected to a good deal of suspicion and criticism, at least in certain quarters, because of our policies north of the Canal.

In this brief summary of our varying relationships with the group of countries that we call Latin America I cannot, for the purpose of this paper, attempt to be more specific. Perhaps this part of the subject may be summarized by saying that the group of countries in which we have made the vast investments hereinafter described, have shown a certain natural sensitiveness to our political and economic power, and that in general their affection for us seems to vary inversely as do their respective distances from us!

The amount of our investment in Latin America is very large, but is not capable of precise calculation. Standard sources of information vary considerably in their estimates. The Foreign Securities Committee of the Investment Bankers Association estimates the total advances to South America, covering both securities and short credits made by the United States during 1926, at \$508,000,000. I understand that this figure contains a total of \$324,000,000 for government, state and municipal loans, and of \$174,000,000 for advances to corporations. These figures do not include either Cuba or Central America.

According to the same authority, the total amount of foreign securities bought by the United States during the year ending June 30, 1927, was \$1,350,000,000 as compared with \$1,100,000,000 during the previous twelve months. Of the total flotations (although the fiscal years are not identical), South America seems to contribute at least forty per cent. By Dow, Jones and Company's calculation, our total foreign financing for the first nine months of 1927 amounted to \$1,315,000,000, divided between \$718,000,000 government loans and \$597,000,000 corporation offerings. Of this total of \$718,000,000 government loans, Latin American countries contributed \$269,000,000 and European countries contributed \$229,000,000. Of the total of \$597,000,000 corporation offer-

ings, Canada contributed \$358,000,000 whereas Latin America contributed only \$42,000,000.

There was another important figure in the Foreign Securities Committee report to the Investment Bankers Association this year. A comparison of the public issues of foreign securities by the four great capital-exporting countries in the year 1926 is set forth as follows (amounts all converted to American dollars):

United States	\$1,134,000,000
England	560,000,000
Holland	116,000,000
Switzerland	78,000,000

The importance of these figures from the standpoint of the present discussion lies merely in the obvious inference that from now on, for as long a period ahead as we can see clearly, it is reasonably certain that the major part of whatever foreign financing is done by South America will have to be done in the United States market.

The Halsey Report to the Department of Commerce, issued in 1918 and brought up to 1924 with reference to Argentina, Uruguay and Paraguay, points out that before the war the interests of the United States in South America, other than in mines and the packing industry, were negligible. Great Britain has long been the largest investor in South America and the Halsey report estimates the total of her investments there, as of 1918, in excess of \$5,000,000,000. There are no exact figures available as to the extent of French investments, but these are taken as being in excess of \$1,500,000,000. German investments were also very large, but not specifically calculated in the report. Large as the current figures of United States investments are, therefore, it will obviously be a good many years before we arrive at a total investment as great as that already held by Great Britain.

With this partial statement of the problem, suppose we look first at what may be called the physical nature of this investment field and then perhaps in somewhat greater detail let us consider what may be called the administrative, or control machinery.

Lord Bryce says in his book, *South America*:

The most interesting of all the considerations which a journey to South America suggests are those which concern the growth of these young nations. What type of manhood will they develop? What place in the world will they ultimately hold? They need fear no attacks from the powers of the Northern Hemisphere and they have abundant resources within. Their future is in their own hands.

Lord Bryce reminds us further that there has been no war other than civil war in South America since 1883, when peace was made between Chile, Peru and Bolivia, and that most of the causes to which European wars have been due are absent from this continent. There are no religious differences, race questions or hostile minorities to deal with. There are, however, questions still unsettled relative to national boundaries, as we have been so recently reminded by the Tacna-Arica controversy.

It is characteristic of all these countries to have huge exports of raw materials, subject, like raw materials in general, to rather big swings from one year to another, and producing in general a favorable trade balance year by year, although there are exceptions to this. Merely to illustrate the magnitude of these figures, the exports from Argentina in 1925, calculated in American dollars, appear to have been about \$837,000,000; from Brazil, \$480,000,000 and from Chile, about \$228,000,000. Exceedingly large exports and large export balances are normally also furnished by Peru and by Colombia, although both in 1925 and in 1926 Colombia was slightly a debtor on balance.

An equally obvious tendency, of course, and a perfectly proper and natural one in rapidly growing countries with great areas, great production, small populations and new credit, has been a rapid and progressive increase in borrowings, and also in foreign capital invested as a proprietor in the South American fields.

It is not many years since the United States was in a similar position of a raw material producing country with inadequate development capital. Much more recently we added to our status as a great raw material country, a newer status as a great mercantile and manufacturing country, still with inadequate working capital; and we drew heavily on Europe, particularly on England, France and Holland, for

portions of this working capital. Since the great upheaval of the war, we find a situation where, generally speaking, the amount of our capital available for immediate development work, both in the production of raw material and of manufactured articles, exceeds the current demand, and exceeds it by huge figures. A few thousand miles to the southward lies a great continent with a commercial and financial development which must be regarded as backward, but with immense potentialities as a producer of raw materials. Have we, then, in our financial relationships to Central and South America, a situation analogous to that which existed as between, for example, England and the United States during the generation after our civil war?

Were this analogy sound and accurate it would suggest the theoretical conclusion that the United States of America as a creditor country of great wealth would naturally be interested in the development of less developed states abounding in raw materials, where undoubted financial risks were present but were compensated, at least theoretically, by the prevailing rate of interest as compared to the rate of interest at home.

Like many other comparisons, however, the specific points of difference in these two situations seem to be quite as conspicuous as the points of resemblance, and the hardest test of all to apply is the finding of a simple and fundamental standard by which the goodness or badness of a particular loan can properly be judged, where the lenders are private individuals and the borrowers are to a considerable extent governments with the power to tax. Per capita debts as a standard, for example, are quite worthless, unless there is a similarity both in the character of the peoples compared and in the character of their trade and industry. Even where these elements are roughly comparable as, for example, in the respective cases of England and Germany, one can start with the very obvious fact that England has what looks like an extremely high per capita debt, while Germany since the war has an extremely low per capita debt, and yet English securities sell at a much higher market price than do German securities.

The little country of Norway, which has suffered greatly through a combination of circumstances arising out of the peculiar effect of the war on her trade and currency, plus the

very gruelling experience of restoring that currency towards a gold basis, with the severe trade depression consequent thereon, has an extremely high per capita debt and a not too satisfactory trade position. Yet the credit of Norway as measured in the market price of her foreign obligations is higher than the credit of France, Germany, Belgium, Italy, all of the succession states and the whole of South America.

In fact, should the statistician pick out one apparent anomaly from the figures before him, he might fairly aver that there seemed to be an inverse connection between very high per capita debt and good governmental credit. This curious statistical fact, suggesting as it does the inference that some states have a high per capita debt because they can borrow and that other states have a low per capita debt because they cannot borrow, might in turn point to the fundamental truth that credit seems to be a thing by itself, resting on other elements than statistics.

Moreover, per capita debt figures are particularly misleading in any country where there is a high proportion of uneducated, unprogressive and uncapitalistic native population. It is hard for anyone living in North America, a country of capitalists large and small, to apply any statistical comparisons of any value whatever to countries where an exceedingly high proportion of the inhabitants do not save money, although the negro population of the cotton belt furnishes a certain comparison.

Another element which needs to be considered in connection with per capita debt, is the ownership of productive enterprises by the state. This is a conspicuous feature as affecting the figures in many European countries, for example, France, Germany, Norway and Italy, but state-owned enterprises again require in themselves careful analysis; sometimes the state administration is good; sometimes it is very bad.

Without burdening the point, the following brief comparison of certain per capita debts in various countries may be set forth merely to show that the figures sometimes are valueless, or nearly so, as a reflection of national credit. The per capita debt in Argentina seems to be about \$82 in American currency, of which somewhat more than one-half is internal debt. The per capita debt in Chile is about \$54, mostly ex-

ternal. The per capita debt of Brazil is about \$57, more than one-half internal. The per capita debt of Paraguay is about \$27, whereas the per capita debt of Uruguay is over \$150, but the credit of Uruguay is much better than the credit of Paraguay.

These figures, it should be said parenthetically, may be regarded as reasonably close approximations but not as being strictly accurate. In many cases the population has had to be approximated since the last census. In some cases the floating debts are accurately accounted and in other cases they are apparently omitted. In every country which has had long recourse to the world markets for capital there must also be taken into account external debts created by political subdivisions of the state, such as provinces, cities, etc., and an immense amount of research would be required to establish a figure in any country whatever which could be related to the general population figure as an index of total per capita debt.

It is sufficiently clear, however, that the question of credit risk does not rest on per capita debt in South America. Nor does it rest, to any controlling extent, on two other leading factors frequently stressed in bond circulars:—a favorable trade balance and a balanced budget. Trade balances can be quite good where credit is quite bad, and, conversely, a country can have a visible trade balance normally against it and definitely improve its position by further borrowings, if these borrowings are productive in purpose and not inflative in amount. Balanced budgets are, of course, desirable, if honest! But many solvent countries of relatively high credit were unable to balance their budgets by taxation during the years of reconstruction immediately after the war, and loans properly applied were a source of strength to them, not of weakness. A continued failure to balance budgets by taxation and other internal revenues is undoubtedly a danger signal; a temporary failure, occurring under unusual circumstances, need have no particular significance.

Past record on debt service is much more important than either of these things, and it should be said quite candidly that the past record of South American securities in world markets is, in general, bad. These countries have a very new

history as independent sovereign states and most of them have emerged from a bad political condition precedent. Most of them have had a good deal of fighting to attend to, and all of them were insufficiently supplied with working capital with reference to the nature of the work they had to do. In general, however, the experience in recent years has been good, and any analysis of credit risk must take into account three quite different periods: the financial history of South America from the middle of the last century until after the readjustments following the Baring failure—which was a bad history; the gradually improving conditions from the early 90's leading up to the present time, which on the whole furnishes a good picture; and then the various elements comprising the outlook for the future. Even in the days of difficulty, there have been some noteworthy exceptions to the rule. Chile claims proudly to be free of default on its external debt during a period of 100 years, and Lord Bryce points out that during the Chilean civil war in 1890 both President Balmaceda and his congressional antagonist, each claiming to be the lawful government, tendered to the foreign bond holders payment of the interest on the same public debt while the struggle was going on.

The report of the leading London authority is, of course, of much interest as bearing on the reviewed and summarized history of the past financial performance of South America on her loans. There was founded in London in 1868, under license from the Board of Trade, an association known as the Corporation of Foreign Bondholders, having as its principal object the protection of the interests of holders of foreign securities placed in Great Britain. The council of this corporation publishes an annual report containing a good deal of carefully collected data regarding countries and handling of debts in those countries where Great Britain has had trouble with its collections, and at the close of this report there is a comparison in tabular form of the principal loans in default. This table in the report for the year 1926, lists two defaults in Ecuador, four in Mexico, one in Argentina and ten in Brazil. The Argentina default, one of the Mexican defaults and all the Brazilian defaults occurred on provincial and municipal loans. Except for these listed defaults, it is note-

worthy that the only other important items in the default list of the council are the huge amounts set forth against Russia, a total of £1,700,000,000 plus some £744,000,000 interest in arrears, and the ancient defaults of eight of the United States: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina and South Carolina.

It is worth taking a moment here to digress on this question of the defaulted debts of the American southern states, because there are certain analogies which have value in considering the problem of South America. The Council points out that the debts listed represent money borrowed for industrial undertakings and that they have nothing to do with debts incurred for war purposes. In the case of Mississippi, for example, the repudiated debt was contracted between 1831 and 1838 and payments in respect thereof ceased in 1841, some twenty years before the Civil War broke out. The money borrowed by Mississippi was applied to the establishment of two banks, but when these banks ceased to be remunerative investments the state promptly repudiated its obligations to the bondholders. The Council quotes the opinion of the Hon. Daniel Webster on this subject, in a letter which he wrote to Messrs. Baring Brothers in 1839, but points out regretfully that a year or two after Webster gave the Barings an opinion, which must in the light of subsequent events be deemed optimistic, Mississippi not only defaulted, but inserted a provision in the state constitution which specifically repudiated the debt!

Reference to this record of failure to perform a non-wartime obligation is pertinent, because there was undoubtedly an economic similarity between the position of these states and that of certain South American states, resting on the newness of their political and economic history, and on their exceptionally rapid development. I think it is quite clear on the records that the heat and fury of politics in the state of Mississippi far outweighed the broader aspects of state credit and general good faith at the time the famous repudiation clause was enacted into the state constitution.

It is perhaps fair to say that the general atmosphere of doubt which has surrounded certain foreign loans in the post-war period, and particularly certain South American loans,

has rested for the main part on natural misgivings whether in times of political turmoil the question of default on external borrowings could ever similarly become a campaign issue. There are two things about debts which tend to become chronic. One is a steady persistence in paying them, month by month and year by year; the other is a leaning towards the short and temporarily easy method of escape by default, and I think it has been made clear by the foregoing analysis that there are no very sure and obvious statistical checks which indicate whether or not default is likely to occur in the case of national or state debts resting on the taxing power. If economic possibility is present, the controlling point is the will to pay, and the will to endure very real taxation hardships for the sake of keeping good a credit, which, if it is kept good, will in time make the burdens easier to bear.

In connection with the English market for South American securities we come naturally to a consideration which is rather foreign to our practice and experience, but which has always been regarded as a characteristic accompanying the foreign investments of England and also of Germany. I refer to the rather complex subject of controls and priorities, both as between borrowers and lenders and as between governments.

In the English market, which did so large a proportion of this type of lending in the years before the war, the reciprocal controls were rather good. The thing was not very clearly set forth, and, like many other good English institutions, had the looks of a muddle, but worked very efficiently in practice. There were only a few houses which could qualify as issuers of the first rank or even of the second rank; their liaison with the Bank of England was close, and supplementing all this there was the traditional dislike of encroachment, which effectively prevented two or three houses from finding themselves in a bidding match, to the great temporary advantage of the borrower but to the disadvantage of the lender and his customers.

We have none of these controls. Our issuing houses are exceedingly numerous, and through group associations in themselves fluid and kaleidoscopic, a number of relatively small houses can join forces and bid on nearly any attractive piece of business. There is little or no feeling against en-

croachment on a house's privileges in the foreign field, for the good reason that no American house has had long enough contacts in any of the European or important South American fields so that it really has any very important standing as against another house. Quite a different situation is presented in the natural banking lines which have been built up inside the United States, as between bankers and their corporate clients. These lines tend to become exclusive by force of habit rather than by actual exercise of majority ownership, and I have no doubt that in general the orderly continuance of established contacts looks to the good of both parties to the bargain.

We must recognize, however, that in the foreign field this situation does not exist except to a limited extent. As a result there is a real danger that the exigencies of invited competition and the desire of certain houses to obtain a foothold in foreign countries while conditions are yet malleable will result (indeed it undoubtedly has resulted) both in making loans that ought not to be made and in paying too high a price for the loans that are made.

We have all of us been in such a fairy dream of prosperity and of the pressure of capital funds on the relatively limited supply of securities available as a medium of investment, not only during the last year or so but more or less continuously since 1922, that I think there is a particular danger of confusion of thought along these lines. There is no doubt that South America offers a rich and proper field for the investment of American capital, if this investment is hedged with due precautions, and if careful consideration is given by the issuing bankers to the broader aspects of the problem with which they are dealing.

But if loans are going to be made indiscriminately simply because South America wants the money and we can not get as high a rate of interest elsewhere, and if irresponsible competition is going to find expression in bids which reflect temporary market conditions rather than the underlying essentials of the situation, I think there is cause for a good deal of apprehension. I am exceedingly glad that the Academy is discussing this, because the discussion is taking place during a period of the most brilliant and protracted financial sunshine.

There is hardly a cloud in the South American sky from the standpoint of the American lender, and I am not implying that South America, or any individual country in South America, has as yet had too much money from us. I think it is fair to say, however, that if we were to continue making loans at the present rate for five or ten years more, we would give, at least to certain states in South America, too much money. How much that rapidly growing part of the world ought to have each year, neither I nor anybody else knows, but perhaps the simplest way to state the case is the negative way; that is to say, South America ought not to receive so large an amount that the result is inflation, general or local, accompanied by rising and burdensome taxes and followed by the type of monetary crisis which, in past years, has proved to be particularly acute in the Latin American countries.

The other unsettled problem of great importance to the consideration of this whole subject of controls, is just what the relationship of American Government policy, if any, is to South American loans. There have been a number of widely differing schools of thought on this point in America. There has undoubtedly been a feeling in certain quarters that the English Government, at least in past times, has been disposed to cooperate more or less actively with private interests in following up the investment of British capital overseas and of furthering the interests of the investor so far as possible in cases of difficulty. There has been a similar opinion, freely expressed at times, that the American Government has been somewhat given to changes of policy back and forth in this respect, but that traditionally and over the years it did not show any very evident interest either in our trade position or in our financial position in foreign countries. This point has particular bearings on our relationships with South America, and I think we should recognize frankly that in many quarters the rapid extension of our financing and development work in these countries has led to certain feelings of jealousy and suspicion as to our motives. Particularly in Mexico and in Central America, our government policy, as previously stated, has oscillated between the coercive and the negligent, and there is a strong body of American public opinion which greatly dreads the kind of diplomatic entanglements that

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might arise out of any definite policy of our government exercised towards American interests south of the border. I am inclined to think that the newer American practice of making loans freely in South America without any feeling of reliance on our government in case of possible future difficulties has certain marked advantages in the promotion of harmony between the United States and this group of countries south of us.

So far in these comments I have not attempted to treat separately the very different problems arising, on the one hand, from a loan policy to various governments having the taxing power and on the other hand the question of purely commercial investments in the industries of the country.

Apart from the enormous American investment in the sugar and the tobacco industries of Cuba; an investment which, taking into account affiliated industries, such as banks and railroads resting on these two basic industries, was estimated by the Department of Commerce in 1924 at \$1,300,000,000, we have a comprehensive estimate from the Department of Commerce placing our investment in the rest of Latin America at about \$3,500,000,000. This includes probably nearly \$1,400,000,000 in Mexico, and it includes in addition to the purchase of government bonds the extremely important oil investments in Mexico, Colombia and Venezuela; the plantation investments in Colombia, Costa Rica, Nicaragua, Honduras, etc.; the cattle and grain farming investments in Argentina and Uruguay; copper investments in Chile and Peru, etc. Professor Collings estimates¹ that our investment in Colombia alone is about \$88,000,000 and that it is \$100,000,000 in Peru; the two latter named countries until very recent years having been quite unknown in the American security markets. Professor Collings says:

- It can safely be said that our Government has had no clearly defined foreign investment policy. As a borrowing rather than a lending nation we had no need for it. But we have now become a powerful financial unit in the comity of nations. . . . American foreign investments constitute today our widest departure from the policy of isolation. In no part of the world have we larger or more important investments than in Latin America. Here we lay the cornerstone of our policy. To date, that policy seems to tend toward constructive enterprise rather than exploitation in the foreign field, and toward supervision to prevent injustice to either borrower or lender.

¹ *Current History* (September, 1927).

For the purposes of the present discussion I would be ready to assume as a definition of what appears to be our foreign policy south of the Panama Canal, that it is not unfriendly to the placing of American capital in these states, but that the American lender must not expect his government to exercise coercion in his private behalf.

Accepting this as a basis, I should say that, with access to the great natural resources in these countries; with shrewd and capable administration and freedom from political disturbances, it would seem quite obvious that the whole Latin-American field, from the standpoint of industrial development and profitable return on invested capital, was one of great promise. But, unfortunately, there has not always been freedom from political complications. Sometimes these industrial developments by northern capital have undoubtedly tended directly towards the political disturbances which ensued. But I see no useful object in attempting to generalize or to formulate any workable conclusions on this phase of the subject. With the exception of Mexico, I think it may be said that American industrial investments in Central and South America have worked out well, on the whole. There have been fairly large risks, which have been compensated by fairly large profits, and the net result of this development in many of these countries has undoubtedly been an important accession of developed national wealth and improved standards of living.

Short of interference by extreme governmental policies either north or south, a strong industrial company, ably managed, ought to be able to find its own way through changing local conditions as they present themselves, and this in general has clearly been the American experience, with no major checks to date outside of Mexico.

The loan policy to governments having the taxing power, as distinct from the investment policy on the earnings of industry, presents an entirely different set of problems, and it is these problems, I think, with which we are most concerned at the moment. I should say that the final test of the goodness of loans to South America went even beyond the question of stability of government, although this is perhaps the point which has raised the most pertinent questions in this market and has received the greatest amount of attention. More im-

portant even than governmental stability, I must reiterate, is a traditional will to pay, so strong that it becomes a national trait capable of surviving even severe shocks arising out of changing systems of governmental administration. Take as an example Chile, with its unbroken record of continuous payments on its foreign debts. This very fact, it seems to me, introduces a factor of safety in Chilean loans which is relatively more important than a trade situation such as the present one in Chile, where the development of synthetic nitrates has to some extent threatened the fundamental industry of the country. I am not implying that the Chilean export trade difficulties are incapable of solution, but as an investor I would prefer this undoubted hazard to the hazard of investing in a country rich in natural resources but untried, or with a bad past record, in the matter of this fundamental, established will to pay its obligations throughout all contingencies, good or bad.

Another type of difficulty not easy to control and very alarming wherever it is manifested has occurred at rather too frequent intervals throughout the history of South American borrowing. I refer to so lax a loan administration that money raised for one purpose is used for another, or is merely wasted, so that the loan instead of adding to producing power merely becomes a burden and sometimes an impossible burden on the finances of the country. The particularly scandalous classic instance of this sort of thing arose some years ago in Honduras in connection with the efforts to build an inter-oceanic railway from Puerto Cortes, on the Caribbean, to Amapala Bay, on the Pacific Coast. This affair was a long scandal which started prior to our Civil War. Up to 1873, fifty-seven miles of this line had been completed, at a cost estimated at \$1,500,000, against which cost a debt of £5,990,000 had been contracted. Mr. Halsey's report to the Department of Commerce makes the naïve comment that the total with interest accrued to January, 1917, amounts to approximately £26,000,000—this for building fifty-seven miles of railroad!

There have been more recent, although less scandalous, cases of the misuse or careless use of loaned funds in South American states, and I think that moral and contractual re-

sponsibility on the part of the borrower to use the loaned funds as he says he is going to use them, and in no other way, ought to be one of the major considerations affecting our loan policy in this part of the world.

There is one other tendency in South American financing to which attention ought to be directed. The commercial and industrial development of these countries has been fostered to such an extent by great proprietary ownerships of natural resources held and administered by Americans, Englishmen, Frenchmen and Germans, that to a rather unusual extent the final profit from these enterprises has tended to flow out of the country rather than to remain in it. This is a generalization and is subject to many exceptions in detail. It indicates to me, however, that what would be regarded, say in a European country, as a normal relationship between the growth of foreign state debt and the growth of commercial resources is not necessarily quite a safe relationship in South America where the growth both of industry and of State debt has been very marked, but where much of the profit of industry has gone abroad. I do not think this point needs to be overstressed, but I merely mention it in passing.

In conclusion then, with regard to the present unprecedented flow of American funds into South America, I am inclined to think that certain difficulties will arise from plain, old-fashioned over-borrowing in an easy money market. I do not imply, however, that this experience will be general, and I have no doubt that there will be a marked credit separation, over the years, between certain countries which will develop an ability to control their borrowings and to recognize the vital importance of unbroken credit, versus certain other countries where the will to pay may perhaps be less conspicuous than the will to borrow. But an investor who gets a 7 per cent return in a 5 per cent money market must in any case realize that a portion of the yield on his bonds represents interest on his money and the balance is a reward for taking certain risks, not necessarily unjustifiable, which are inherent in the nature of the enterprise.

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GOVERNMENTAL SUPERVISION OF FOREIGN LOANS

CARTER GLASS

U. S. Senator from Virginia; Ex-Secretary of the Treasury

THE rapid growth in the United States of capital available for foreign investment, and the increased demand in the American money market for loans in foreign countries to finance their governments or their industries, would seem to call for a careful re-examination and scrutiny of our governmental policy with respect to the supervision or control of foreign loans.

Origin of Existing Practice of the U. S. Department of State

The present practice of the State Department is of recent origin. It dates from the early days of the Harding Administration, or to be more exact, from the year 1922, when it was supposed to have been inaugurated not as a war measure or even to meet a post-war emergency, but to aid the Government in its negotiations for settlement, adjustment or funding of its war loans.

The action of the State Department nearly three years ago in closing the American money market to France, Italy and Belgium until those countries agreed to effect the settlement of their war-time indebtedness to the United States, aroused much comment. When Belgium and Italy came to terms and agreements were ratified by the legislative branches of their governments, the ban was virtually raised in connection with those countries, while the Mellon-Berenger agreement was negotiated with France but not ratified by the French parliament. The ban still remains with respect to France, although recently the State Department, apparently to facilitate negotiations which were at an acute point over the new French tariff schedules, suddenly notified the French Government that it would agree to the flotation of a French refunding loan which would simply replace, at lower interest rate, French bonds now in the hands of American investors. The extent to which our government has gone in the exercise of its influence without any sanction

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of law is well illustrated by the recent announcement that the Department of State had approved the proposed refunding by France of \$78,000,000 of eight per cent bonds which private bankers marketed in the United States for the French Government and also the formal official announcement that the State Department has approved a Prussian and Polish loan totaling \$100,000,000. No such power was previously exercised by any department of the government even during the period of the war emergency or the post-war emergency. Often things are done during a war which should not be done in times of peace and if any such measure seemed necessary or advisable it would seem that it belonged rather to the Treasury Department than to the Department of State to take the initiative, because to the Treasury Department matters of a financial nature are properly confided. In a post-war exigency when the Treasury was grappling with the Victory Loan and later in the different initial stages of its certificate policy, some eastern bankers asked the Treasury if certain contemplated flotations of foreign securities in this country would impede Treasury operations. When told that they might, these bankers did not pursue the matter, but the Treasury, even in the exigent circumstances cited, assumed no authority to visé private loans or to veto them and engaged in no official correspondence with foreign governments on the subject. It simply responded frankly to an inquiry which bankers were not obliged to make and gave an answer which they were not obliged to regard.

It was so when the United States Chamber of Commerce queried the Treasury in the post-war period about a proposed international conference in this country which the Treasury was sure would result in a discussion of the foreign debts and consequent embarrassment to the Treasury; but the Treasury assumed no right to prohibit such conferences nor did it make it a practice or adopt a policy of approving or disapproving.

It might have done so with vastly more propriety than the Department of State, which has no conceivable relation to matters of private, domestic, or foreign finances, whereas the Treasury was established to deal with both and does so under sanction of law expressed and implied.

But not even the Treasury, much less the Department of State, is charged by law or custom with authority to control

the private loans of American bankers to foreign governments in time of peace or private enterprises in the ordinary course of business. I could easily comprehend even now, when the Treasury is engaged in extensive refunding of operations of its own, how bankers might with propriety ask if their activities in foreign securities tended to embarrass the Treasury; but I am not aware that the Department of State is authorized to engage in international or domestic financial operations.

Existing Practice Illusory, Illegal and Unsound

The State Department has no more right to establish a practice or adopt a policy of approving or disapproving of foreign loans to private individuals, concerns or corporations in the United States than it has to embargo the export commodity trade of this country. It has no more right to prohibit the sale of American credits abroad by the National City Bank, the Chemical Bank, or the House of Morgan, or all of these combined, than it has to favor or veto the sale to the European trade of the products of General Motors, the United States Steel Corporation, Henry Ford or other private concerns in this country.

It is admitted by the State Department that no legal warrant exists for its sanction or disapproval of private loans to foreign countries; but, on the other hand, virtually all of the loans made abroad since March, 1922, have been reviewed by the State Department, the bankers, at the suggestion of the Department, voluntarily submitting their proposals to the Department in advance. In many cases this custom arose because the bankers did not desire to embarrass the government while the delicate negotiations of adjusting the foreign debts were in progress.

A statement was recently attributed to the President that some policy of this sort was rendered necessary through a dread that Congress might, by legislative enactment, inaugurate a system of control out of agreement with the judgment of the executive branch of the government; furthermore that a justification of the exercise of such prerogatives by the State Department with the approval of the executive might be found in the right of the executive, through his State Department, to manage without restraint or constraint of law the foreign relations of the government. It seems incredible that the

President, who is so in the habit of thinking clearly and of applying his fine common sense to public problems, made any such statement or holds any such views. Certainly the constitution confers on Congress, and not on the executive, in terms, the exclusive power "to regulate commerce with foreign nations". It is certainly the first time in the history of the country that the theory is propounded that "foreign relations" embraces the private business transactions of American money lenders. My thought has been that a completely comprehensive definition of the term would restrict it to the relations of the United States as a nation to the governments of foreign nations, as established by treaty and prescribed by what the world calls international law. Never before have I heard it suggested that the private business transactions of individual tradesmen or the sale of credits abroad by American bankers constituted an item in this nation's foreign relations. Hence the action of the Department of State in assuming the establishment of a policy of approving or vetoing private loans to foreign governments is incontestably extraconstitutional and without sanction of law. Such a practice is not warranted by a sentence of the constitution, implicit or otherwise, nor by any law of Congress.

It is, furthermore, an illusory and deceptive practice. Upon what hypothesis of sound economics does such an appropriation and exercise of power, not granted by any law of Congress, proceed? What facilities, as a practical fact, has the Department of State to determine accurately any of the intricate details involved in matters of such magnitude; and by what authority are such facilities, if they exist, provided, and at what cost? In short, who is the trained international banker, with his retinue of aides, the experienced, the tested credit man of the federal Department of State, who presumes to pass on the investment requirements of this country and to say which of the foreign nations are entitled to credit in America and upon what terms?

I should be interested to learn to whom this financial expert—for essentially he must be an expert—is responsible for the unauthorized counsel he gives. Likewise, whether his advice is always impartial or ever sinister. It may easily be conceived that there will be times, if these extraordinary financial pro-

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cesses of the Department of State are to continue, when an American banking group will be vitally interested to know precisely why its credits were rejected, while the transactions of a rival group were favored. Indeed, it might easily occur that a foreign government to which American bankers were willing to make loans would marvel and feel aggrieved that the federal Department of State had put an embargo on its bonds while officially attesting the high credit of another nation.

Since there is no authority for the examination and review of a proceeding of this kind, unauthorized by law, it would be interesting to know who is to determine whether the power thus irregularly exercised was used wisely or improvidently, fairly or capriciously, with intent to subserve the public interest or with purpose to enrich some and punish others.

Except for the unquestioned integrity and approved patriotism of the incumbent Secretary of State, who may say exactly that the exercise of this unprecedented power, totally at variance with any proper function of the Department of State, will not some day be so flagrantly prostituted as to result in a distressing scandal? Such extraordinary power, incongruous and in every way inappropriate, is not essential for the achievement of any good purpose, but might too readily be employed in illicit and dishonest pursuits. As an expedient of partisan political advantage, it might be used in a way to involve scandal at home and ill-feeling abroad. I am not making the thoughtless mistake of arguing against an essential power merely because it might be abused; but I am protesting against an unwarranted exercise of a dangerous, unessential power, replete with temptation, and even invitation to dishonesty and oppression.

The exercise of such power at best and in the cleanest way would inevitably draw the government of this country into sanctions and moral obligations which would be, as they already have been, misleading and injurious. I say again, what business has the government at Washington to be approving private financial transactions in which the government has no stake and properly should have no concern?

Neither has it any business to be vetoing such loans and thus assuming, without sanction of law, to embargo the sale of American credits abroad. Private business has no right to ask

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or to receive the imprimatur of the government on its credit transactions, nor should foreign governments be required to get the permission of our State Department to engage in the ordinary commerce of credits or commodities with American business concerns.

Such concerns should be left to conduct their business on their own responsibility and at their own risk, and purchasers in this country of foreign securities taken by American bankers should not be persuaded to suppose that a foreign bond issue approved by our Department of State is necessarily a secure investment or that an issue not sanctioned at Washington is to be shunned as unsafe.

Bankers' Position With Respect to Supervision

It is often said that bankers have expressed their willingness to have the government approve these loans. Much as I like and trust the banking community, I hope nobody imagines that I have remonstrated against this irregular exercise of an unauthorized power in Washington because of any concern for these international bankers. They manage to take care of themselves. *My protest is against another dangerous centralization of power in the federal government*, and particularly against usurpation of a power with which the executive government is not legally clothed, and which, exercised without responsibility or subjection to review, may easily be frightfully prostituted in various ways.

Of course, the group of bankers referred to is not only willing but eager to have the federal government approve its loans. Such approval constitutes them the favored *protégés* of the government and renders them grateful beneficiaries of favors bestowed, as well as expectant recipients of benefactions to come. Acquisitiveness is the secret of their rejoicing.

I notice in this very connection that this obedient group of bankers in New York boasted that \$140,000,000 of these approved foreign bonds had been placed in the money market recently in one week. If this is an actual fact, what does it signify except that this considerable fraction of an immense total of foreign securities, at abnormally high interest rates, having the persuasive prestige of United States Government approval, is thrust directly in open market competition with

American note and bond issues, which have not the advantage of their government's imprimatur to stimulate their sales? That is one of many grave objections to this unauthorized and discriminating use of the Government's credit; for that, in effect, is what it amounts to.

Every railroad, every public utility of any kind in this country, every productive enterprise in America, every domestic business project requiring large capital and unable to pay ruinous interest rates, and, indeed, the United States Government itself in its certificate sales and lower-rate refunding operations, are made victims of these government-blessed foreign securities, which Washington thus approves, confessedly without knowing one earthly thing about their real value or security.

Dangerous Centralization of Power Should be Abandoned

There has been recently a lot of talk by public men and comment by the press over the alarming concentration of power in the Federal Government at Washington. Most of the talk, as well as the comment, has been general, except when politicians and newspapers have persisted in discussing the excesses and delinquencies of federal prohibition. This all seems trivial to me in contrast with other things that have happened and constantly are recurring, which, singularly enough, seem to have attracted little attention and provoked less intelligent criticism. They involve, some of them, not only the liberty and property rights of the individual and the sovereignty of the states, but a plain usurpation of authority by the Federal Government, which is as injurious as usurpations of authority usually are and, besides, exceedingly dangerous. The fact is, we have embarked—fortunately without the sanction of law—upon a policy that is deceptive and dangerous, for which, in my judgment, the petty advantages of temporary political expediency in negotiations with foreign governments afford no adequate excuse. This policy, in my judgment, ought not and will not receive the sanction of law; and it should be abandoned absolutely by the State Department at the earliest opportunity when it is next called upon to express its opinion upon proposed private loans to foreign investors, whether they be foreign governments, foreign industries or individuals.

FOREIGN INVESTMENT PROBLEMS

HERBERT FEIS

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BEFORE discussing the particular aspect of the problem of foreign investment to which I want to call attention I should like to address myself very briefly to one or two points in the papers of the previous speakers on this program.

First of all I have been moved by Mr. O. K. Davis' impassioned plea not to be afraid of straw men, and I am therefore led to say a word about that straw man who says that many economists make the habitual assumption that foreign borrowers are asked to pay more for American goods than for the same goods bought abroad. I think the position of the American economists and the remarks that have had that tendency, have come from the fact that these economists were studying the same figures that Mr. Davis presented and they saw the steady, persistent growth of foreign purchases of American goods. They therefore came to the conclusion that there was a disposition to purchase American goods when there was a judgment that the best value could be received from such purchases and that if and when they didn't use the proceeds of loans to buy American goods, it was because more favorable terms were offered by the producers of other countries. That has been the basis of their assertion that on the whole the tying-in clause would prove to be unfair to the borrowers.

The second matter I would like to touch on equally briefly is the use of a term by Mr. Ray Morris in his paper. The term "control" was applied to the arrangement under which one banker tended to have the duty and care and right of handling of all the finances, all the foreign borrowing of a foreign state. I think undoubtedly there is something to be said for that situation, but I hesitate to apply the term "control" to it. Reviewing some of past international lending history, I think you will be struck by the fact that some of the worst defaults took place when arrangements existed by which all

of the foreign borrowing was handled by one great banking house; for example, the Argentine default when practically all the Argentine borrowing was handled by Baring Brothers, and the Russian default when practically all the Russian borrowing in the market of France, the chief creditor country of Russia, was handled through the *Credit Lyonnais*. I trace that to the fact that these institutions became more and more involved in the credit situation of the borrowing countries and therefore had to make further borrowings against their free will and their own better judgment.

It has seemed to me that the best use I could make of the brief space allotted me in this discussion would be to attempt to supplement Mr. Swan's analysis of the world's present and future demands for capital by certain comparisons between the rate of American foreign investment during the past few years, and the rate of investment of the chief creditor countries of the world before the war. Such comparison, I hope, will aid us to form a clearer judgment regarding our own recent activity as a lending country, and enable us to measure the importance of our foreign lending in our general economic life. The statistical material available for such comparisons as I propose to make is unfortunately inadequate and of uncertain accuracy. For every item which it is necessary to measure, various methods of computation may be and have been used; besides, the nature of the original data is often unsatisfactory and incomplete. As a matter of fact, in working through the available material I was often reminded of the story told by a Scotch evangelist by the name of John O'Neal, who had once been a railroad porter. He had been invited to address the General Assembly of the Presbyterian Church in Toronto. He came and the proceedings were opened up in the morning much as these proceedings have been opened, and John O'Neal sat on the platform much as I have sat and listened to the series of addresses before him, and they were all statistical. The officers of the Presbyterian Church there made reports explaining the financial situation of the institution, how much had been contributed, how many new churches had been built, how many regular members of the church there were, how many communicants, how much had been spent for mission work, how many converts, and so on and so

forth, till finally at about three o'clock in the afternoon they got around to O'Neal and he began: "All I have been listening to all day long is statistics. It seems to me as if every speaker present took his text from the Book of Numbers. I am reminded of the old wounded war veteran that I used to see parading the streets of Edinburgh. He wore a placard around his neck and on it it said: Please Help A Wounded Soldier: Battles 4, Wounds 6, Children 6, Total 16."

Everyone of the comparisons given must be regarded merely as a rough estimate open to errors of considerable size. Furthermore, in view of the nature of the original data, it would be silly to attempt to apply refined statistical methods to its analysis. Despite these handicaps, I believe, however, that something can be learned by this process of comparison, which I shall make without stopping to give the sources of my information, or to call attention to the many adjustments and the qualifications which the figures require to make them strictly comparable.

First, the annual increase in American foreign ownership during the past three years may be compared with the annual increase in foreign ownership of Great Britain, France, and Germany for varying periods before the war. The reports of the Department of Commerce indicate that during 1924-26 inclusive our foreign ownership has increased at the average rate of about \$1,000,000,000 a year. In this estimate security investment is included at nominal value, and it may be taken to be an over-estimate rather than the contrary. The most satisfactory calculations of the rate of growth of British foreign ownership for the period 1907-1913 indicates an annual increase of about \$750,000,000, rising up to, possibly exceeding, \$1,000,000,000 in 1913. The rate of increase in French ownership in 1906-1912 was about \$340,000,000 a year; while Germany's additional foreign investment was growing only slowly during that period and probably did not exceed \$100,000,000 a year for the period 1907-13.

If we wish to make a comparison with the whole growth of foreign ownership of all the creditor countries of Europe before the war, the investments of the Swiss, Dutch, and Belgians must be added into the account. If we do so, it appears that the creditor countries of Europe were adding annually to

their ownership abroad during the period 1906-13 about \$1,300,000,000, the amount rising to perhaps as much as \$1,500,000,000 in 1913. It would appear, therefore, that the United States has been adding to its foreign ownership each year about two-thirds of the total of new investments made abroad by all European countries before the war. It would appear, further, that, since all of these creditor countries may be expected in a few years to supply their own capital needs (with the possible exception of Germany, as Mr. Swan has pointed out), and will, in fact, be able to invest abroad again, the competition among creditor nations for profitable enterprises in which to invest their capital may be expected to become more severe than at present. It also seems evident that the amounts that will be available for investment in the relatively undeveloped economic regions will be greater than ever before. Considering the growth of our populations, the gains in technical skill, the benefits of experience in large-scale enterprise, we may expect to see the undeveloped regions of the world brought into the main area of economic life with greater intensity than ever before. Africa, Asia and South America will be the great fields of exploitation.

I turn to another comparison which may throw some light upon the significance of our foreign lending in the whole of our economic life. What proportion of our total income are we using to add to our foreign ownership as compared with the creditor nations of Europe before the war? Here again I would venture a reminder as to the uncertainty of the figures on which these measurements must rest, and point out that any conclusion that might be modified by an error of 20 per cent in its figures must be given up.

The National Bureau of Economic Research has given a preliminary estimate of our national income for 1924-26. Deducting from these estimates certain small items which are not included in the available computations of national income for other countries, the figures indicate an average income of \$79,200,000,000. Thus, the net addition to our foreign holdings represents but $1\frac{1}{4}$ per cent of our total national income. In contrast, similar computations for Great Britain show that during the period 1907-13 about eight per cent of the total annual income was used to increase foreign owner-

ship; by 1913, in fact, this had risen to over nine per cent. France, during substantially the same period, was applying over five per cent of her annual income to the same purposes, while Germany was using only about one per cent of her annual income. It will be seen, therefore, that great as the rate of growth of our foreign investment is, and revolutionizing as it will be for our economic and political life, it takes but a much smaller part of our national income than English and French foreign investment did before the war. This is to be expected in the light of our huge domestic economic development and the rapid growth of our national income during recent years.

It is, perhaps, even more interesting to attempt to measure the portions of annual savings represented by the growth in foreign ownership, as an indication of its importance in the whole of our economic life. Expert guesses as to the annual volume of American saving for the three years 1923-25 place that saving between ten and twelve billions of dollars, the latter being probably nearer the fact. It seems indicated, therefore, that the growth of foreign ownership by Americans represents about ten per cent of our annual savings. Bowley, Stamp, and Pigou have all made estimates of British saving for the year 1911 of about \$1,600,000,000. Therefore, it may be deduced that in the years before the war Great Britain was investing abroad in the neighborhood of fifty per cent of all her annual savings. Not possessing extensive domains such as our own, Great Britain's capital rushed to the rest of the world. Similar computations for France show that before the war, thirty-five to forty per cent of her annual savings was being invested abroad, the larger part seeking a return, however, not from industrial investments, but from government loans. Figures given by Helferich for Germany show that only five per cent of her annual savings were going abroad, a smaller proportion even than our own. This can be understood in the light of the well-known fact that Germany's industrial development was constantly running ahead of her available capital accumulation.

One last measurement. How important an item, comparatively, is the income received from our foreign investment in our total income? Official estimates, combined with the fig-

ures already given, show it to be less than one per cent of our total income, but growing rapidly in amount. Assuming a constant rate of growth in our foreign holdings, it will result that the sum of income received from this source will equal new foreign investment by about 1930. Computations from Great Britain indicate that during the years 1907-13 about nine per cent of her total income was being derived from foreign ownership; and this country appears to have reached the stage whereat the income from abroad roughly covered the rapidly growing volume of new investments. France was receiving during the same period about six per cent of her total income from ownership abroad; and this income from ownership abroad certainly covered her new foreign investment. Germany's income from ownership abroad was at most $2\frac{1}{2}$ per cent of her total income; and steadily tending to fall in importance.

It is impossible for me, in the time at my disposal, to attempt to interpret the significance of these figures, but I think that consideration of them may help us to understand and to guide properly the extension of American investment throughout the world.

THE AMERICAN BALANCE OF INTERNATIONAL PAYMENTS

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THE question to which I wish to draw attention very briefly is simply the nature of the changes which have taken place in the American balance of international payments since the war, and the conclusions which we can draw as to probable future developments.

Of the various items that enter the American balance of international payments, there are two that have been of predominant importance: the commodity balance of trade, and the net export or import of capital on account of principal. These two items have not only been the largest in the aggregate, but have also been the ones that have fluctuated most widely and most significantly.

The other items in the American balance of payments have been relatively stable. They have grown, but the growth has been a fairly steady increase each year, without marked fluctuations or reversals of trend. This is true, for example, of the aggregated net interest and profits and dividends item: we have had a moderate but steadily growing international credit on this account. It is also true of tourists' expenditures, of immigrants' remittances, of freight charges, and so on. The aggregated total of these so-called invisible items shows a steadily increasing net debit in the international account. Even the movements of gold, which are only a small item in the general aggregate, have shown a fairly steady trend since 1921; that is, a diminishing net debit that has recently passed zero, and has begun to show a small net credit. These smaller items, to repeat, are stable, are growing fairly steadily in one direction or the other, do not fluctuate widely, and for at least certain of our purposes are therefore not especially significant.

But the movements of the commodity balance of trade, and the movements of capital on account of principal, have fluctuated widely and irregularly. In 1919 we had a very large

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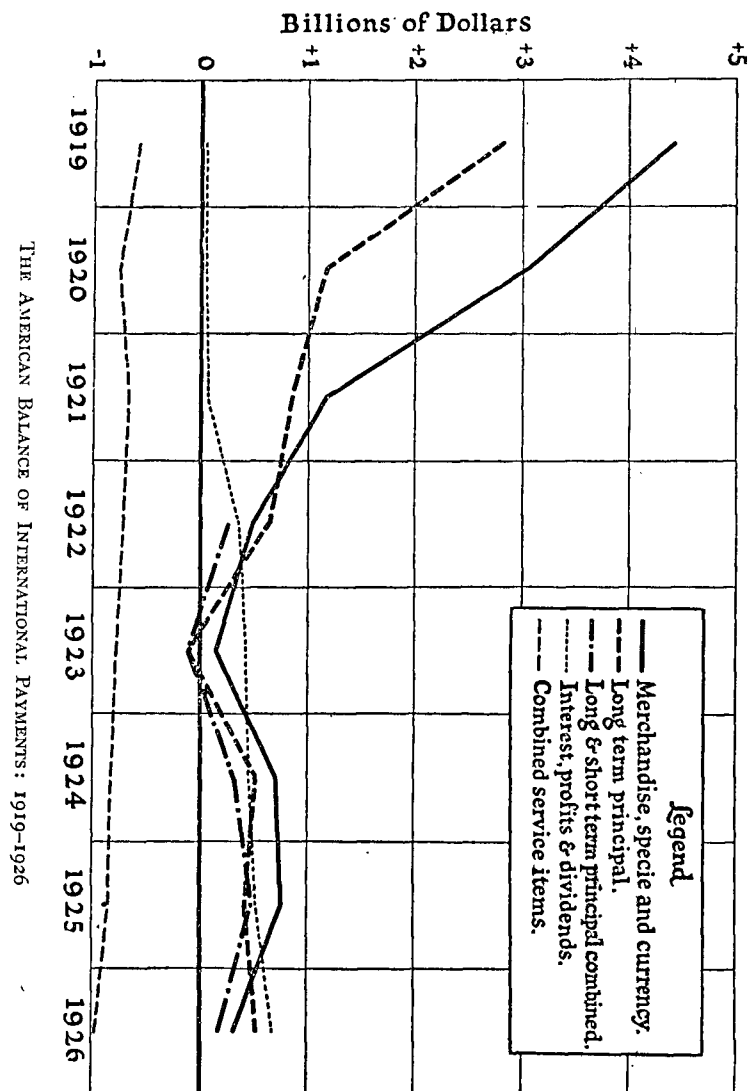
favorable balance of trade. This balance then fell steadily, until in 1923 it was very small indeed. It rose again in 1924, but since then has again been falling, although quite gradually. Similarly the net export of capital on principal account was phenomenally large in 1919. It then fell rapidly, and became a net *import* in 1923; it rose again in the following two years, and finally in 1926, the last full year for which we have data, was again declining.

The striking thing, however, is that the fluctuations in these two items have gone remarkably closely together, especially since 1921. The closeness of that relationship is indicated by the accompanying chart. The upper curve, the solid line, is the commodity balance of trade. The heavy dash line immediately below it is the net movement of capital on account of long-term principal, while the heavy dot-and-dash line from 1922 through 1926 is the same curve with the net movements of short term and demand balances added. The curve for the trade balance and the two capital curves not only fluctuate very widely; on the whole, and especially since 1921, they can also be said to fluctuate quite closely together. The dotted line is the interest, dividends and profits item, showing a quite steady net increase in our credits. The last and lower dash line is the non-capital invisible items curve, covering the various service transactions. It shows a slowly increasing, fairly large net debit.

I shall not attempt to explain the closeness of the relationship between the balance of trade fluctuations and the fluctuations of the capital movement. There may be, as one speaker has already suggested, a cause and effect relationship between the two; that is, changes in one of the two items may produce similar and offsetting changes in the other item. More probably I think that in this case both sets of changes are the product of a common antecedent cause, namely, the war-time and post-war upheavals in Europe; but neither this nor any other similar conclusion can be submitted to positive proof, and I shall not go into the question farther here.

Let us turn, instead, to the question of what light these figures cast—if they cast any at all—on the probable future development of the items in the American balance of payments. Of course we cannot foresee that future development with any-

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thing approaching accuracy, but in at least several directions we can make a fair estimate. Take, for example, the international movement of investment capital: we can make at least a plausible guess as to what will happen to that item in the next few years. I see no reason for thinking that new foreign investment by Americans is going to undergo any sudden and permanent decrease in the near future. It is true that a business depression in this country, or a sudden growth of prosperity in Europe, would produce a decline for the time being; but I think that such a decline would be only temporary. Our gross new foreign investment is apt to hold at least for some years at about its present level, something slightly in excess of a billion dollars a year. During the last five years we have made a place for ourselves as one of the great investing nations, and I do not think that we shall relinquish that place, if at all, for many years to come. But against this annual new investment by Americans, various other items must be set. Foreigners are now buying back their own securities; they are paying off some of their own loans; they are even buying our own American securities. All those transactions go in on the other side. In addition there are, of course, the slowly growing interallied debt payments. These various items—which represent the import of capital into the United States, instead of the export of capital—already almost equal and offset our annual new investment, and there is every reason for thinking that they will grow. On balance, therefore, I think that from now on we shall import as much or more capital on all accounts as we export; that is, we shall have a small, slowly increasing net credit in the aggregate annual capital account. Although we shall be one of the world's great foreign investors, paradoxically, we shall nevertheless be a *net* importer of capital on a small scale.

Similarly, interest and dividends on our foreign investments will grow steadily, but against this are the interest and dividends we must pay to foreigners on their growing investments here, as we used to do on so large a scale before the war. On balance, I think that we shall have a large credit on account of interest and dividends, but one that does not grow very rapidly.

Then there are the other invisible items: tourists' expendi-

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tures and immigrants' remittances and freight charges, and so on. These items, taken together, have shown a quite large and slowly increasing net debit ever since the war. There is no reason for thinking that this trend will be greatly altered in the immediate future.

There remains, finally, the commodity balance of trade. The balance of trade serves, in the long run, as the compensator in international payments, the residual element, the element that takes up the slack and offsets everything else. It does not always fulfill that function in any immediate quick-operating way, but in the long run that is substantially the rôle it plays. In our case, it will operate to restore international payments to equilibrium after the suggested changes in the other items have come about. If we now bring these estimated probable changes together, they indicate that apart from the balance of trade we shall have, in future years, a small but growing excess of net credits in the international account. These credits we can receive only in the form of commodities. In other words, we may soon look forward to a small but growing excess in commodity imports over exports before very long; that is, to the popularly dreaded unfavorable balance of trade. That unfavorable balance may arrive next year; it may not arrive for five or ten years; we can't tell, but I think it is quite surely coming nearer every day. I would not be unwilling to subscribe to the date already suggested, 1929 or 1930, as about the time that the change in balance of trade will take place.

But we shall acquire this unfavorable balance simply by increasing our imports, which are largely imports of raw materials. I don't see any particular reason for expecting any substantial decrease in our exports; there may be some decrease, but I don't think it will be a large one or a permanent one. Nor do I see any reason for expecting any diminution in our prosperity. Rather, we shall have higher prices than we would have had without this unfavorable balance of trade, and greater prosperity. The prospects for our near future seem to me very pleasing.

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FOREIGN INVESTMENT AND PUBLIC POLICY

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I SUPPOSE I was asked to take part in this discussion in the hope that I would pick a fight to start the discussion of the interesting papers on foreign investment problems to which we have just listened, but it is very difficult to do so. Like Mr. Feis, I was particularly impressed by Mr. O. K. Davis's demolition of straw men. As I listened to Mr. Davis passionately proclaiming the ability of American manufacturers to compete on equal terms with the manufacturers of foreign nations, I almost expected to hear the Secretary of the National Foreign Trade Council proclaim himself a free-trader and assert that American manufacturers could compete with foreign manufacturers at home as well as abroad, without the artificial aid of a tariff. Having sometimes had occasion to criticize American bankers for their dependence on governmental protection of their investments abroad, Mr. Ray Morris's exceedingly long-visioned recognition of the social factors involved in foreign investments left me almost without ammunition. Yet there may still be bankers who do not entirely agree with Mr. Morris, and if I cannot attack him, I may still perhaps point to some of the dangers and difficulties inherent in the situation, which have displayed themselves in the past, and may again in the future.

You remember F. Opper's cartoon, which Mark Sullivan has revived in *Our Times*, with a little figure of Mr. Private Citizen, a very small figure in the presence of the large bankers and industrialists, with a very small head and very large ears, trying very hard to emit a large voice of protest. I intend to speak in his behalf.

There are certain dangers even to these very small private citizens in the enormous expansion of American foreign trade and foreign investment. Even those of us who do not participate in the expanding of foreign trade have a right to have our doubts as well as our vicarious pride; we can wave the flag, too, and feel that somehow or other we are bigger,

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brighter men because America has three-fifths of the foreign trade of Central America and had last year a larger share of South America's trade than England, Germany and France combined. At the same time, while swelling with the vicarious pride, we have our doubts and hesitations. We know, for instance, that when American bankers have made loans to Santo Domingo and Haiti, their loans have been predicated upon a frank declaration of the responsibility of the United States for the collection of certain of the revenues of those states. We know that in the case of the recent loan to Salvador, there was included a provision by which any dispute which might arise between the bankers and Salvador was to be referred to adjudication by the Chief Justice of the United States Supreme Court; and the bankers—who had submitted their loan contracts, which included even more official supervision than that, to the State Department—felt justified, when issuing their loan circulars, in stating that “it is simply not thinkable that after a federal judge has decided any question or dispute between the bondholders and the Salvador Government, that the United States Government should not take the necessary steps to sustain such decision.”

Some of us are a little worried by the national responsibility in connection with some of the loans which the State Department seems to be loading upon our innocent shoulders—to which Senator Glass refers in his criticism of this policy. When an executive department asks bankers to submit loans to it, and assumes the privilege, in some cases, of asserting its powerful disapproval—without any legislation, without any specific grant of power by Congress—it inevitably seems to the world to assume an implied responsibility for those loans. “The most explicit disavowals do not relieve it of that burden; the fact that it kills certain loans by its disapproval, and passes others, is an acceptance—or so it must seem—of a measure of moral responsibility. That is a portentous fact which the bankers, the government, and the public must face.

Indeed, no American banking firm can today lend money to a foreign country without involving to a certain degree the position of the United States. A banker cannot even, under present-day circumstances, travel abroad, discussing loans, without involving the United States in international compli-

cations. The policy of the government and the circumstances of the day make him more than a private citizen—a sort of unofficial ambassador. It is a dangerous position.

I received a letter three days ago from China. I don't want to assume the slightest responsibility for any suggestion in this letter: I simply want to point out that Mr. Thomas W. Lamont cannot go traveling even on what he announced as a mere pleasure trip, without upsetting to some slight degree the balance of the Far East. This Shanghai letter says:

My dear Gannett:

There are all kinds of rumors in circulation here regarding the real purpose of Thomas W. Lamont's trip to Japan, so I am wondering which is the correct interpretation. One of the reports is to the effect that Lamont is planning a large loan to the South Manchurian Railway for the alleged purpose of assisting the Japanese in fighting the Russian influence in that area, but the real purpose being to enable the Japanese to consolidate their position in North China with the idea of ultimately annexing Manchuria. . . . Then there are other rumors in circulation, that Lamont is cooperating with the British in the old scheme of trying to weld a ring around. . . .

I do not need to continue and I do not want to endorse any of these rumors. I do want, however, to insist upon the fact that Mr. Lamont's “pleasure trips” become a matter of first-rate national and international importance. If, in behalf of the house of Morgan he negotiates a loan to Japan or to its South Manchurian Railway, that loan will be submitted to our State Department, and it will be assumed in foreign countries, despite the most specific denials which the Department of State may make, to have the specific approval of the State Department, and to represent United States Government policy. So long as bankers are virtually required to submit their loans to the State Department before issuance, we shall have that condition. But even if the State Department abandoned this procedure, a second difficulty would remain. No one, in this country or abroad, is sure what degree of governmental protection will be given to foreign loans and investments. As a matter of fact, of course, we intervene “to protect American lives and property” only in small or weak countries. It is not simply a matter of governmental loans; the most innocent-seeming investment may, under present conditions, involve us in a small war.

There are many instances in recent history. The original intervention in Nicaragua in 1912, according to testimony of the responsible individuals themselves, before the Foreign Relations Committee of the United States Senate in 1914, came after the representatives of the bank concerned had protested to the State Department against interference with a locomotive and two flat cars which had been seized by the Nicaraguan authorities—American property! Our present domination of all Nicaragua began with the apparently innocuous business of landing troops at one port for the “protection of American lives and property”. So long as you have the theory that the American flag follows the investor wherever he goes, and that he has a right to the especial protection of the American flag when he becomes involved in local revolutions and disturbances, so long will you have a growing danger of international conflicts following the swelling tide of foreign investment.

I should like to throw into this discussion three propositions: First, that the State Department give up entirely its irresponsible semi-control of foreign investments and abandon its present policy of asking American banks to submit, prior to issuance, their loan contracts for its approval. Second, that in place of this we should adopt a policy of requiring American banks lending money abroad to make public their loan contracts, so that before we are involved in trouble the public may know the terms that cause the trouble. Certain recent Central American loans, I suspect, might never have been made had their makers expected such publicity. Finally, I suggest a principle of infinite complication, contrary to international precedent, which can be simply stated thus: That Americans investing abroad do not expect the American Government to provide them, in the countries where they invest their money, with better protection than the citizens of those countries themselves receive.

PART II

INTERNATIONAL TRADE RELATIONS

TRADE BARRIERS AND CUSTOMS DUTIES

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ARTIFICIAL restraints on International Commerce are not new. Governments have always claimed that it was an undisputed prerogative of sovereignty to establish the terms on which aliens could trade within or across their frontiers. The Moorish Corsairs of El Tarifa, near Gibraltar, levying a tax on all commerce through the Straits, gave their name to a practice which was very, very old.

In modern times, tariffs have been imposed not only to raise revenue, but to protect home industry from foreign competition. Theoretically, such "protection" is a subsidy to local producers, which must be paid for in higher prices by local consumers. There are, however, great practical difficulties in reaching any definite appraisal of the amount of this subsidy, who pays it and the effect on the economic life of the nation.

The prosperity or adversity of a country is due to multiple and complex causes, of which tariff policy is only one. The size of the home market; the natural resources; the type and industrial fitness of the population are considerations at least equally, if not more important. It is difficult to prove whether any country is prosperous because of, or in spite of high protection. The three countries today with the highest tariff levels are the United States, Spain and Russia. The standard of living varies greatly in these countries. Obviously a high tariff does not suffice to bring prosperity to a country which is poor in natural resources like Spain, or torn by revolution like Russia.

In the years immediately preceding the War, there was a tendency toward increasing protection. Great Britain alone of the industrial nations believed that its prosperity was enhanced by free trade.

The Post-War Period

After the destruction of capital, the loss of man-power, the long interruption of normal production, the obvious impoverishment, caused by the World War, it would seem that long-visioned, broad-minded selfishness would have dictated a policy of closer cooperation between the nations. Only by cultivating existing markets and opening up new ones, by stimulating production, by freeing economic life of its trammels, could the loss be speedily made good. But almost without exception the nations took the other course. Old trading units, like the Austrian and Russian Empires, were broken up not only politically, but economically. The five thousand miles of new frontiers became so many more barriers to the free exchange of commodities. Two fallacies—now generally recognized as fallacies—stimulated this movement. First: many believed that they could best achieve prosperity at the expense of others and that the more they penalized or blocked the trade of their neighbors, the more they would profit. It is pretty generally recognized today that no nation can long prosper in the midst of bankruptcy. The lowering of prosperity, which comes from general blockade cannot be compensated for by protective tariffs. And, secondly, the wave of political “nationalism” which swept over Europe—especially in the near East, where new nations had won their long desired independence—inevitably became economic nationalism as well. Despite the fact that all the trend of our day is towards increasing economic interdependence, the fallacy of “self-contained nationalism” has had a great following. The general staffs became high protectionists, insisting that all the key industries of war supplies should be built up at home. We can picture the confusion, by suggesting that the militia of each of our forty-eight states insist on having their army motor cars built in their own state and be able to impose interstate tariffs which would make it possible for agricultural states to build automobiles in competition with established industrial centers.

This “economic nationalism” meant adding the waste of duplication to the impoverishment of war. New plants, built where they could not be economically operated, were kept

alive by high tariffs. Old plants, which had grown up naturally near fuel or power and raw material, lost their markets as a result of these tariff walls, and so, forced to close down, threw new brigades and army corps into the ranks of the unemployed, which lowered the level of living and the general purchasing power.

Not content with formal and declared tariff war, many nations sought even greater “protection” by embargoes, import and export prohibitions, juggling with terminology in the tariff schedules and complications in customs formalities which further impeded trans-frontier trade. The attack on competitive foreign commerce is often veiled, sometimes taking the form of “sanitary regulations”. All sorts of ingenious tricks have been tried to beat the axiom, “You cannot sell abroad, unless you buy abroad”.

The raising of tariff barriers was also stimulated by the fluctuation and depreciation of currency. As currencies fell in some countries, tariff walls rose in others as a protection against an influx of cheap goods from the areas of cheap currency. These protective measures were deemed necessary to safeguard home industries, but the closing of markets to the goods of the countries suffering from currency depreciation made it more difficult for them to cure their exchange and currency troubles. Nevertheless, currencies have now been stabilized or gotten within control, but the barriers which were raised against unstable currencies still remain and hamper commerce after the reason for their erection has disappeared.

Tariff revisions have been frequent and almost always upward. Inevitably it is cumulative, for it invites retaliation. If A could raise its own tariffs and persuade the rest of the alphabet to lower theirs, A might gain. But this is not human nature. B, C, D and Z raise theirs in retaliation and the hoped-for gains prove illusions. As it becomes apparent that the profits of this policy of erecting barriers to trade are less than anticipated—that it defeats its own purpose—the losses which all suffer from the slowing down of commerce become even more apparent.

The policy of protection means, in the long run, the sacrifice of the foreign market for the home market. The tendency towards mass production, the outstanding development

of our economic era, demands mass consumption, the largest possible market. An equally important fact of our day is the increasing complexity of industry—mass production is not possible without access to all sorts of raw material. Major industries gather their raw material from the four corners of the earth. A country like our own, with its vast continental area—the largest free trade area in the world—furnishing the greatest part of its basic raw materials, consuming nine-tenths of its production, has been able to pursue a policy which subordinates the foreign market. Nature has been very bountiful to us. Within limits, as yet undetermined, we can live on our own fat, but we are reaching out more and more for raw materials from abroad; our home market is already becoming too small; and we must have additional outlets for our surplus products and wealth.

The typical country of Europe is small; there are relatively few consumers at home. It is lean—poor in raw materials. It lacks the resources and markets essential for economic units of production and distribution. It cannot afford the luxury of a policy of economic nationalism.

The Geneva Conference

The business men of Europe have been seeing with more and more alarm the disastrous results of "economic nationalism" and its accompanying tendency to ever-increasing artificial interference in trade. Uneasiness was being expressed by Chambers of Commerce everywhere. And in May, 1927, there gathered at Geneva the World Economic Conference. Much valuable spade work had already been done by the Preparatory Commission and by the Economic Section of the League of Nations. The information which was given us, in a series of pamphlets, furnished a remarkably comprehensive picture of present economic conditions. Men from every country, men from every special industry could see how their individual problems fitted into the general picture. Viewing the whole in proper perspective, all could see larger significance in the details, with which they were familiar. This matter of tariffs was discussed, not from the viewpoint of any particular manufacturer and his—possibly selfish—interests, but from the international viewpoint, from the viewpoint of the prosperity of all, the viewpoint of the common weal.

Approaching the problem from this angle, it was at once obvious that, while the determination of fiscal policy is a matter of domestic jurisdiction, it is a matter of more than domestic concern. The world has become so interdependent in its economic life that measures adopted by one nation affect the prosperity of others. No nation can afford to exercise its rights of sovereignty without consideration of the effects on others. National selfishness invites international retaliation. The units of the world's economy must work together, or rot separately.

The Economic Conference made no attempt to determine an ideal tariff level—to settle the old controversy between protection and free trade, between high and low tariff. No attempt was made to tell any nation what it should do.

The Conference, however, did reach unanimously, certain very definite conclusions. I do not have to remind you of the composition of the Conference. There were industrialists, bankers, economists, agriculturists, and laborers. It was as authoritative a body of experts in the matter as was ever convened to discuss economic questions. They were unanimous in favor of simplification of customs terminology and formalities; they recommended universal adherence to the unconditional most favored nation principle; they condemned all veiled and indirect methods of increasing the barriers of trade; they pointed out emphatically the difficulties of frequent alterations in schedules. And they agreed that further heightening of the barriers would be disastrous, that the time had come to take the other direction and reduce them.

The Conference was not composed of official governmental representatives. It did not have "power" to bind anybody. But that it expressed the considered conviction of the business world is, I think, proved by the cordial and unanimous endorsement of its findings by the Congress of the International Chamber of Commerce at Stockholm. Even more encouraging is the news that its resolutions have been formally endorsed by the following governments; Germany, Holland, Belgium, Czecho-Slovakia, Austria and the Scandinavian countries.

Armaments

It is impossible to study the question of reducing these artificial "restraints to trade", without being reminded of the very similar problem of the reduction of armaments. In one case, as in the other, the matter comes directly under the sovereign rights of the nations. Any country has a right to build up the military establishment it desires. Any nation has the right to erect such barriers against international commerce as it thinks will serve its interests. But in both cases, the free and uncoordinated exercise of this right has caused great economic burdens and universal embarrassment. In both cases any step taken by one nation to protect its own interests is immediately rendered inadequate by the retaliatory action of others.

It is, I believe, generally conceded that the only hope for the reduction of the burdens and dangers of excessive armaments is through some form of international agreement. I submit that this is also the only method by which we can find sufficient relief from these excessive barriers to trade. International agreement means negotiation, consideration of the other's situation and needs—and mutual concessions.

If each government is to continue, as has been the custom in the past, to fix its customs policy, its military program, as an isolated, individual act of sovereignty, without thought of the repercussion on other countries, the pyramiding of tariffs, the piling up of armaments, is inevitable. We can hope for relief, in the one problem as in the other, only by the method of give-and-take cooperation, by taking the friendly, considerate and broad view.

America's Part

When we come finally to the consideration of America's relation to this problem, we must answer two questions. First: are we sufficiently interested to do anything about it? Secondly: if so, what?

Clearly we have stood in a special position, not so much because of distance—the Lindberghs are constantly reducing that—as because of our structure. International trade has not in the past been as important to us as it is to many European countries, but our export trade, while small in com-

parison to our domestic trade, is rapidly growing in volume and importance, and, with the possible exception of Great Britain, is now greater than that of any other nation. At present, it is largely based on credit supplied by our investors. Purchasers of our products come to us because we have a practical monopoly of the credit they need. We have thus been able to sell our surpluses and let our foreign customers and debtors worry about the trade barriers, but that cannot continue indefinitely.

While I am not a protectionist, I recognize that, with the exception of agriculture, our country has been generally prosperous under a high protective tariff, as it has also been under a tariff for revenue only; and I admit that our consumers have been able to absorb, without apparent detriment to our economic life, the cost of tariff subsidies. We have, however, now changed from a debtor to a creditor nation, which must alter the effect of our tariff upon our economic life and that of other nations. The real test of our tariff policy will come from the need of additional markets and the necessity to safeguard and recover our foreign loans and investments. Whatever our differences of opinion about our own tariff policy, I find little dissent from the proposition that Europe cannot regain its prosperity unless action is taken to reduce these trade barriers—as recommended by the Economic Conference at Geneva.

Mr. Henry M. Robinson, speaking for the entire American Delegation at the Geneva Economic Conference, answered the first question. "Our own experience," he said, "has taught us to consider 'prosperity' as a whole. No industry lives healthily in a period of general depression and instability. No nation can enjoy its full economic activity unless other nations are prosperous. The American people are profoundly interested in the peace and prosperity of Europe."

There is one other point which I submit for your consideration. We, as the growing creditors of Europe, have an added reason to desire the restoration and increase of its prosperity. If we are to continue to lend money to Europe, if we are to be repaid on existing credits, it is to our interest to do all in our power to help Europe in her effort to free herself from this throttling, smothering tangle of artificial trade barriers.

With our increased efficiency, through labor-saving devices and mass production, we have raised our standards of living and our purchasing powers above that of any other country. Instead of being at a disadvantage in competing with Europe, as was formerly supposed to be the case, because of the low wage and standard of living in Europe, it is becoming increasingly evident that Europe is at a disadvantage in competing with us just because of their low wages and low standards of living which reduce their efficiency, their earnings, their purchasing power, and their consumption.

The second question: "What can we do?" remains to be answered. There is unanimous feeling among our citizens that the results of recent cuts in direct taxation have been beneficial. I suggest that a cut in indirect taxation would have an equally beneficial result in our national economy. It would even be more popular, for whereas direct taxation falls mostly on the more prosperous few, indirect taxation bears on all. But it is especially because of its effect on the international problem that I advocate it at this moment.

The experts gathered at the Geneva Conference and the leading business interests represented in the International Chamber of Commerce have expressed the conviction that the removal of barriers which unduly hamper trade would promote the prosperity of all the world. A ten per cent reduction of all of our tariff schedules would be a wise and effective way to set an example in a policy of removing such barriers. It would not work a hardship upon any of our efficient industries, and it would bring relief to many of our people. It would also have an enormous effect upon opinion throughout the world and encourage the adoption of policies which would make the world more peaceful and more prosperous.

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CAPACITY OF WORLD MARKETS TO ABSORB EUROPE'S SURPLUS PRODUCTS AND TO AFFORD EMPLOYMENT TO EXPANDING POPULATION

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THE subject assigned to me is a rather ponderous one for treatment within the time limit allowable this afternoon. It is also quite evident that the nature of the subject requires much statement of opinion, based upon data that are incomplete and difficult, if not impossible, to obtain concerning the conditions determining world capacity to produce and to consume. Fortunately, it is not my task to answer the question as to how and when the present barriers to world economic expansion may be removed. I can only attempt to show what may be expected to occur if once the opportunities of possible industrial and commercial expansion are freed from present barriers. I wish to touch upon five points, namely: (1) The nature of Europe's exportable surplus; (2) The present import trade of the world; (3) The capacity to expand world imports; (4) The likelihood of Europe's supplying a substantial share of increased world imports; (5) The capacity to employ expanded population.

Europe's Exports

Although Europe¹ is exceedingly rich in natural resources, its dense population and high degree of industrialization leave but a small surplus of foods and raw materials for exportation to countries outside of Europe. Except for British coal and German-French potash, neither raw materials nor foodstuffs enter largely into European over-seas trade. Typically, Europe's exports are manufactured goods. In 1912, for example, 79 per cent of Great Britain's exports were classified

¹ For purposes of this paper, the term "Europe", unless otherwise indicated, is used to include only central and western Europe; that is, industrial Europe.

as manufactured products; Germany's percentage was 64.6, Belgium's 57, and France's 58.4 per cent. If European exports expand, it must be through manufactured goods. Furthermore, it is in manufactured goods that the chief expansion of over-seas imports must occur.

The potential capacity of Europe to produce industrial goods is very large. With a major share of the world's factory equipment before the war, the war gave increased acceleration to industrial expansion. In some industries, notably steel, ship-building, and cotton spinning, Europe's capacity to produce is not only now greater than pre-war, but greater than existing world demand. In other industries, however, post-war demand has kept pace with expanding mill capacity and in 1925 Europe's actual production of industrial goods was greater than pre-war.¹

While European exports have declined in certain lines, they have increased notably in others, so that, in spite of the fact that the consuming power of the world apparently is not back to what might normally have been expected had there been no war, European exports in 1925 were nearly equal in quantity to the exports of 1913.² The increases and decreases in exports, however, have not been equally distributed over all of Europe. For example, while the exports of cotton piece goods from Great Britain have greatly declined, chiefly due to the falling-off of the Indian market, Belgium, France and Italy are all exporting materially greater quantities of textiles than pre-war.³ In this connection it is significant that the United States imported from Europe three times as much cotton piece goods in 1924-1925 as in 1912-1913, twice as much woolen piece goods, and 50 per cent more of silk piece goods.

New exports have developed. Notably, artificial silk, of comparative insignificance in 1913, has grown into an export of very important magnitude. While the production and ex-

¹ International Economic Conference, *Summary Memorandum on Various Industries*, p. 9.

² According to *Memorandum on Production and Trade*, International Economic Conference, p. 35, the percentage was 96.6.

³ *Summary Memorandum*, p. 22.

port of dyestuffs has greatly declined, other chemicals have increased, notably nitrogen production, which has expanded two and a half fold, displacing to a considerable extent the importation of Chilean nitrates. Ship-building is less today, but the production of electrical machinery has increased in France more than two and a half times pre-war; in Italy over three times; and in Great Britain, over forty per cent.¹ Even the imports of electrical and industrial machinery from Europe into the United States, a machinery-exporting country, have much more than doubled in value, though not in quantity.

These facts, among others of similar nature, are eloquent not only of Europe's continued power to produce, but of the already growing capacity of world markets to consume European fabricated goods in spite of the great handicaps production and trade have encountered during the post-war years.

The Present Import Situation

According to the *Memorandum on Production and Trade* issued by the Economic and Financial section of the League of Nations² the total quantum of imports into the various countries of the world, including European nations, was greater in 1925 than in 1913 by only five per cent. Imports into North America, however, during this same period increased in volume 37.6 per cent; for the Caribbean countries 26.6 per cent; for Asia 24.2 per cent; for Oceania 32.5 per cent; for Africa 1.6 per cent. South America showed a decline of 3 per cent and European imports were less. Aside, therefore, from South America, there has been a very material increase in the import consumption of the non-European world since 1913; and the increase in importations during the last three or four years has been marked.

The post-war growth of imports by absolute values into typical non-European countries and the place that Europe occupies in supplying those imports are shown in Table I.

¹ *Summary Memorandum*, p. 16.

² P. 35.

TABLE I

IMPORTS OF MERCHANDISE INTO LEADING COUNTRIES SHOWING THE VALUE OF TOTAL IMPORTS, THE VALUE OF THE IMPORTS FROM EUROPEAN INDUSTRIAL COUNTRIES, AND THE PERCENTAGE OF EUROPEAN IMPORTS OF TOTAL IMPORTS¹

Argentina

Value in pesos oro (000,000's omitted)

Year	Total Imports	From Europe	% from Europe
1913	496	391	78.8
1922	689	418	60.6
1923	868	577	66.4
1924	828	539	65.0
1925	876	414	47.2

Japan

Value in yen (000,000's omitted)

1913	729	207	28.3
1922	1,890	379	20.0
1923	1,982	401	20.2
1924	2,453	523	21.3
1925	2,572	399	15.5

Canada

Value in dollars (000,000's omitted)

1913	619	167	26.3
1922	802	163	20.3
1923	893	182	20.3
1924	797	183	22.9
1925	927	202	21.7

Dutch East Indies

Value in gulden (000,000's omitted)

1913	436	265	60.7
1922	691	330	47.8
1923	612	302	49.3
1924	678	315	46.4
1925 values are not given			

United States

Value in dollars (000,000's omitted)

1913	1,792	819	45.7
1922	3,112	917	29.4
1923	3,792	1,084	28.5
1924	3,610	999	27.6
1925	4,228	1,139	26.9

¹ Data derived from *Memorandum on Balance of Payments and Foreign Trade Balances*, 1911-1925, vol. II.

Australia

Value in £ (000,000's omitted)

Includes merchandise, bullion and specie

1913	79	54	68.3
1922	103	60	58.2
1923	131	78	59.5
1924	140	75	53.5
1925	157	82	52.2

Cuba

Value in pesos (000,000's omitted)

1913	140	43	30.7
1922	180	27	15.0
1923	268	42	15.6
1924	289	46	15.9
1925	295	45	15.2

India

Value in rupees (000,000's omitted)

1913	1,83,24	1,45,42	79.3
1922	2,42,46	1,70,46	70.2
1923	2,26,85	1,54,57	68.1
1924	2,43,76	1,63,69	67.0
1925	2,26,18	1,48,13	65.4

China

Value in Haikwan taels (000,000's omitted)

1913	586	146	24.9
1922	975	185	18.9
1923	948	171	18.0
1924	1,039	193	18.5
1925	965	149	15.4

Since 1922, in nearly all the countries here shown the total imports have indicated generally a steady, sometimes rapid, increase. In general, also, imports from Europe into these countries have increased, though less rapidly than the total imports. It is, however, the absolute quantity increase in imports from Europe rather than the percentage changes in Europe's position that is significant. The world has been buying more and more of Europe's exports. The relative percentage position of Europe in supplying manufactured products to non-European countries is declining with the increase in industrialization, but the actual quantity of imports increases and, as the table shows, increases most rapidly into

those countries which are most rapidly developing their manufacturing industries; for example, Japan, United States and Australia. India appears to be an exception to this rule, but Indian industrial development has been very greatly depressed during post-war years.

Because of the unequal areas of various countries, and the great variations in densities of population, it is difficult to get a wholly satisfactory measure of the relative importance of imports to various regions. Perhaps the most satisfactory is the import trade per capita. As shown in Table II, there are two main regions of large imports: first, the highly industrialized sections of northwestern Europe, North America, to a lesser degree, Japan. The second area comprises the developing frontier regions, principally of the temperate zones—

TABLE II

PER CAPITA IMPORTS (1924) IN ORDER OF IMPORTANCE FOR COUNTRIES WITH MORE THAN \$5.00 PER CAPITA

New Zealand	\$156.00	Greece	\$22.00
Holland	124.00	Italy	21.00
Denmark	117.00	Ceylon	19.00
Switzerland	116.00	Japan	17.00
Great Britain	111.00	Estonia	17.00
Belgium	105.00	Hungary	17.00
Australia	105.00	Venezuela	16.00
Ireland	96.00	Egypt	16.00
Norway	78.00	Portugal	16.00
Canada	86.00	Gold Coast	15.00
Cuba	86.00	Central America	13.00
Alaska	85.00	Peru	12.00
Austria	74.00	Mexico	11.00
Argentina	66.00	Poland	10.00
Sweden	63.00	Philippines	10.00
France	54.00	Paraguay	9.00
Uruguay	41.00	Brazil	9.00
Malay States	37.00	Sudan	9.00
Union of South Africa	36.00	Portuguese East Africa	9.00
Germany	35.00	Colombia	8.00
Finland	34.00	Balkan States	8.00
Czechoslovakia	33.00	Turkey	7.00
United States	31.00	Persia	6.00
Chile	31.00	Siam	6.00
Algeria	29.00	Bolivia	6.00
Latvia	27.00	Ecuador	5.00

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Australasia, South Africa, southern South America and Canada. With the exception of Cuba and the Federated Malay States, the per capita importations into the tropics are very small; likewise, into the densely populated, but backward, countries of eastern Europe and Asia.

It is significant that in the areas of present low per capita imports those sections which have come under the influence or direction of the advanced nations have developed, or are developing, an import trade much greater than similar neighboring regions. For example, the per capita imports into Manchuria amount to \$7 as compared to \$2.12 for all of China. The high per capita importations into Algeria reflect the development in that region by the French, and the large import trade of the Malay States, which has been a recent development, is, of course, a result primarily of the exploitation of the rubber and tin industries under the influence of the west.

The high per capita importations into the northwestern European countries may be taken as typical of the capacity of highly industrialized and densely populated countries to import. Australia and Argentina are typical of sparsely populated but progressive agricultural regions; Japan is illustrative of the capacity of the newly industrialized, but densely populated sections of the Temperate Zone; and Cuba exemplifies the possibilities of the rich tropical sections.

Capacity of Countries to Import Manufactured Products

The capacity of a country to import is, of course, dependent primarily upon its capacity to buy—to buy beyond the ability or the desirability of the country to produce at home those products which its inhabitants demand. The capacity of a country to buy, in turn, rests upon the country's own productive powers; for it is the capacity to purchase that furnishes the incentive and the means for buying. The ability to expand production capacity depends upon the nature and extent of the country's natural resources and the number and quality of its population. A country of great resources occupied by a capable population has the possibility of large productive capacity and will command the attention of investors, of managers, and, if sparsely populated, of immigrants.

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For a new country with this capacity for economic expansion there may be said to be two stages in the development of its import trade: first, the period of growth of the country's productive capacity; secondly, having become equipped for production, the period of expansion of the national income when the country's ability to buy is further extended by its increase in wealth, due to increased production.

During the period of growth of productive capacity, large imports of equipment material from the more advanced industrial nations are required. This is the period of road and railroad construction; of the opening of new mines; of agricultural expansion; of the erection of industrial plants, public and private buildings; of hydro-electric installations and public utilities of all kinds; and of all those varied activities of a modern industrial and commercial community that require large amounts of manufactured goods. Depending upon the basic richness of resources and the conditions of economic and political stability, this is a period of large imports, not only of equipment material, but also of consumers' goods for a population of rising living standards. The United States passed through this period during the nineteenth century; Argentina and Australia and Japan are now in the midst of such a period.

During the second period—the period during which the national income expands as a result of the perfection of its equipment for production—imports do not decline, but rather continue to increase in even larger measure; for the buying power of the population has been greatly enlarged and new standards of consumption developed. It is the experience of practically all countries that increased home production results in expansion of imports. This results from the needs of an ever-growing complex industry for better equipment and better materials as new inventions and discoveries and improved methods of production are made known and as the demands of the population are broadened by improved education and economic well-being. Capacity to consume, in all developing countries of reasonably rich resources, outstrips capacity to produce. With every economic advancement, a country's imports increase.

Furthermore, the trade of highly developed nations with

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their commercial neighbors generally exceeds by far their trade with less developed nations. England was the chief customer of Germany before the war, taking 14.4 per cent of all German exports. Germany was the second best customer of England, India only taking more of British goods than Germany. And yet these two countries were the most highly commercialized nations in Europe and were the most intense rivals for the trade of third countries. It is significant that in 1924-1925 Germany had come back to third place in the British export trade, being exceeded only by India and very slightly by the United States. Likewise, in 1925, Germany's exports to the United Kingdom were second only to the exports to Holland; and doubtless much of this trade to Holland represented goods in transit to the United Kingdom.

This tendency for developed industrial countries to increase imports is well illustrated in the case of the United States. Table III shows that the total imports into the United States before the war were growing not only in absolute values, but in per capita importance as well. During the years 1901-1905 we imported \$972,000,000 or \$11.75 per capita. In 1911-1915, the imports were \$1,712,000,000 or \$17.46 per capita. That is, imports not only grew in value, but grew more rapidly than our population.

TABLE III
IMPORTS INTO THE UNITED STATES¹
MERCHANDISE ONLY, IN THOUSANDS OF DOLLARS

Year	Total Yearly Imports (Thousand dollars)	Per Capita Total Imports (Dollars)	Total Imports Manufactured and Semi-manufactured Goods (Thousand dollars)	Per Capita Imports of Manufactured Goods (Dollars)	Per cent Manufactured to Total
1901-1905..	972,162	11.75	401,792	4.85	41.3
1906-1910..	1,344,838	14.82	573,665	6.31	42.6
1911-1915..	1,712,319	17.46	680,439	6.93	39.7
1915-1920..	3,338,354	31.37	1,057,987	9.85	31.4
1921.....	2,509,148	23.22	981,798	9.06	39.0
1922.....	3,112,747	27.55	1,215,624	10.74	39.0
1923.....	3,792,066	32.91	1,492,029	12.93	39.3
1924.....	3,609,963	30.97	1,405,234	11.95	38.9
1925.....	4,220,589	35.66	1,550,818	13.05	36.6
1926.....	4,430,888	37.07	1,680,756	14.05	37.9

¹ Data from *Statistical Abstract*, 1926.

Of greater significance, however, is the growth of our imports of manufactured goods. These increased from \$402,000,000 in 1901-1905 to \$680,000,000 in 1911-1915 in total value, and from \$4.85 per capita to \$6.93 per capita. And this was the period during which the United States vastly expanded its manufacturing industries, and during which its exports of manufactures were increasing more rapidly than any other group of its foreign trade. The consumption of manufactured imports increased fully as rapidly as total imports, in spite of a phenomenal growth in domestic manufacturing, and during a period of high protective tariffs.

The same situation is apparent in United States post-war imports. In 1924, our per capita imports of manufactured goods alone were \$11.95; in 1925, they had reached \$13.05 and in 1926, they jumped to \$14.05.¹ And the post-war period was a period of very high protective duties. Any fears that may ever have existed in the past on the part of European manufacturers that the industrialization of the United States would decrease the demand of the United States for Europe's manufactured products seems rather absurd in the light of these figures. American capacity to consume manufactured products has outstripped even its enormous expansion in industrial production. And the buying power of the United States continues to expand rapidly. As estimated by King,² the national income, which was \$332 per capita for our 100,000,000 inhabitants in 1910, had reached \$779 in 1921; or, in 1913 values, \$452.³ The buying power of the United States per capita would seem to be from three to five times the relatively high buying power of most European countries, and rapidly mounting upward. The United States is today by far the largest single consumer of manufactured imports, as well as the largest producer.

Does this ability of the United States to import constantly increasing quantities of goods indicate a similar capacity for increases in other parts of the world? And to what extent may the United States itself expand beyond its present capa-

¹ Allowance is here made for the estimated increase in population.

² King, *Wealth and Income in the United States*, p. 129.

³ Levin, *Income in the Various States*, p. 256.

city? Answers to such questions must be largely speculative; and yet it would seem safe to hazard certain broad conclusions. Few believe that the United States has reached the limit of its expansion, either in population or in per capita wealth. Because of its size, the richness and variety of its resources, the energy and initiative of its people, the capacity of the United States to consume must remain high and expand beyond its present high rank. Outside of Europe, no region has so many advantages for the support of a large population on a high standard of living; and the opening-up of the large areas of economically backward regions of the world must further add to the possibilities of American commercial and industrial expansion.

Few important non-European countries have advanced as far as the United States in the development of their latent capacities. Even the well-situated temperate zone countries still remain relatively sparsely populated and undeveloped. While none of these regions is comparable both in extent and richness of resource with the United States, nevertheless there are important new areas that still require large equipment to bring them into their full productive power. Such are southern Brazil, Argentina, Chile, and northern Mexico, in Latin-America; South Africa; Australasia; the Balkans, parts of eastern Russia, and Siberia; and Canada and Alaska in North America. Many of these regions are in the stage of economic development occupied by the United States fifty years or more ago. In these regions the need for railroad construction and equipment, for example, is almost universal and after fifteen years of almost total cessation of railroad construction in the world, the amount of such equipment required, once the way is prepared, will be very large. The possibilities of railroad expansion offer enormous opportunities for the exports of products from Europe for many years. The building of highways for motor traffic, likewise, is a crying need in all but a few of these countries and will require not only great amounts of machinery and materials, but will stimulate the demand for motor cars and other equipment. Motor-car importations may be expected to run well into the millions in a few years, if the present indications are not wholly deceitful. Hydro-electric installation for municipal

and industrial purposes, the expansion of factories, the building of cities, the improvements in housing and the growth of living standards in every direction are already creating large demands for supplies from the older industrial nations. The largest per capita importers today are Australasia, Canada and Argentina where the capacity for increased population with increasing buying power is still large. The experience of the United States and the countries of northwest Europe in expanding consumption points clearly to a large expansion of consumption in these new and progressive but under-developed sections of the temperate zones.

We have taken the United States as a type of new country that has reached industrial maturity. In contrast, Japan is an old country of dense population now in the process of being industrialized along modern lines. In that country, the present rate of expansion of imports is even more marked than in the new countries that are in process of development. Japanese imports per capita increased fourfold from 1908 to 1923, from \$4.41 to \$17.21, a greater per capita increase than for any other important country in that period. During this period the already large population of Japan has very rapidly increased—thus making the growth in the absolute volume of imports even much more rapid than the per capita indicates. It is significant of the capacity of a country to absorb imports, that a region so small, so densely populated, and so poor in resources as is Japan should continue to expand both its population and its per capita imports at the same time that its own industries were producing increasing quantities of supplies for its own population and for export. From 1903 to 1913, Japan's exports increased 119 per cent; but its imports increased 130 per cent.

Of the principal manufactured imports of Japan, every item has increased in quantity post-war as compared to pre-war, with the exception of cotton piece goods; and even in this line the decline has been relatively small, and many times compensated by the increases in other lines. For example, cotton piece goods imports, valued at 7.7 million yen in 1913, declined to 5.8 in 1924. On the other hand woolen cloth imports increased six fold, from 10.6 million yen in 1913 to 66.0 million yen in 1924; woolen yarn from 4.7 million to 63.5

million; machinery from 15 million yen to 216 million yen; print paper from 3.5 million to 10.3 million; and so on. With the partial exception of machinery, of which the United States was a principal source, the chief supplies of these increased post-war imports come from Europe. And it must be noted that the increases have occurred during a period of depression in Japan. The national income of Japan today is estimated at only about \$60 per capita, one-tenth that of the United States. This compares with \$113 for Italy and \$130 for Belgium, two countries of dense population in Europe. The buying power of Japan would appear to be capable of expansion in the near future to a degree at least equal to that of Italy and Belgium.

China, similar to Japan in density of population, but much larger and richer in resources, now has less than one-ninth of the per capita imports of Japan. The opening of China to modern economic development—a movement which in spite of revolution and unrest is gaining slow headway—makes this country one of great potential buying power for equipment goods and consumers' goods of all kinds. Even though the western business world has greatly over-estimated the industrial possibilities of China, it still remains true that its capacity to produce, and therefore to consume, is very large. And the equipment of China must depend, in large measure, on the industrial countries of the West. An increase of China's per capita imports to equal that of Japan today, would mean an increase of \$6,000,000,000 over its present imports of \$600,000,000.

The tropical regions are, as we have seen, relatively small consumers of imported products. Only two small areas have developed high per capita importation—Cuba and the Malay States. And in both of these instances, advantages for growing highly specialized crops, under the leadership of non-tropical nations, have been responsible for the expansion of the productive industries that have made possible the import expansion. Other large tropical areas, rich in resources, suggest, at first thought, similar possibilities for economic expansion. There are, however, important limitations to the immediate and rapid development of most tropical areas and hence to the expansion of their capacity to import. We have,

I think, greatly over-estimated the tropics as far as its commercial expansion in the near future is concerned. This is due not only to the climatic and labor handicaps to development present in the rich but sparsely inhabited tropic lands, such as Amazonia; but to the great limitations for economic development of the native populations in the crowded tropics.

We of the western temperate zone countries have been led to estimate the capacity of those crowded tropic lands of the far east in terms of European or American capacity to produce or consume. We have too frequently based our conclusions on physical resources and numbers of people. We have not taken sufficiently into account the human factor. Producing and consuming capacity is a function of the quality of the human beings who inhabit a land as well as of its physical resources and numbers of people. Peoples of low vitality and efficiency limit production and hence consumption. The limiting factors in India, for example, are not resources but peoples. Resources are relatively abundant. The conservatism; the lack of physical vitality and energy; the caste system; the superstitions, religious beliefs and philosophies that dampen ambition and initiative; these not only are handicaps to production but tend to keep standards of living on the lowest plane. These handicaps apparently are due in part to climate and therefore climate itself offers a permanent obstacle to the amelioration of the human limitations to consumption.

I can see no reason for believing that the present low consuming power of most tropical countries will rapidly expand to the standards of the extra-tropical countries. One of the strongest incentives to labor is the incentive to expand one's standard of living. This incentive is largely lacking among tropical peoples. It is one of the pertinent reasons why the tropics remain backward.¹ It has been under pressure or

¹ An Indian economist, Professor R. Mukerjee, thus speaks of the Indian population in his *Foundations of Indian Economics*: "There is no desire for a better, more comfortable living, both among the cultivators as well as among the artisans. There is no competition, no stimulus for improvement, no change in customary wages" (p. 4). "The family system discourages individual initiative, and consequently there is a loss of personal energy. The stimulus to individual exertion being not very great, progress is difficult" (p. 32).

compulsion from outside that advancement has been made in certain tropical areas. That India, after intimate contact with the West for a hundred or a hundred and fifty years and under the commercial and political tutelage of England, should still have a per capita import trade only a little larger than China and less than half that of Japan, is significant. One sees but little promise that political autonomy now so loudly demanded in these tropic lands will accelerate commercial development. Nevertheless, the buying power of the tropics is growing, and will grow, though in my belief, less rapidly than has been anticipated. Equipment goods for plantation agriculture, for mining, for exploitation of other resources, are certainly to be in increasing demand. What has happened in Cuba, in Ceylon, in Java and Sumatra in recent years may be duplicated elsewhere. To say that the tropics will expand less rapidly is not to deny that the industrial nations will not find there important and growing markets.

Will Europe Supply the Imports?

The economic development of the new and backward countries of the earth, we have seen, has resulted in an increase of imports—an importation roughly proportional to the degree of increased production. Importations may decline in the percentage of the total supply of goods consumed; but if the experience of the advanced nations of the west is a safe criterion, the absolute quantity will increase. The interdependence of advanced nations increases rather than diminishes with the increase of wealth and the growing complexity of modern economic life. The demands of new industries for new and better materials, the expanding demands of more advanced peoples for greater quantities and larger varieties of goods, the fact that the advantages of an international division of labor become more apparent as regions become economically more advanced—these all are factors making for increased imports.

To this must be added the fact that the present undeveloped or only partly developed regions of the world are, in general, less well provided by natural advantages for industrial production than is Western Europe. With the exception of the United States, there is no large area so well fitted by natural

conditions for manufacturing as is Europe nor so experienced and well organized for industrial production. Eastern Asia—the most promising third region—is much inferior as far as natural advantages are concerned. The United States has not, on the whole, superior advantages. This does not mean that important industrial developments will not take place outside of Europe and Eastern North America—in South Brazil, in Australia, in South Africa, in India, in Eastern Asia. But, at least under the conditions that make for most effective and economical industrial production the industrial regions of Europe and the United States have enduring advantages in resources, in peoples, in organization, in experience. Under an unrestricted and efficient international division of labor, Europe is well qualified to maintain an advantage in manufacturing. In other words, the great natural advantages of Europe, combined with the advantages of an early start and a population skilled in the practice and art of industry and management, long will make desirable, profitable, and necessary an exchange of products between industrialized Europe and the rest of the world—an exchange in which the outflow from Europe must be chiefly in manufactured goods.

The leadership of Europe as an industrial region is no mere accident. It is not merely a result of an early start, forced forward by the accidents of history. Europe, i. e. the continent as a whole, possesses an unsurpassed combination of favoring geographic, economic, and racial factors. Its resources of soil and forest; of mine and sea; of mechanical power stored in coal, oil, mountain stream and glacier; of easy accessibility to all the world both by land and by sea; of a climate not only favoring soil production but the maintenance of an energetic and resourceful people; all these give a combination of physical resources unsurpassed by any region of comparable area in the world.¹

¹ With an area constituting only 7.77 per cent of the land area of the globe, Europe has 26.5 per cent of the world population, 31.5 per cent of the total world railway mileage, 45 per cent of telegraph lines, 60 per cent of the gross tonnage of the world's mercantile marine. Europe contributed in 1913 over 54 per cent of the world's coal supply and 59 per cent of the iron ore production from some of the largest and finest coal and iron ore reserves of the world. It has 38 per cent of the total developed waterpower. It

Possessing the foundation on which great industrial developments can firmly rest, Europe's fundamental advantages remain essentially unaltered by the events of the Great War. To repeat, no region of equal area surpasses this region in the favorable combination of natural advantages, although the United States may equal it. The large margin of advantage that Europe heretofore has had in supplying the world with manufactured goods has diminished and must further diminish; but it is evident that Europe will be able to continue to produce in large quantities in competition with the non-European regions of the world, most of which are far less favored industrially. By virtue of its competitive advantages, Europe is well fitted to benefit still further by the commercial expansion of the rest of the world. In the long run, it does not seem likely that a well-ordered world will permanently maintain artificial barriers to nullify Europe's advantages, for to do so would be to the detriment of the rest of the world as well as of Europe. Neither would the continued expansion of Europe's exports of manufactured goods necessarily mean the decline of industrial exports from the United States and other manufacturing regions. Adjustments and changes undoubtedly will be necessary in the types of goods produced for export, but the capacity of the world to consume seems so large that the favored industrial sections can all profit.

contributes large percentages of total world production of most of the other important economic minerals, as follows: antimony, 31 per cent; bauxite, 60 per cent; copper, 13 per cent; lead, 30 per cent; magnesite, 95 per cent; manganese ore, 59 per cent; mercury, 79 per cent; petroleum, 21 per cent; platinum, 93 per cent; potash, 99 per cent. pyrites, 90 per cent; sulphur, 42 per cent; zinc, 38 per cent, tungsten, 23 per cent.

Although Europe is thought of primarily as an importer of agricultural products, that continent in 1913 produced large percentages of the world's main foodstuffs:—96 per cent of the world's rye; 52.4 per cent of the wheat; 62 per cent of the oats; 72 per cent of the barley; 21 per cent of flaxseed, and even 18 per cent of the maize. Forty-two per cent of the world's sugar was grown in Europe; 90.6 per cent of the potatoes; 92.6 per cent of olive oil. Europe produced of textile raw materials, 26 per cent of wool, 21 per cent of raw silk, and about 100 per cent of the flax. Of animals, Europe possessed 51 per cent of the world's swine; 42 per cent of goats, 32.5 per cent of sheep and 30 per cent of cattle. Europe has a greater area under forest than the United States, and is estimated to have produced in 1913, 33 per cent of the world's lumber.

Capacity to Afford Employment to Expanding Populations

There remains but scant time to refer to the second part of the long title attached to my subject, namely, "the capacity of the world to afford employment to expanding populations." Here, undoubtedly, is one of the greatest of our problems. The expansion of per capita wealth and consumption cannot, of course, continue indefinitely with the present rate of population increase. According to Professor Bowley,¹ the working population of Great Britain—i. e. the population between the ages of fifteen and seventy—in 1941 will have increased 26 per cent over 1910; of Germany 34 per cent; Japan 32 per cent; United States 50 per cent; and Australia 61 per cent. Even assuming large possibilities of expanding production, the ability to employ these populations must become a serious problem in the course of time. For, it must be remembered, with modern improvements increased production can be achieved with fewer men per unit of product. Manufacturing production in the United States increased 60 per cent from 1910 to 1920 while the number of employees increased but 27 per cent. Likewise for food production, while the acreage in crops from 1910 to 1920 increased 14 per cent, the number of farmers and farm laborers decreased from 12,380,000 to 10,660,000 or 14 per cent, without any decline in yield per acre.²

To some extent the increasing rate of productive capacity of the enlarged population may be offset by shorter hours and the elimination of women and children from industrial work. But it is, of course, impossible for the consuming power of the world, even with greatly expanding standards of living, indefinitely to keep pace with both rapidly expanding population and rapidly expanding per capita production. Nevertheless, so large are the undeveloped areas and resources of the world,³ and so great the probabilities of expanding world

¹ *League of Nations: Estimates of Working Population of Certain Countries*, R. L. Bowley.

² O. E. Baker, "Land Utilization in the United States," *Geographical Review* (January, 1923), p. 18.

³ According to O. E. Baker of the U. S. Dept. of Agriculture (*Geographical Review*, January, 1923, p. 25) the area of arable lands in the tropics now in use is 1,800,000 acres, 600,000 acres being in pasture. There remain

consuming power, that there is reason to believe that before the population limit is reached we will have had ample time to solve the problem of limiting population to a balance with resources—in my opinion a balance that will give to a much larger population an average standard of living much higher than the world dreams of today. The immediate danger in regard to food production does not seem to be under-production, but over-production.

The extension of the capacity of the world to produce and to consume greatly expanded amounts of both foods and goods seems clearly possible and probable. In that expansion of consumption, the European industrial area can be expected to continue to supply a very important proportion of the increasing world demands for manufactured products.

3,200,000 acres of potentially arable land in the tropics. In the temperate zones there are now under cultivation 2,500,000 acres, and in addition 1,500,000 acres of arable lands are in pasture, and a potential 1,000,000 acres of arable land not yet used for crops or pasture.

THE CONTINENTAL STEEL CARTEL

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THE Continental Steel Cartel (*Internationale Rohstahlgemeinschaft—Entente Internationale de l'Acier*), which came into existence on October 1, 1926, attracted an unusual amount of attention. This was due not only to the basic character of the commodity affected and the political relations between the leading participants, but also to the general assumption that the new combination represented the beginning of the movement toward international industrial agreements which, according to the prognostications of their chief exponents, Loucheur among them, are destined to replace to a considerable extent the politico-economic arrangements, like tariff, commercial treaties, etc., in the post-war economy of nations. To the more objective student of economic movements, the steel cartel marked the reaction from the extreme economic nationalism engendered by the war and a return to the tendency toward international industrial solidarity, so evident prior to the outbreak of the world struggle.

It would be difficult to choose a commodity more significant and better adapted to serve as a basis for resumption of international industrial agreements than steel. This choice could be justified on a number of grounds of which we might mention the most important.

On account of the tremendous military importance of steel, the European steel industry underwent an enormous expansion during the war, and a corresponding deflation after the Armistice, except in the case of Germany, where the currency depreciation and the desire to replace the Lorraine plants were responsible for the construction of additional equipment.

The largest producer of steel in Europe, and the second in the world, was subjected by the Versailles Treaty to territorial losses that were expected to undermine the foundations of its iron and steel industry.

France, a comparatively unimportant factor in the steel

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export markets prior to the war, not only acquired very extensive mines and steel plants, but also became a very large exporter, owing to a considerable extent to currency depreciation, a temporary advantage which Germany, with its stabilized currency under the Dawes plan, could not overcome. The currency depreciation factor also served to intensify the competitive capacity of Belgium.

While the enormous increase in the steel production of the United States cannot be regarded as a direct incentive to the formation of the steel cartel, it is safe to assume that it has had a certain psychological effect, not only as a striking evidence of the shift in industrial supremacy, but also as an indication of the potential strength of American competition in the export field. The fact that the growth of the American steel industry was accompanied by a certain decline in the British industry, would naturally serve to accentuate the need of cooperation to protect the position of Europe in the industrial world. If we want to depart from the purely economic field, we might call attention to the political importance of the commercial treaty between France and Germany, and the part played by the steel cartel in paving the way for such a treaty.

Background of the Cartel

The official text of the agreement serving as a basis for the international steel cartel, gives clear evidence of the complicated problems involved, and includes so many finely balanced provisions and reservations, as to throw some doubt on the permanence of the organization. The adjustment of the quotas, the fixing of fines and indemnities, the numerous provisions for denunciation, would all seem to mark it as a very complicated compromise, the result of long drawn out negotiations. A brief description of the background and environment of the negotiations will confirm that impression.

It is safe to say that the cartel owes its existence primarily to the pressure of Germany, and its provisions bear a strong imprint of German influence. While it is continental in its present scope, and offers certain advantages to the other participating countries, Germany's desire to recover her position in the steel industry and to restore the balance so rudely disturbed by the separation of Alsace-Lorraine, the change in the

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customs affiliations of Luxemburg from Germany to Belgium, and the temporary separation of the Saar, were undoubtedly the determining factors in the organization of the cartel. All these factors should naturally be considered, not only from the standpoint of their effect on Germany, but also on France and Belgium.

When negotiations for the international cartel were begun in 1925, the world steel situation was radically different from what it was in 1913. While the estimated world production had increased from about 78,000,000 to 89,500,000 tons, the proportion of the United States, including Canada, had increased from forty-two to fifty-four per cent, and the share of Europe had declined from fifty-seven to forty-three per cent. In the export trade the change was less discouraging, since the United States as yet exports a comparatively small proportion of its output. The shift within Europe is no less striking. Germany and Great Britain have been the chief losers, the former on account of the territorial changes involved in the loss of the war, and the latter owing to the falling-off in demand for war supplies and shipping, and the increased cost of production. On the other hand, France and Belgium not only increased their capacity through the territorial realignment, but also became more formidable competitors by reason of currency depreciation. It is estimated by some German writers that the steel consumptive capacity of Germany toward the end of 1925 was about half of the pre-war capacity; the curtailment of production ordered by the German Raw Steel Cartel from August, 1925, to June, 1926, was thirty-five per cent, but it is claimed that some of the larger plants were running only at forty to fifty per cent capacity. This was naturally a serious situation for an industry of the basic character of steel, and while reflecting the general loss of productivity, was also partly due to the post-stabilization crisis from which Germany was suffering at that period. If we add the disruption caused in the whole traffic movement between Rhenish Westphalia and Lorraine, Luxemburg and the Saar, the threatened separation of the Saar industries from their German affiliations, and the inability of Southern Germany to get its supplies from Lorraine, it becomes quite clear that Germany was justified in taking the initiative in organizing the

steel cartel. In the case of France, the primary factor was probably the desire to take care of the output of Lorraine and the Saar, which, together with Luxemburg, were cut off from the free German market on January 10, 1925, upon the expiration of the five-year term of free admission into Germany provided for by the Treaty of Versailles. An additional factor was the desire to settle the commercial relations with Germany, as it was certain that the organization of the steel cartel and the method of disposing of the Lorraine and Saar products, were the indispensable preliminaries for the conclusion of the Franco-German commercial treaty.

The delay in reaching an agreement was due not only to the difficulties of overcoming the lingering political resistance, but also in adjusting the purely technical points involved. There was first the question of the so-called "contingent agreement" (*Kontingentsabkommen*), which was to fix the proportion of the steel output of the Saar, Lorraine and Luxemburg to be admitted into the German market. As was pointed out, the free admission of the products of those territories into Germany, as fixed by the Versailles treaty, expired on January 10, 1925. The five-year period proved insufficient to enable the trade of the territories to adjust themselves to the new channels, and the problem of disposing of their steel production was still of great concern to the French in 1925. German production had already increased through the construction of plants in Westphalia to make up for the losses involved in the separation of Lorraine. In the case of the Saar, there was the additional complication involved, on the one hand, in the desire of the German producers to keep the Saar iron and steel output tied up with the German domestic cartel system and, on the other hand, in the fact that the Saar competitive capacity was affected, like that of France, by the currency-depreciation factor. The German negotiators, realizing the desire of the French producers to settle the problem of the disposal of the production of the new territories, made the solution of this problem contingent upon the conclusion of the steel cartel, and the two agreements were negotiated simultaneously. There was also, of course, the contingent understanding regarding the commercial treaty, as shown by the provisions of the international steel cartel and, according to some German authori-

ties, a definite commitment as to certain concessions on German steel manufactures in the French tariff.

As finally settled, the iron and steel production of the above mentioned territories to be admitted into the German market will amount to about fifteen per cent of the total German production, of which 3.75 per cent was for Lorraine, 2.75 per cent for Luxemburg, and the remainder for the Saar, with an undertaking on the part of France and Luxemburg not to exceed the 6.5 per cent ratio of exports to Germany. There is no tariff concession involved, and the products are to be handled by the German sales cartels in the same way as domestic products. In order not to interfere with the old connections of the South German industries, it was provided that orders from German consumers may be transmitted direct to the producers of Lorraine and Luxemburg. As the Saar plants belong to the German cartels, their quotas will be handled exclusively by those organizations.

Character of the Agreement

Briefly stated, the international steel cartel proper provides for the fixing of the total output of the participating countries, to be determined quarterly; for quotas for the various countries, fixed for the duration of the agreement, but varying, up to a certain point, with the total output; for the payment of a fixed tonnage fee on the basis of production, penalties for excess production and indemnities for underproduction up to a certain point. It does not provide for price fixing, nor did the original agreement make any distinction between production for domestic or foreign consumption (embodied later as a result of German protest). It contains numerous provisions for denunciation, seven according to one German authority, and its duration is limited to four and a half years, until April 1, 1931. It is evidently of a provisional character, calculated primarily to put a stop to abnormal conditions very detrimental to Germany, in particular, and recognized as the basis for a series of subsidiary cartels involving the fixing of prices and perhaps division of markets. There is no question that the original agreement involved considerable concessions on the part of Germany, induced probably by the hope of later modifications under the pressure of changing conditions that would

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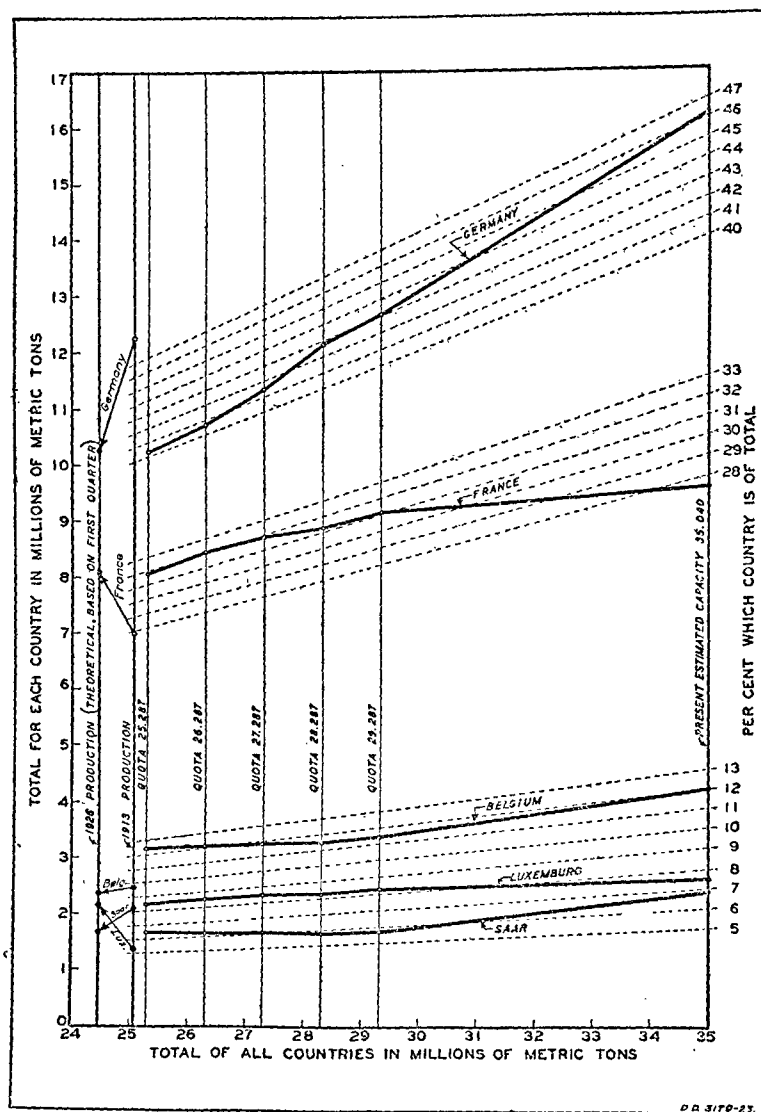
eliminate some of the temporary advantages enjoyed by her chief competitors.

One of the most difficult technical problems was presented by the choice of a basis for the total standard production and the fixing of quotas for the participating countries. In 1925, while Germany was utilizing about fifty per cent of her steel plant capacity, France was working at about seventy-five per cent capacity. In 1926, the French production still further increased, under the stimulus of the franc depreciation, while German production underwent a further slump, especially during the early part of the year. Belgium was affected adversely by the strike during a part of 1926, and held out for a higher quota than she was entitled to by her production during the first quarter of 1926, which was finally selected as a basis, with certain modifications. The diagram and table on page 102, based on German sources, shows the final fixing of quotas, their relation to productive capacity and actual production in 1913 and 1926, and the changes in quotas, in accordance with the increase in standard production.

An examination of the diagram shows that while on the initial basis of 25,287,000 tons per year, Germany starts with a quota of 40.46 per cent, her quota gradually increases to 43.18 per cent, as production is increased to 29,287,000 tons, where the quotas become fixed; France's quota, on the other hand, is reduced from 31.91 to 31.19; while the share of Belgium, which remains constant at 295,000 tons monthly regardless of changes in total production, undergoes a decrease of from 12.58 to 11.63 per cent. This brings out clearly the fact that Germany was figuring on an improvement in the steel demand that would raise the total production above the minimum of 25,287,000 tons, since the first quarter of 1926, which was taken as a basis, was a very critical period for the German steel industry.

The provisions regarding contributions, fines and compensations are also very interesting, and show the fine system of checks and balances that was found necessary in order to bring about the agreement. First we have the fee of a dollar per ton from every participating country, which was expected to perform the double function of providing a fund for operating expenses, and also to raise the selling price of steel in view of

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Production and Potential Capacity and Quotas for the Countries Constituting the International Steel Cartel.

¹ See note *supra*, p. 108.

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the problematic nature of the refund. The second object has not been attained, and it is generally admitted that with the exception of a short period after its organization, the cartel has not been much of a factor in the price situation, owing largely, it is claimed by the German representatives especially, to the loose nature of the agreement and the failure to organize the subsidiary selling organizations for which the main cartel was supposed to form the basis. For every ton produced above the assigned quota a penalty of \$4.00 is levied; this serves to provide funds for the compensation of \$2.00 for every ton below the assigned quota, with certain limitations that serve to reduce the rate of compensation after the underproduction reaches ten per cent of the quota. Production, fines and compensations are calculated every quarter and the funds are distributed every six months, according to actual production, as regards the \$1.00 per ton fee, and according to quota, as regards any surplus remaining after the payment of indemnities. As was easily predicted, Germany has been the chief contributor to the fund as a result of her excess production, largely for domestic consumption, while France, whose domestic consumption has fallen off considerably since the organization of the cartel, has been receiving almost the full amount of Germany's net contribution. Thus, for the first semi-annual accounting period, October, 1926, to March, 1927, Germany's net contribution amounted to \$3,959,000, or at the rate of nearly 51.5 cents per ton produced, while France received during the same period \$3,415,000, or about 81.3 cents per ton. To put it in another form, of the total net contribution for the period from the original members of the combine, Germany contributed about ninety-six per cent and France received about 82.5 per cent, the remainder going to Luxemburg. During the period under consideration, Germany overproduced to the extent of 1,534,000 tons, while France fell short of her quota to the extent of 247,000 tons.

Another provision of the agreement deserving attention is the one relating to conditions for denunciation. According to a German student of the subject, there are no less than seven contingencies under which the agreement can be denounced. Each participating country may give notice of denunciation during the period from May 1 to October 31,

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1929; the agreement may be denounced in case of an increase in tariff rates on steel products by Germany; a third contingency which comes into effect after April 1, 1927, is in case of one of the participating countries discriminating against the products of another in the absence of a commercial treaty; a fourth one hinges upon the lapse of the agreement relating to the distribution of the steel output of Lorraine, Luxemburg and the Saar (*Kontingentsabkommen*); the development of new competition exceeding a certain limit may give rise to denunciation and the same applies when the semi-annual quota falls below 13,139,000 tons, or when the output of the participating countries in relation to the total output of Europe declines during a six-month period by five per cent as compared with the first quarter of 1926. It is quite evident that in its organization at least the cartel is still in a decidedly fluid state, and that pending further developments it is not to be regarded as a permanent institution.

While the cartel has developed certain significant symptoms during its first year of existence, it has not greatly extended its scope as regards the number of participating countries. The inclusion of Czechoslovakia, Austria and Hungary toward the end of 1926, involves only an additional quota of 7.272 per cent; the joining of Poland, still pending, is of comparatively little significance from an export standpoint. The most interesting possibility, the participation of Great Britain, is beset with so many difficulties resulting largely from the lack of domestic organization, that it is not generally regarded as a factor of immediate significance. The same is true to a certain extent of the organization of the subsidiary selling cartels which are regarded by the Germans as the *raison d'être* of the basic organization. The fundamental difficulty seems to lie in the difference in the organization of the selling end as between Germany on the one hand, and France and Belgium on the other. The high degree of organization in the domestic market makes it possible for Germany to commit the whole industry as regards fixing of prices and division of territory for steel products. In France and Belgium, on the other hand, there has developed during the immediate post-war period a considerable degree of decentralization in regard to exports, and the existing organizations and affiliations are naturally

not very receptive to the idea of a central selling bureau; the fixing of the quota for the various steel products naturally also presents considerable technical difficulties. It is claimed that the European Rail Cartel (Erma), is the only international steel product cartel in good working order. Incidentally, it may be noted that Great Britain is a party to the Erma, which has replaced the pre-war agreement of the same type. The drawn wire cartel has just been signed, after considerable friction, while the selling organization for shapes and semi-finished products is still in process of formation.

Influence of the Cartel

The steel cartel has now been in existence for a year, and it is possible to form some idea as to the way it has been functioning, and the lines of its probable future development. (See table on page 109.) The immediate effect of the cartel was expected to be an increase in export prices that would enable the German producers to participate in the export trade on a more profitable basis and overcome the exchange dumping on the part of the French and Belgian producers. The public utterance of some of the more prominent iron and steel men in Germany after the negotiation of the cartel, clearly indicates that they regarded the \$1.00 tonnage fee as an important factor in the price situation, and the \$4.00 fine as an almost absolute deterrent to overproduction. The experience of the first year has proven that both assumptions were incorrect. After the flurry during the first quarter of the cartel year when prices went up considerably, partly for reasons not connected with the cartel, the price situation has been dominated very largely by the countries whose dumping activities the cartel was supposed to stop, and the German producers, in order to obtain relief from the fines for overproduction, have found it necessary to commit themselves to a sharp restriction of their export activity.

The attitude of the cartel toward fixing the total production quota shows that during most of the period it did not consider itself sufficiently strong to control export prices. Its only weapon for affecting prices is through control of production quotas, but during most of the year the fixing of the total quotas was influenced primarily by the desire to ease the

burden of fines imposed on German producers for excess production, due largely to increase in domestic demand, and not for the purpose of adjusting production to demand, which is supposed to be the cardinal principle in cartel policy.

The first quarter started out with an annual quota of 29,287,000 tons, or 7,322,000 for the quarter; the actual net overproduction was 628,000 tons, of which Germany contributed 575,000. During the second quarter, when the total quota was fixed on the basis of 27,787,000 tons, the net excess production was 988,000 tons, to which Germany contributed 959,000 tons. During the same two quarters France's underproduction amounted to 86,000 and 161,000 tons, respectively. In terms of fines and indemnities, it meant a net contribution of \$3,959,000 by Germany, of which France received \$3,415,000. In spite of the fact that the upward movement in the German demand and the falling-off in the French activity under franc stabilization during the period immediately preceding the inauguration of the cartel clearly foreshadowed the possibility of excess production by Germany, and consequently the payment of fines, the German producers began to voice their protests against the working of the cartel at a very early stage, and there appeared numerous reports regarding the intention of the German producers to withdraw from the cartel; there were also many statements in responsible German papers about the effect of the fine system as a subsidy on the part of German producers to maintain the French producers in their artificial export activity. The basis of the German complaint was that while the principal object of the cartel was to eliminate excessive competition in export markets, the German producers were being penalized for excess production due largely to domestic demands, while the proceeds from the fines went almost entirely to a country whose artificially stimulated exports were a decisive factor in keeping world prices at a level that largely eliminated Germany from the export field. Attempts to obtain a reduction in the fine for excess production proved unsuccessful during the first stages of the discussion, and the only relief obtained for the third quarter was an increase in the total production quota to a basis of 29,287,000, which also meant an increase in the German quota to the maximum of 43.18 per cent. This quota, which has

been maintained ever since, regardless of the fluctuation in the demand of world markets, was granted in return for an undertaking on the part of Germany to restrict exports.

It was quite natural that this situation, combined with the failure of the cartel to perform its primary function of raising prices, failed to satisfy the German producers, who kept up their agitation for further relief from the burdensome and one-sided payment of fines. At the June meeting of the cartel, German wishes were met partly by the adoption of the principle of dividing German production into two classes, one for domestic consumption with a reduced fine of \$2.00 per ton for overproduction, and the other for export, with the original fine of \$4.00 per ton for excess production; this reduction was to affect production for the third quarter of 1927 (and conditionally the second), and the separation between the two classes was to be made on the basis of 72 per cent for domestic consumption and 28 per cent for export. German producers undertook to restrict their exports to the level of the second quarter of 1927. Some attempt was also made toward meeting the German claims for the extension of the effectiveness of the cartel through the organization of subsidiary cartels, and a special committee was appointed to work out the plan for a selling organization for steel shapes and semi-finished products. At the September meeting of the cartel, a still further concession was made to Germany by a reduction of the fine for overproduction for domestic consumption from \$2.00 to \$1.00 per ton; the total production quota was retained at 29,287,000 tons. Some further progress was made in the organization of selling cartels for certain steel products, largely under pressure from the German representatives, but nothing definite as to the final form and scope of the organization has been announced; the most tangible achievement seems to be an agreement on a basis for determining export quotas for shapes and semi-finished steel products. The concessions granted to Germany are contingent upon Germany's partial withdrawal from the export market, which, considering the present price situation and the extent of the domestic demand, does not involve any considerable sacrifice on her part. A change in Germany's domestic situation, involving a falling-off in the demand, and a consequent increase of interest in export markets,

is likely to affect the attitude of the other partners toward concessions to Germany as regards fines and total production quota.

To sum up, while the Continental Steel Cartel is undoubtedly an important development, and may serve as a basis for an extensive organization of the continental production and exportation of steel products, it has so far failed to achieve its principal object of increasing steel prices and the organization of selling cartels for subsidiary products. Its present structure and the compromises it has been forced to resort to in order to retain the German membership would seem to indicate that it has still far to go to become the influential factor in the world steel situation that it was proclaimed to be at the time of its foundation.

EXPLANATORY NOTE TO CHART ON PAGE 102

The production for 1926 is theoretical, based on production for the first quarter, which served as a basis for determining the quotas.

In the 1913 production, the percentage of Germany is calculated on the present territory, exclusive of the Saar. In the case of France, it includes Lorraine; this is done for the purpose of making the figures comparable with those of 1926.

The line which connects the point of the last quota of 29,287,000 tons with the respective point of the capacity line is intended merely to bring out the relations between the highest quota and present capacity, and should not be regarded as indicating a change in the quotas, since the latter do not change beyond a total production quota of 29,287,000 tons.

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RESULTS OF THE OPERATIONS OF THE CONTINENTAL STEEL CARTEL
FOR THE FIRST THREE QUARTERS

I. October to December, 1926

	Quota (000 tons)	Actual Production (000 tons)	Production vs. Quota (000 tons)		Payments (000 dollars)	Receipts (000 dollars)
			more	less		
Germany	3,161	3,736	575	..	1,434	....
France	2,283	2,197	...	86	....	1,298
Belgium	846	958	112	..	174	....
Luxembourg..	608	598	...	10	....	307
Saar	423	461	38	..	....	3
Total ...	7,321	7,950	725	96	1,608	1,608

II. January to March, 1927

Germany	2,999	3,958	959	..	2,522	....
France	2,166	2,005	...	161	....	2,124
Belgium	803	924	121	..	....	3
Luxembourg..	577	583	6	..	....	406
Saar	402	465	63	..	11	....
Total ...	6,947	7,935	1,149	161	2,533	2,533

III. April to June, 1927

Germany	3,160	3,990	830	..	1,680	....
France	2,280	2,060	...	220	....	1,580
Belgium	850	920	70	..	30	....
Luxembourg..	610	630	20	..	....	140
Saar	420	460	40	..	10	....
Total ...	7,320	8,060	960	220	1,720	1,720

IV. Three Quarters, October to June, 1927

Germany	9,320	11,684	2,364	..	5,636	....
France	6,729	6,262	...	467	....	5,002
Belgium	2,499	2,802	303	..	204	3
Luxembourg..	1,795	1,811	16	..		853
Saar	1,245	1,386	141	..	21	3
Total ...	21,588	23,945	2,824	467	5,861	5,861

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INTERNATIONAL CARTELS AND THEIR RELATION TO WORLD TRADE

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IT is really astonishing how strong a hold the idea of international combines has got on the public mind. This is astonishing because the public mind in general is distrustful of what you in this country call "big business," and because the public mind classes combines, trusts, and so on, among those things which in life are indeed tolerated but do not meet with public approval. Notwithstanding this hostile talk about combines in general, all the international combines that have been either carried out or discussed, have had indeed remarkably good press-agents. It is not difficult to account for that. It is to be accounted for simply by certain exceptional circumstances of the present world situation created by the war and post-war vicissitudes. For shortness' sake, I want to discuss briefly these circumstances in three groups.

First, of course, in very many cases countries have during the war lost interests and markets all over the world. This does not only apply to the vanquished countries, but other countries also have been ousted from their previous hunting grounds by the circumstances incident to the war. Now it is clear that regaining all these markets, reconquering confiscated patents, building up lost interests, is a very difficult task. On the other hand, it is equally clear that all those interests which stepped into the place of the ousted ones do not feel entirely comfortable in the new situation. This is natural because in many cases inventions, and so on, though you can confiscate them, need to be developed. The old connections, though broken, may go on existing, and so the idea of meeting again to strike a bargain with the old possessors of the particular field is rather likely to arise in the business man's mind, and out of this source quite a number of plans and discussions about international combines have arisen and must arise. So, for instance, within the field of the

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chemical industry, which is the most important instance for this class.

Secondly, we have the fact that some countries, having developed their productive capacity much beyond what it was, now want new outlets, and while some countries—first and foremost, the United States—do want new outlets, other countries know that they will be left behind in the race. The most important instance of this latter class of countries is France. Hence the enthusiasm which France has always shown for this idea of international combines, for combines after all have one consequence, among others: they tend to stabilize existing positions. It is a pity I can't give you instances, but I must pass on to point number three.

This is, of course, the case which we usually describe as the dumping from countries with damaged currency, from the countries with low standards of living among the workmen, and countries which have reparations or interallied debts to pay. Interallied debts act economically exactly as reparations do. They are payments which are due, indeed, in consideration of great services rendered, but not due for commercial value received, and whether you have to claim payments out of loans you gave to your allies during the war or whether you have claims out of reparations, it amounts to much the same thing. Now all these countries are forced to export. It is quite natural that the mechanism of the market should enable them to export, and if the other countries are to defend themselves against this wave of commodities which would otherwise deluge them—I do not discuss the wisdom of defending oneself against a plethora of commodities—if they want to defend themselves against it, anyhow, they are all naturally struck with the idea, that the best thing they can do is simply to reach some agreement in the form of an industrial combine. Industrial combines, private agreements, as they are, have this additional advantage, that you can conclude them and be quite friends with each other, while governments are not. Now it is very difficult for a government to take the right economic course of action. To give one example, it is impossible for France, politically constituted as she is at the present moment, to be anything but hostile to Germany, because the only plank on which the parties forming

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the government coalition agree, is precisely the nationalistic feeling. They have not one point in common, apart from that. So the government majority would have to disappear at once, if this point didn't exist, and while the government therefore must take up a hostile attitude, it is just as well to have alongside of such official politics another policy, a private one, of agreement. It is from these particular, and in their nature, transitory causes, it is on this field of transitory arrangements, that we must look for results in the near future.

But, of course, this is not all. The fundamental trend towards international combines is rooted much more deeply. The movement towards international combination is the natural and inevitable outcome of the movement towards concentration and national combination in general.

We have come to look on trusts in a milder and brighter way than we used to. We have come to realize that although we might prefer competition and although all the arguments about anarchy of competition and wastefulness of competition may not be much good, still there is this much truth in them: industry itself outgrows the limits set to the industrial unit by competitive conditions, industry outgrows that size which is compatible with competitive conditions. So you must have trusts, you must have combines, which are in their very nature monopolistic, and even if you don't want them, you have got to have them. There is no use repining for those good old times when we traveled in mail coaches. We have got to have railways now, and the railway must in some measure have a monopoly. There is no remedy against it.

Now, granting this, and granting furthermore that these interests will procure tariffs for themselves, you have then on the world market the condition of a perfectly unrestricted competition, a competition, that is, which is not restricted by that machinery which otherwise regulates production—the machinery of costs. Irrespective of costs, the markets in the world are flooded with commodities flowing from those countries in which trusts produce under sheltered conditions. Having sheltered and stabilized conditions at home means, naturally, a cut-throat competition and very unsheltered conditions abroad. This also is inevitable, and it is

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inevitable that this state of things should in the end prove intolerable to all parties concerned; and so the distant future must belong to international combines which will do away with dumping and with tariffs, and the like, in some measure at least.

Of course, people who from a free-trade standpoint rejoice at this sort of thing because it does away with tariffs or makes them superfluous in some respects, are woefully mistaken. The tariff is done away with, but what the tariff is calculated to do, is done much more efficiently by the combine, so the free-trader has little reason to rejoice. But what I want to point out principally is that the temporary causes of the movement towards international combination, which I referred to before, are really coincident with a trend that goes much deeper: they are only helping along what would come to pass anyhow.

Now as to the consequences: of course it would be possible, strictly speaking,—and many international agreements have confined themselves to that,—to talk about trade practices, conditions as to sale and credit, and so on, but agreements as to these things do not do what people really want them to do. The end must be agreement about price, about output, and about dividing up the market into well-defined, sheltered, safeguarded provinces. This being the case, it is true that in the first instance all these combines will have very much those results which the opponents of the trust movement claimed that the trusts generally have had. Output restriction means serving the consumer worse than he would otherwise be served, and, for instance, international fines imposed on a party who is in default with regard to some of the duties of the contract are likely simply to be shifted to the national consumer. In short, this international combination will act on national economic life very much as a tax would. This is not exhilarating, but it is of course only one side of the question.

Finally, when people really get to understand each other, there may be exchange of invention, of which so much is said in discussion now. There may be an agreement and a saving from omitting overlapping services, and so there may be a balance of good looming in the future—this is quite possible—just as the modern trust movement within national frontiers

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has perhaps already yielded some balance to the good, but, and this is the last point I want to make, this road is very stony and very long. It will take a very long time and a very slow growth to come to really such combines as those of which I spoke just now, and of which I predicted that they may in the end yield a balance to the good. I shall not take the time to explain the immediate difficulties—legal ones and others, because they are obvious, but the whole thing isn't ripe yet. Only under special circumstances you can obtain a lasting result now, organize a really successful combine, but not generally.

It is first of all clear that most of the leading men in all countries are really driven to this spirit of understanding, not because they like it, but because they are acting under the compulsion of business and economic forces. It is just those temporary circumstances which I have enumerated, or rather hinted at, which account for the willingness to agree. Therefore it is easy to account for the phenomenon which you see when people talk about international combines. You will find that leading men come forward very cordially one day, and draw back another day; that they waver in the views they express; that they do not dare take a well-defined position. Nor is it a wonder that this should be so.

One day, a short time ago, I heard a leading captain of industry, neither an American nor a German, make a speech to his associates about the anarchy of competition; about the necessity of general international understanding in a generous spirit. A few days after, to a small meeting of representatives of his subsidiary industries, he denounced the spirit of conciliation; he was strong in support of competition; he was scornful about anarchy of competition, and such silly phrases. I met this man at dinner and I reproached him with these two statements and I said, "So that is what you understand by consistency, is it?" And he said, "Why, yes—no—well, I don't, of course, but when I made the first speech I saw that the situation in my industry was very bad and we were really in for a severe depression. Since that time I have got other figures; things aren't half as black as I thought they were."

That is naturally the spirit of the whole business. A man in practical affairs cannot act according to principles but he

must act according to the duties of today. He is standing on slippery ground; he is met with great difficulties at every turn, and every morning he is presented by his chief secretary with a long list of what he has to do and what he has to worry about, so he does just what the day demands and thinks little of the future—and it is just as well that he doesn't take any definite stand, for definite positions are taken for us by the logic of the things themselves. That is one thing, but even if people did take a more consistent position, they would lack the data on which to proceed. How is it possible for them to agree on quotas, which are of course a very important point in every agreement; how are they to agree about dividing up the markets of the world, if their relative strength isn't tested yet, and the relative strength isn't the strength at the moment but it must take account of possibilities. Also sometimes it is necessary to bluff in the game. So that it is very difficult to have any definite idea about what it is reasonable to content one's self with and to grant to the other fellow.

These things naturally will hamper progress. Impatience is sure to meet with disappointments. But first we can expect that some of the problems of our times will be solved in this way, and secondly we have got to expect, whether we like it or not, that there will be a large amount of international combination later on. When the world outgrows the spirit it is in now, it is quite possible that this movement may show many advantages, may usher in a new period, a new industrial revolution, a new possibility of industrial and technical progress.

THE FARMER'S INTEREST IN EUROPEAN TRADE RELATIONS

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ONE still finds many people entertaining, at least subconsciously, the view that American agriculture is a great export industry whose domestic prices are dependent upon world prices registered at Liverpool. Like many other examples of conventional thinking, that view is retrospective—reminiscent of the days when the early flood of western grain and livestock products was being poured into a rapidly industrializing northwest Europe in direct exchange for manufactured products and for capital to finance our railway expansion and our own early industrial building. While recognizing that this was the historic position of eighteenth and nineteenth century America, we should yet be alive to the fact that such an economic role has now been in large part relinquished by the United States to countries of lesser power and metal resources or more primitive industrial development, such as Argentina, Canada, and Australasia. The future ranks of American agriculturists need not expect their fortunes to fluctuate up and down in direct response to the ability of European markets to absorb large bulks of foods, textiles, and other farm products of the United States.

This passing of the specific dependence of the American farmer upon European markets does not, however, mean that he has lost all interest in European trade relations. It means rather that he has come to have a more general interest in the whole web of world trade in which European commerce plays its involved and varied part. Only the merest suggestion of the nature of this widely ramifying interest can be outlined in the present paper. Since, obviously, no single characterization can be made which will apply to the whole of the lengthy category of American agricultural products, it will be convenient to group our discussion under five very general heads, namely, cereals, livestock products, cotton, tobacco, and fruits and vegetables.

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The first two of these groups represent typical pioneer products which dominated the agricultural commerce of the late nineteenth century and whose decline in relative importance is very marked. Exports of packing-house products, which Europe took to the amount of 1,987 million pounds in 1900, totalled only 858 million pounds in 1913 and, after the brief stimulation of the war period, have further declined to 365 million pounds in 1926. During this last quarter century likewise, our European exports of wheat (including flour) dropped from a peak of 194 million bushels in 1902 to a trough of 40 million bushels in 1911 and a three-year average (1912-1914) of 85 million bushels. In 1926, with a large crop, exports stood at 112 million bushels, or 57.7 per cent of the 1902 figure. Meanwhile, exports to Europe of the other principal cereals—oats, rye, barley, and corn—dropped from 256 million bushels in 1900 to 11 million bushels in 1914, and amount to but 28 million bushels at present. All told, our European grain market has today but three-tenths the importance it had at the opening of the century.

Of our tobacco exports, Europe customarily took about 75 per cent. This amounted to 306 million pounds in 1900 and about 340 million pounds just before the war. In 1926, Europe's imports of tobacco from the United States amounted to 310 million pounds. While this does not show any clear indication of a downward trend in the actual volume of exports, this 310 million pounds constituted only 65 per cent of the total exports of that year. The European market has of late been far from satisfactory to producers of export types of tobacco in the United States and is characterized by an effort manifest in several countries of Europe to meet their requirements from domestic or nearby sources to as large an extent as possible. On the other hand, exports to China have risen from 459,000 pounds in 1900 to 85,791,000 pounds in 1926, constituting in this year nearly 18 per cent of our total exports. Furthermore, in the case of cigarettes, which are the major item in our exports of tobacco in the manufactured state, China took in 1925 and 1926 64.8 per cent of the total and British Malaya and the Philippine Islands took another 15 per cent, whereas Europe took but 3 per cent. Whether China will be able to maintain this position of importance under her

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present economic régime may well be a question of acute concern to American tobacco growers.

Exports of cotton have, in terms of total value, percentage of crop, and steady growth over a long period of time, constituted a more significant item of our foreign trade than any other single agricultural product. They were in 1900 slightly below the high point attained in '98 and '99, but continued to increase thereafter to a new peak of over 11 million bales in 1912 and, in spite of the adverse influences of the post-war period and boll-weevil damage to the crop, have been recovering from the low level of $5\frac{1}{4}$ to $5\frac{1}{2}$ million bales to a new high record last year of $11\frac{1}{2}$ million bales.

These figures are for total exports. When we turn to examine their distribution among the various consuming countries, some interesting phases of the matter come to light. For many years prior to the World War, European takings had amounted to about 95 per cent or even more of the total cotton export movement. In 1919, Europe's percentage was only 81.4 per cent of the very small export of that year and, after moderate increase, again declined to 81.7 per cent in 1926 and 73.3 per cent in 1927. Meanwhile, Japanese takings have risen from less than 3 per cent of our exports during the period prior to the World War to 14.2 per cent of the record-breaking exports of 1927. Note also that cotton exports to Canada have shown a marked increase over their pre-war figure, being now more than double and apparently showing a consistent upward trend. Their greatest relative importance was in 1923, when they slightly exceeded 4 per cent of our total export. The threat that European and particularly British cotton manufacturers might find means to supply themselves to a greater extent from non-American sources will probably melt away as a result of the swing toward heavier production and lower costs in this country. Unless the competitive growth of cotton textile industries in Japan, India, Canada, and other non-European countries should receive a severe setback, it does not seem likely that even in this branch of American agriculture the declining trend in importance of the European market will be reversed. Domestic consumption has, of course, been increasing at a rate even faster than that of any export market, standing at about 4 million bales at the close of the nineteenth century and above 7 million bales today.

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Our fifth major group of agricultural exports takes us from the more extensive branches of agriculture to one of distinctly intensive character, but to lines of production toward which American farmers are being increasingly attracted. If we examine the statistics of exports of fruits, vegetables, and nuts, both in their natural state and processed, we find a value total exceeding that of the present shrunken export of packing house products, not greatly inferior to the value of tobacco exports, and roughly more than one-third of the grain crop and nearly one-sixth as great as cotton.

A prosperous Europe in a position to indulge a taste for semi-luxuries would offer an attractive outlet for the expanding product of a branch of agriculture characteristic of our present more mature stage of national development and in which the competition of newer agricultural lands tends to be less severe. As it is, Europe shows a nearly tenfold increase in imports of American apples as compared with 1900, and four and a half times what she took in 1914. Her takings of dried and canned fruits and vegetables amounted to about four times those of 1900, and more than three times those of 1914. At the same time, we should not fail to observe that Cuba took in 1926 twice as great a value of vegetables and vegetable preparations and Canada some three and a half times as great a value as did the United Kingdom, which is by far the most important European customer. Mexico, Panama, and Australia together just about equalled the European takings. In the international trade in fruits and nuts, Canadian imports were practically half as great as those of the United Kingdom, and Mexico, Brazil, China, the Philippines, and Australasia were all good customers comparable to Belgium, Denmark, France, or Norway, but inferior to Sweden, the Netherlands, or Germany, and not in the same class as Great Britain.

Several of these comparisons have served to call attention to the preponderant position of Great Britain in our farmers' European export market. Summarizing the fruit, vegetable, and nut figures, we find that the United Kingdom took 67.4 per cent of the total which moved to Europe in 1926. An even more striking situation is revealed for packing-house products, of which the United Kingdom's share last year amounted to 81.3 per cent. Since the corresponding percentage in 1900

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was only 64.7 per cent, it seems evident that the British market has been better maintained than that of the continent during the period of marked decline in meat exports. It is natural to expect this to be the case with hams and bacon, but some surprise may be occasioned by the fact that the United Kingdom in 1926 showed a rise in her relative position as a taker of American lard. In that year, 43.8 per cent of our total lard exports went to the United Kingdom as compared with 37.9 per cent in 1900. During the same period, Germany's takings rose from 34.1 per cent to 38.8 per cent, and those of the Netherlands and Belgium combined dropped from 17.1 per cent to 11.7 per cent. All these figures, of course, raise some question as to the extent to which agricultural products imported are used for domestic consumption as compared with re-exports.

As for the cereals, we find the United Kingdom today taking nearly 40 per cent of our total exports to Europe. This, however, is less than three-quarters of the percentage which she took of the vastly larger exports of 25 years ago. Her relative importance in the export tobacco market is slightly greater than that in cereals and apparently increasing rather than declining. The United Kingdom took 40 per cent of the European total in 1900, 46 per cent in 1914, and 48 per cent in 1926.

Turning to cotton, we find perhaps the most striking situation of all. In the decade following the Civil War the United Kingdom absorbed 72 per cent of our total European cotton exports. In the decade ending 1885, this dropped to 65 per cent and to 59 per cent during the following 10 years. The last five years of the nineteenth century found England taking only 48 per cent of the cotton which we sold in Europe, and this dropped to 46 per cent as an average for the next five years and to 43 per cent in 1910 to 1914 (fiscal years ending June 30). Indeed, the single year 1914 showed only a scant 40 per cent going to the United Kingdom. At the conclusion of the World War, with Germany largely out of the picture, the United Kingdom was again absorbing between 55 and 60 per cent of European cotton takings. But so rapidly has this situation changed during the last few years that today Germany, even with her curtailed boundaries, appears to be on the verge of disputing first position with the United Kingdom.

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In the fiscal year ending last June, our exports to the United Kingdom were 2.7 million bales and to Germany 2.4 million. This shows the United Kingdom furnishing a market for 31 per cent of our cotton exports, Germany 28 per cent, and Japan, as previously mentioned, 14 per cent.

In the light of the facts thus far set forth, we may now restate the first and somewhat elaborate the second of the general propositions with which this paper opened. As for the first, it is evident that the American farmer has already found it impossible to enlarge, and difficult even to maintain European outlets for a desired volume of his products in exchange for European industrial goods to be taken by the United States. Not alone does he find the desire of American manufacturers to exploit the home market a definite barrier to European buying of our farm products. He must reckon also with the natural desire of these same industrial interests to permit or invite the entrance of competing agricultural products from such foreign countries as might supply them in exchange for industrial products which our manufacturers are amply able to produce in excess of the needs of the home market.

With this somewhat disheartening situation for the farmers of the United States emerging out of the present trend of world economic organization, the next question becomes: Can another sort of market be developed for a suitably modified offering of agricultural exports? Are there ways of pushing sales of a larger volume of distinctive American products in the expanding consumer budgets of a revived Europe or of fitting them with equal adroitness into the consumption schedules of non-European markets as and to the extent that their purchasing power increases through the revival of their trade with Europe?

In this connection, we must remember that the great agricultural export period of the United States was one in which a tremendous process of industrialization was going on in Europe and during which, both there and elsewhere, the standard of living of millions upon millions of people was being advanced at a rate probably never before equalled in the history of the human family. The quarter century or so which immediately preceded the outbreak of the World War was a period when the economic ambition and organized genius of Great Britain, Germany, France, Belgium, the United

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States, and other of the developing trade and industrial nations sketched forth a dream of world development in which the backward peoples should be brought forward and the forward peoples pushed to yet more advanced standards of living as a result of the most energetic trade and productive operations. We all know of the vigor, not to say ruthlessness, with which this benevolent if somewhat mercenary program was prosecuted to the remote corners of South America, Asia, and south and central Africa until the leaders of the grand exploitation fell to fighting amongst themselves in 1914.

Whether, even in the absence of such a check, this market movement would have suffered a reaction due to "undigested civilization" similar to the reactions brought about by "undigested securities," which according to some diagnosticians explain certain recessions of the stock market, is a matter on which we need not here speculate. The fact of present practical significance is that, except in the United States and a few favored spots elsewhere, this process has been suffering a severe check or even a distinct reversal in the years since the World War. The burning question is whether, how soon, and to what extent the renewal of activity and a resumption of the rising standards of consumption, as a result of more active and more efficient production and a livelier commercial exchange, can again be brought to pass.

I have listened with the greatest interest to Professor Roorbach's analysis of the probable trend of recovery of Europe's economic fortunes by the rehabilitation of foreign markets for her industrial products. It seems to me very distinctly that this is a matter of the utmost interest to American agriculture, inasmuch as the recovery of a healthy and vigorous tone to the trade relations between Europe and the less industrialized countries of Asia, Africa, and South America would tend to benefit the market for our farmers' products as could no other single force. This benefit would be of a two-fold character.

First, we might expect some enlargement of our direct outlet to Europe. To a certain extent this would presumably stimulate the market for the old staples as recovery of the once flourishing markets for British, German, Belgian, or other European textile products, cutlery, and what-not might enable the factory workers of those countries to eat more American

pork products and flour, smoke more American tobacco, or wear more American cotton. The share of benefit which the United States might derive from such a market strengthening would be most marked in those products in which our position of comparative advantage is most evident, such as lard and cotton, but this would also include other less staple products, such as apples, prunes, raisins and, under expert promotion, certain processed agricultural products, such as canned goods.

Second, would come a probably more important indirect advantage from the increase of purchasing power in those Oriental, tropical, and other outlying markets to which the exporters of American agricultural products have been increasingly turning in these latter years. A recovery of the pre-war tempo of European commercial activity would also make for a freer market for the silk, tea, spices, tin, wood-oil and rubber of the Orient, the wool, frozen lamb, wheat, and butter of Australasia, and a variety of export commodities of South America, the West Indies, and south Africa. In so doing, it would raise the economic prosperity of these countries and, by increasing their purchasing power, expand their capacity to absorb American prunes and raisins, evaporated milk, tinned butter, and a variety of the more intensive types of agricultural commodities for whose production we have at home a surplus capacity, with labor and capital seeking to secure or at least to retain profitable employment. It would support and perhaps expand the market for flour and even for rice, which is now moving from San Francisco in appreciable amounts. It might possibly add that long-prayed-for inch to the tail of every Chinaman's shirt and even penetrate so far into the remotest corners as to put the initial inches of honest cotton on the most backward and unclad races.

While the drift of affairs in China, Mexico, and elsewhere does not give too good assurance that such a result will promptly come to pass, it grows painfully evident that we need some expansion of external markets if our present cotton acreage is to be maintained in prosperous production and if we are to take care under present standards of productivity of our present agricultural population, who seem so unwilling to shift from husbandry to industry and who will perhaps find little welcome in the latter field as it comes to feel increasingly the impact of returning European competition.

TRADE BARRIERS AND CUSTOMS DUTIES

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IN the brief time allotted me, any discussion of the topic assigned to this session would be only discursive and superficial to a degree, and I am sure the Committee, whose understanding is in evidence in the character of its program, had no such idea in inviting my participation. I feel justified, therefore, in choosing my way and for my own purposes I shall take advantage of the hint my title in the program conveys to devote my time to reflections on Mr. Norman H. Davis' admirable paper. I do this with some timidity, I must confess, for I cannot match his lucid and compelling phrases and I can only hope my sincerity may carry conviction.

Our life's experiences color our conceptions of its needs and, although I agree perfectly with the aims Mr. Davis so eloquently discloses, nevertheless I cannot be sure—and I rely on a safe interpretation of the teachings of experience—that the course he proposes will realize the great end I assure him we both seek.

Now it happens that a few weeks ago I was called upon to discuss this self-same subject under a slightly different title, "Barriers to Foreign Trade," before the Associated Industries of Massachusetts. I think if I quote briefly my conclusion, Mr. Davis may find much agreement in our articles of faith. I had indicated the many factors appearing in our foreign trade relations which operate as distinct barriers and I submitted as fundamental much for which our American tariff is distinctly responsible. Often it is not what we do that counts, it is the way we do it. In fact, tariffs and their effects were of necessity the main burden of my argument. Finally, I presented the latest statistics of the Commerce Department to point the present importance of our foreign trade and I closed thus:—

It is that we shall maintain our present status and, for the general good of our country, continue to raise it that I plead for the consider-

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ation by industrial America of the ideas enunciated which the American spirit of fair play can be trusted to mold into good business policy. We all want to believe that American genius, manifested in phenomenal mechanical processes, clever sales tactics and intelligent commercial foresight, will continue to excite the wonder and emulation of the world.

But would it not be more to the point and a mark of higher intelligence if we added to our aptitude for material success a broader view of what is involved in developing our commercial contacts with the world so that we may work to the advantage of all in the cause of peace and greater happiness? Thus we would further general civilization by mitigating whatever makes for misery and distress,—conditions which always appeal to our pity and in every calamity have evoked our helpful response with a spontaneity and effectiveness that has inspired universal confidence. After all, we can only reduce barriers to a minimum consistent with certain economic exigencies from which no nation will ever be entirely free; so long as standards of living vary as much as they still do between human beings in different parts of the world, compensatory devices in some form will continue indispensable to the welfare of the respective nations.

We have in this country a host of protectionists who are foreign traders and I am sure they will not agree that "the policy of protection means, in the long run, the sacrifice of the foreign market for the home market." I cannot consent to that myself, yet I am firmly convinced that not only does our national welfare depend on a flourishing international trade but that our future rests on the way we continue to develop that trade. To develop that trade under the proper exercise of that necessary compensatory device, our protective tariff, will be a difficult task, for it requires constant readjustments to meet changing conditions, which is a problem whose solution is still masked in mystery. The one great step to that end was the creation of our Tariff Commission, still very much in the experimental,—almost its embryonic stage, whose real function is not yet comprehended even by the Congress which created it. I perceive here in its development an analogy to our Interstate Commerce Commission which has taken more than a generation to prove itself,—to gain the confidence of our people. To be adequately successful the United States Tariff Commission *must* be organized on an economic rather than a political basis.

This prompts another reflection: Mr. Davis evidently feels the need of more tariff legislation, for only by Congressional

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action can the "10 per cent reduction of all our tariff schedules" he recommends, be effected. This contemplates a resumption of that political control in our tariff evolution, from which we have just escaped. We must not forget that Congress can act only by composing differences in opinion as great as our Nation, as diverse as its complex population under the influence of environments of every conceivable variety. It is inevitable, therefore, that any tariff schedule formed under such conditions will be, as the Vice Chairman of the Tariff Commission has so aptly described, "a compromise of opinions, a hodge-podge of conflicting interests, a product of log rolling and favor swapping." In effect, each item thus becomes a guess without regard to the economic law that should give it being. Tinkering with the tariff is to be avoided for more than one reason. Our worthy President's recent utterances on the subject—notably in his speech yesterday at Philadelphia—evinced a breadth of understanding that merits attention.

To assign as a warrant for establishing universal free trade between nations, the remarkable commercial success attained in "the largest free trade area in the world" ignores that which makes the latter possible, namely, the prevailing high standard of living throughout this area with its correlative purchasing power,—controlling conditions never found among peoples subject to unrelated, independent developments. No "international agreements" can correct these inequalities. This does not, however, contemplate the abandonment of international cooperation, common understanding, mutual help in a thousand ways which tend to the common well-being so much to be desired. To sacrifice the industrial progress our compensating tariff promotes would certainly hinder, not help that consummation.

There are many factors besides our tariff, equally effective in creating barriers to foreign trade when we consider that the international good will we are able to attract will largely determine the character and life of such trade. We cannot hope to promote a universal good will by disordered, inconsistent procedure on the part of any of the factors operating abroad on our behalf. The character of our governmental representation abroad therefore becomes of prime importance in the cultivation of this absolute indispensability,—good will.

Herein, the foreign service of our government has a predominating influence. Probably its greatest defect today is the lack of one centralized controlling body in the coordination of governmental activities abroad, a judicious guidance instead of an uninformed independence now possible and not infrequently in evidence to threaten if not actually impair some thriving relationship which has been developed under long, arduous endeavor. The 68th Congress disregarded altogether this requirement in the debates which led to the enactment of the Rogers Bill—the first official recognition of an old, acute need of the first order, to be sure—but by that very act Congress crystallized, as it were, a woeful defect in the Foreign Service of the United States Government, fraught with dire possibilities.

In closing, permit me merely to call attention to a report prepared for the Conference to which Mr. Davis referred by the Association which honors me with its Presidency. This report listed 109 specific obstacles to world trade, 56 of which have no relation whatever to customs duties.

AMERICA IN THE WORLD STEEL MARKETS

O. H. CHENEY

Vice-President, American Exchange Irving Trust Company, New York

THE steel industry has long been recognized as the barometer of business. If it is, I sometimes feel that it is time it were taken off the wall and given a good shake. And yet, if it is no longer a good barometer, it is frequently a combination of magnifying lens and convex mirror. Because steel is a fundamental industry and a great industry, it often enlarges startlingly some of the problems of all business.

It is in this way that steel at the present moment is a good example of America's vital problems as a creditor nation in the world's markets. In the steel industry, these problems may at this time, perhaps, be more grotesquely dramatized than in other industries—but fundamentally the picture is true for many other industries and largely for business as a whole. The points here suggested for consideration are therefore applicable in a wide and urgent measure to much of the world's current economics.

When the Continental Steel Entente was first announced, the leaders of the American steel industry immediately and publicly expressed their utter indifference. Not only would American producers not join an international steel cartel but they had absolutely nothing to fear from the competition of one. In an address before a steel trade association, prepared some months ago, I ventured to predict that this attitude may, in the not far future, prove to be a little too confident and self-satisfied. The question was raised—perhaps inconsiderately—as to what would happen should some powerful combination of foreign steel producers feel that the Americans have been “kidding” themselves and set out to call their bluff.

It is interesting, therefore, to see that only a few days ago the United States Steel Products Company, the exporting subsidiary of the country's leading steel producers, filed a brief with the Interstate Commerce Commission requesting special reduced freight rates on steel shipped to seaboard for export

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in order “to develop and continue the foreign trade of the United States.” The two million tons of iron and steel exported by this country are called grotesque as compared with Germany's exports of over five million tons. The brief points out that the American industry cannot compete in the world markets in spite of higher efficiency and greater productivity of our labor because wages abroad are only one-fourth of American wages and because average inland freight rates are about three dollars a ton higher here. The railroads have expressed a willingness to grant reduced rates (not as low as those requested) for an “experimental” period of a year. Incidentally, another leading producer has filed a brief opposing the reduction.

The concern expressed in this brief for America's export trade in steel is not a case of statistical hypochondria—it comes from bitter facts. The United States is producing over 48 million tons of steel a year, over half the world's total, and yet it exports only two million tons of iron and steel annually—less than five per cent. The United States Steel Corporation exports only ten per cent of its production. Germany exported over forty per cent last year, her exports increasing seventy-five per cent from 1925 to 1926, thus taking the leading position which France had in 1925 and Great Britain in 1924. The Continental producers have recovered from the war and last year their total exports exceeded pre-war totals. So far this year the world is ten per cent ahead of last year in steel production—but this country is nearly four per cent behind.

Increasing steel production in Europe under present conditions can only mean a fiercer war for market outlets. In spite of a stringent system of fines some of the parties to the Entente have been exceeding their quotas. The various cartels and selling organizations are having considerable difficulty in keeping their trades properly integrated and content. And yet Europe realizes that cooperation must be more than a word if its steel industry is to survive.

The Continental producers have invaded Great Britain and struck fear into the steel industry there. In defense, some of the British producers have jointly agreed to give rebates to their domestic customers who would promise to buy only

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British steel. In retaliation the German producers obtained reduced internal railroad rates on steel for export so as to be able to cut prices.

Even the domestic stronghold of the American producers has been invaded. While imports of foreign iron and steel last year were three times as large as in the pre-war years, they were still only a little more than a million tons, a small proportion of the country's total consumption. But the influence of imports cannot be measured by tonnage—small tonnages and underbidding may demoralize the whole price structure. Conditions during the past year, particularly on the east and west coasts, have been such that American producers have appealed to the government to enforce the anti-dumping laws on a number of lines. In structural steel products, for instance, foreign shipments and quotations have been used by buyers very effectively to break prices, and one patriotic superintendent of buildings in New York issued an order, since rescinded, forbidding the use of foreign beams.

The available world markets for surplus steel hold little promise of peaceful trade. Canada, Cuba, Mexico, South America and Japan are the leading buyers of our iron and steel and of those certainly Canada, at least, should remain a logical market. But there have been striking fluctuations in these markets. In the less developed countries it is a question whether big demands will come before domestic facilities are built up to supply them. India, Japan and Australia are steadily adding to their steel-producing capacity. The world's markets seem to be narrowing as competition increases—the struggle for the Chinese market during the past year is an indication of the future.

There is an average of ten million tons of steel available in this country every year for export, according to the United States Steel Products Company's brief, and we export only about a fifth of that. By exporting ten per cent of its production, the United States Steel Corporation declares, it gives employment to thirty thousand additional men and an income of forty-five or fifty million dollars to 150,000 people, thus "contributing very materially, not only to the proper economic operation of our plants, but to the prosperity of the country as a whole".

Now it is true that the theoretical capacity of pig-iron production in this country in 1925 was fifty-one million tons and the production thirty-six million, while of steel ingots the capacity was fifty-six million tons and the production forty-five million. During the past year considerable capacity has been added by leading companies and during this year production has fallen off. For only three months during 1926 blast furnaces in operation reached the normal output of sixty per cent.

This excess capacity is a continuous threat to the domestic price structure and to profits. Competition in the iron and steel industry has turned from the late Judge Gary's policy of "live and let live" to one of "kill or die". The profits of the steel industry are even below the prevailing low averages. The profits of industries which depend on iron and steel for their raw materials are making on an average twice as big a return as the iron and steel industry. The industry has put \$1,650,000,000 into new plant and equipment since 1914—and yet the profit per ton of steel is practically the same as it was then. The return on existing values of plant and equipment was only 5.33 per cent last year.

Should the American steel industry stand idle and let the foreign steel producers take away its world markets? It should.

What does our export business in iron and steel really mean? As it is now, it is a negligible proportion of our production. And if it could possibly be increased it could only be by a bitter price-cutting struggle. But the export business of Europe's steel producers means the very life of its fundamental industry. The recovery and maintenance of that industry is at the very heart of the recovery of international economic stability. Continued instability would be the price we would have to pay and make Europe pay if we insisted on a growing export market for steel and other commodities.

The steel industry in the United States is not so desperate in its need for foreign markets that this country and the rest of the world can pay that price. The cry for foreign markets is a confession of inadequacy in developing domestic markets. If the American steel producers could devote the energy and thought needed in developing export business against desperate

foreign competition to solving their urgent domestic problems, the returns would be many times greater. It is true that productivity in steel and rolling mills has increased fifty-nine per cent since 1914—but this was accomplished by improvements in plant technology and management and not through the application of scientific research.

Europe is learning "rationalization" from us. It is time now for us to apply rationalization to new problems—to new domestic uses and the development of new domestic markets; to the better integration of all factors of the industry so that there will not be the ruinous friction there now is between steel mill, fabricator and distributor. For example, the potential market for steel frames for small houses alone may prove more valuable than an unstable foreign market won by economic bloodshed. If the steel industry could strive to regain some of the market now being given up to cement, it would not only increase volume but would gain some new efficiency in the process.

The steel industry, like most American industries, is volume crazy—the greatest problem is not the increase of volume but the reduction of costs and the increase of profits. The problems of the new competition have not begun to be solved by the steel industry—the new competition between different industries supplying alternative materials and the new competition between different factors in the line of distribution. The steel industry is little more backward than other industries—but the steel industry, for its own sake and for the sake of the economic welfare of the country, can less afford to be backward.

The steel industry and most other American industries must realize that America is a creditor nation and must adapt themselves to that all-dominant fact. They must realize that it is time to stop trying to apply Main Street economics to world problems—that they must integrate themselves with world industry and at the same time develop their own business. They must realize that America cannot be the world's creditor and the world's factory at the same time—that we cannot insist on the divine right to the world's markets—and also to the divine right to the world's gold.

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DISCUSSION¹

MR. FREDERICK W. KELSEY (New York): There are two observations that have occurred to me in connection with the interesting addresses of the preceding speakers. One is in reference to the United States steel situation as applied to this country and to foreign countries. Those of us who remember United States Steel stock at 8, and see it now at its present price with dividends, must see the other side of the picture, which evidently comes from decreased cost of production. In regard to the tariff, some of us have had the opportunity of seeing at close range how tariffs are made, and I think if Mr. Nichols has gone through that experience, as I dare say he has, he has learned that the inside view is something like this: Before the Committee on Ways and Means of the House of Representatives, where tariff bills are originated and in the Conference Committee where they are finished, it is the man who manufactures the goods and gets the benefit of the tariff who is close at hand and has the ear and the attention of the committees, and the people who pay the tariff are viewed through the other end of the telescope.

The second observation is that the tariffs, when they are once put up, rarely go down. The same influences that put the tariffs up, keep them there, and the President obviously has that same thought and conviction, from his expressions in Philadelphia yesterday. It is my opinion, as the result of some familiarity with the way tariffs are made, that if those points of view, as so well expressed by you, Mr. Chairman, and so well expressed by Mr. Nichols on the other side, could be gotten fairly before the electorate of the country, as also the

¹ The informal discussion following the addresses and papers by Mr. Norman H. Davis, Professor G. B. Roorbach, Mr. L. Domeratzky, Professor Joseph Schumpeter, Dr. Edwin G. Nourse, Mr. W. W. Nichols and Mr. O. H. Cheney, at the afternoon Session of the Conference, is here reproduced in large part, with some abbreviation and omission of platform amenities. It also includes a brief memorandum by Mr. Benjamin A. Javits, of the law firm of Javits and Javits, New York, which he was prevented by lack of time from presenting under the informal discussion at the meeting.
—Ed.

question of international amity and the reduction of armaments, which is one of the great causes leading to war, we should all prosper, we should all be better off, all more happy, and the nations would make progress and prosperity better and faster than they are making it at the present time.

DR. JOSEPH MAYER (Tufts College, Mass.): I should like to raise a question in respect to this tariff issue. In the recent negotiations between France and the United States over a new treaty on tariff, the point was brought out by both countries that each is basing its tariff upon an equalization of competitive conditions. To what extent has our Tariff Commission succeeded in basing the tariff rates upon that principle? Our State Department maintains that that is the principle on which we go in answering France, and it would seem from the discussion and from the points that have been raised here, that that is not so; that our tariffs are, as a matter of fact, higher than would be warranted by the plan of equalizing competitive conditions. For those who do not know exactly what that implies, it means trying to measure the costs of production for a given commodity in this country and the nearest competitor or the highest competitor of the United States, and trying to arrange a schedule of duties which will equalize competitive conditions between the two countries.

MR. ARTHUR L. FAUBEL (New York University, and the American Tariff League): In the light of my connection with United States Tariff Commission two years ago, I should like to answer the last gentleman's question and also refer to a statement made by Mr. Davis.

The United States Tariff Commission has been functioning as an organization, attempting to levy a competitive tariff, so-called, since the enactment of the last Tariff Law on September 22, 1922. The Act of September 22, 1922 was passed more or less in the fashion indicated a moment ago, although I wish to take an exception. The people who pay the tariff are very much in evidence, I should say, in Washington, whenever a tariff is levied, as well as the American manufacturers are.

The Act, however, was passed more or less in the way outlined. Since it was passed, the Commission, working under

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Section 315 in the so-called Flexible Tariff Law, has been endeavoring to make adjustments in certain of the rates established by that Act of 1922, to make the rate agree with the difference in the cost of producing the commodity in France or in Germany or in Japan, and with the cost of producing it in this country. Thus far the Commission has conducted, or is conducting, somewhere in the neighborhood of one hundred-odd investigations. Some twenty have been completed, and reports on them made to the President. All but one, or possibly two of those have resulted in increases in the duty. Those increases covered wheat and wheat products, butter, sodium nitrate, pig iron, barium dioxide, taximeters, to mention only a few of them.

It is precisely here that I would take exception to the point raised by Mr. Davis in his original talk, namely, that Europe and certain parts of the rest of the world are at a disadvantage as compared with the United States, due to the fact that our higher standards of living and our higher wages make American workmen more efficient and consequently give us a lower per unit cost for the commodities produced. That, Mr. Chairman, I submit, on the basis of my experience with the United States Tariff Commission, is not so. The per unit costs of these commodities that I have enumerated here, and of a dozen others in this country, with our admittedly higher standards of living and our higher wages, have been in each case higher than the per unit costs in the foreign countries.

Referring now to the question of the last gentleman as to the extent that the Tariff Commission is endeavoring to carry out the features of Section 315, I have indicated that the Commission has somewhere in the neighborhood of one hundred investigations under way. That is, of course, a very small number compared with the number of investigations the Committee would have to conduct if all of the commodities in the Tariff Law were to be covered, but in this connection I would mention this point which I think has a bearing, particularly as it relates to the recent French tariff controversy. France, of all of the countries in the world, has been the country which has most objected to the United States conducting these cost of production investigations, the end of which is to be the establishment of a so-called competitive tariff.

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MR. FREDERICK W. KELSEY: Has the Tariff Commission recommended any reductions?

MR. ARTHUR L. FAUBEL: Two, I think.

CHAIRMAN DAVIS: Yes, on quail from Mexico, and I imagine it was a difficult task to get the difference in cost of production there.

I want to answer the speaker's challenge of a statement which I made. The highest wages in the United States are paid in the most efficient industries, which are not hiding behind a tariff wall. I do not suppose you will deny that. And in Europe there are certain commodities which are not susceptible of mass production, which they do, of course, produce cheaper than we do. But in my statement I was talking about the development of labor-saving devices and mass production. That doesn't always go. Take, for example, coal: we pay four times the wages to a coal miner that they do in England, but we mine coal cheaper per ton than they do in England. So it is not always the wage that counts, but it is the output of the man and the extent to which the employers are aiding him with other devices to increase his output.

Regarding one question which was asked, the "most favored nation" treatment means that you will treat the nations all the same or you mistreat them all the same. In lots of cases, it is a question of mistreatment, and the French in discussing that question feel that the question of reciprocity should enter into the fixation of tariff schedules between two countries, and we insist that the question of reciprocity has nothing to do with it. The real basic difference is on reciprocity; but we say that we must deal with all nations just the same. If we mistreat one, we must mistreat them all. If we deal fairly with one in one schedule we fix, we must deal fairly with all of them and give them all the same rate.

MR. BENJAMIN A. JAVITZ (New York): Under the various headings in this discussion, I was interested in noting whether any reference was made to the Anti-Trust Laws on the statute books of this country. In a recent study which I made of the subject, and on which I have prepared a brochure, it became quite clear to me that if this country was to effectually maintain its stand for world peace, it would have to find a way by which

it could cooperate with the various industrial combinations now organized or in the process of organization in foreign countries. Wars have their origin, in the main, in the business relationships between nations. We are in a new era of civilization, which makes it more than ever necessary that the business men of the various countries be permitted to come together and to peacefully settle their problems. At this time, business men in the United States only to a limited extent can get together to solve their problems, devise common schemes or plans, or agree upon the conduct of their business affairs. Our Anti-Trust Laws have seen to that. These laws circumscribe even our foreign industrial relations.

Europe has developed the cartel system for the purpose of saving and developing herself industrially. In Europe cartels are dictated by the economic laws under which society functions there. Further, it is the best means of *rapprochement* between countries in order to lessen the dangers of war. The potash, iron and steel cartels, and other recent combinations in Europe, are examples of this tendency.

In the study to which I have referred, I have prepared certain amendments to the Federal Anti-Trust Laws, which I believe would place this country in a position to make its fair contribution towards the realization of world peace. Not alone that, but these amendments are designed as well for the purpose of guaranteeing the continuance and the further development of the present industrial "Era of Good Feeling". The proposed amendments seek (1) to assure to the public all the advantages of combination and monopoly; (2) to limit and avoid the disadvantages of commanding business combinations; (3) to permit the making of fair agreements between business men of this nation and foreign nations. There is no time to detail either the amendments or the reasons for their proposal. Suffice it to say, however, that if the American people are really lovers of peace, and are really desirous of continuing the prosperity which they have had for the past several years, that some action must be taken to liberalize—and that substantially—the Anti-Trust Laws now on the statute books of this nation, whether those statutes were proposed by the speaker, or by others more able and better informed.

PART III
INTERNATIONAL FINANCE AND
WORLD TRADE

INTERNATIONAL FINANCE AND WORLD TRADE

THOMAS W. LAMONT

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MR. WALTER T. LAYTON, the eminent editor of the London *Economist*, will soon address you on the subject of "Europe and World Trade." We are also to have the pleasure of hearing Mr. Jeremiah Smith, until recently Commissioner General for Hungary, on "World Trade and Peace." Your President has asked me to say a word or two on "International Finance and World Trade." That is not an easy thing to do. Nobody knows just how to define "international finance." Many people think of it as a thing of mystery and occult dealings; others are so generous as to say that it is a factor in world cooperation. Still others call it downright wickedness and let it go at that. Without attempting myself to define it, may I point out that while international finance has always existed since the time when Phoenician traders sent their clumsy craft plying about the shores of the Mediterranean; nevertheless, in the frequently accepted modern sense of lending upon a great scale and in large units, international finance has existed for America only since the early days of the Great War?

European Capital for America's Benefit

Prior to that time, as I hardly have to point out, America for years (although in the later ones in diminishing volume) looked abroad for capital. British, and in lesser degree Dutch, French and German capital, was a great factor in building our transcontinental railways and, through the medium of farm loans, even in our agricultural development. Now all is changed. We were the world's largest borrower. Now we are the world's largest lender. Would this change have come about except for the Great War? The result of the War and of the early years following it was, as you know, a heavy repurchase by American investors of American securities owned by foreign holders. An even greater factor was, of course, America's enormous excess of merchandise

exports over imports; such excess for the years 1915 to 1920 alone being over eighteen billion dollars. And now Americans have in recent years been lending abroad on such a great scale that the total investment of American capital abroad is estimated at from twelve to thirteen billion dollars, exclusive of the war debts owed to the United States Government,—the present value of which is figured at almost seven billion dollars. And the gross annual income from this huge total of foreign investments is hardly less than one billion dollars per annum. I do not mean to intimate that there have been no offsetting items of capital transfer from Europe to America. In fact these, in the form of emigrant remittances, tourist payments, foreign banking deposits, etc., run into high totals. Nevertheless I wish to make clear the startling extent to which the general credit situation has been reversed.

A Reversal of the Picture

This, then, is a mighty change, the influence of which has an effect upon the economy and even the daily life of almost every nation in the world. A moment ago I propounded the question—Would this change have come about except for the Great War? To this economists are, I think, inclined to say yes,—although nothing like so soon. America's prodigious natural resources, the industry of her workmen, the amazing ingenuity and efficiency of her industrial organizers could not have been ultimately denied. The results of American scientific management and large-scale production are clearly becoming manifest in our world trade. Back in 1880, 61 per cent of our exports were in foodstuffs and raw materials; only 15 per cent in manufactures. In 1926 the first figure had fallen to 34 per cent, while our export of manufactures had gone up from 15 per cent to 52 per cent. America's pre-eminence, not, I may say, in pure craftsmanship, but in mass production, has become one of the seven wonders of the world.

To the bringing about of this great change whereby America has become the creditor of the world has international finance, so-called, made any contribution? Furthermore, have these activities been in any way constructive? The answer to those questions must lie in the brief history of the post-war years. I am not sure how fully the American public appreciates the

extent and the importance of the assistance which America has fortunately been able to give to many of the problems of reconstruction. The most noteworthy in the early years following the Armistice were the borrowings of the British, French and Belgian Governments in the American investment markets, which totaled \$785,000,000. A portion of this amount was devoted to the purpose of refunding loans made during the War. Another portion was utilized for the important purpose of currency stabilization.

In the work of European reconstruction the saving and rebuilding of Austria under the plan devised by the League of Nations constituted the first task. The international loan necessary in 1923 to set the new plan in operation was underwritten and offered by bankers, acting in concert, of Great Britain, France, Italy, Switzerland, Belgium, Holland, Sweden, Austria, and to the extent of \$25,000,000 of the United States. The second operation was that for Hungary which Mr. Smith here, as Commissioner General, carried out so effectively. The necessary loan there was shared in by bankers of Great Britain, Czecho-Slovakia, Holland, Italy, Sweden, Switzerland, Hungary and again of the United States.

Dawes Plan Loan and Others

Next, three years ago came the great international Dawes Plan loan for the equivalent of about \$200,000,000 to the German Government, over half of which, \$110,000,000, was successfully taken up by American investors. In this the other participating countries were Great Britain, France, Italy, Switzerland, Holland, Belgium, Sweden, and Germany. The \$100,000,000 international loan to Belgium, issued a year ago for the purpose of stabilizing the currency and helping to restore Belgium to the gold standard, was issued one half by American bankers and the other half by bankers in Great Britain, Holland, Switzerland and Sweden. At the same time credits to the National Bank of Belgium were arranged by the Central Banks of Austria, Great Britain, France, Germany, Holland, Hungary, Japan, Sweden and by the Federal Reserve Banks of the United States. Less than a month ago an international loan of \$72,000,000 for the stabilization of Poland was arranged; investors participating through bankers

of Great Britain, France, Holland, Poland, Sweden, Switzerland and the United States, whose share was \$47,000,000. An imposing list of credits for the National Bank of Poland was at the same time arranged by the Central Banks of Austria, Belgium, Czecho-Slovakia, Denmark, Great Britain, Finland, France, Germany, Hungary, Italy, Holland, Sweden, Switzerland, and the Federal Reserve Banks of the United States.

Assistance for Various Countries

When, a few months after the great earthquake and fire of 1923, the Japanese Government looked to friends in the western investment markets for much-needed and much-deserved assistance, the great loan of February, 1924, was issued: \$150,000,000 in America and 25,000,000 sterling in Great Britain. And within the last twelvemonth American investors have bought an aggregate of \$40,000,000 of bonds of the cities of Tokyo and Yokohama, guaranteed by the Japanese Government. When in July, 1925, for the first time the Commonwealth of Australia sought the cooperation of the American market, our investors purchased \$75,000,000 of Australian bonds, 5,000,000 sterling being simultaneously issued to British investors. Since that time the Commonwealth and the province of New South Wales have borrowed in American markets a total of \$90,000,000.

In April, 1925, the British Government determined to return to the gold standard, a step important to American as to British commercial interests. In order to facilitate this vital operation the British Government and the Bank of England found prompt response in New York to their requests for two-year credits aggregating \$300,000,000.

One could go on adding many more to these instances that I have just given. But are these not sufficient to answer the question that I asked a few moments ago, namely, have these examples of international finance been on the whole constructive and helpful to the restoration of a war-worn world to normal conditions? Can we claim for international finance that it has also been cooperative? How could these great, these vital and in several instances most difficult operations have been carried through, if financial leaders on both sides of the water had not sunk their individual interests and worked to-

gether for the benefit of the countries involved? Can you picture to yourselves the days and nights of intricate negotiation, necessarily animated by a friendly spirit of give-and-take, that have for the last four years or more been necessary to complete these efforts to repair the ravages of war?

The Task of Reconstruction

People sometimes say that international finance can make or unmake states, can bring on or prevent war. Fortunately or unfortunately, there is no truth in that dictum. Looking back to July, 1914, I know of no group of bankers in any one of the countries soon to be involved that was not earnestly opposing the very thought of war. But their efforts were powerless against the tides of misunderstanding and passion that finally swept the world almost to destruction. If affairs could have been ordered so that the statesmen responsible for bringing on the great conflict could also have had dumped on their shoulders the task of rebuilding the world, history might possibly have been different! This widespread reconstruction which I describe has been accomplished first through the day-by-day endeavor of the common man. The peasant farmers of France, the artisans of Belgium and of Bohemia, the industrialists of England and Germany: they have been the ones who have been rebuilding the shaken structure of European society. And it has been upon this structure as a basis that the bankers and investors and, if you please, international finance the world over, have been basing their efforts of co-operation and reconstruction. So much as to the efforts and methods and even ideals of international finance since the war.

Does Trade Follow Loans?

Now, if Secretary Hoover (whose necessary absence tonight I deplore with you) were here he might turn to me and say "You have talked much of international finance in its efforts for post-war reconstruction. But how about international finance and world trade which is supposed to be the subject of your remarks? Can you trace a connection between the two?" My answer to Mr. Hoover would be partly in general terms: If American investors, acting through their bankers, had not taken that all-important share in the great Dawes

Plan loan to Germany in 1924, would Germany have been able to recover sufficiently to increase its purchases of American cotton, for instance, from only about one million bales in 1923 to well over two million in both 1925 and 1926; its purchases of copper from 136,000,000 pounds in 1923 to 229,000,000 in 1925? Other American commodities could be mentioned, the sale of which has seemed to be stimulated by European recovery. It is not, however, necessary to go into the detail of these. The dictum, "Trade follows loans", has undoubtedly, as many years of experience have shown especially in the case of Great Britain, a sound foundation in fact. But to attempt to prove it by concrete examples or to assay by any quantitative methods the effect of foreign loans on international trade movements is always difficult.

Increasing Business with South America

I am, however, inclined to think that a good example of the effect of foreign loans in stimulating export trade may be noted in the figures of the comparative trade of Great Britain and of the United States with South America. In the case of South America there are not the counter-movements of investment of South American capital in the United States and Great Britain, and of tourists' expenditures, emigrants' remittances, etc., to such a degree as in the case of the balance of payments between the United States and European countries. Before the war, Great Britain was lending considerable amounts each year to the South American countries. According to the compilations of the *London Statist*, loans to all the South American countries granted by British investors in the five years preceding the war aggregated approximately \$926,000,000, or an average of about \$185,000,000 annually. During the same period, there were practically no South American loans placed in the American market, with the exception of one to Argentina in 1909, equivalent to about \$10,000,000. It is estimated that in 1914 the total of American foreign investments was only about \$2,500,000,000, of which probably not to exceed several hundred million dollars had been invested in South America, chiefly in mining properties. On the other hand, out of Great Britain's foreign investments at that time, totaling some \$20,000,000,000, nearly

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three billion dollars had been placed in the South American countries, in government and municipal loans, railways, public utilities and industrial undertakings of various sorts.

What is worthy of note is that during the years following the Armistice, the United States has replaced Great Britain as the chief source of new capital for South America. South American loans publicly issued in the United States during the years 1921 to 1926, inclusive, have aggregated almost \$850,000,000, while Great Britain's for the same period have hardly exceeded \$250,000,000. At the end of 1926, it is estimated by certain authorities that the amount of American capital invested in South America had reached a total of nearly \$2,000,000,000.

Noteworthy Comparisons of Trade

Now let us turn to the trade figures: A compilation of these for seven of the leading South American countries shows that in the four years prior to the war Great Britain supplied an average of 25 per cent of their total imports and the United States only 14½ per cent. Whereas from 1922 to 1925 inclusive Great Britain's proportion fell off to 23 per cent, that of the United States rose to almost 25 per cent. It will be observed that while Great Britain has maintained its proportion of South American imports surprisingly well, the United States has increased its proportion from a level of 14½ per cent before the war to one of 25 per cent in recent years. Is there not manifestly a direct connection between this fact and the fact that American capital in South America now amounts to some \$2,000,000,000, as compared with a few hundred millions before the war? And is it not reasonable to assume that our enlarged share of South American trade will be sustained, if we continue to invest at the rate of \$300,000,000 a year or more in that continent? These are questions which the statisticians of the Department of Commerce are far better equipped to discuss than I. And only the coming years, and the skill and wisdom with which our statesmen as well as our financiers handle their relations with the South American countries, will yield the actual answers to these interesting questions which we ask ourselves.

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America's Abundant Good Fortune

Finally, I want to remind you of the great privilege it is to be an American citizen today. This is still the country of great opportunity. The great resources of this North American continent have given us justification for boundless vision, for generous impulse, for glowing optimism, for helpful cooperation in all directions. Just to be born an American, free from some of the clinging prepossessions of the Old World, is in itself an inheritance and a career. America is already first by a long lead in wealth and material prosperity. Already we hold two-fifths the entire world's stock of gold. We produce 54 per cent of its cotton; 45 per cent of its grains; 60 per cent of its copper; more than half of its iron and steel. Is there any field of material accomplishment in which we are not pre-eminent? With these great resources, favored by the gods as we are, can we not afford to ponder on our blessings and to pause, even oftener than we do, to pray that the spirit of understanding and sympathy may be vouchsafed to us; well knowing that, if this earth in coming generations is to be made a more stable, a more gracious and a happier place to live in, the coming of such an era will depend almost entirely upon the conscious cooperation of men throughout the world?

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EUROPE'S FUTURE ROLE IN WORLD TRADE

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IN discussing the question of Europe's future position in international trade, I shall, of course, draw to a considerable extent upon the work of the recent World Economic Conference at Geneva and incidentally perhaps tell you something about that Conference. One of its most important services was that for the first time it made a very thorough and complete stock-taking of the economic position of the whole world. The first fact established by this survey was that though production is recovering, and during the last three or four years has been returning to higher figures, it is still very low. World production in 1925 as measured by the output of food and raw materials was only slightly above the level of 1913, whereas if there had been no war, it would have been very much higher. In other words, the war has interrupted the steady trend of the last half century and delayed the normal economic growth of a decade. Secondly, the survey showed that whereas the production of the world had been checked and in 1925 was only just about where it was in 1913, the check to international trade has been even greater than the check to production. Thirdly, it showed, as every one would expect, that both as regards production and as regards the international interchange of goods, the trouble is centered mainly in Europe, the figures for which are much lower than those of the rest of the world. Indeed, the stationary world totals are the average between figures representing depression in Europe and prosperity—in some cases very great prosperity—elsewhere.

At the same time this does not mean that the problem is simply a European one; for, as has been said this afternoon, in several of the papers, the prosperity of one part of the world inevitably reacts upon others. This is particularly so in the case of Europe which plays so large a part in the world's economic life. The United States is by far the richest country in the world, but North America is not the richest continent.

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PRODUCTION AND TRADE IN 1925 COMPARED WITH THAT IN 1913
(1913 = 100)

	Production	Foreign Trade
Europe	105	89
North America	126	137
Caribbean	170	128
South America	135	97
Africa	139	99
Asia	120	136
Oceania	122	132

The production of Europe, taking general round figures based upon the production of all foodstuffs and raw materials, accounts for 40 per cent of the world's production of goods; North America today accounts for 30 per cent, of which Canada may be 2 or 3 per cent, and the rest of the world 30.¹ I want you to think for a short time in terms of those round figures: Europe 40 per cent, North America 30 per cent, and the rest of the world 30 per cent. It is impossible for so large a proportion of the world, from the economic point of view, to be in a state of stagnation without reacting upon the rest. If Europe could be lifted from the stagnation in which she has been, it would unquestionably add further to the economic progress of all other parts of the world. That applies, of course, to the United States as well as to other countries of the world; for even now

¹The actual percentages shown in the *Report on Production and Trade* are: Europe 38.7 per cent, North America 28.7 per cent and the rest of the world 32.6 per cent. These figures have been criticized in view of an estimate recently published of the national income of the United States which amounts to billions of dollars. This is said to be higher than the combined national incomes of all the nations of Europe. No estimate exists for many countries of Europe. But even if they were available, the comparison would not be relevant until allowance had been made for the fact that the purchasing power of a dollar is much greater in Europe than it is in the United States. Owing to this difference in average prices a billion dollars in Europe represents a much greater volume of commodities and services than the same amount of money in America. As the population of Europe is 504 millions and that of North America 125 millions (the figures are for 1925) the statement in the text implies that one inhabitant of North America produces as much as 3 inhabitants of Europe. Comparative studies of "real" wages in various countries suggest that this rather overstates the higher productivity of the American producer.

Europe buys more than 50 per cent of all that America exports.¹

Is this condition of Europe permanent or is it due to passing and temporary circumstances? In some directions the conditions which have produced stagnation in Europe are unquestionably passing away. For example, the currency chaos which followed the war is nearly over—thanks in no small measure to the cooperation of the United States in helping to produce the stability which we now enjoy in Europe. America has played a very great part in European monetary reconstruction. On the other hand, there are a very large number of factors affecting Europe which are not so definitely temporary. The countries of Europe are left with an extremely heavy tax burden. In proportion to our wealth, Britain is paying about double the taxation that the United States has to pay, and the figures for France and Germany are similar. Again, there is a factor which certainly does not look as though it were passing away quickly. Before the war Russia was a very important and growing economic influence in Europe. Russia's foreign trade had already grown to equal that of India. Today she has a foreign trade less than that of Denmark. Before the war the nations of Europe were looking to Russia both to supply materials and to furnish a market for their goods in an increasing degree, and they had every reason to think that the development of Russia would have gone on rapidly. We may now have to wait a long while for that hope to be realized. Again, the outflow of population from Europe has been checked. It does not seem as though that situation will change quickly for there is no obvious direction in which anything like the pre-war migration stream from Europe can flow.

Finally, there remains the most important consideration of all, namely, the industrialization of distant parts of the world, and in particular the enormous development in the manufacturing activities of the United States. The process of in-

¹ DISTRIBUTION OF AMERICAN SALES IN 1925

Europe	53	per cent (of which 21 per cent to Great Britain)
British Dominion	19	per cent
Central and South America ..	18	per cent
China and Japan	6½	per cent
Others	3½	per cent

100 per cent

dustrialization in distant countries is not due to the war, but it was tremendously accelerated by it. This process does not necessarily mean, as is sometimes supposed, that nations will become increasingly self-supporting; that there will be less international trade and that in particular Europe will drop more and more out of the picture. On the contrary, the opening up and the gradual industrialization of, shall we say, China or India, the rise in the standard of living of the population which will result from the development of these and other countries all over the world, is likely to lead to *more* and not less international trade. May I refer, in confirmation of that opinion, to the experience of Britain and Germany in the forty years before the war? Germany was developing rapidly and caught us up in many industrial activities which were very similar to our own. The result was not less exchange but *more* exchange of goods which increased so greatly that in the years immediately before the war Germany bought more of our goods than any other country in the world except India, and we were Germany's chief customer.

But while industrialization of different countries and the rise in the standard of living which is likely to accompany it, does not mean less but more exchange of goods, it does mean keen competition, and if under the new circumstances Europe is to hold her own, she must be at least up-to-date and as efficient as her competitors. I do not propose to say anything about comparative efficiency. This is too big a subject and any generalization about Europe is almost certain to be untrue because there are so many different varieties of industrial life in Europe. There is, however, one point on which there will be no dispute, which is that if we are to develop our industrial production in Europe efficiently and well, we must learn from the United States the advantages of large-scale production, of specialization, and of concentration. Unfortunately, something has happened in Europe which is directly opposed to that development. I refer to the fact that the war resulted in the subdivision of Europe into a number of small economic units, many of them too small for efficient production on a large scale. In many cases the result of the division of Europe into small units and the establishment of tariffs around those units has resulted in the attempt to set up in-

dustries within the tariff barriers; there has been duplication of plants; countries have tried to make for themselves goods they formerly obtained by means of exchange; there has been a waste of capital; none of the plants are fully employed, and costs are high, due to part-time working. The calling of the Economic Conference was largely due to the fact that at last, after many years, the business men of Europe have realized that this parceling-up of Europe was a step backward and that it was a grave handicap to Europe considering the international competition we have to face.

The World Economic Conference therefore came to certain conclusions on this point. They unanimously urged the removal of certain types of economic obstruction. They urged that import and export prohibitions should be done away with.¹ The Conference frowned upon the attempt to divert trade from its natural channels by subsidies. It condemned export duties. It was against flag discrimination. And, so far as the form of tariffs was concerned, it recognized that the tariff system had got into a state of chaos, and that something would have to be done to reduce it to order. They suggested that tariff nomenclature should be standardized and that the Economic Committee of the League should endeavor to draw up a standard form of commercial treaty so that something like the old trading relations between the countries of Europe could be restored.

But much the most important recommendations of the Economic Conference are its proposals with regard to the level of tariffs. The Conference recognized that the most extreme forms of obstruction—complete prohibitions, license systems, and things of that kind, had in fact been removed, and they say that “to this fact must be attributed in part the recovery of world trade which has so far been achieved. Tariffs, on the other hand, which in recent years have shown a tendency to rise, are for the most part higher than before the war and are at present one of the chief barriers to trade. The increase in most countries is almost wholly due to higher duties on manufactured articles. In Europe the problem has been complicated by political readjustments which have changed

¹ A Conference has recently been sitting in Geneva to draft a convention for the abolition of those absolute prohibitions of trade.

many frontiers and increased the number of separate customs units from twenty to twenty-seven." This has involved the setting up of some six or seven thousand miles of new customs frontiers. The Conference added that "The harmful effect of these tariffs upon trade has in many cases been increased through their constant changes which have created an element of uncertainty and made it impossible to place long contracts. The countries have failed to deal with the situation by long-term treaties."

The Conference went on to discuss the reasons why this elaborate and growing tariff system had sprung up, and proceeded—and remember that the report from which I am quoting was unanimously adopted by the representatives of fifty nations, Russia and Turkey alone abstaining from voting—to discuss the fallacies and unsound reasoning which had led to this exaggerated tariff system. It pointed out that the tariffs were no remedy for fluctuations in currency. It would surpass the wit of man to juggle with tariffs quickly enough to follow the erratic and rapid movements of exchanges. It pointed out that tariffs had been raised with a view of securing for countries economic self-sufficiency, but that for the great majority of countries that was unobtainable. "This effort to obtain self-sufficiency," they say, "cannot hope to succeed unless it is justified by the size, natural resources, economic advantages and geographical situations of a country. There are very few countries in the world which can hope to attain it."

Then they discussed another form of tariff which had grown up in recent years, namely, what has come to be known as the *tarif de combat*. Unfortunately, the Conference recognized that tariffs imposed for the purpose of beating down other people's tariffs usually fail to do so, but that the high duties imposed remain long enough to create vested interests, and that then it becomes impossible to lower them again. This is one of the leading reasons for the constant upward tendency of European tariffs.

Then the Conference referred to the argument in regard to national defense; it dealt with the fallacy, so very widespread, that it is better to keep out imports and produce at home, than to secure goods by means of exchange. It referred to the fact that high tariffs tend to lead to dumping, the result

of which is to cause disorganization and chaos in international markets. "This artificially created competition," says the report—and these are carefully considered words—"is one of the most dangerous causes of market disorganization and of economic conflict between nations."

Any one who reads the report will find a discussion of many other aspects of the question. But there are two interesting omissions from the list used in connection with the arguments dealing with tariffs. One is the argument that tariffs, after all, are essential to maintain the standard of living of a country. That is not discussed in the report, because nobody raised it in the Conference. If it had been raised it would have brought out some very interesting facts. For, if you look at the League report on the level of tariffs, you find that the most exclusive countries in the world, from the tariff point of view, are Russia, Spain, the United States and Brazil. Three of these countries have low standards of living and one of them a very high one. If you look to see which countries come next on the list as regards their standard of living after the United States, you find first of all the British Dominions. When you come to Europe you will find Great Britain with Holland and Switzerland at the head of the European nations, all three countries with moderate tariffs, or none at all.¹ Then, as you go down the list, you will come to the countries with high tariffs and low living standards: Poland, Hungary, and so forth. In short, the high tariff countries include nations with both high and low living standards, while most of the low tariff countries have high living standards. These facts would have been a warning against drawing any general conclusion as to the effect of a tariff upon the standard of living, and suggest that there are other considerations which determine the standard of living, which have nothing to do with the tariff.

¹ LEAGUE ESTIMATE OF *ad valorem* LEVEL OF TARIFFS
Spain 41 per cent. U. S. A. 37 per cent *ad valorem*.

Argentina . . . 29	Poland 32	Italy 22	India 16	Denmark . . . 10
Australia . . . 27	Hungary . . . 26	Germany . . . 20	Austria . . . 16	Holland . . . 6
Canada 23	Czecho-S. . . 27	France 21	Sweden . . . 16	Gt. Britain . . 4
	Yugo-Slav . . 23		Belgium . . . 15	
			Switz. 14	

There was one other omission. The Conference declared that it did not desire to pronounce on the fundamental principles or protection of free trade. But it was suggested at one stage by the French that it should define "reasonable protection" and declare that tariffs should be limited to the difference between the cost of production in a country and the cost in the most important competing country. The Conference refused to have anything to do with any such definition largely on the ground that any such definition can in fact be used to justify any tariff in the world and that to put in such a definition as a reasonable and proper method of determining appropriate protection would lead to no result in the direction of reducing tariff barriers whatsoever and would be completely ineffective, leaving things exactly as they were.

But the feeling of the Conference was unanimous that the tariff situation had got out of hand; and that so far as Europe was concerned, all countries were losing far more from the high tariffs of their neighbors, than anything that they could possibly hope to obtain from their own, and that something must be done about it. They therefore came to a very specific conclusion, namely, that "the time had come to put an end to the increase in tariffs and to move in the opposite direction." They suggested—and I am only running over this very shortly—that this change should be brought about by individual action, by bilateral treaties, by abandoning the practice of imposing fighting tariffs, and finally—and this was the most important of all—by inviting the League economic organization to endeavor to bring about a general amelioration and reduction of tariffs.

What will be the result? First of all, is this report a genuine expression of opinion? I think in the first place it is a very remarkable fact that such a report, categorical and clear in its indications, was passed unanimously by a very representative body. It is perhaps specially significant that the personnel of the Conference included a considerable number of the actual officials engaged in tariff making, whose whole life was spent in negotiation, drawing up of schedules, and so forth. The Conference further included the presidents of the chief industrial organizations of the countries of the world, of the labor organizations and many others. That unanimity was in itself

remarkable. It is even more remarkable that since the Conference the report has been endorsed completely and in principle by the Governments of Germany, Holland, Belgium, Czechoslovakia, Austria, the Scandinavian countries, and Great Britain.

But words are after all not the true test. Is anything actually going to happen? There are one or two points in that connection worth noting. The first is that Germany has taken the initiative in setting to work to prepare a lower tariff, which will go into operation if other countries show any willingness to fall into line. That is in all events an earnest of good intention. Further we have seen the signing of the recent Franco-German Treaty—the first treaty of the kind for many decades past. On both sides this treaty is admitted to have been largely the result of the Economic Conference. Lastly, the League has already, under the instructions of the Council, begun to set up the machinery needed to give effect to the resolutions of the Conference and in particular the machinery to endeavor to discuss and organize this downward movement of the tariff.

But can anything of a general kind be accomplished? That is a more difficult question. It was generally agreed at the Conference that we could not expect much to be done by individual action and must look, therefore, to collective action. The American representatives who came to the Preparatory Committee, and others, have from time to time pointed out that the United States has an enormous economic advantage in the size of her colossal market within which there are no tariff barriers, and have suggested that Europe might gain prosperity by following the same road. That argument has gone home; it has been meditated upon and much discussed in Europe. But we are a long way from any possibility of a customs union in Europe. There are racial difficulties; there are language difficulties; there were difficulties in forming the confederation of the United States; these were as nothing compared to the difficulties of trying to bring about a unification of the nations of Europe. If an economic federation of the whole or part of Europe is to be attained, it must be attained by degrees. How are you to get at it by degrees?

Certain of the countries of Europe have definitely suggested movements in this direction in recent years. Preferential ar-

rangements have been proposed which would lower the rates between two or more adjacent countries. Every attempt of that kind has hitherto broken down before the opposition of certain other countries, including the United States and Great Britain, which have opposed all such movements on the ground that they are a form of discrimination. For instance, when I was in Austria there was under discussion a proposal for a preferential arrangement between Austria and Czechoslovakia, which was an attempt to move back towards the situation of the old Austro-Hungarian Empire before the war. But Britain and other countries were opposed to a plan which would have admitted Austrian goods into Czechoslovak markets on better terms than British and other foreign goods. It is true that there is a difference between the argument as used by Great Britain and the argument as used by the United States. In the one case our argument is that it is reasonable that we should get into Czechoslovakia on the ground floor, because both Austrian and Czechoslovak goods get into Britain free, with very small exceptions. The argument as used by the United States is that American goods should get into Prague and Vienna on the ground floor, because in the American market there is no discrimination against either Austrian or Czechoslovak goods since both pay the same high tariff.

But where does this opposition lead us? It leads to this: That British policy is directed not to a territorial arrangement but towards a general lowering of the tariffs of Europe. If special territorial arrangements are impossible the only alternative is a general reduction.

Is such a policy possible? The first thing to note is that it has happened before. It is not true that tariffs always move upward, for there have been in European history periods of very definite downward movement of tariffs—not only in Europe, indeed, but in other countries of the world. The most notable case was after 1860, when a downward movement of tariffs was started in Europe by the Cobden Treaty between Britain and France; and in the two decades which followed that treaty, in the period of moderate protection, foreign trade between the nations increased very rapidly. But the situation is not quite the same today as it was then. Then European trade was of outstanding importance from this point of view;

today the problem must be considered not merely as a European problem but as a world problem, if this policy of general reduction is to be followed instead of the alternative policy of a territorial agreement.

I have seen it suggested that the recommendations of the Economic Conference apply only to Europe. But I hesitate to think that economic truth ceases to be truth when it crosses the Atlantic. Moreover, the resolutions of that Conference were not drafted purely for Europe. If they had been—and I am speaking as a member of the Drafting Committee—they would have been very differently drafted. Nor is it true that the tariff problem is today purely a European one. There are many people who have wondered how it happened that members from high protection countries like the British Dominions signed the report that I have briefly described, and have been disposed to think that it was approved with certain mental reservations. Australia is a notable example of a country which has been moving towards higher protection. Did the Australian members think that the tariff movement had gone too far or did they vote for those resolutions assuming that they applied to other people but not to themselves? Let me tell you what has happened since in Australia. Within three months of the Geneva Conference the body which ought to know most about it, the Tariff Board of Australia, presented a very remarkable report, in which it said that "There is a danger of the tariff being used to bolster up the ever-increasing cost of production, irrespective of any consideration of the ever-widening gaps between the standards maintained in the Commonwealth and the United Kingdom." They went on to say that "In so far as the recent increases in customs revenue were due to collection of higher duties, it would have been much better if the money had been left in the pockets of the people, for it had failed in its protective effect." They describe the shuttlecock and battledore situation which goes on; the Wages Assessment Board grants an increase of wages and the industry comes to the Tariff Board for protection to cover the higher wages cost, whereupon there is another appeal to the Wages Board to raise wages to cover the rising cost of living and so on. They conclude that "If Australian industry is to be maintained, the leaders of the trade unions should

recognize the menace of these rising costs of production. Many industries are in jeopardy and unemployment is serious; the situation calls for the serious attention of all parties without political bias, otherwise there could be nothing but disaster." That is a very remarkable statement to come from the Tariff Board of one of the countries which we all assumed at Geneva to be really least interested and least convinced of the principles that had been discussed in the report.

But I must come to the American situation. I realize that here I am on very delicate ground, and I shall need all the charity I can get. I do not propose to discuss the American tariff problem in itself; but I venture to say that however much the United States may consider its tariff as a domestic affair, American tariff policy is bound to influence to a very large extent the tariff policy of Europe and of other countries and will very largely determine the direction in which this new movement in regard to tariffs will develop.

May I recall for a moment the point I began with: that you have on the one hand Europe with 40 per cent of the world's production of wealth, North America with 30 per cent, and the rest of the world with the remaining 30 per cent. The trading relations between the North American continent and Europe are really the key to the future development of the world situation. And what is the outstanding fact? The outstanding fact is that the present trade between Europe and Northern America is comparatively stagnant; that whereas American trade with other continents has gone up enormously, its trade with Europe has remained almost stationary. If you take America's imports from the rest of the world, they have multiplied threefold since 1913. Her exports to the rest of the world have gone up almost by the same amount, nearly three fold. Her imports from Europe have risen by 48 per cent, and when you reckon that those figures are in money and allow for the increase of prices, you will see the justification for what I said just now, that the volume of America's purchases from Europe is no higher than in 1913. It is a significant fact that with all America's internal economic progress and the development of her trade in other directions, her purchases from Europe are no more than they were in 1913. Her sales to Europe have gone up slightly, but very little as

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compared with the threefold increase elsewhere. America's exports to Europe are up by 93 per cent, which, after allowing for the increase in prices, places them perhaps 20 per cent up.¹ Between this great continent of Northern America and the rest of the world there has been a colossal development; between Northern America and Europe stagnation, with a slight improvement, though very slight, in exports to Europe. That is hardly what President Harding anticipated when the tariff of 1922 was introduced. In his presidential message of December, 1921, he said, "We must not be unmindful of world conditions but recognize the necessity of buying wherever we sell, and that the permanency of trade lies in its acceptable exchanges. In our pursuits of markets we must give as well as receive." But in any event, the tariff of 1922 has proved to be an anti-European tariff, which has checked trade between Europe and America from developing *pari passu* with the great internal development of the United States, and with its foreign trade in other directions.

It might be suggested that imports from Europe do not matter, provided the United States can sell to Europe, and that the balance can be settled by what is called triangular or round-about trade; but though triangular trade has long played a part in balancing the trade account of America as it does of every great trading country, it has not prevented the stagnation to which I have referred and in any case is not a very satisfactory solution from the European point of view. May I for a moment recall the figures I just gave? It is not the case that America has sold to Europe, that Europe has sold to the rest of the world, and the rest of the world has sold to America, for what has happened is that American trade with the rest of the world, *in both directions*, has increased, and

¹ INCREASE IN THE TRADE OF THE UNITED STATES WITH VARIOUS
CONTINENTS IN 1925 COMPARED WITH 1910-14

	<i>Imports</i>	<i>Exports</i>
Europe	+48	+93
All other Countries.....	+250	+183

It is of interest to compare with these figures the percentage of imports from various continents which entered America free of duty, i. e. North America, 59.3 per cent; South America, 84.4 per cent; Asia, 83.7 per cent; Oceania, 52.5 per cent; Europe, 37.8 per cent.

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increased enormously. America has not left room for the triangular trade of Europe but has naturally endeavored with considerable success to fill these markets herself.

It is true that American sales to Europe can in part be paid for by the expenditures of her tourists, for when all allowances are made for deductions, amounts spent in Canada and elsewhere, the figures look as though American tourists contributed some \$300,000,000 to \$350,000,000 last year toward the balancing of American sales to Europe. But neither triangular trade nor tourists have produced a satisfactory condition of trade even from America's point of view; for even American exports to Europe have not expanded in anything like the ratio in which America's general economic life has developed.

Again, it may be suggested that America can in fact develop her sales to her greatest market without buying in return by lending capital freely; and that in fact a growing stream of export would merely be the expansion of her capital. Perhaps to some extent that is what has happened in the last two or three years, but can we assume that it will continue? I do not know how many people realize that last year, according to Mr. Hoover's estimates, America's net capital exports only amounted to \$13,000,000; in fact, there was practically no margin of capital export. It is true that on the stock exchange here in New York a record number of foreign securities were floated, but they did not represent a net export because they were paid for, or balanced by capital movements in the opposite direction, by sinking-fund operations on old loans, by purchases of American securities by foreigners, by sales back to London and to other foreign centers, and finally by the influx into the United States of a very considerable amount of short-term money. The net result is that net outflow was, as I say, only \$13,000,000.¹ The United States is

¹ It is of interest to compare the "net" export of capital of Britain and the United States respectively during the last seven years. The figures are the final balance of visible and invisible items of import and export of the two countries according to the Department of Commerce and the Board of Trade respectively. If the figures are correct, it is a mathematical certainty that they must equal the ebb or flow of capital. A surplus export of capital is represented by + and an import by —. The British figures are roughly converted at \$5 to the £1. The margin in favor of Britain should be slightly

doing exactly what we are doing in Britain, namely, borrowing short and lending long. I make no forecast or prognostication. I merely call attention to this fact as indication that it is not at all certain that the United States—with vast uses at home for her annual savings and a very high standard of consumption which puts an effective check on the rate of capital accumulation—has a true margin for capital export at all. If America wants to regain her export position in her greatest market, there is a simple method of doing it, and that is by increasing direct exchanges.

But I must return to my argument. In these circumstances, with trade between Europe and America stagnant and American competition keenly felt in every country in the world, it is going to be very difficult indeed to persuade the countries of Europe to adopt the British solution of a general lowering of tariff, if there is no corresponding move in the United States. It would be extraordinarily difficult politically for any such movement to be carried very far. I think, myself, it will go some way. I think the results of the Geneva Conference will be substantial in certain directions, in simplification in certain cases and in certain cases in lowering duties, whatever may be done on this side of the Atlantic. But it is very difficult to anticipate a substantial general reduction of tariff levels so long as there is in this great United States market one of the highest tariffs in the world. It is as impossible to dissociate the position of the United States—so great has your position in the world become—from this problem as it is to dissociate it from the analogous and very important problem of disarmament.

It is quite inappropriate for any outsider to comment further

reduced to allow for the depreciation of the pound sterling between 1921 and 1924.

(FIGURES IN MILLION DOLLARS)

1920	+2017	+1260
1921	+561	+(875)
1922	+130	+770
1923	—228	+765
1924	+310	+430
1925	+429	+320
1926	+13	—60
	+3,232	+4,310

on your policy. I have no doubt that your statesmen will consider carefully not only your own internal position but the world position. Again quoting Mr. Harding's message, he says in the same place that "We do not seek a selfish aloofness and we could not profit by it were it possible." If that is to be the keynote of America's economic policy, it should be possible to find the solution of this difficult question and to move along in the right direction the very promising change of opinion which has been revealed at Geneva. Mr. Jeremiah Smith, who is to speak after me, is to sit on the Finance Committee of the League of Nations. I sincerely hope that a United States representative will sit on the economic organization of the League which is to consider this problem of the tariff relations of the world, and that his cooperation will help to fulfil the hope of the Conference that it should in some way "mark the beginning of a new era, during which international commerce will successively overcome all obstacles in its path and resume that general upward movement which is at once the sign of the world's economic health and the necessary condition for the development of civilization."

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WORLD TRADE AND PEACE

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I HARDLY need remind this audience that trade is absolutely dependent upon peace. Trade and commerce recognize it; big business men, even international bankers, whatever they may be and whoever they may be, also recognize it. You read in the papers from time to time that "big business" wants war; that it makes a profit out of it, and that it promotes it. I am neither a business man nor a banker, so I am in a position to judge that question impartially. What capital wants is *security*. It is perfectly willing to work on a reasonable margin of profit, if it is going to be allowed to carry on its operations undisturbed, and it wants that more than anything else in the world. You will always find in every country a few people who like to take risks; who are willing to take risks and to have disturbed conditions exist in order that they may profit by speculation, but taken by and large, big business is dependent upon peace.

Now what is the best way to preserve the peace of the world? That is important not only for business but for many other reasons. H. G. Wells, who is always an interesting writer, whether you agree with him or not, said that people are bored by peace talk. Maybe that is true. There is a great deal of it, however, in the United States. There are at present something like seventy-five different peace societies. I am a trustee of one of them, myself. Every time there is a meeting of any religious organization or of almost any kind of an organization, the convention winds up by passing peace resolutions, which are as thick in this country as blueberries are in Maine in August, but nothing is done; it is all talk and no action.

I am going to give you some of my views on this subject. You may not like them; they are somewhat unorthodox, and a good many people perhaps wouldn't agree with them.

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I want to say at the beginning that I am neither a pacifist nor an internationalist. There are times when a man has to fight, or when a country has to fight. It isn't true that it takes two to make a fight. It only takes one. Any drunken stevedore, armed with a pickax, can break into any house in New York tonight, and if he is in an ugly enough temper, he can create a situation where the people in that house will have to fight to protect their lives. There are countries which can get into the same frame of mind and can do the same thing, and there are occasions when people will have to fight.

I am also a believer in patriotism. That is one of the finest and noblest sentiments that there is—if it is not misdirected—and I know of nothing finer nor better that a man can do than to make some sacrifice for his own country. But a man doesn't have to be either a pacifist or an internationalist to believe that the preservation of peace is one of the most important questions confronting the world today, not only for the benefit of trade and commerce, but for everything that we hold dear.

I have had a fairly good opportunity in the last dozen years to observe the manner in which international dealings are conducted. I have never occupied a prominent part; I have never directed the policy of any government; I have never held any position in my own government in connection with it, but I have had very fair opportunities for observation, and as a result of them I think I can see some of the causes of what happened in 1913.

Most Americans who had anything to do with the negotiations which culminated in the Treaty of Versailles got their first experience with the manner and methods in which international affairs are conducted. I don't think it is an exaggeration to say that it came as a great shock to most of them. We may have been innocents abroad, to have believed that those dealings were going to be conducted openly, with sincerity and with frankness. We may have been rather simple-minded to have believed that some of our Allies meant what they said, when they were talking about the aims of the war or abusing the United States for not getting into it; but what we actually encountered was a very great shock. Now I don't want to be understood as taking the very offensive attitude which some of our fellow citizens do take occasionally, of moral superiority

to Europe. At Paris, the United States was not under any temptation: nobody had anything that the United States wanted. It had no neighbors more powerful than itself, with whom it had a long-standing quarrel. We have been engaged in settling an unsettled country. We have had enough to occupy us in doing that, and I don't know what the United States would have done if it had been subject to the same temptations that some of the other parties to the Conference were subject to. I hope that it would have behaved decently, but you can't tell.

I am not proclaiming any moral superiority over Europe, but you may think what I have said is rather harsh. It is no harsher than what has been said by very many eminent gentlemen in some of the other countries that had anything to do with that treaty.

I came home, exclaiming loudly, "George Washington was right; keep out of wicked, old Europe"; but I began to think about it, and after I cooled off, I came to the conclusion that nobody over there was very much to blame. It was simply what H. G. Wells calls "the Great Power system" in practical operation. These people were doing what had been done for centuries. Macaulay said, I think, speaking of Warren Hastings, that no man should be condemned for not being in advance of the morality of his time. Well, no nation should be, and on reflection I blame no one, I blame no country, I blame no set of statesmen for what happened there. It was practically inevitable, considering the manner in which international affairs had been conducted in the past, that they should be conducted again in the same way. It was too much to expect that overnight they would turn a somersault and come up facing in the other direction.

That, in my opinion, is the real trouble with—the whole crux of—the peace situation. There has never been any standard of international morality in international dealings; and there has got to be created a new sentiment which will insist on the same standards of international morality in international dealings that men of high character use in settling disputes among themselves.

If you can't bring that about, it is only a question of time when there will be another war, on the same general scale as

the last one. We can see now, I think, that Mr. Wilson was not to blame for the Peace Treaty. I do think perhaps if he had been a more skillful negotiator, he might have gotten a little better treaty, but no one man and no one country could, in a few weeks or even in a few months or a few years, overturn a system which had been in practical operation for years, for generations, and even for centuries.

Now what is the remedy? The only remedy for creating a new standard of international morality is by creating some form of public opinion. Of course, there are cynics who say you can't do it; that the world has always been like that and it will always be like that, and affairs will always be conducted on that basis. I am just enough of a simpleton not to believe them. I think you can have some improvement. I will give you an illustration from the subject of intercollegiate athletics.

I was very much interested in intercollegiate athletics when I was at college, which was longer ago than I like to think; and at that time the affairs of intercollegiate athletics were conducted about on the same basis as a good many foreign offices have conducted their international dealings.

Some of you may be golfers, and those of you who are not can appreciate this, I think. Some twenty-five years ago there was a golf match going on between the representatives of two eastern colleges, and one of the players lost his ball. He had five minutes to hunt for it. He hunted for it and couldn't find it. He went to his opponent and said, "Time's up. It's your hole." Thereupon his opponent, who was a perfectly decent chap, came to him and said, "Here is your ball. I have known where it was all along and of course if I had been playing for myself I would have shown it to you, but I couldn't because I was playing for my college."

That is the way many of these international dealings have been conducted. Now that thing couldn't happen in an intercollegiate golf match today in any part of the United States, because public opinion is against it; and I think if you can improve small things like intercollegiate athletics, it may even be possible to improve large things like the manner in which international disputes are settled.

What is the best of the remedies? In a brief address of

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this kind I can't hope to deal, except in a most superficial manner, with all the remedies, but there are quite a number of them. Resolutions are suggested, the outlawing of war, codes of international law, and the establishment of courts for the enforcement of the laws. The Ambassador to the Court of St. James made a most interesting suggestion last June, that a plebiscite should be taken among the self-governing countries to determine whether they should go to war or not.

I do not believe, myself, that any of those remedies are going to accomplish what the authors of them hope to accomplish. Resolutions won't do much good; codes and courts won't do much good. Those people have put on the third act first. Only when you have got some sort of public opinion, will you have laws and courts to enforce them. What abolished dueling as a means of settling private quarrels? It wasn't laws. They had the most ferocious laws against dueling, with double rows of teeth in them, long before dueling was abolished, but it went on. What abolished it finally was public opinion. And I think when you have got the public opinion it will have that same effect. You may have codes and the courts to enforce them, but you have begun at the wrong end establishing codes first.

The great difficulty, to my mind, is that these remedies do not provide the real way in which something can be done, and that is by personal discussion and negotiation. Take our dispute with Mexico, for example. That has been going on for a good many years—seven years and more, to my knowledge. All that time, until very recently, an attempt was made to settle it by a series of diplomatic notes, in which of course neither side conceded anything. In all that length of time there have been just two advances made, two things settled in our disputes with Mexico, and they were settled by personal negotiation in each instance. I don't believe there is any adequate substitute for personal negotiation in settling disputes.

You all know that I have been an officer of the League of Nations; I am not now, though I am serving on a Committee of it, or about to serve on a Committee of it. But I am not serving in any sense as representing my county or representing any interest in it. It is only as an individual that I am serving.

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But I have had a very good opportunity to observe the League in action. That is the most ambitious attempt that is being made to produce some solution of this question.

I can tell you a little something about it. The great value of the League of Nations, to my mind, is the publicity which it affords. It doesn't make any difference what is written in the so-called Covenant. I don't much care what is there, beyond one provision, and that is that you agree not to go to war with anybody else until you have thrashed the question out publicly before the League of Nations; and then if you can't agree, you can go to war if you want to. Publicity is a great remedy. It is very difficult to be a mean man in public. It is a great preventive of outrageous claims which were frequently put forward by the foreign offices. I have, myself, seen representatives of various countries walking up and down the corridors in Geneva, before they went into a Council meeting, telling other people what they were going to say about other countries and what they were going to do to them when they got in there. Then I have seen them get in there and look around the room and see there were a good many people there, and when they did say something, it wasn't nearly as ferocious or blood-thirsty as what they had said they were going to say before they went in.

If you are doing business in a glass house, with the rest of the world looking on, it is pretty difficult to get away with many of the things which used to be gotten away with when they were done in dark corners. I think that this is the chief value behind the League of Nations: that you have a place, if you have a complaint against anybody else, where you can advance it. If the other man has a good answer to it, he can get up and give it. You have a good many people there watching you; they are sitting on the side lines; many of them are impartial and disinterested, and it is almost impossible for many of the games that used to be worked, to be worked out in broad daylight.

I will give you an example of what I mean. Perhaps a year and a half ago the Greeks and the Bulgarians got into a terrific dispute. The Greeks got over into Bulgarian territory and the Bulgarians got over into Greek territory, or at any rate the Greeks claimed they did and they commenced to shoot

at one another, and some people were killed. The Council of the League of Nations immediately called a meeting and representatives of both of those nations appeared before it in Paris. The Council of the League said, "Gentlemen, you have each signed an agreement not to go over into the other fellow's territory." Each of them arose and said, "He started it, and I had to do it as a reprisal against him."

The Council said, "It doesn't make any difference who began it. We can send down neutral people who can report and tell us who is to blame, and whoever is to blame will have to pay for it. But the most important thing is that you should each get back behind your own frontiers where you belong and where you agreed to stay. It is our opinion that within twenty-four hours you should each issue orders to your forces to retire behind your own frontiers; and within forty-eight hours those are to be carried out. We will send a Swedish General, or some neutral official, down there to see that that is done. Now do you gentlemen accept that?"

The representative of one of these countries got up and accepted it, and the representative of the other country was asked whether he accepted it. He got up; he was a diplomat; he had been sent there as one of the diplomatic representatives of his country in western Europe, and he had been sent there without any instructions, probably purposely, so that he could say that he had no authority to agree to anything.

He got to his feet and looked in front of him and saw the representatives of eleven different countries sitting there, none of whom, fortunately, had the slightest interest in this dispute, and he looked over his shoulder behind him and saw seventy newspaper reporters with pencils all ready to write down what he was going to say and telegraph his statements to their newspapers. He looked farther back in the room and saw some of the public who had been admitted to the proceedings. He couldn't say that he wouldn't accept it because that was almost equivalent to a declaration of war and was going to be telegraphed all over the world immediately, and, being an intelligent man and not wishing to lose his official head, he said, "Well, that is satisfactory to me, personally, but I don't know whether it will be to my government."

They said, "Well, you can find out by tomorrow. There

are plenty of telegraph lines and you can find out by tomorrow whether that is satisfactory to your government, and suppose you come back tomorrow and tell us."

The next day he was back there and said that it was satisfactory to his government, which was the end of the whole incident—just the kind of an incident that fifteen or twenty years ago would have upset everything in the world and might have got all sorts of powers in on each side of the question.

I don't mean to say that you can settle a dispute between two of the great powers in the world by any such methods as that, before the League of Nations; I am quite sure you couldn't. But if a man is obliged to get up, state his case, make his complaint, there is a lot of time which goes on, there is a great deal of delay and postponement, and the longer that sort of thing continues, with everybody pulling the coat-tails of both contestants, urging for a settlement, the less likely you are to have war. That is what I mean by the value of open discussion in public and personal negotiation.

I wouldn't for a minute suggest that the United States should join the League of Nations if I thought that it involved the dangers which the opponents of the League say it does. But I don't. I think they are very largely imaginary. I don't want to send United States troops to Europe to fight over European boundary quarrels; I don't think this country ought to get into any European entanglements, but joining the League doesn't necessarily mean that. I have seen the Japanese sitting on the Council of the League for seven years, and they haven't gotten involved in any European entanglements; and they haven't the slightest intention of getting involved in any European entanglements, either. You can get involved in them, or not, just as you like.

There are things that the United States wouldn't like if it were a member of the League of Nations. I dare say it wouldn't like to get up and debate questions of some of its policies in Central and South America before the Council of the League. I am not criticizing our State Department for the policies that it has pursued in that respect. As a general rule I think the United States has a pretty good case in most of those instances and I don't think there is any reason why we

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should be afraid to state it. I think it probably would result, in the end, in the establishment of a good deal better relations with some of our neighbors than now exist, if there were a place where everybody could go and blow off steam.

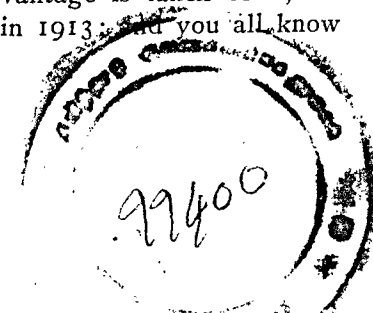
Of course I know that it is a political impossibility for the United States to join the League of Nations at the present time. One of our great political parties—and it is the party which has a majority in this country under normal conditions—has persuaded the average voter that there is some danger in this thing, that it is a sort of conspiracy on the part of wicked, old Europe to get Uncle Sam over there and perhaps go through his clothes, or at any rate do something disagreeable to him, and I wouldn't like to see the United States make an attempt to join the League of Nations in the present state of public opinion in the country. I think that public opinion in this country has to change a great deal before it can do it. But I am satisfied, from what I have seen of it, that there will have to be a radical change in the method, the manner and spirit in which international affairs are conducted, if there is to be any improvement, and that the League affords the best chance of bringing this about.

This question is one of the most important questions facing the world today. It isn't going to be settled by rhetoric or by emotion or sentiment. It isn't going to be settled by anything like legalistic formulae. It has got to be settled by some straight thinking by clear-headed people, on a very important subject; and if I have induced, by what I have said, anyone of you to think on these things, I shall be perfectly satisfied.

The present period of exhaustion in Europe, following the Great War, is probably the most favorable opportunity that the world has seen to establish a new method of conducting international disputes. If no advantage is taken of it, we shall all be back where we were in 1913, and you all know what that means.

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சுவணைத்தாள்.

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