International Aspects of Industrial Recovery

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It would be most helpful if we could determine exactly the importance of foreign trade to the American economic system. The various estimates which have been made in the past—that about 10 per cent of our total production is normally exported—leave much to be desired. Some industries depend upon the foreign markets for their very existence, while others can view fluctuations in foreign exchange with absolute unconcern. A recent study prepared in the Bureau of Foreign and Domestic Commerce shows that more than one million men are unemployed as the result of the decline in foreign trade since 1929. It is impossible to measure the losses due to idleness of capital, equipment, shipping facilities, and the like. This one fact—that one million men are unemployed—seems to me sufficient to answer the question which I posed at the very outset. It gives international trade an important place in our economic system, deserving our very best thinking and vigorous effort.

Records of the past indicate very clearly that fluctuations in foreign commerce correspond directly to fluctuations in general business conditions.

Unquestionably, the element in the recovery program of most importance to foreign trade is the suspension of gold payments. This was absolutely essential as a part of the general program. Had we endeavored to continue on the gold standard and raise domestic prices, the inevitable result would have been a considerable flow of goods into this country.

The suspension of gold payments has actually been a force working in the opposite direction up to the present time. The dollar has declined more than one-third, while domestic prices have not increased by an off-setting amount. The result has been actual encouragement to export trade and discouragement to imports.

The record of our foreign trade in recent months is a further evidence of the fact that the program has not resulted in discouraging exports and encouraging imports. Export figures for February, March, and April of this year showed lows ranging from 101 to 108 million dollars in value. The value of exports then began to climb to $144-million in July. In August, the export total fell to $131 million but the September figure showed a $29-million increase over the previous month's total, the value of our exports shipped during September reaching the sum of $160-million. This exceeds the record of any month since 1931 and is nearly 60 per cent above the low point in February. Imports have likewise advanced. From a low of $84 million in February, the value steadily climbed until in August we imported almost $155-million worth of commodities. September figures showed a decline to $147-million, leaving a net balance of exports over imports in merchandise of $13 million.

While the depreciation of the dollar more than offsets the advance in costs under the industrial recovery codes, arising out of the larger payrolls, there was another line in which the recovery program threatened our foreign trade which did not become apparent until a number of codes had already been approved. Under the recovery act, codes of fair competition apply to foreign commerce as well as to domestic trade. Consequently, any provisions included in any code automatically apply to foreign trade unless specific exemption is made. But many of the codes define unfair trade practices, credit terms, conditions of sales and the like. While it is very desirable to use this means to set high standards of economic behavior in the domestic market, it is possible only because the same standards can be applied to all competitors. Obviously a code set up by the National Recovery Administration cannot define the behavior of all competitors in the foreign market.

Among the early codes to be approved three specifically included exemption of foreign trade from the fair practice provisions—the lumber code, the iron and steel code, and the petroleum code. Many others made no such exemption and consequently all regulations set up for the domestic market automatically applied to foreign trade. However, I am glad to say that this threat to foreign trade is being removed. An office order has been issued within the N. R. A. giving the following instruction:

"It is proper to exempt exports from any provision regarding price or trade practices, but never from labor provisions."

This same situation is covered in the model code which has been prepared by the National Recovery Administration, providing for similar exemptions.

Import trade has also presented its problem. As you know, the law provides that the domestic producer shall be protected whenever his advancing costs create such a differential between himself and the foreign producer as to result in a considerable loss of the domestic market to imported goods. For sometime there were no complaints along this line and consequently no action was taken. Then several industries came forward insisting that their advanced wage rates were resulting in loss of markets to foreign producers. Late in October the President issued an executive order setting forth the procedure to be followed in such instances. It calls for investigation by the National Recovery Administration and by the Tariff Commission. So far the number of complaints have been surprisingly small and go to support the point which I made earlier, namely, that the depreciation of the dollar has more than offset in most cases the increased cost resulting from higher wages.

Foreign nations have been forced to adjust their foreign policies to meet urgent monetary and financial considerations. They have levied new and higher tariffs, often for the purpose of protecting home industry, sometimes to gain revenue, and particularly in recent years to support their financial structures. Unemployment on a large scale has lead to widespread demands for protection from the foreign producer. Debt burdens and declining prices have made extraordinary methods necessary to control international balances of payments. Whatever the motives, the results have in almost all cases been to curtail imports.

There can be little doubt as to the wisdom of a policy directed towards the reduction of the many barriers which restrict the international flow of commodities. American policy in the past has been to consider tariff action almost exclusively from the domestic angle. We have thought of it as a means of protecting our own industries. We have never recognized sufficiently that curtailment of imports necessarily leads to curtailment of exports.

It would rest forever on my conscience, if I presented too optimistic a picture of the possibility of great accomplishment by the means of reciprocal trade agreements. It is a much simpler problem for countries of small area, where many commodities must of necessity be imported. In this case concessions can be made without serious domestic opposition. But in the United States, the obstacles are tremendous. Almost every commodity considered has its particular group with a vested interest. Negotiations must rest upon a clear net gain to the entire nation. While the concessions granted will always be protested by the particular groups interested, reciprocal trade agreements will be satisfactory only when the advantages gained by removal or lowering of foreign barriers to American goods will more than outweigh the disadvantages to our economic structure. We can not expect to get something for nothing. But a proper reciprocal trade agreement should result in decided net benefits to both countries involved.

In his stimulating volume of essays, *Looking Forward*, President Roosevelt stated:

"Instead of romantic adventurings in foreign markets we expect and hope to substitute realistic study and actual exchange of goods. We shall try to discover in every country, in turn, the things which can be exchanged with mutual benefit, and shall seek to further this exchange to the best of our ability. This economic interchange is the most important item in our country's foreign policy."

This is a direct instruction to the Bureau of Foreign and Domestic Commerce. We hope that, by making this "realistic study" deep enough in its intensity and broad enough in its scope, and by presenting the results as rapidly as possible to those who are vitally interested, the basis of foreign commerce may become increasingly sound, that the opportunities will become more and more apparent, and that the information underlying foreign trade will pass as far as possible from the realm of guesswork into that of certainty.

The *Journal* Complimented

Walter Robb Esq
with the compliments
of Richard T. Ely

It is felt that many of our readers will appreciate, as we do, the compliment the *Journal* receives in the little note of which the cut above is a facsimile. Dr. Richard T. Ely is just founding in New York City his *School of Land Economics*. He is reckoned among the best economists living; he founded the department on this subject at the Johns Hopkins, and was the professor of political economy at the University of Wisconsin who had a deciding influence in shaping much of that state's economic legislation. In a like capacity he then went to Northwestern, whence he has gone to New York. He was born in 1854, *Time* rates him as having taught more economists than any other man living. It is in a copy of his book (one of many from his pen), *Outlines of Economics, 5th Edition, MacMillan,* that the note referred to appears. The *Journal* has had correspondence with Dr. Ely on matters of economics. He is one of the American authorities interested in our questions here.

To make a good job of blowing our own horn while we are about it, let a letter recently received from Wm. H. Taylor appear:

"I have just read your article entitled 'Some Considerations Relative to Our Times', and wish to congratulate you on your effort. I consider it by far one of the best articles on the present situation it has been my privilege to read. I am wondering if by any chance if a book by Dr. Hazard, on the Vanishing Frontier, furnished you with background for your article, for it seems to be in a logical sequence to the thought therein expressed. If you would be kind enough to send me an extra copy of the October number, I would like to send it to Dr. Hazard for his perusal and comment."

Mr. Taylor was for many years the Manila manager for the National City Bank, and is now a banker in San Francisco, 605 Russ Building. Dr. Hazard's book had not been read in preparation of the piece Mr. Taylor praises, but the reviews say it is a good text. Readers will equally like to know what Governor General Murphy thought of the piece, because of their admiration for him: "I consider it one of the most informative and novel statements on the current trend under the R. A. (Roosevelt Administration) that I have thus far read and thank you so much for the generous reference to me."

Happy New year!