

TARIFF TRENDS AND A CASE FOR RECIPROCITY

A Thesis for Honors

Journalism-Economics

By Dan E. Clark 2nd.

May 12, 1937

ACKNOWLEDGMENT

The writer wishes to express his sincere appreciation for the invaluable help given to him in various discussions with Victor P. Morris, James Gilbert, A. L. Lomax, David Wilson, Dan E. Clark, Sr., and Eric W. Allen.

The assistance of Miss Casford and Mrs. Watts in the library was deeply appreciated, also.

dl. >gt; (480) Bd. .66

INDEX

<u>Book One.</u>	Page
Introduction.....	i
Background and Bibliography.....	iii
Current Bibliography.....	vi
Evaluation of Authorities.....	x
 CHAPTER ONE	
MERCANTILE POLICY.....	1
Background.....	1
Definition.....	6
<u>Mercantilism</u>	7
Object of System.....	8
Place of Money in System.....	9
How to Get Money and Launching of "Favorable Balance of Trade Theory".....	9
Thomas Mun.....	10
High Point of System.....	11
Trade Monopolies.....	11
Curious Practice.....	13
Corn Laws.....	14
Beginnings of Downfall of System.....	14
Hunger and the Corn Laws.....	18
Cobden, Bright, and the Anti-Corn League.....	18
 CHAPTER TWO	
FREE TRADE POLICY.....	23
Background.....	223
English Policy Constituted "Trend".....	25
Definition.....	26
<u>Free Trade</u>	27
<u>Industrial Revolution</u>	28
Effects.....	29
Prosperity.....	30
Arguments for Free Trade.....	31
Exceptions.....	32
 CHAPTER THREE	
PROTECTIONIST POLICY.....	34
Background.....	34
Protection and Mercantilism; Definition.....	35
Protection Before it Became a Major Trend.....	36
<u>Protection</u>	37
Results.....	38
Arguments.....	40
Summing Them Up; The Human Element.....	47
Smoot-Hawley Tariff Bill.....	50

INDEX (cont.)

CHAPTER FOUR	
THE NEW ERA AND THE COMING OF LIBERALIZING INFLUENCES.....	52
Background.....	52
<u>The New Era</u>	56
Slow Process.....	59
Depreciated Currency; Alternatives to Liberalizing Policy.....	59
"Power of the Pocket Book".....	60
Two Fundamental Facts.....	60
Future Policy.....	61
Two Courses of Action.....	61
 <u>BOOK TWO.</u>	
Introduction.....	i
Evaluation of Authorities.....	i
 CHAPTER ONE	
RECENT ECONOMIC DEVELOPMENT OF JAPAN--SINCE 1932.....	63
Indexes of Industrial Production in Certain Countries.....	64
1936 Record Export Year.....	65
Indexes of Value in National Currencies of Total Foreign Trade in Certain Countries.....	65
Reasons for Trade Expansion.....	66
Cheap Labor and Industry.....	67
Industrial Set-up.....	68
Standard of Living.....	70
Wages.....	73
Increased Productivity of Workers.....	75
Indexes of Workers' Productivity in Manufacturing Industry in Certain Countries.....	76
Rationalization.....	77
Devaluation of the Yen.....	79
Two Other Factors in Japan's Trade Expansion.....	81
Summary of Factor in Expansion.....	81
 CHAPTER TWO	
THE "JAPANESE TRADE MENACE" IN THE UNITED STATES.....	83
Specialization in Japan's Exports.....	84
United States Imports from Japan in 1934.....	85
Non-Competitive Goods Don't Menace, Do Benefit.....	87
Source of Trouble.....	87
Much of Trouble Internal.....	90
Inefficient Production.....	90
Monopoly Practice.....	93
Foreign Market Argument.....	96
Summary.....	97
 CHAPTER THREE	
RECIPROCITY.....	99
Method.....	99

INDEX (cont.)

What Has Been Done.....	102
Need.....	105
Japan.....	105
Peace.....	106
United States.....	107
Difficulties.....	108
Political.....	109
Economic.....	109
Social.....	111
CHAPTER FOUR	
ATTACKING THE PROBLEM.....	115
The Problem.....	115
The Working Materials for Reciprocity.....	117
The Competitive Problem.....	121
Reciprocal Considerations.....	124
The Reciprocity Process.....	124a
The First Step.....	126
Supplementary Suggestions.....	127
CHAPTER FIVE	
FROM THEN ON.....	134
footnotes.....	135
bibliography.....	138

BOOK ONE

CAUSES AND RESULTS OF TARIFF TRENDS

dated as from
December 1936

INTRODUCTION TO BOOK ONE

If free trade is the tonic of my historical harmonic on tariff trends, their causes and effects, it is only because the authorities I quote and the experts upon whose economic writings I have drawn have favored in varying degree the cause of free trade, either positively with economic facts to prove their points, or negatively by the absence of economic facts in their case for protection (H. C. Carey being an amusing example of the latter).

Although when I first sat down to the typewriter I was convinced of the economic soundness of free trade and the economic fallacies of the protectionist arguments, I still held to the belief that a satisfactory case for the protectionist, from his viewpoint, could be put forward, and went to considerable pains to do so.

But when the economic facts and truths are picked out of the political fabrication that holds up the protectionist argument, one finds he can count these truths on the fingers of one hand.

As originally conceived, the problem of Book One was to trace the dominant trends in tariff policies, their causes and effects. However, as nearly all the economic signposts,

when gathered together in the author's mind at the close of Book One, pointed to but one conclusion, he felt in all fairness constrained to put it down.

Throughout the treatise, the author attempted to include the important arguments on both sides of the controversial question of protection vs. free trade. In looking back over the paper he is satisfied that he has done so, although at times it was difficult to take the time to set down incompetent arguments in order to disprove them.

An attempt was made to keep all matter not directly pertaining to the matter at hand out of the picture. This is difficult in any discussion of tariff problems as the ramifications of the various policies are manifold.

BACKGROUND BIBLIOGRAPHY:

Ashley, Percy. Modern Tariff History.

London: John Murray, 1920.

Bastiat, Frederic. Economic Sophisms.

Edinburgh: Oliver and Boyd, 1873.

Bastiat, Frederic. Political Economy.

Chicago: The Western News Co., 1869.

Carey, H. C. Principles of Social Science.

Philadelphia: J. B. Lippincott & Co., 1868. Three volumes.

Heaton, Herbert. The British Way to Recovery.

Minneapolis: The University of Minnesota Press, 1934.

Larson, L. M. History of England and the British Commonwealth.

New York: Henry Holt & Co., 1925.

List, F. The National System of Political Economy.

London: Longmans, Green & Co., 1916.

Mill, J. S. Principles of Political Economy. (ed. by W. J. Ashley)

London: Longmans, Green & Co., 1909.

Mun, Thomas. England's Treasure by Forraign Trade.

New York: MacMillan and Co., 1895.

Nicholson, J.S. A Project of Empire.

London: MacMillan and Co., Ltd., 1909.

Palgrave. Dictionary of Political Economy.

Peddie, J. T. A National System of Economics.

University of London Press, Ltd., 1917

Smith, Adam. The Wealth of Nations.

London: J. M. Dent & Sons Ltd., 1924

Suranyi-Unger, Theo. Economics in the Twentieth Century.

New York: W. W. Norton & Company, Inc., 1931

Taussig, F. W. Free Trade. The Tariff and Reciprocity.

New York: The MacMillan Company, 1920

Taussig, F. W. State Papers and Speeches on the Tariff.

(including the Report on Manufactures by Alexander Hamilton) Cambridge, Mass.: Harvard University Press, 1895

Taussig, F. W. Some Aspects of the Tariff Question.

Cambridge, Mass.: Harvard University Press, 1931.

Taussig, F. W. Selected Readings in International Trade and Tariff Problems.

Boston: Ginn and Company, 1921

Thompson, R. E. Political Economy.

Boston: Ginn and Company, 1896

Notes taken from text-books and readings completed in the course of taking 36 hours of economics, and notes on classroom lectures which I have saved.

CURRENT BIBLIOGRAPHY: (some of headings scanned:
tariff, reciprocity, free trade, protection, commerce,
international trade, England, U. S. etc.)

Annals of American Academy. 1920-1924 (all articles per-
taining to the rise of "the American system" into dominance
in the field of tariff policies. These articles included
the work of members of the tariff commission, bankers, indus-
trialists, government employees. Some of the authors read:
Culbertson, Beebe, Roberts, Forward, Wallace, Chalmers and
others)

The Current of Opinion. "Britain Staunch for
Free Trade". Ja. '24

Literary Digest. "Post-war Trends Toward Higher Tariffs". 72:44
Jan. 7, '22.

Literary Digest. "Flexible Tariff that Doesn't Flex". My 26, '23.

Nation. Government By and For Special Interests. Ag. 30, '22.

New Republic. "Imperialistic Tariff." Ap. 26, '22.

Riggs, E. G. "Political Lessons". Forum Ag., '22

Outlook. "Neither Free Trade or Chinese Wall". Ag. 23, '22.

New Republic. "Tariff and Depression". My. 3, '22.

Nation. "Tariff Habit". Ap. 36, '22.

Literary Digest. "Will the Tariff Increase the Cost of Living?"

Jly. 24, '22.

Taussig, F.W. "How Tariff Affects Wages". Atlantic Monthly.

S. '19.

Nation. "Free-trade against Selfishness." Ap. 20, '21.

Pan American. "Building Barriers Against Our Foreign Trade".

Feb. '21.

Green, R. "Tariff Facts and Fallacies". Saturday Evening Post.

O. 4, '24.

Green, R. How a Tariff Is Made". Saturday Evening

Post. O. 11, '24.

Literary Digest. "Tariff Bill, and the Nation's Purse". Ap. 22, '22.

Friday, D. "Tariff and the Cost of Living".

Review of Reviews. N. '22.

Nation. "End of Free Trade in England". Jl. 21, '21.

Edinburgh Review. "New Protection". Ap. '21.

Page, T.W. "What if England Should Abandon Free Trade"

F. 5, '21.

Current History. "Smoot-Hawley Tariff Bill".

32: 55 1-8 Jl. '30.

Congressional Records. Various references to tariffs, criticisms, etc. 1920-35.

Reciprocal Trade. Bulletin of American Manufacturers Export Ass. 1936.

Department of State Releases. Secured from Professor Lomax.

Johnson, A. "Mr. Peek at Home and Abroad". Nation.
Dec. 5, '36.

The Oregonian, The Register-Guard, and the Sunday New York Times scanned regularly for news of tariff policies.

Every issue of Nation and Time was read this fall and has been read for the past year and a half.

I was particularly interested in the magazine articles of 1919 to 1924, as will be seen in the above bibliography, as they indicated the reactions to the protectionist policy that emerged after the war. The articles from that period up to the present one, with its evidence of reciprocity, were merely the re-hashing of a controversy with which I was already familiar. Current newspapers, news-magazines and special bulletins and articles served to keep me posted on the new and very recent developments.

My background bibliography is made up of books with which I have become somewhat familiar in three year's study of economics, and were looked for by author's names, rather than catalogue headings.

EVALUATION OF AUTHORITIES:

There are three men to whom most economic writers turn for quotation and authority: Thomas Mun (Mercantilist authority); Adam Smith (who inaugurated the idea of free trade); and F.W. Taussig, sometime chairman of the United States Tariff Commission.

In every one of the books bearing on the subject of Mercantilism, the name of Thomas Mun appears as the outstanding supporter of that system. His works were used as the Bible of the mercantilists. The International Encyclopedia and Palgrave's Dictionary of Political Economy both mention him as the foremost "bulwark" of the mercantile system, as do most other encyclopedias, and political dictionaries.

To mention the influence of Adam Smith in economic circles is unnecessary. Every college student who has studied economics has heard the name of Adam Smith. He was the founder of the classical school of economics and his Wealth of Nations was one of, if not the, greatest force in bringing about the downfall of the mercantile system, for it was his teaching that spurred Cobden and others and armed them with weapons to cut away economic fallacies. There is no reputable textbook, to my knowledge, which bears on the subject of free trade, that does not mention Adam Smith.

No economic authorities have successfully upheld the cause of protection with secure economic foundations. H.C.Carey and Frederic List are notable examples of well-known economists who supported protection to a certain extent, but the best arguments of these two men are political in nature and will not measure up to the economic truths.

I do not hesitate to say that F.W. Taussig is considered the outstanding authority on tariff questions in the United States, today. Indeed, by many, he is considered the foremost authority in the world. His writings on the subject would fill a small library. He is in the fortunate position of being able to speak "practically" as well as "theoretically" as he has held both the Chairman's chair on the United States Tariff Commission and the professorial chair of economics at Harvard University. He has viewed the tariff question from all angles and attacked it from all angles. His name appears again and again in the writings of modern economists. With hundreds of economists throughout the United States and Europe willing to agree that F.W.Taussig is an authority on the subject of tariffs, I feel as though I were trying to prove that water runs down hill.

With these three authors of authority, as over-seers representing different periods and viewpoints, I have felt

safe in unlocking the vast store of sound and unsound arguments on the tariff question and sorting them out.

CHAPTER I

MERCANTILISM

Background

On the 27th day of June, 1443, M. Voisard, the itinerant trader from Fontenay in the western part of France, pushed his loaded cart over the rough cobblestones that paved the road for three kilometers out of Chalonnnes.

It had been a long trip, on that warm day, from Ancenis along the banks of the Loire river up to Chalonnnes, but M. Voisard didn't complain. Business had been good in Ancenis, and he was looking forward to even better sales in Chalonnnes.

Many people had left the regular market place in Ancenis when they heard about M. Voisard. It was noised about among the shoppers that M. Voisard, who had set up his stall just outside the market place, had wool cloth just as good as M. Fournier, their local tradesman, could furnish, and cheaper, too.

And so M. Voisard had done a good business in woolens that day and had thanked his lucky stars he had met that Dutch ship at the mouth of the Loire two weeks before and taken an extra supply of wool cloth. The cloth had been much cheaper this time. Some new way of making it, they had said.

Rounding a corner, M. Voisard could see the gates of the village ahead of him. Things did not look the same as the last time he had been there.

"Wonder what is the cause of the commotion? They seem to have some new gates to Chalognes," he murmured to himself, noticing a crowd of traders like himself milling about the entrance to the village.

Even at that distance he could recognize Pierre Gornay, the giant Gasconne who sold copper bowls and knives along the road from Nantes to Orleans. Pierre was talking wildly to someone. It was a soldier. What kind of trouble was afoot, now?

M. Voisard edged his cart into the crowd of other carriers and made his way over to the little group of men standing about the soldier at the gate, listening to what the soldier had to say to their spokesman, Pierre.

"Here, what is going on here?" asked M. Voisard, stopping at the side of the Gasconne. "What is the trouble, Pierre?"

Pierre turned to M. Voisard, happy to find a possible sympathizer.

"Ah! M. Voisard. You have arrived just in time. This soldier, this pig, will not let us through the gates. This yellow, son of a blue pig will not let us go through the gates. He...."

The soldier stepped up and addressing M. Voisard in soft but firm tones which cut Pierre's harangue short said, "Perhaps if I may explain, I am only obeying orders. I am not keeping these men out. It is only that it is the

order of Rene the Good, Duke of Anjou, that all traders entering this village with commodities to sell must pay two gold louis on each cart-full of goods they bring through these gates."

"But why?" gasped M. Voisard.

"In his order," replied the soldier, "The Duke of Anjou stated that many of the retailers in the market place had come to him complaining that the itinerant traders were coming into the village with cheaper goods and driving them out of business. By this means he intends to keep the village stall-keeper happy."

"But, two gold louis," cried M. Voisard. "That is more than the difference!

"The Duke further stated that one-fourth of the amount was to go into the duchy treasury just as the money taken by the guards on the border of Anjou flows into the treasury, but that the other three-fourths, which he has called "protection" money, is to be used by the village to improve its market place," the soldier explained.

"In Ancenis when I left there was not any such rule," complained M. Voisard.

"Perhaps, if the stall keepers in the market there have complained, they are building such a gate as this one even now," replied the soldier. "Many villages in Provence have duties such as this already and I am told that across the water in England there have been such impositions

on traders for over 50 years."

"Ah well, it will be hard on the villagers to have to pay more, and therefore not be able to buy as much," said M. Voisard reaching into his trousers for his money bag. "But, my goods are still better than the cheap stuff in the market place."

And paying his two gold louis M. Voisard pushed his cart into the village followed by the other newly "taxed" traders.

And throughout Europe and England other areas and localities followed the example of Anjou, just as others had preceded it, in clogging up the flow of trade, building little walls up in the growing ocean of commodities and turning the fresh water of commerce into stagnant pools.

During these Middle Ages the western world was divided up into little sections, each one ruled by its feudal baron or master. Each one was looking out for itself, or himself. Geographical divisions meant nothing. Power, man power, for fighting was the need and for that money was a prime requisite.

Among the methods of getting this money the old Greek and Roman source of revenue, taxation of trade was found a temporary, but lucrative means. Overworked, yes, but for the time it added a bit more to the money drained from the peasants by taxation.

As a result, the flow of trade was blocked at these numerous political borders; but, out of this welter of political hodge-podge, there arose the backbone of the central state until, by the end of the 15th century, national ideas of central governments began to cut through these minor walls with the view in mind of putting up a little tariff construction job of their own, which although built by rule of thumb was to outlast its builders by many years and require a good deal of blasting to bring it down.

Therefore it is to the new states that we turn. What was their trade policy and why. In this rise of the national state, most of the western world shared. Concepts of how to strengthen the central government and make it secure bloomed and faded. First one course was tried, then another.

It was England that first elbowed its way out of the hesitant crowd to set off on a sustained course. Strangely enough what she was after was.....treasure.

The course England followed came to be known as The Mercantile System.

Definition

Mercantile System. Palgrave in his Dictionary of Political Economy defines the scope of this system as follows: "By the mercantile system we mean the economic policies of Europe from the breakup of mediaeval organization of industry and commerce to the dominance of the system of laissez-faire. Strictly speaking there is only one country, viz. England, in which the mercantile system can be studied in all its phases".

In other countries, war, arrestment of the growth of laissez-faire, imperial measures in the German style, and other factors not only made the progress of mercantilism erratic but, in the final analysis, stalled it. In no other European country did mercantilism reach such a height that it toppled, as in England. But Great Britain fell into free trade, leaving her neighbors still dallying with the offshoots of mercantilism.

And so we turn to England as the outstanding leader in the fields of trade and commerce from the 17th century up to the World War. England, the nation that awakened with Mercantilism and got up with Free Trade.

The maxims of Mercantilism developed principally in England were accepted and acted upon by all the principal nations of Europe up to, and even after, the system began to crumble in England.

MERCANTILISM

The father of mercantilism was politics and the mother economics, and the fact that many economists today regard the 15th century offspring of these two as a congenital idiot does not change the fact that at least its father thought it was pretty fine.

As the power of the central government grew in England a means of increasing that power was looked for and a method of securing it was in demand.

At the same time, throughout England during the 15th century the seeds of the coming Industrial Revolution were beginning to pop open. New countries were being traced on the known map of the world, printing was beginning to flourish, the uses of water-power were being more extensively studied, various sciences were being advanced slowly, thinking was being stimulated and ideas were simmering.

Up to 15th century the population of England had been mainly interested and engaged in agriculture, but now the prospect of manufacturing was beckoning and slowly but surely the drift started in that direction. During the 15th century we see the rise of the manufacturing class and the growth of capital and industry.

The English trader had been playing along with the Dutch traders, taking English material across the channel to be finished in the Netherlands. But, now he had people at home ready and capable of finishing the goods themselves.

Object of System

The political and economic interests of England could hardly have been drawn together more neatly, both pointing toward foreign trade, but as we shall see, with different viewpoints. These viewpoints were for the most part incongruous and only capable of being worked together through the subjugation of one by the other. In this case the political power reigned supreme.

To the economic interests, the objective was the simple one of developing foreign trade for the greatest benefit to the greatest number, a worthy objective of all economics.

But, what of the political outlook? As has been said, the central government, politics, father of mercantilism, not only wanted more power but wished to secure this power on a permanent basis.

Palgrave's statement as to the object of the mercantile system aptly shows that the sire of the system not only dominated its growth but subjugated all other interests to its development which was guided by said political sire. Palgrave says: "The object of the mercantile system was the creation of an industrial and commercial state in which encouragement or restraint imposed by the sovereign authority, private and sectional interests should be made to promote national strength and independence."

Although this political aspiration was clothed with economic suppositions, we shall see that the latter were mainly, though not entirely, sophistry.

Place of Money in System:

To the powers of the western world during the 15th century, even as is true today, security meant strength, strength meant military power, military power meant money, security meant money, strength meant money; everything came down to money and money meant power, strength and security. To question the truth of this belief unfortunately did not effect its change. Many persons today still share this hypothetical belief, sincerely or avowedly.

Some mercantilist writers started off on the right track in definitions of "wealth" but soon became hopelessly muddled and giving up the ship jumped into the money boat. So it is safe to say that treasure, wealth, and money, in the final analysis, meant the same thing to most mercantilists, money. It must be admitted that a few kept the term "wealth" satisfactorily isolated from their thinking so no ambiguity arose, however!

Treasure meant money or material capable of being directly transformed into money.

How to Get Money and Launching of Balance of Trade Theory:

Now came the question, how to get more money, treasure, gold and silver. England had no precious metal mines, but other countries did, notably Spain. Why not sell more goods to them than they sold to England and get treasure in return for the balance of English goods? And so the first national draft of the much overworked and little understood "favorable

balance of trade" theory was produced.

By the close of the 15th century, we find the general features of the mercantile system were well defined. Acts in Parliament during the reign of Edward IV had already shown beginnings of encouragement of native commerce and protection of English industries, for of course, it was argued, they had to protect the young industries so they could produce the goods for the English ships to carry to other countries in exchange for treasure. (1)

Thomas Mun.

The outstanding exponent of mercantilism was a man, who was of course living at the time under the existing conditions, and could not look over that period with the cynical and detached air of the current observer. This man was Thomas Mun whose essay England's Treasure by Forraign Trade (1664) was the chief bulwark of mercantilism in England. In this work he speaks for the system when he says: "The ordinary means to increase our wealth and treasure is by Forraign Trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value".

(1) Protection, pro and con, and infant industry argument are discussed in a following chapter.

He goes on to suggest the use of England's own ships and thus get the benefits of freight and insurance, and then later states the anomaly that "commerce should be free to strangers to bring in and carry out at their pleasure," which statement he must have slipped in on a dark night after the copy had passed the censors!

High Point of System

In spite of the growing interest in economics, the efforts of Henry VIII and Elizabeth had boosted mercantile stock to a new high by the time the 17th century made its bow.

It was in the 17th century that mercantilism hit a new high, and it was also during the 17th century that the mercantile system started the long back-slide into the history book.

The period which saw the growth of this narrow nationalistic policy saw also the beginnings of the forces which were to tear it down.

Trade Monopolies.

The stimulation of trade and industries through various favoring laws, bounties, and drawbacks had resulted in a large body of the British working-class turning from agricultural activities to the industries by the time Elizabeth's reign drew to a close.

Here started one of the less wholesome practices of the mercantilist era. The East India Trading company was organized in 1600 and close on its heels came many other similar groups.

James I withdrew the charter of the merchant adventurers, (a group of Dutch and English traders) between 1608 and 1615, with the object in mind of encouraging the development of the finishing processes in manufacturing cloth in England, and which had theretofore been carried on principally in the Netherlands. This gave British trading countries another chance to get a hold on England's trade, with the help of the government.

The policy which became evident during this time was one that Adam Smith, one of the executioners of the Mercantile system, criticized over a century later in his The Wealth of Nations (1776). This policy was one of encouraging monopoly at the expense of the countrymen of the politicians and traders who benefited by the policy. By gaining a monopoly on trade at home and abroad, the price could be controlled.

Through legislation some British interests were able to keep their own countrymen from selling their raw materials abroad, thereby lowering the price of raw materials in England. With this advantage the interests were able to undersell their competitors abroad, at the expense of their own countrymen. The government didn't mind. They were interested in keeping the "balance" in their favor, through any means.

The English civilian was forced to buy and sell English, leaving the trade in the hands of the companies, giving them a monopoly of trade which they turned to their own advantage by wringing the purse of the working man. The interests of the consumer were even at that early date, sacrificed to the profit of the producer.

Curious Practice.

A curious malpractice existed in England's tariff manipulations throughout the mercantile period. Her policy was to buy her raw materials from countries close at hand, where and if they were cheap and sell the finished commodity as far away as possible where they were dear. But, the balance must favor England. If the country sending raw material to the British Isles wasn't willing to buy more in commodity value than she sold in raw materials, England would shop in another market.

In her dealings with one country England would allow a certain commodity to come in free, because she was selling this country more than she bought, but in the case of a second country that wasn't "buying enough" from England, this same commodity was effectively excluded by a high tariff.

Protection for her trade balance, not her industries, was the keynote of her tariff policy.

Corn Laws.

The 17th and 18th centuries saw mercantilism steaming merrily onward toward the falls leaving a rather uncertain wake behind it. The passage of various and successive Navigation and Corn laws during this period undoubtedly increased the amount of English shipping done in English ships and kept food products out of England, respectively.

The Navigation laws pass the test of criticism rather well, considering their nature; various economists of the time, Smith and Mills for example, found much to be said for them on the grounds of larger merchant marine and national defense.

But the Corn laws didn't fare quite so well. One of the theories sounds well enough; place tariff on incoming grains, raise price of food in England, labor surplus resulting from increased efficiency in the factory would go back to till the soil suffering from decreased efficiency of cultivation. It sounded good in time of Charles II, and it sounds good to many today, but it didn't work, and the Corn laws proved the bitter pill of the mercantilists.

Beginnings of Downfall of System.

Signs of the breaking up of mercantilism were evidenced in Cromwell's time and by the end of the 18th century the decay of pure mercantilism had set in in the holes picked in the system by Adam Smith.

The times had changed and the diehards at the helm of the mercantile ship didn't notice which way the wind was blowing. Labor had become productive. No longer in the infant state, many industries were now capable of standing on their own feet and still compete with foreign interests. The manufacturers did not care about the wealth and security of the nation--even some of the politicians had lost sight of this objective in their childish joy in playing with tariff schedules. What the industries wanted was money in their pockets.

The Corn laws had raised the price of food in England right enough, and the price of labor along with it, for labor had to eat. Now that the industries were able to go into foreign markets without the help of protective tariffs they wanted conditions as favorable as possible at home, and high prices of food was an unfavorable condition.

The policy of confining foreign trade exclusively to the trading companies had been assailed in the press and finally in Parliament. After the revolution of 1688 few of these companies survived. The East India company was re-organized on a "national" basis, with a "loan" of £2,000,000 to the state.

The protective duties levied by the government had, of course, resulted in retaliation. Industry was being blocked up just when it was ready to go ahead under its own

steam by the slamming in its face of the doors to foreign markets. Parliament refused to lower tariffs. The political hand was still in power and was now wringing the life blood from those who had fattened on its former gleanings.

The drain of the agricultural worker from the fields into the factory had left the farmers short-handed. This fact, coupled with the high duties of the Corn Laws on foreign grains had caused the prices of food products to become excessively high.

Adam Smith in his The Wealth of Nations (1776) had stuck holes all through the favorable balance of trade idea. Although politicians chose to ignore him, the industrialists did not. Here was their hope. Gradually knowledge and good judgement coupled with the action-filled and pocket-book-fed industrialists' interests were cutting away the foundations of that system that had outlived its times.

The fact that an economic or political system must be judged in the light of its times, the state of industry and commerce, the degree of political consolidation and other factors does not detract from the force of A. Smith's arguments in the light of his own times; but, he could have been a little more tolerant in his criticism. The very times which he used to show the worthlessness of mercantilism were in many ways totally unlike those which witnessed

the growth of the system.

Even in Parliament, however, the light began to shine. The selfish sophistry which had characterized the politician and the industrialist for over three-fourths of the reign of mercantilism and had confounded the common sense of the nation was cracking. The birth of mercantilism in the light of the existing times might have been excused but the prolonged reign of this tyrant was folly.

The Treaty of Utrecht, introduced into Parliament in 1713, had certain features favoring free trade within its covers, but these items failed to gain proper attention. Parliament had not yet tested the direction of the economic wind.

William Pitt's treaty with France which passed through Parliament in 1763 was an avowed attempt by its author to put into effect the teachings of Adam Smith and was the first definite step toward the free trade policy England was to accept some 60 to 80 years later. W.A.S. Hewins, director of the London school of Economic and Political science (1900) says that but for the French revolution and difficulties it caused, Pitt would have anticipated the later free trade movement by 50 years.

Pitt's Customs Consolidation Act of 1787 was a move toward bringing the scattered tariff policies of England to a head where they could be more intelligently discussed. At that time there were 1200 import and 50 export duties. This act turned all the revenue from the duties into a single "con-

solidation" fund.

Hunger and the Corn Laws.

The mercantilist structure was a sturdy one, though, and it was being defended with all the conservatism of the English Parliament. But there is one force that even Parliaments can not stand against, hunger.

The agricultural distress caused by the Corn Laws and affiliated mercantile policies brought famine into the land and with it a wave of sentiment and revolt that washed the foundations out from under the antiquated citadel of the mercantilists, bringing it crumbling down upon them, and leaving nothing more to do, but to clear away the wreckage to enable the country to spring up on new-found feet.

Cobden, Bright and the Anti-Corn League.

Outstanding among those who bombarded the mercantile system out of England were Richard Cobden, the statesman-economist, and John Bright, the noted orator. Through the efforts of these two along with others such as Paulton, Humes, Villiers, and Roebuck, the evils of the Corn Laws were forcefully brought before Parliament.

In 1838 Cobden and Bright organized the "Provisional Committee of the Manchester Anti-Corn Law Association". Through this organization which grew into the Anti-Corn

law league, the men of action, belonging to what was later known as the Manchester school, made increasingly evident their demands. Manchester was a manufacturing district and the Anti-Corn law group was an offshoot of the Manchester Chamber of Commerce, organized in 1820 to promote industrial interests, and as such had on its roster men of action not content with merely theorizing. Into the press room and into Parliament they went shouting their cry "Down with tariffs! Give the industries a chance!" and using as their weapon that very handy club of hunger, in the populated sections of England, caused by the Corn laws. Their guiding principle was laissez-faire, that little phrase coined by a Frenchman Vincent de Gournay who died in 1759 little realizing that millions of lips would frame those two words during the hectic years following the Industrial Revolution....."laissez-faire, laissez-passer."

At one meeting of the Anti-Corn league 60,000 pounds sterling were subscribed in one and a half hours, the largest sum that had ever been subscribed in the same length of time for any cause.

The free traders were working against a reactionary Parliament and had to blast their way through. For some reason, unaccountable in retrospect, the commercial classes

resisted the actions of the free-trader industrialists. Later they benefited immensely from the increased flow of trade English shipping enjoyed. But the weight of custom is strong in England and these classes had long been the pampered pets of the government.

The free traders didn't advocate abolishing revenue duties, but as Cobden said in one of his arguments: "Our object is not to take away the Queen's officers from the custom-house, but to take away those officers who sit at the receipt of custom to take tithe and toll for the benefit of particular classes."

But Parliament was still ruled by custom and precedent. The moves of the free traders in the early part of the 19th century in the government house of England were defeated by huge majorities, at first. The attitude of the reactionaries was expressed by the premier, Lord Melbourne, when he said during a debate in the House of Lords on March 14, 1839: "To leave the whole agricultural interest without protection, I declare before God I think it the wildest and maddest scheme that has ever entered into the imagination of man to conceive." And this while the poor were starving because of the protection of "the agricultural interest."

However, "the maddest scheme" won. William Huskisson, then president of the board of trade, started the ball down

the mountain of Parliament when he effected the passage of his Reciprocity of Duties bill, (1823). Not openly free trade, but leaning in that direction, this bill largely modified the effects of the Navigation acts by freeing English and foreign shipping.

Then in 1824 and 1825 came the consolidation of 450 promiscuous tariff acts into 11 orderly acts and reduced duties on many articles, particularly exports. At least a start. From 1824 to 1850 duties after duties were abolished until by 1860 virtually free trade was achieved.

It was the Anti-Corn league, however, which administered the telling blow to the mercantile system in 1846. Cobden and his cohorts had been hammering away at Parliament for some time and with a fluctuating, but constantly growing public at their backs. Since the Reform Act of 1832, Parliament had turned a much more acute ear to the voice of the public; and it wasn't long before the Anti-Corn league had that august group of lawmakers hanging on the barometer; for if the crops were good one year, the public cry fell somewhat and Parliament turned its deaf side to Cobden and his compatriots. However, when food shortage at home and high tariffs on foreign food drove living prices sky high, Parliament began to move about in its seats as though a bit uncomfortable.

The proverbial "last straw" appeared in 1845 in the shape of a deficient harvest in England and the complete failure of the Irish potato crop; and amid great distress and threat of famine, the Corn laws fell with a crash (1846).

Sir Robert Peel, the converted prime minister, left office when his ministry fell upon the Irish Coercion Bill on the same day that the 223 Whigs and Liberals and 104 Conservatives united to form a majority of 98 and abolish the Corn laws against the protestations of 229 Conservatives. In his farewell speech Peel paid warm tribute to Cobden who had won the prime minister over to the anti-protectionist side and closed with the following words: "It may be that I shall leave a name sometimes remembered with expression of goodwill in the abodes of those whose lot is to labour, and to earn their daily bread by the sweat of their brow, when they shall recruit their exhausted strength with abundant and untaxed food, the sweeter because it is no longer leavened by a sense of injustice."

CHAPTER II
FREE TRADE

Background

Free Trade. It is to England again that we must turn to study the next great tariff trend in history. It is true that the complete acceptance of free trade by England and one or two of its dependents, notably India, was unique among the trade policies of the nations, but it is also true that the effects of this policy enabled England to dominate the industrial, commercial and financial centers of the world up to the World War. In this case, the single policy of a nation constituted the trend.

The policies of Germany and France, next to England in importance as to trade and commerce after the fall of the Dutch trader in the 17th century, had followed the lead of mercantile England throughout the major portion of the period in which mercantilism existed. However, they followed the lead in a somewhat uncertain manner, wars and industrial troubles disrupting their policies or sending them off on minor tangents.

Britain's industries, whether because of mercantilism or in spite of it economists can not completely agree, had gone forward during the 16th, 17th and 18th centuries. But, the French and German industries had suffered. England's

out and out mercantile policy had in large measure succeeded on its own terms because of the lack of as strong and forward a policy on the part of her neighbors, and consequently had lasted as long as it could drain these countries of the fruits of the mercantile system, dubious though they may be. Had other countries adopted as active a policy as England, the conflicting forces would have revealed the fallacies of the system, the utter senselessness of the "favorable balance of trade" idea and its attendant observations on money, many years before the system began to crumble and would have resulted in its much earlier and more universal downfall.

However, the industries of England's neighbors were not such that they could satisfy all the requirements of the mercantile system put on a super-active basis. England's absence from any extensive foreign wars also kept her development on a favorable footing, with the result that when the cloak of mercantilism fell away these industries no longer needed protection.

Such was not the case in Germany and France whose industries according to the logic of the time still needed protection. After a brief whirl of liberal policy in the decade, 1860 to 1870, France took shelter behind more tariff barriers and definitely turned to protection. Whether

as a result of protection or other economic disadvantages, France's industries were unable to come out from behind their walls and compete with England's industries up to the time of the war. Had they started off boldly on a system of free trade at the same time as England, French industries would undoubtedly have developed on economically sound conditions as is the case in any country. (1)

Germany also took shelter behind tariff walls but through the workings of the Zollverein, Customs Union, developed a system of free trade within its borders--which were much more extensive at that time than at present--resulting in a definite stimulus to her industries. The fact that just prior to the World War Germany's industries and shipping were getting into a position to challenge Great Britain can be traced to this semi-liberal policy, and, of course, to German industriousness and ingenuity as well as other factors. Whether Germany would have turned to a free trade policy had not the war intervened will remain a question.

English Policy Constituted "Trend".

Therefore, if we are to examine the tariff policy that fostered the outstanding industrial commercial activities (1) Whether would result in immediate benefit and values of protection discussed in later chapter.

among the nations we must turn to England and free trade.

Definition.

Free trade which had first been used vaguely to describe that condition in which there was a general absence of restraints to trade through duties or force, had been defined as "the free export of bullion" (Misselden, 1622), and again as "the abolition of monopoly", and even in the time of Walter Scott had come to mean smugglers (see Guy Mannering), at last came to have a definite, specialized sense.

Adam Smith first cleaned out much of the loose definition when he started economic thought in the direction of that system of commercial policies which makes no distinction between domestic and foreign commodities.

Palgrave, in his Dictionary of Political Economy, says: Free trade in this now well established sense "does not require the removal of all duties on commodities; it only insists they shall be levied exclusively for revenue, not at all for protection."

FREE TRADE

Lord Farnborough in his Constitutional History of England comments on the results of the activities of Huskisson, Villiers, Cobden, Pitt and others: "These were the beginnings of free trade," he says, "but a further development of political liberty was essential to the triumph of that generous and fruitful policy."

An analysis of the above quotation will show that then, as now, the welfare interests of the many were subordinated to the few. Indeed this feature of the mercantile system was so strong that even Adam Smith despaired of England's ever accepting the policies he outlined and more or less suggested them as being merely a part of an Utopian system. He felt the political power of the protected interests too strong to be shaken.

But Adam Smith had overlooked the even greater force of economic power. He had not counted on the all-sweeping front of the Industrial Revolution, which was even then gaining headway, in England.

The greatest factor in bringing about the downfall of the mercantile system was not the empirical and mostly fallacious reasoning current at the time of its inception so much as the changing time and conditions which not only

made these fallacies more evident, but completely scrapped the system.

Industrial Revolution.

The Industrial Revolution of the 18th and 19th centuries moved the working class of England from the country to the shop. England became, as Napoleon said, "a nation of shop-keepers". She ceased to be self-supporting. The fields, the herds and the remaining farmers could not feed her rapidly growing industrial population any longer. From about 1800, England was a food importing instead of a food-exporting nation.

England's industries grew by leaps and bounds. Whether the mercantile system held them back or aided them, the industries grew, and it is doubtful if the mercantile system made an important difference. Within a century, England became the most important and the greatest industrial nation on the face of the earth.

Thousands of smokestacks sprang up on her land sites, pouring out the smoke and sparks of the fires fed by England's vast coal deposits, while millions of workers toiled below them turning the raw wool, cotton, iron and other raw materials of the world into textiles, machinery, food products, steel, cutlery, cloths for the buyers of all nations.

Only a fraction of the demand for raw materials for these factories could be satisfied at home and so England must look to other shores. Mercantilist nations were out of

place here. "Get the material!" was the cry. Those striving for free trade echoed the teachings of Adam Smith as they explained they would pay for the raw materials they received with the commodities they produced. Tariffs had no place in this Age.

Effects.

As has been shown, the demands of this new era, calling the worker away from the plow and into the factories and the inevitable clash of these demands with the interests and policies of the mercantilists could only result in one thing, the downfall of the latter.

Once started in Parliament, the iron ball of the demands of the new era rolled relentlessly on toward free trade knocking tariff barriers aside, smashing them underneath. A few pampered industries and businesses built on artificial foundations were flattened in the road and England moved wholeheartedly into Free Trade. At the time of the outbreak of the Boer War, the English tariff included only nine principal items: cocoa, coffee, chicory, dried fruits, tea, tobacco, wine, beer, and spirits.

England's example started in 1846 and gaining full headway by 1860 caused a movement toward free trade to extend all over Europe which was even felt in the United States--that statue of protection--between 1860 and 1870. But, from then on, and gradually, England's neighbors drew back into protection. Political considerations, controlled by vested interests, were paramount with these neighbors; and they were left in the backwash as England steamed by to new industrial and commercial

heights.

The gold that the mercantilists had tried to get their hands on and had never succeeded quite as their theories said they should, flowed into English banks in great streams until Great Britain's gold reserve became the envy of the world. The reason for that situation was not a "favorable balance of trade," as had been supposed, but the confidence of the world in England's security as evidenced by her great trade and shipping. Her ships went to the four corners of the globe. Her trade was free and natural. She was the logical banker for the world and became the world's banker.

Prosperity.

Those were the results of England's free trade policy. Whether or not such a system could operate so favorably today, free trade was the leading example of successful tariff systems up to the war, beyond a shadow of doubt. At the heels of this great expansion of both home and domestic market came such a period of prosperity as England had never known. Her own people could now take full advantage of the natural trade relations within the country and with their neighbors. The real wealth of the nation increased. That there were serious problems of factory legislation and other difficulties cannot be denied; but they do not concern us, within the scope of this treatise.

England's natural trade relations with other countries enabled her to take advantage of all periods of prosperity. Her people could enjoy the fruits of others' efficient labors as well as their own. At the same time, they enabled Great

Britain to meet times of crisis with less strain; for the automatic systems of exchange and banking which operated in that time, before artificial control was installed, worked admirably where there were no unnatural barriers to overcome. The elasticity of her commerce, as her trade relations were natural and not forced, was the envy of other countries.

Minorities in various other countries tried now and again to break the political power of the "infant" industrialists, those who demanded protection, but to no avail. Even the United States had its exponents of free trade in a land where protection was the highest in the world. Daniel Webster echoed the feelings of this down-trodden minority in a speech to the House of Representatives in 1814 on the repeal of the embargo. He said, in part: "in respect to manufacturers---I am not their enemy---I am their friend, but I am not for rearing them, or any other interest, in hot-beds."

Arguments for Free Trade

The arguments for free trade put forward by various economic authorities can all be simmered down to a few definite statements based on economic laws that no respected economist has in recent years denied. Free Trade:

1. promotes inter-national division of labor:
 - a. division of labor has been proved desirable.
 - b. efficient production lives on the development of a system of trade.
 - c. therefore the supposition (and it must be admitted that this supposition is questioned by some, though they conceal their motives) that the geographical division of labor plus free system of trade will benefit production.
2. promotes free working of law of comparative advantages:

- a. country engaged in free trade cannot operate industries which do not enjoy an equal or comparative advantage (ability to produce goods more cheaply per unit of labor than other countries.)
- b. free trade affords room for the working of normal and beneficial forces of commerce.
- c. therefore, as John Stuart Mill said in his Principles of Political Economy, question not that of supplanting some of our producers with foreign producers "but between employing one class and another (of producers) of our own people". In other words, turn the flow of labor from those fields that have disadvantage into those that enjoy an advantage and thus further the fruits of more complete division of labor for all.

3. Tends to increase real wages:

- A. tends to increase efficiency of labor through stimulation of demand, and therefore the efficiency of production.
- b. increase in efficiency of production tends to raise wages, according to the "produce theory of wages", this raise being a raise in real wages.
- c. therefore, free trade tends to raise real wages.

4. Brings up the negative argument that a permanent "Favorable balance of trade" is an economic impossibility.

- a. although "money" may obscure the issue, trade is essentially "barter".

5. Causes another supposition to occur: even if it were economically possible for the balance of trade to be permanently favorable, this circumstance would be disadvantageous because it would lock up productive capital:

- a. J. S. Mill points out as one of his fundamental propositions that industry is limited by capital.

Argument number 2, as to the free working of the law of comparative advantages was further supported by the Ricardian theory of foreign trade (disputed by some) which assumes both the domestic nobility and the international immobility of labor and capital.

Exceptions.

There were, and are, worthwhile exceptions to most economist's beliefs in the superiority of the free trade system. (1)

J. Shield Nicholson, professor of political economy in the University of Edinburgh (1909), sums up the worth of these

(1) see chapter on Protection

exceptions rather well. In the Britannic Confederation, he says, "these exceptions are simply part of the casuistry of economics: they are like the discussions by moral philosophers of the justification of occasional mendacity. Free trade like honesty still remains the best policy". (!)

CHAPTER III

PROTECTION

DOVID JIMMAMAH

CHAPTER III

PROTECTION

Background.

Protection. During the World War, tariff trends were dis-integrated by the force of that eruption which scarred the world. A person doesn't trace the downfall of free trade in England with a line. He makes a period. It is true that something called free trade tottered about among the "confusion" after the war with a tag "please return to Great Britain" on its sleeve, but when one tried to grab it, he found it was a ghost which soon disappeared altogether.

The economic equilibrium of the world had been so jarred that the nations were knocked out on their feet and, reverting to the old habitual form, had brought up their gloves of defense and were trying to ward off an imaginary enemy when the fighting was all over and they should have been home in bed.

The unconscious, economic defense of France, Belgium, the United States, even Germany, were the tariff barriers they had sat behind for so many centuries. England, turning from the policy which had served her so successfully for almost 100 years fell back on the older teachings of protection which she had followed for over three centuries, up to 1846. After European nations had bought all the goods from the United States that that nation was willing to give them money to buy, they commenced to wall in their respective

lands, partly in retaliation against the similar policy of the United States, partly because the excitement caused them to adopt outmoded ideas that a cool, economic judgement would have pronounced worthless.

Protection and Mercantilism; Definition.

Although protection as compared with mercantilism reveals more attention to the economic and political aspects within the country, in relation to itself rather than to its foreign trade, than did its forerunner, there still remain several of the antique ideas of the earlier system, repainted of course, but still with us. Although bits of the old favorable balance of trade argument still float about the windy halls of the political leaders, the theory has been exploded a sufficient number of times by accredited economists that no attempt is made to put it forward without disguising it.

A nation with the "new" protection, as was amply evidenced in the United States in 1930, does not look to foreign trade for a solution of its difficulties, but to its own people. However, in its dealings in foreign trade, protectionist United States has a policy in common with the other powers hiding behind their tariff walls, the old mercantile policy of aiding industry and commerce and the interests of the few at the expense of the consumer.

The old mercantile misconceptions of the place of money are still with us, but are entertained by only a few unimportant politicians.

Tariffs under the protective system are not used as they were under the mercantile system, to control foreign trade according to the supposed needs of the moment. Under protection, tariffs are supposed to "protect" home industries from foreign competition and are not varied from month to month, as a rule. Both systems have one result in common, they both tie up trade, in varying degrees.

The simple definition of the word, "protection", as given by Webster in his Collegiate Dictionary, 3rd edition, is as follows: "Economics. The freeing of the producers of a country from foreign competition at home by imposition of duties on foreign goods; also, the theory of policy favoring this."

The early mercantilists did not mind the competition just so the "balance was favorable."

Protection Before It Became a Major Trend.

Before turning to a further consideration of the tariff trend after the war, if one can call it that, a brief resumé of the experiences of protection during the time it was playing second fiddle to free trade might be in order.

Modern protectionism can be traced back to Alexander Hamilton and his Report of Manufacturers (1791) in America and to Napoleon and his policies in Europe, at the beginning of the 19th century.

PROTECTION

Since the Tariff Act of 1789, the first law passed by the "new" United States, the protectionist system has gained headway in the United States, with momentary pauses and set-backs, until it has become the outstanding example of protection in the world. Indeed, the tariff walls of the United States were so much higher than those of the other nations following the protective principle that the system was branded "the American system", and was set up as an example to the school-children through-out the world. -The fact that other nations saw the United States prospering under a protective system and tried to emulate it was unfortunate for many of them, as they did not have the natural resources which were the real cause of the growing prosperity of the United States. The coincidence that a protective tariff accompanied the United States to prosperity does not prove its value.

The causes, or rather reasons as they can better be called in this case, being political rather than economic, to which may be ascribed the rise of the system of protection may be found in the arguments for the cause listed at the conclusion of this chapter. The possible values of protection, if such there be, will also be listed. There are certain features of the system to which many economists give marks of merit.

It is to protection when it became a "trend" that we now turn our attention. During the war the United States has taken over England's industrial, and much of her

financial and commercial superiority. It was to the "American system" that the powers turned following the war. While this system did become the dominant tariff policy, it was simply there at the time and was clutched at by nations that were certain they were drowning, instead of its doing much "trending" of its own. Whether or not protection is valuable to nations coming up from underneath will be discussed later. With the United States the strongest advocate of "the American system" it is to the United States that we turn for most of our examples of what happened after the system became dominant.

Results.

The world has not yet lost the blemishes of its saturnalia of the World War. Productive equipment, spurred out of its normal development by the needs of the time to high peaks of efficiency, still finds difficulty adjusting itself to more normal demands. The financial lines of the world are burdened by heavy debts. Everywhere nations are still trying to focus the economic picture. Many thought they had found the answer in the "mad 20's", but they found their artificial dream castles crumbled at their feet in 1929 and 1930. As Sir Arthur Salter, the English economist, says, we are now making for "Recover, the Second Effort."

What were the effects of the dominance of the protective system on the nations in general during this period of readjustment? In brief, the following are the results admitted even by the avowed protectionist, although he rather stiffly adds that other factors entered into many of them.:

1. Increased cost of article under protective wing to the ultimate consumer.
2. Increased burden on many producers!
 - a. finished product of one industry is "raw material" of another; duties raised a primary cost for some producers.
 - b. food, though a "consumer's wealth" is the principal means of subsistence to the laborer; labor is another primary cost of production, higher prices means a higher subsistence level, "the iron law of wages" still operates in setting the minimum of wages at the subsistence level; this situation hits even those demanding protection.
3. The ineffectual attempts of some of the larger exporting industries which had grown out of the "infant stage" during the war to throw off the heavy yoke of protection, resulting in the unwise diversion of much capital and labor from these normally (free of trade restrictions) healthful industries into less profitable employment.
4. The increasing of the burden of debt and the unlikelihood of its payment;
 - a. in last analysis the only method of making international payments are by (1) goods, (2) services, (3) gold.
 - b. the use of services was either unsatisfactory (the incident of the occupation of the Rhine) or not accepted by the Allies in the case of the German debt.
 - c. the payment by goods was made impossible by tariff barriers and the unwholesome reappearance of the old allegiance to the "favorable balance" idea among creditor countries.
 - d. gold? Germany, for her part, didn't have any gold, to speak of.
 - e. the situation of the United States was a new one to that nation. Throughout its history, that country had been in debt to Europe, as a nation; after the war it suddenly found itself a great creditor nation with over eleven billion dollars to collect; new to the experience American lawmakers saw no reason to change the traditional tariff policy and so effectively closed the doors to the repayment of the debt.

5. The obvious one of limitation of international trade.
6. Difficulties of fiscal administration (minor).
7. Encouragement of smuggling (minor).
8. Evils of the intimate connection between politics and industry that exists in a lively state under protection, and its attendant corruption.
8. National jealousies and hatreds which intensified drift toward narrower nationalistic policies and resultant wars.
9. Hazy economic thinking that caused Congress to increase merchant marine on one hand and stop every inlet they could to goods from foreign countries. A "practical" observation from a man belonging to that class whom certain Americans label "practical business man" as opposed to the "brain trust" was forthcoming from G.E. Roberts, vice-president of the National City bank of New York City. In the March 1921 issue of the Annals of the American Academy he says: "facilities by which foreign customers may make payments to us are more important than any additional facilities for increasing sales." Although it is easy to see why he should think so, some politicians were "surprised to hear Mr. Roberts and some of his fellow bankers 'talking so'".
10. General hazy economic thinking on the part of Congress. (avowed protectionists are not quite so ready to admit this.....).

Arguments.

Now we turn to the almost classical arguments for protection, attempting to sift out those that will stand the test of economic scrutiny. As each argument is brought forward we will try to apply the economic stethoscope which

has lasted for almost two centuries, since construction was started on it by Adam Smith, while tariff policies have come and gone:

1. Infant industry argument. This has been the most successful argument of the protectionist, and consequently the most overworked. Most effectively given by the noted German economist, List, this argument states that when an industry is just starting into the field, before it has stepped up the efficiency of its production to the point where the law of decreasing costs enter, its home market should be protected from the sales of foreign competitors who are well established and able to undersell said "infant" industry in its own market. The argument presupposes that when the industry gets on its feet production costs will be lowered and it will be able to meet the foreign competitor, in the home market without aid. (an offshoot of this argument is that of considering established industries that have been hard hit in some crisis as "infants" and aiding them back on their feet again).

Now the main difficulty about this argument is that those who use it never seem to get out of the "infant" stage and have indeed given cause to call it the spoiled baby excuse. The reason for this unfortunate occurrence is the presence of one of two conditions:

- a. the basis on which the industry was started was not economically sound, i.e. did not enjoy even an equal advantage with the foreign competitors.
- b. the industry heads wish to exploit the home market with the aid of the government.

Assuming an industry starting into a field already

dominated by foreign competitors, based on an actual comparative advantage once it gets started, through nearness of natural resource, power, or other factors, and the "infant" industry argument is not only valid, but its use valuable. G.E. Roberts, (Ibid), observes, that practically all new countries stimulated their industrial development with the "infant" industries aid. That this aid, has hastened development, diversified industries, and increased population, indirectly, will, he says; be admitted, but the time has come for more consideration of the balanced and mutually advantageous trade with other countries, he adds. Leading authorities of today and yesterday in the field of economics have accepted the "infant" industry argument as valid, provided the stipulations of the argument itself are carried out in full.

Sometime some naive fledgeling will ask one of these "infant" industrialists why he doesn't carry his argument to its logical conclusion and ask one of these "infant" industrialist why he doesn't carry his argument to its logical conclusion and ask for protection from the home industries--a keen question with, no doubt, a stuttering answer.

2. Duties for revenue. To this use of tariff no economist objects. The expenses of government must be met and duties are a less "painful" method of making the public pay. Of course, it causes only those who buy the commodities to foot the bill; but economists find no serious fault with the revenue just so it does not get to be a protective-revenue measure. It is true the line is sometimes difficult to draw

between revenue and protection, but the revenue duty should be levied principally on luxuries and not too heavily on any one thing. In other words, the minute a "revenue" duty raises the price on a commodity above the price of the home producer, if there be one, the duty becomes protective in nature.

3. Raises wages in the country. It may raise wages, but does not raise real wages. By raising prices on food and clothing a protective tariff would raise the subsistence level and with it the minimum wage, but this would not result in the raising of the real wages. Real wages have nothing to do with protection and probably not much to do with free trade, either, with the possible exception that the high wages of workers in an industry dependent upon protection are also dependent upon this same protection; indeed, the workers' jobs are likewise dependent upon the tariff.

The productivity theory of wages states that maximum wages are set by the efficiency of production, minimum wages by the subsistence level and actual wages between these two points by the power of collective bargaining. The efficiency of production in this country was directly attributable to the country's rich natural resources. High, real wages followed.

The true case for high wages in the United States is the formula for all nations that enjoy plentiful, natural resources. F.W. Taussig, professor of economics at Harvard University (1920) and sometime chairman of the United States Tariff Commission, brushes aside the protectionist's argu-

ment on high wages with little effort in his Free Trade, The Tariff and Reciprocity (1920). He says: "The higher range of wages in the United States is due to the country's rich natural resources, and to the energy and intelligence with which these have been utilized. It may be that in some directions this utilization of its resources has in some degree been hastened or made more effective by protection, (i.e. temporary arrangements such as "infant" industry. He also mentions anti-dumping legislation)...It may be that in other directions this utilization has been retarded and lamed by protection. But in either case, it is beyond doubt that, whether we had had in the past complete free trade or the most unqualified protection, production would have been more generous in the United States than in European countries, and wages higher; and it is no less certain that, which ever system we shall have in the future, we shall retain these same advantageous conditions."

4. Prevents dumping by foreign monopolies. Economically speaking, if a country is willing to bring goods over to this country and dump them on the market at a fire-sale price and to do this continuously it is to our advantage to turn our labor into other fields in which we enjoy a comparative advantage and profit by saving on the cheap commodity. It is when this dumping becomes sporadic, causing our labor to be diverted to other fields and then to have to return to supply the market when the dumping stops, that the argument for protection against dumping becomes valid.

5. Self-sufficiency promoted by protective tariff resulting in the conservation of our natural resources. This argument is mere balderdash unless one uses the negative argument, which the protectionist is not willing to do. The conservation of our resources in this sense indicates not sending them abroad; but even under protection foreign countries can get our raw materials any time they are willing and able to (1) pay the price we ask. There is a clause in the Constitution which prohibits the placing of an export tax on any of our commodities or materials. The negative reason holds the argument up, however, when we realize that by keeping out the goods of other countries by tariff barriers and not allowing them to pay us with our own money as we did during the post-war period, we are excluding any chance of their being able to buy anything from us. The argument for sufficiency with regards to war is appended to this argument. If the reader cares to assume war as inevitable occurrence, he may find some value in the argument; for by keeping all our productive equipment in working order through use, we would not need to take the time or expense to develop this equipment during war. However, if one thinks a bit further, he will see that by using our own equipment and raw materials exclusively and regardless of comparative expense, we are depleting them. Our scantier resources might better be developed and used in time of war rather than be developed now and exhausted in time of war.

(1) subject to restrictions in time of war, of course,

6. Protection prevents outgo of labor and capital, thus helping maintain home market, and encourages inflow of foreign capital and labor. As to the inflow of labor, immigration laws regulate that; and it is safe to say that organized labor will see to it that the laws are kept in force. The inflow of foreign capital depends on a high return which is not likely with increased protection limiting the market. The outflow of capital and labor would be more dependent upon laws and conditions in foreign countries than upon protection at home, if they were not satisfied with their native land.

7. Protective tariff can be used in retaliation. This is true. But other countries can, and do, retaliate, also. This method is just that of the vicious circle that builds tariff walls higher and higher. It is true there have been times when the threat of retaliation has effected a settlement of a difficulty, but such methods are not conducive to the best relationships, on a permanent basis, between countries.

8. A "scientific" tariff would satisfy all objections to regular protective tariff. This tariff, theoretically, would equalize the difference between the lower production cost of the foreign goods and the production cost of the home commodities. Such a plan sounds well enough. It supposedly puts both foreign and domestic goods on the same footing. But, unfortunately, according to the manufacturers in our own country, no one is capable of judging just what the cost of production at home is; but the industrialists themselves,

and the foreigner's basic price is always unfair. "It is too low. The foreigners must be exploiting their labor." And so, on and on...

9. The argument attributed to Lincoln that when we buy at home we keep both the goods and the money at home. This argument is easily answered. We don't pay for goods bought abroad with money; we pay for them with goods.

10. Protection against such countries as Japan and China that gain a comparative advantage by exploiting their labor. In the first place, these countries do not have the facilities for making an over-whelming amount of diversified commodities. In the second place, even if they did they would still have to take goods in return as payment from their customers.

Summing Them Up: The Human Element.

And so, when we look back over the list of the principal arguments of the protectionist, we only find four that economic scrutiny will not find false in all economic aspects and that the weight of authority will in some measure uphold: "infant" industry, revenue, restriction of temporary dumping and national-self-defense, as part of the self-sufficiency argument. Some arguments are peculiar to this country, but the general plea is the same, and the strongest arguments of the protectionist are political, not economic.

There is a factor that any practical viewpoint of the tariff question must include, the human element. The tenth argument on the list will prove this point as well as any. Although, economically speaking, this country would benefit

on the whole (as it should from the social standpoint, also) from taking advantage of Japan's exploitation of labor and buy, say her cheap cotton goods, turning United States labor into channels enjoying a comparative advantage to manufacture goods or produce raw materials for Japan to take in return, the fact remains that the transition would work a hardship on the United States' textile workers. And it is also true that once Japan has driven the textile worker out of the field it may raise the price. However, while the country may gain from the exchange, that particular group of workers are the losers. One has only to put himself in the place of the textile worker in this country, put out of a job by Japanese textiles, to appreciate the human element.

The reason for such situations arising, it will be seen, is a distortion of the country's own ideas of what are its comparative advantages and what are not. The fault may be inability to see into the future, or it may be a start under artificial conditions. However, situations like these must be corrected some day. The policy of building tariff barrier upon tariff barrier must stop some day; for the time will come when hungry nations, unable to buy food or raw materials and lacking the means of procuring them, will go after them with gunpowder. That time will come, even as it has come in the past, and will continue to come until some means of releasing the benefits of the world to the peoples of the world through natural trade are decided upon. But it is for the next chapter to look for ways out and to trace the possible direction of current trends.

Smoot-Hawley Tariff Bill.

Before leaving the consideration of protection to the more "worldly" political job-hunter it might be well to tell of the climax to the American system, the Smoot-Hawley tariff of the 71st Congress. This tariff bill passed, June 14, 1929, was the most radical tariff in the history of protection and set a new high for tariff levels. Indeed, it was the over-stepping of even the bounds of protectionist reasoning in the mad session that saw the passage of this bill, which made wide cracks in the heretofore impregnable front of the protectionist system, and enabled certain movements toward another system to worm their way in, to try to establish a counter-trend.

Under the Smoot Hawley bill, the rates on agricultural raw materials was raised from 38.10 percent to 48.92 percent. The average rate on manufactured articles was raised from 31.02 percent to 34.31 percent and changes were made in 1,122 rates or 34 percent of the total. A notable reduction was a preference granted to Cuban sugar which reduced the duty from \$1.76 per pound to 2¢ per pound while raising the "world sugar" duty from \$2.20 per pound to \$2.50 per pound! They might as well have set the duty on world sugar in good round figures, say \$200.00 and really have made a history-book rating for themselves.

As it was, the Smoot-Hawley bill did not fare so poorly in attracting attention. It raised such a storm of protest throughout Europe, that the very foundations of the protectionist system began to crumble at the prospect of

holding up the retaliatory measures that were impending. No tariff bill has ever been quite so vigorously assailed in all parts of the world (except in Cuba). Even in this country, with the exception of those actually believing they would benefit from such a policy, there was an almost universal growing wave of protest. A thousand economists had signed a statement asking for the veto of the bill which statement was pigeon-holed by President Hoover.

If it had not been for the efforts of certain parties to alleviate the difficulty by taking official action in a more liberal direction, it is hard to say where or when the building of tariff walls and the killing of trade would have stopped. One of the senators who supported the Smoot-Hawley bill predicted that 30 days after the adoption of this tariff, the United States would be out of the depression! That the effects of the Smoot-Hawley tariff bill contributed their full share to the difficulties of the depression is self-evident. At a time when nations needed to cooperate, this tariff bill tied their economic hands even more securely than before. The strict pursuit of this evil policy plus the retaliatory measures it naturally invoked might have ended in another world war. It might have ended in a depression more far-reaching than the last, or prevented us from ever casting off the grey pall of the last few years. An answer to the question of what might have happened would be but a surmise, for action was taken and certain movements started which will be discussed in the next chapter.

CHAPTER IV

THE NEW ERA

Background

The New Era. The forces which are now at work trying to liberalize the tariff policy of the United States, and with it the policy of other nations, did not begin their work only recently. Just as the forces that brought free trade to England traced their origins back for more than two centuries before they reigned supreme in Great Britain, attempts at liberating the policies of "the American system" can be traced back as far as 1823. Throughout the years various attempts have been made, but the governmental powers working with the protected interests successfully blocked any such attempts from becoming effective. It was not until the bogey of the Smoot-Hawley tariff was thrust in front of them that these complacent, rationalists were halted long enough for the liberalizing forces to get a fair share of power.

The United States set the example for the protectionist policy, and it is up to her to set the example of showing the way out.

Out of 24 reciprocity treaties negotiated under the general treaty making power between 1844 and 1902 only three became effective---Canada, Hawaii, and Cuba---and the reasons for the failure of all but three of the other 21 can be found in their treatment at the hands of Congress. Two were withdrawn from the Senate by the President after a change of administration and one was rejected by a foreign country.

There had been a gradual slowing down in tariff revision between 1927 and 1930, but the Smoot-Hawley tariff set it off at a faster pace in 1930. The incoming

administration of 1932 found that something had to be done to avert an increasingly grave trend in protectionist policies. The statesmen to whom European countries looked with pleading eyes, even as they fingered the construction materials for new tariff walls, replied that something would be done as soon as a proper course of action could be framed.

In 1934, the first definite step toward liberalizing a vicious protective system was taken in Congress with a passage of the Reciprocal Trade Agreements program, and there started the active beginnings of a new trend in tariff policies.

Although other nations are slow in liberalizing their policies, the trend toward reciprocity is one which a single power can start. If this single power succeeds in establishing reciprocity, it means other nations have joined in the movement, for it takes two to make an agreement. At the present time, 15 such reciprocal treaties have been signed by the United States and foreign countries, the last being that with Costa Rica on November 30, of this year. Other agreements signed: Canada, France, Belgium, the Netherlands, Sweden, Finland, Switzerland, Cuba (exclusively preferential), Brazil, Colombia, Haiti, Nicaragua, Guatemala and Honduras. To these treaties, with the exception noted, the traditional United States "most favored-nation" clause applies, further tending to free trade barriers. The fact that most of the commodities in question are of such a nature that the granting by the United States of equal opportunities of markets for similar goods to other countries under the "favored nation" clause does not ruin the trade of the nation with whom the

agreement is made (i.e. because of specialized products such as French wines, Swiss watches, etc.) makes the friendly gesture agreeable to all nations. There are times, it is true, when the "favored nation" clause holds up the settling of treaties, but the individual contents and workings of these tariff agreements do not come within the scope of Book One of this treatise.

The minds of the peoples of the nations are right for a more liberal attitude. Eric W. Allen, dean of the school of journalism at the University of Oregon, made a recent trip throughout Europe, especially Germany, doing research work for an American foundation. He stopped at the back door of Europe's peoples, big and small, and everywhere he heard "off the record" remarks expressing dissatisfaction with the trade barriers that were tying up trade. He reports that American diplomats with their fingers on the heated pulse of the world express the wish that the men in Congress would talk a little more sound economics.

Curiously enough, just as was the case at the beginning of the 19th century, the lawmakers are still working on old principles, whose value has always been suspect, and are refusing to recognize the needs of the times. Many of the leading industries in the United States that grew during the war are being held back by the very barriers that once helped them to survive. But, there is irony in the fact that the farmer, once the goat--or, one of the goats--of the protective tariff, industry secured, is now the one to challenge industry's power to get rid of the tariff, now it

has become a hindrance. The farmer is better organized, now. The surplus he once had, which nullified the workings of any protective tariff toward raising his home market price, is gone, and the farmer wants his price protected from foreign competitors until he can get on his feet again. In this desire, selfish as it may be from the national standpoint, the farmer is just as economically justified as was the industrialist in the 19th century and the weaker or "infant" industrialists, today.

It must be pointed out, however, that to the voting population that gives the senators and representatives their jobs the answer to the difficulties has been evasive. Among the reasons for this situation are habitually hazy thinking, clouded by political reasoning, and the active propaganda of the long list of those who have for many years sought protection for their interests. Therefore, to say that Congress does not realize the difficulties is misleading. The truth is Congress is more interested in the tariff question as a political ladder than an economic issue and when the American people can convince Congress the ladder leads down not up, even more definite action will occur than the last four years have witnessed in the direction of liberalizing the protective system. As has been said, it is up to the United States, in her favored position to lead the way out.

THE NEW ERA

In retrospect the nationalistic policies of the nations, which have been followed since the war, in relation to the nations themselves, have been the result of a misunderstanding of the true workings of economic laws. The same nationalistic policies viewed from the international standpoint have been a clumsy blunder.

It is interesting to note the similarity between the steps in tariff policies up which the world has been mounting in double-quick time since the war and the slower steps taken between the 15th and the 20th centuries. In the latter case, after many years of the old-style protection, the element of reciprocity began to creep into the picture. Then England, economically primed for such a course set off into free trade, carrying the "trend" of tariffs with her as has been shown. With this very important fact in mind, that the goods a country sells must be paid for in goods, it can be seen that England's rise in prosperity's ranks must necessarily have been accompanied by like tendencies in the countries she traded with. Other factors such as wars and political instability and lack of leadership, of course, entered in to counteract this rise in many countries.

D.A. Forward, assistant cashier of the National City Bank of New York City, expressed some acute observations which help to show the similar condition of the United States to that of England during the Industrial Revolution. Instead of an Industrial Revolution we had the World War which speeded up the development of productive machinery and increased its

efficiency in a remarkably and unprecedented short space of time. This situation was more evident in the United States than in any other nation. We have experienced the beginnings of attempts to find a way out with various reciprocal agreements, and the United States is ready to liberalize her trade relations. Although Mr. Forward's observations do not compare the conditions of 19th century England and 20th century United States as he lists them in his article, "Tariff Policies of the United States as a Creditor Nation", in the May 1921 issue of the Annals of the American Academy, they do serve admirably to further the comparison as outlined above. He says in part that the enormous expansion which the productive capacity underwent during the war must have outlet in foreign markets if maximum production is to be maintained, full employment achieved, and high wages maintained, and the normally anticipated amount of revenue accrue to the government from business and individual incomes. How well was this observation, made in 1921, borne out by the catastrophe of 1929-32 which was in a degree the result of a policy in direct opposition to Mr. Forward's "must"! (The degree to which the difficulties of 1929-32 can be attributed to tariff and trade restrictions and their extensive ramifications is a debatable matter, with the economists usually laying a great deal more blame on the protectionist policy than the politician is willing to admit). And also observe how similar-- for the conditions of 1921 are with us today--are the demands of progress in the United States to those in England at the beginning of the 19th century. "History repeats itself!"

Mr. Forward says, further, "It seems to be conceded that the industries and those producing exportable foodstuffs and raw materials in the United States, as a whole, are in a preferred position." How true! Although it is beyond the scope of this treatise to deal with the United States' great natural resources and efficient production, let it suffice to say that economists and politicians almost universally agree, that in general, industrial United States is in a favored position among nations.

It is true that protection may still play a restricted part, under conditions outlined in Chapter III; but the policy of the United States, indicated by the economic facts, will be one of more liberal aspects.

In the interests of mankind it is obvious that tariff legislation should be such that the greatest good accrues to the largest number. Such a principle is the base of legislative action which will bring a maximum possible volume of trade compatible with a minimum burden to the ultimate consumer.

Needless to say, those who would be in the crying minority, as the result of such action, would brand the two ultimates as utterly incapable of agreement regardless of the solution pressure. But, it need only be pointed out that though the textile worker may suffer temporarily from the influx of Japanese textiles, his son and grandson, engaged in some trade in which the United States will always enjoy a comparative advantage because of her peculiar position,

will benefit from the lowered price on his clothing.

Slow Process.

The above is the unanswerable ideal of the free-trader and although the politician and legislator of the country has a bad habit of branding all ideals as "impractical" this one is workable and only demands the unselfish cooperation of the producers of the country. That such a course of action cannot be accomplished in a day is evident. No true economist upholds the sweeping away of all tariff barriers in a day. The process must be slow, giving those within the country time to readjust themselves to the new conditions to shift labor to fields in which it will enjoy an advantage.

Depreciated Currencies; Alternatives to Liberalizing Policy.

Before discussing the lanes through which the demands of existing conditions for a more liberal tariff policy may be satisfied, it may be well to point out the relationship of depreciated currency to the tariff policy may be satisfied, it may be well to point out the relationship of depreciated currency to the tariff system, and also, some alternative to the liberalizing of the protective system.

The depreciation of currency is not a corrective. It is merely a symptom of an unhealthy condition. The supposition that it permanently increases exports is a false one as we always come back to that simple, but inflexible argument, goods must be paid for with goods (or services, which have been proved unsatisfactory, or gold which soon runs out). Depreciation raises the prices of the foreign products, there-

by acting as a protective barrier and preventing the payment in these goods.

As to alternatives to liberalizing the protective system: if nations are to continue to wall up their resources and keep them from those who are "natural-resource-hungry" there can be but two answers--unable to get the materials to manufacture commodities with which to pay for the raw materials and food, countries, not so abundantly blessed by nature as others, must:

1. take them by force; or 2. turn to the test-tube as many countries are doing in desperation, today, to manufacture substitutes for rapidly diminishing or exhausted natural resources and the commodities they produce and the utilities they create.

"Power of the Pocket-book."

Any writer advocating, or predicting, a shift to a more liberal tariff policy must keep in mind "the power of the pocket-book", the all important element of individual selfishness; or should one say, interest? Any move toward gaining a benefit for the majority at the expense of the few must be done slowly and with diplomacy, for the voice of the affected few is like the voice of Krakatao, and rings most loudly in the halls of Congress and Parliament.

Two Fundamental Facts.

Any discussion of tariff problems must always come to fundamental facts: 1. goods sent to foreign countries can only, in the last analysis be paid for with goods. 2. the

price of protection is born by the consumer.

Future Policy.

In reviewing all the facts as set forth in this treatise, the writer can only come to one answer as to the future policy. With this answer comes the comfortable feeling that on his side are all of the outstanding economists of the world when they care to argue with economic facts and not the fallacies of political paralogism.

The answer is that the future policy must look toward liberalizing the tariff policy of the last few years, and it is with some satisfaction that the writer perceives that the case fits the facts. Indeed, industrialists, politicians, and legislators alike are beginning to acknowledge the light, and the trend in this country is leaning toward liberalizing "the American system" which, according to the laws and historical examples set forth and the conditions under which the trend is taking place, will become a dominant trend if the natural working of the economic plans are not again shattered as they were in 1916. If this trend is accompanied by acute perception of what our comparative advantages and what are not, it should be lasting one.

Two Courses of Action.

As means to the end of a liberal tariff policy, we find two courses of action which may be pursued independently or at the same time:

1. reciprocity
2. free ports or free zones.

The isolation and discussion of a difficult case in this current trend in tariff policy, reciprocity with Japan, will be found in Book Two of this volume.

BOOK TWO

A BRIEF FOR RECIPROCITY WITH JAPAN

dated as from
May, 1937

INTRODUCTION TO BOOK TWO

If the result of reading Book ¹¹One of this treatise was, as the author hopes, a conviction that free trade is the ideal and reciprocity the way, the job is only half done. For the reader will say, "Well and good, in theory, but is such a process practical now, in effect?"

In reciprocity ventures of the United States, the flaming sun of Nippon has been sadly missing. Secretary Cordell Hull has held silently aloof from any public announcements on reciprocity with Japan. In other words, Japan has been a stickler in the reciprocal program.

Therefore, it was felt by the author that if he could succeed in making a satisfactory brief for reciprocity with Japan, he might show in practical terms that the "proof was in the pudding".

The materials out of which the proof has been fashioned are of today. It must be admitted in passing that tomorrow is another day.

Evaluation of Authorities.

As the authorities in the case of Book Two were the statistical summaries made by various governments and agencies, they will be found in the bibliography. One authority quoted at length was C.T. Murchison, whose extensive knowledge of the cotton industry was paramount in gaining him the pres-

idency of the cotton textile institute of America. His work as a government official has been notable, with regard to textile difficulties. One of the most comprehensive reports on the factors affecting foreign trade policy was prepared by him for the department of commerce in 1935.

In the main, however, the author has tried to let the figures speak for themselves, rather than to take second-hand, and possibly prejudiced, viewpoints, derived from unknown figures and facts. Even such opinions were scarce for the material used is so recent. His authorities then, are the facts and figures of the past few years, and in some cases, the men who compiled them.

CHAPTER I

RECENT ECONOMIC DEVELOPMENT OF JAPAN--SINCE 1932

RECENT ECONOMIC DEVELOPMENT OF JAPAN SINCE 1932

The phenomenal growth of Japanese industries down to 1929 is history. The recovery of these industries, after a temporary but serious setback during the depression, and the Japanese drive for world markets are making more history. In the last decade Japan has promoted the efficiency of her industry and the saleability of her commodities until today she sells beer to Germany and American flags to members of the American legion. Her foreign trade methods have demonstrated comparative efficiency.

INDEXES OF INDUSTRIAL PRODUCTION IN CERTAIN COUNTRIES
(1)

(Base: 1929 100)

Table 1.

Year	Japan	France	Germany	Great Britain	United States
1933	113.2	76.7	60.7	88.2	63.9
1934	128.7	71.0	79.8	98.8	66.4
1935	141.8	67.4	94.1	105.7	75.6
1936 [^]	144.6	71.6	101.2	114.9	82.5

[^]Averages for the period January-May for Japan, and January-June for the other countries.

The above figures do not imply, of course, that total production in Japan has exceeded that of other countries. It is evident, however, that Japanese production did not suffer the set-back met in other countries during the depression. Although it was retarded by bad times, Japan's productivity had increased further over its 1929 level by the middle of 1936 than that of four other industrial powers. Japan's rationalization process was just gaining headway when the depression struck. The effects of this rationalization process carried Japanese production on to new levels in spite of difficulties. While Japan was forging ahead, other countries were trying to intrench themselves against the depression rather than to attack it.

Primed by government aid, industries in Germany, Great Britain, and the United States started forging ahead again in the latter part of 1933. But they had fallen below their 1929 peaks. Japan was ahead to a good start, the only country

of the five listed above to show more than a 20 percent increase in productivity over the 1929 level. Her increase amounted to 44.6 percent over the 1929 figure.

Although Japanese production was 13.2 percent above the 1929 level when 1933 rolled around, nevertheless her industrial drive had been impeded by the chaotic conditions of the depressions. Japan dates her recovery of industrial progress from 1932. Internationally, Japan is essentially an industrial and trading country. This means that Japan's slackened drive for world markets took new energy and motion in 1932.

1936 Record Export Year.

Since 1931, the value of Japan's exports increased from 1,146,981,000 yen to 2,499,073,000 yen in 1935, the (2) highest value in the history of the nation up to that time. Between 1935 and 1936, the exports increased about 7.5 percent. Although this increase was not as large as the 15.1 percent increase between 1934 and 1935, it brought exports to a new peak of approximately 2,686,503,375 yen last year (about 488,000,000 gold dollars). The highest mark made previous to 1935 was 2,305,500,000 yen worth of exports in 1935. The increase in yen was more notable than in gold dollars, because of the devaluation of the yen in the closing month of 1931.

Table 2.

INDEXES OF VALUE IN NATIONAL CURRENCIES OF TOTAL FOREIGN TRADE IN FOLLOWING COUNTRIES, 1931, 1933, and 1935.

(3)
(Base: 1929 100)

<u>Year</u>	<u>Japan</u>	<u>France</u>	<u>Germany</u>	<u>Great Britain</u>	<u>United States</u>
1931	54.5	67.0	61.1	64.6	48.2
1933	86.8	43.3	34.7	54.0	32.3
1935	114.3	33.6	32.3	61.3	45.1

The expansion of Japanese foreign trade has been phenomenal in terms of the yen and in volume. The devaluation of the yen December 13, 1931, changed the rates of exchange in American dollars from .4885 in 1931 (average) to .2811 in 1932. The exchange rate today is approximately .2850.

In percentages of total world trade, Japan's share increased from 2.8 percent in 1932 to 3.8 percent in 1935. The aggregate turnover in world trade for 1935, expressed in old gold dollars, was approximately \$23,479,400,000.

(4)

One percent of this amount would make a rather tidy sum for any country to add to its trade activities.

Japanese goods are going to all corners of the globe. A custom manufacturer, she has created for other people's tastes and pocketbook, (her own are simple) and has brought down the wrath of foreign industrialists upon herself. This is unfortunate; for this resentment has been a potent force in the world-wide building of tariff walls against "cheap Japanese goods."

Reasons For Trade Expansion.

But what are the reasons for this unprecedented ability of Japanese exports to effect foreign markets? First,

foreign countries were more sensitive to international competition during and following the depression. Many of their industries were struggling to rise. Some industries were sinking back complainingly into oblivion; secondly, the factors within Japan which influenced this great industrial expansion. If analyzed, these will present a sectionized picture of the present industrial set-up in Nippon.

Briefly, the factors influencing recent trade expansion in Japan have been these: cheap labor, increase in productivity of workers, government rationalization, devaluation of the yen, loss of raw silk market, military activities.

Let us now consider each of the above and some of their various ramifications.

Cheap Labor and Industry.

Labor is cheap in Japan. When compared with the percentage of production costs that labor forms in United States' industry, the Japanese figure is low. For example, the labor item in production of Japanese textiles is only one-sixth as large as the labor costs in American production, which amounts to from 50 to 75 per cent of the total expense of production in the United States. Why is the Japanese wage level low? In the first place, the general level of wages in industrial countries which are not blessed with large supplies of raw materials are lower than those with vast resources in their own yard. This fact is evidenced in the cases of Great Britain and the United States. England has to pay more for her raw materials. So does Japan. But the important item, peculiar to Japan among industrial leaders,

is her Oriental birthrate and Occidental death-rate. Coupled with this resultant, abundant supply of labor which is reported to be increasing at the rate of about 1,000,000 a year, is the factor of the meager productivity of agriculture.

About 48.4 percent of the employed people of Japan proper are engaged in agriculture. The productivity of agriculture is so low, however, that the farmer can earn more in the factory, little though that may be. With the population increase most evident in agricultural areas--80.4 per cent of the total number of births in 1930 took place in rural districts--this constant influx of potential workers from the farm to the factory lowers the wage level toward bare subsistence and increases the turnover in labor. The very organization of Japanese industry tends to repress the bargaining power of the workers. This feature of Japan's industrial organization is explained below.

Industrial Set-Up

Japanese industry divides itself indiscriminately into two groups, large-scale industries and small scale industries. The former generally comprises the textile industry, the manufacturing of iron and steel and chemicals, shipbuilding and shipping. The latter turns to the production of commodities in which the labor element is dominant, things of artistic design, novelty goods, commodities subject to frequent style changes, and those needing a great deal of hand labor.

As there is an overlapping in commodity production

between the two groups, efforts are made to classify them according to numbers of workers employed. Some draw the line at 100 workers, others 50. The government officially rates all establishments employing more than five operatives as factories.

The six fulcrums in Japan's leverage on world trade are the six cities of Tokyo, Yokohama, Nagoya, Kyoto, Osaka, and Kobe. The force applied is that directed force of great financial monopolies.

Regardless of the classification, the majority of Japanese industry is controlled by a few interests. Japan is exhibit A in private monopoly capitalism. There is no capital market as we know it, no large investing public. The public has no money to invest. Some 15 financial interests control 70 percent of all Japanese trade and industry, eight of these control 50 per cent, three control 25 percent--one, Mitsui controls nearly 15 percent. These financial groups such as Mitsui, Mitsubishi, and Sumitomo are mostly family interests, headed by giant family holding companies. They largely received their start in active participation of Japan's early westernization, since 1858.

Although capital is organized, labor is not, as we shall see.

Labor Units

According to Japanese government statistics, less than 1300 factories out of 6800 in operation at the close of 1932 employed 200 or more operatives each. One-half of the total employed under 10 workers apiece.

Industry employs approximately 18.1 percent of the working population, and business 15.3 percent. Of this 18.1 percent in industry, it is variously estimated that from 52 percent (Japanese figures) to 64 percent (given in Fortune magazine) are employed in small shops or household units of less than five workers. It is further estimated that 59 percent are employed in shops with less than 10 operatives, and 70 percent of all industrial workers are used in plants with less than 50 workers.

When over half of the industrial operatives are working in units of five or less, organization is difficult. The importance of the small-scale industry is seen by M. Takahashi's estimate that 65 percent of Japan's exports is produced in plants employing less than 100 workers. The nature of the small-scale industry calls for much labor. The nature of the small-scale industry combines with abundant supply of labor to reduce the workers' bargaining power.

There are no unions, not even company unions, in Japan's textile mills; her largest export industry is textiles. The personnel manager in a large Osaka mill once remarked to W.H. Chamberlin, Far Eastern corespondent of the Christian Science Monitor, "We don't need any trade union. We are simply one large family, working for the good of the enterprise."
(5)

If the above is true, such is the complete subservience of the Japanese laborer; but to the acquainted, the manager's statement is suspect.

Standard of Living.

Recognizing that from an international standpoint Japan's cheap labor is more than making up, in many fields of industry, for her lack of natural resources, one realizes that such is the view from without. To judge whether or not this condition has a direct and intrinsically evil effect on Japan, one must view the situation from within.

While Japanese wages are extremely low in terms of United States currency and compared to the American standards of wages, the important question is, "do they seem low to the Japanese worker himself?" In other words, what is the real wage of the average Japanese worker?

Index numbers taken from the League of Nations:

World Economic Survey, 1935-36, show that while money wages in Japan have increased since 1932 that real wages have fallen. With 1929 as the base, equalling 100, the figures given run as follows:

Table 3.

	Money Wages				Real Wages			
Japan (Daily Earnings)	<u>1932</u>	<u>'33</u>	<u>'34</u>	<u>'35</u>	<u>1932</u>	<u>'33</u>	<u>'34</u>	<u>'35</u>
	85	86	88	88	112	107	107	105

Closely allied with low wages and how they affect the Japanese workman is the standard of living in Japan. Americans are prone to describe the Japanese standard of living as very low. Rather let it be said that it is different. Judged by our own standards, the standard of living of these people of the agglutinative tongue is

higher than that of any other Oriental country.

But one should not judge Japan's standard of living in terms of our own. For centuries, the Nipponese have existed on a simple diet of rice, fish, and vegetables. Dieticians have pointed out that deficiencies in Japanese diet lower the efficiency of the workers. Japan remains content, continuing to live on rice, fish, and vegetables. A bit of meat and milk are creeping into their diet. Some oatmeal is eaten at intervals to prevent beri-beri, a disease contracted by a strictly rice diet. But apparently the Japanese are generally content with their diet, and it is a ridiculously cheap one.

M.F. Maurette, in a recent report to the International Labour office of personal investigations in Japan, put forward the opinion that the average Japanese worker can pay for his rent, food, and clothes out of his income and still have approximately 30 percent left over for incidentals. This view was concurred in by David Wilson, secretary to the Japanese consul in Portland, Oregon, and A.R. Moore, biologist on the University of Oregon faculty, who spent some time doing research work in Japan recently.

In this regard, the Japanese worker is in about the same position as the average American worker; both supposedly have approximately 30 percent of their income left after paying for food, lodging, and clothing.

Recent government studies showed that the monthly expenditure of 45 yen (about \$13 at the present rate of exchange, or \$22.50 at former mint parity) will sustain a

working class family, consisting of two adults and two small children, at a margin "of decent subsistence". (6)

Wages.

A seeming overemphasis is put upon the actual amount of the average worker's wage in Japan by most foreigners. In 1934, the average daily wage paid workers totalled only 357.75 yen annually. The average rate for men was slightly over a yen per day, while that for women approximated 73 yen per day, according to Japanese government statistics. The large number of women workers in the industrial set-up, especially in textiles where most of the operatives are women, --87.6 percent were women, in cotton spinning industry in December, 1935--tends to lower the average. This factor also tends to hold down the wage level.

The fundamental issue, then, is whether or not the Japanese worker is content with his lot. If so, the standard of living is adequate. If not, perhaps it should be raised, or rather, changed.

For several years, the Japanese government has been pleading to the worker to tighten his belt and prepare for the "1936 crisis". As scheduled, 1936 came and went. No crisis. A member of the Diet rose to his feet one day to remark that the surest way to bring on a crisis was to talk about it. He said that even with all the talking that had been done, the "1936 crisis" had failed to materialize.

Possible dissatisfaction during recent years was suppressed by the people themselves through their innate loyalty to the government. Lately, however, there have

been indications of unrest among the working class. The westernization of Japan brought new tastes to the people, and new ideas. The recent strike in China of Japanese workers in a Japanese factory is indicative of a growing unrest.

However, it is evident that the average Japanese worker is more satisfied with his or her lot, than is the average American laborer. Although the standard of living in Japan may not be progressive, it is not low to the worker there.

Future of Wages.

Evidences do not point to the raising of the wage level in Japan by any substantial amount in the near future. Factors working toward that end, however, are: flattening curve of population. Although the birthrate of Japan is falling, it is reported that there will be 10,000,000 more workers in Japan in 1950 than today, (present population, 69,254,000); the productivity of agriculture and the farmers' income is increasing. Scientific agriculture in Nippon is slowly making headway toward this goal at present. The effect of increased income on the farm and a falling birth rate would tend to restrict the supply of labor, helping to increase wages; unrest among the laboring class. Beginning to make itself felt now, this item cannot become permanently effective until the first two problems are met.

All other things being equal, cheaper labor is a decisive factor in industrial supremacy. Such a situation rarely exists. Cheap labor is normally accompanied by low

industrial efficiency. Japan is unique in having cheap labor, and in many ways, high efficiency. It must be remembered that other Oriental countries with huge populations have "lower" standards of living than Japan. They command cheaper labor within their borders than does Japan. But, they are not "seriously threatening" any foreign markets with their manufactured goods.

One must always keep in mind the fact that Japan is far in advance of any Eastern country in industrial and engineering efficiency. Its factories, railroads, steamship lines are as efficient as those of Western Europe and America. The industrial organization of its large-scale industries compares favorably with that of the United States and Great Britain. The marketing efficiency of its small-scale industries plus its cheap labor places many more of its commodities in a favorable international position.

We now turn to Japan's increase in productive efficiency, another all-important cause of her trade expansion.

Increased Productivity of Workers.

Japan then, is a country generally satisfied with an Eastern standard of living. At the same time she is rapidly approaching the Western standard of efficiency.

Between 1921 and 1931, the output per worker increased by 76.5 percent. By 1936, it had increased another 15.9 percent.

Table 4.

(on next page)

INDEXES OF WORKERS' PRODUCTIVITY IN MANUFACTURING INDUSTRY

IN CERTAIN COUNTRIES

(7)

1928-1936[^] (Base: 1929=100)

Year	Japan	France	Germany	Great Britain	United States
1928	90.4	-----	98.6	96.4	98.8
1929	100	-----	100	100	100
1930	105.3	100	92.2	96.1	92.4
1931	112.1	95.7	82.9	90.9	92.2
1932	119.3	84.7	75.0	91.1	87.9
1933	125.9	96.2	84.2	93.0	97.1
1934	128.7	91.9	93.3	99.5	88.3
1935	129.4	91.3	103.8	104.0	96.4
1936 ^{^^}	128.0	97.0	106.9	110.3	102.4

[^] The index of productivity is obtained by dividing the index of total production by the index of employment.

^{^^} Averages for the period January-May for Japan, and January-June for the other countries.

^{^^^} Base: 1930=100

It will be noted above that the productivity of the Japanese workman increased steadily throughout the depression, while that in other countries fell. The industrial organization of Japan was in the process of being perfected according to western standards when the depression hit. Retarded but not checked, Japan continued to improve its productive machinery during the difficult times. Other countries tried, in the main, to get along on what they had or less.

As the result of this increased efficiency of labor,

brought about through better capital outlay, improved operative skill, engineering and organizing ability, the labor cost per unit of production fell.

An interesting and certain sign of exploitation of labor was the continued decline of the average daily real wage between 1932 and 1936 while efficiency and volume of production were rising. Profits for the owners were also rising, amounting to as high as 30 percent in the textile industry at one time.

In the textile industry the increase of efficiency was notable. According to the Japan Cotton Spinner's association during the eight years, 1925, to 1933, the workers' productivity in the cotton spinning industry increased 71 per cent and in the cotton weaving industry, 133 percent. At the same time, the cost per unit of production fell 60 percent and 68 percent respectively.

This increased efficiency in production was a cardinal factor in Japan's industrial and trade expansion. One of the primary reasons for this expansion was the Rationalization movement of the government.

Rationalization.

This term refers to the Japanese government's attempts to coordinate and to "streamline" Japanese industries and methods of management, in an effort to gain more foreign trade and to build up the country industrially, and incidentally, militaristically.

Rationalization started long before the depression.

A series of acts were passed in the 20's, notably the Industrial Guilds Act and the Exporters' Guilds Act (1925) which were designed to promote cooperative methods of buying and selling, establish common facilities for manufacture, standardization of products (or rather cartellization of industry in truth), inspection of goods for export, extension of credit facilities.

These acts were amended subsequently to allow the government to exercise control over prices and volume of goods to be exported.

By the end of 1935, there were 626 organizations involving 80 branches of industry under the Industrial Guilds Act. There were 82 associations, involving 50 branches of industry under the Exporters' Guilds Act.

In 1930, the Bureau of Industrial Rationalization was set up with the avowed purpose of encouraging rationalization in both production and distribution. The effects of the work done by this bureau have already been shown in the increased efficiency displayed by the "streamlining" and cartellizing of industries.

The attention of the bureau also turned toward improving the products of the medium and small scale industries and controlling their methods of production and sale. Protective measures were then extended to major industries which had been hard hit by the depression.

Along with the increased productive efficiency of the large industries, and to a certain extent the smaller factories also, came increased marketing efficiency and a paring down of initial supply costs for the small-scale groups.

The power supply for industry was increased. Utilizing 4,200,000 of Japan's potential 8,600,000 horsepower of hydroelectric energy, government directed agencies now have 90 percent of the prime movers in manufacturing and mining industries operating with electric power.

As part of the rationalization scheme to aid industry, the government on December 13, 1931 practically cut the international exchange value of the yen in two. The Japanese unit of exchange was lowered from 4.885 to 2.811 in terms of our currency.

Devaluation of the Yen.

The effect of this government action was beneficial to the export trade, generally. It lowered the prices of Japanese goods in foreign markets. Japanese workers' needs are largely met by products of native origin, living costs in Japan rose much less than the exchange value of the yen declined. Japanese labor became even cheaper, internationally, and this advantage had a great deal to do with Japan's increasing sales in foreign markets.

However, the effects of this devaluation were not all satisfactory. It greatly increased the costs of imported raw materials, the food for many Japanese industries. An example of this fact is seen in factory statistics published by the Japanese government showing that the value of the raw materials in 1933 constituted about 63 percent of the total value of production of cotton and wool yarns, and about 50 percent in the woven products. Therefore in the case of the woven products--most important of Japanese exports--only about one-half of the export price was favourably affected by the

devaluation of the yen.

On January 8, 1937 the government established control over all foreign exchange transactions. This control is not as restrictive yet as the German control exercised recently, but will affect Americans selling and attempts to repatriate funds accumulated by affiliates there.

The government control of exchange transactions involved include: buying of all foreign exchange, sales of yen exchange in foreign countries, and even execution of contracts made before the decree. Japan evidently intends to regulate imports, perhaps temporarily, which is bound to affect the United States, its major supplier.

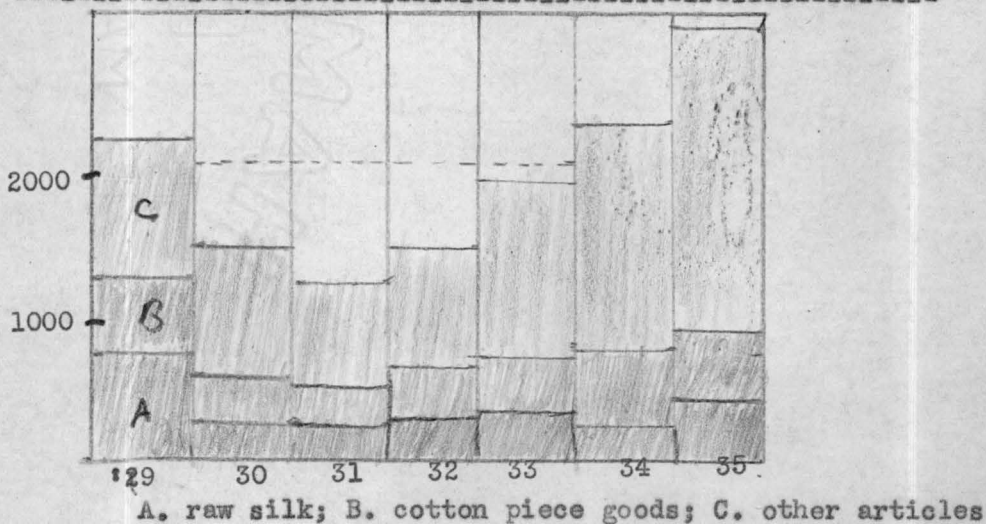
There have been various interpretations placed on this action. A move to halt any flight of capital which might be precipitated by the continuing unbalance of the Japanese budget. The steadily rising demands of the powerful military group over the country's politics (this interpretation seems to have been refuted by the results of the recent election in which the military group was overwhelmingly defeated). Fear that large new investments in Manchukuo and North China might be harmed as the result of new political developments in China. That it may presage a move to regulate Japanese exports and imports for political reasons. It may be a step toward further devaluation of the yen in reprisal for continued restrictions against Japanese exports to foreign markets (the Secretary to the Japanese consul in Portland doubted this. It was felt that economists and even politicians of Japan realize that devaluation of a country's currency brings only

temporary respite, and is likely to start a series of re-taliatory measures which nullify any advantage gained and make the road back to normal harder).

Two Other Factors in Japan's Trade Expansion.

Two other factors of comparative minor importance in Japan's recent industrial development were the fall in the price of raw silk, which forced Japan to turn to something else as a principal export commodity (see Table 5); and, Japanese military operations and investments in Asia which promoted trade with the conquered provinces and the paying for these military operations necessitated exports.

Table 5 Japanese Exports = 100,000's



Summary of Factors in Expansion.

While the effects of the devaluation of the currency were, and are, only temporary, there are several permanent factors aiding industrial development in Japan:

1. An Eastern standard of living coupled with a large and growing population, with consequent lower wage costs.

2. Remarkable progress in science, invention, and applied mechanical skill--and mimicry of western methods.

3. High degree of coordination in foreign trade methods. Capital closely cooperative and so is the government. Goods usually shipped in Japanese ships and often retailed by Japanese merchants in foreign lands.

This increase in Japanese industrial activity and consequent invasion of world markets could not help but have its effect on the national economy of the United States. In the next chapter we will try to uncover the true effects of Japanese trade expansion on the United States and to what extent it constituted a "Japanese Trade Menace".

CHAPTER 'II

THE "JAPANESE TRADE MENACE" IN THE UNITED STATES

THE "JAPANESE TRADE MENACE" IN THE UNITED STATES

Total Japanese exports to the United States in 1936 constituted about 93 one-hundredths of one percent of the total domestic production of manufactured goods (8) in this country in 1933. Raw silk comprises well over half of Japan's exports to the United States. Therefore, Japanese manufactured exports to the United States for 1936 amounted to approximately one-half of one percent of domestic manufacturing production.

Since 1930 this negligible flow of manufactured goods from Japan "has been shaking the industrial foundation of America" according to certain American industrialists. The industrialists who shouted the loudest in the press and the lobbies of Congress were those piloting greatly over-gearred industries. These men seemed to include a high minimum profit as a part of their production costs, profits gained through monopoly practices at the expense of the consumer. The cries of "Japanese trade menace" and like complaints have come from a loud minority.

Generally, the efficiency of production in the United States is much higher than in Japan. The textile industry forms the cardinal exception. This exception will be discussed later.

The total production of all industries in Japan in 1929 had an estimated value of \$3,829,000,000. Some 1,825,000 workers were used in this production. The same total of production was realized in the United States in 1869 with 2,000,000 workers. This indicates the disparity in general

efficiency of production between America and Japan.

The value of the industrial production of Illinois alone during 1934 was \$3,528,000,000, practically the same as that for all Japan. Compared with American or British industry, Japan's is middle-sized. Her business and trade is middle-sized by the same comparison. Last year her foreign trade was only one-third as large as that of the United States; and one-fourth that of Great Britain. It will be remembered that Japan's total foreign trade comprised only 3.8 per cent of the world total in 1935.

Specialization in Japan's Exports.

Then why this hue and cry against the influx of Japanese goods? In some ways these complaints were justifiable. The reason for this justification was Japanese specialization. Specialization was one of the fundamental factors in the industrial revolution. Specialization increased the efficiency of production. Specialization increased the efficiency of Japan's foreign trade activities. One finds that the bulk of Japanese exports to the United States falls into two categories; raw silk, which causes little trouble; cotton which caused most of the trouble. There has been further specialization in the type of cotton goods produced for American export in Japan which has increased complications.

To better isolate the difficulty in order to analyze it, it might be well to consider Japan's exports to the United States. In order to insure complete statistics, the year 1934 is used. Since that time, there has been an increase in the exports of raw silk to the United States, in the general export level, and notably an increase in the export of cotton goods to the same market.

Following is a summary of a report of the United States Tariff commission on Recent Developments in the Foreign Trade of Japan.

Table 6.

(9)

UNITED STATES IMPORTS FROM JAPAN IN 1934
(of items valued at \$12,000 or more, classified according to competitiveness with American products.)

Classification	Value	% of total imports from Japan
Total imports from Japan.....	\$117,963,573	100.0
Imports of 271 items valued as \$12,000 or more....	116,391,752	98.7
I. Commodities imported free of duty.....	83,863,209	71.1
II. Dutiable imports.....	32,528,543	27.6
A. Commodities of which there is no domestic production.....	6,656,743	5.6
B. Commodities, the domestic production of which is insufficient.....	3,924,498	3.3
C. Commodities imported due to special conditions, whether temporary or permanent, and not competitive at time or place of sale.....	363,726	0.3
D. Commodities of a type not produced in the United States, consumed mostly by Orientals.....	1,059,898	0.9
E. Commodities sold in the United States chiefly on the basis of their Oriental or novelty nature.....	3,437,687	2.9
F. Commodities distinctly different in type or grade from those produced in the United States.....	5,013,197	4.2
G. Commodities which are competitive but imports of which are negligible in comparison with domestic production.....	2,359,038	2.0
H. Commodities which are substantially competitive.....	9,713,756	8.2

First note the exports included in the above survey constituted 98.7 percent of the total. By far the largest item on the free list of imports from Japan is raw silk. As shown above, the non-dutiable imports totalled \$83,863,209. Of this total, the imports of raw silk were valued at \$69,846,660. The value of raw silk imported amounted to 83.28 percent of the value of all non-dutiable commodities imported. Other important items on the free list include: tea, \$2,286,318; crude pyrethrum, \$1,985,604; certain oils not produced in the United States, \$1,857,508; various types of undressed furs, \$1,808,504; and certain fertilizer materials, \$1,539,220.

Non dutiable imports other than raw silk made up only 12.4 of the 98.7 percent of total imports from Japan included in the U.S. Tariff commission report.

Dutiable imports, then, bulk over twice as large in value as non-dutiable imports on the list, exclusive of raw silk. Of the 27.6 percent of dutiable imports mentioned in Table 6, 63.0 percent are complementary, rather than competitive to domestic production. This leaves 36.9 per cent of the dutiable imports listed as competitive in nature.

Of the total value of all imports from Japan in 1934 which are classified on the United States Tariff Commission list (98.7 per cent of the grand total), those labelled as competitive in nature totalled only 10.2 per cent. Generously, only \$12,000,000 worth of imports, roughly, .024 percent of the national income of the United States for 1934.

Non-Competitive Goods Don't Menace, Do Benefit.

Obviously, imported goods which are not competitive do not "menace" American business. The influx of these goods tends to benefit the consumer, to raise the standard of living. It is sometimes said that many of the articles of import from Japan, though not directly competitive, may indirectly compete with domestic products. Many who believe this statement also maintain that the influx of cheap Japanese goods lowers the American standard of living. It must not be forgotten that an increasing standard of living is absolutely predicated upon an increase in the kinds and qualities of enjoyable goods.

Source of Trouble.

If there is cause for action against this so-called "menace", it must be found in those fields where Japanese imports into this country are competitive with domestic production. In this 10.2 percent of all imports from Japan is the core of the trouble.

The largest percentage of dutiable commodities which are essentially competitive with American production is made up by the Japanese cotton textiles. The majority of formal complaint against Japanese trade aggression has emanated from American textile industrialists. Other complaints have been received from the pottery workers and a few other industries which find the competition taking away their business; but the core of the trouble has been formed by the competition of Japanese textiles with domestic production. It is from this source that many of the lurid tales of Japan's trade invasion

have originated. It is here, then, that an existing difficulty must first be met.

The influx of Japanese cotton goods has been increasing by leaps and bounds since 1934. Various figures for the importation of these goods into the United States show an increase of from three times to five times the 1934 figure in 1935. Most statistics agree that the import figure for 1935 amounted to approximately 36,000,000 square yards of Japanese cotton fabrics. Another increase between 1935 and 1936 saw this figure doubled as the imports of cotton cloth mounted to between 75,000,000 and 80,000,000 square yards.

It was not so much the rapid increase that caused the complaint. American production of cotton cloth regularly exceeds 7,000,000,000 square yards annually. Japanese imports of this commodity comprised a little more than one per cent of domestic production. But, this one percent was concentrated into one major cloth classification and two or three minor ones. That was what raised the most objections.

Last year, Japan accounted for about 50 percent of the American consumption of bleached goods, cotton rugs, and cotton velveteens. Inroads were being made on the cotton hosiery market and other fields. This was the true cause of alarm that general statisticians did not show.

Claudius Temple Murchison, president of the Cotton Textile Institute, said in an article in the August 23, 1936 issue of the New York Times that, unless something were done about it, the flow of imports of Japanese cotton goods will grow until it occupies the whole American market. He pointed out that the cost of labor in the American textile industry

amounts to from 50 to 60 percent of the total cost of production. In Japan, he said, the cost of labor, including the non-cash benefits, only totals about one-sixth as much as American labor. (This figuring in terms of international exchange.) Therefore, in dollar value, Japanese cloth is currently manufactured at from 30 to 40 percent lower than the domestic commodity.

Murchison further pointed out that the Japanese textile industry was the most efficient in the world. Its organization was unexcelled. (i.e. although Japan has less than half as many looms as Great Britain, she has five times as many modern automatic looms).

The above is only too true. Under existing conditions and in spite of present tariffs, if Japan continues to so efficiently manufacture her present quality and design of cotton cloth, she will continue to make inroads upon the American market. The tariff rates set forth in the Smoot-Hawley tariff act of 1930 on bleached and colored goods were raised 42 percent on May 21, 1936 by executive order. This increase raised the pre-existing rates of 27 percent up to 39 percent ad valorem on these goods (based on Japanese valuation). Yet, present tariff rates, though restrictive, are not high enough to keep Japanese goods out.

Murchison spoke of the above fact. He said that present rates are considered adequate against all countries but Japan. However, he points out that readjustment must be made some other way. "The readjustment of these rates to the levels

required by the Japanese threat would establish rates which would be absolutely prohibitive and grotesquely exorbitant as against all other countries," he said.

The American tariff policy, although it may be protectionist or retaliatory, is not discriminatory.

Two ways out were recommended by Murchison. The first was voluntary quota arrangements between the industries. This factor will be discussed in a later chapter. The second was a house-cleaning of our domestic industry. When he predicted possible sweeping of the American market by Japanese textiles, Murchison assumed present conditions. Present conditions in the American textile organization and operation are disgraceful to American industry.

Much of Trouble Internal.--1. Inefficient Production.

Rather than crying for help from the government, domestic producers of textiles would do well to look within their own industry for much of the trouble.

The present cotton textile industry in the United States is geared to produce more textiles than the American public can consume. The cost of such production would be more than that of Japanese manufacture, but the local industry is organized on the basis of such vast production. However, domestic production is inefficient. It is reliably estimated by Murchison and other experts that 60 percent of the machinery in American mills is obsolete and that only 10 percent of the remaining machinery is of the most modern type.

It is estimated that the domestic mills, even in their inefficient state, could produce enough goods to meet the peak

1929 demand with half of their present equipment, and of course, at a higher price.

The efficiency of the American industry is less than that of the Japanese mainly because of the antiquated mill conditions. Given the most modern and up to date machinery, the average American worker is more efficient than the average Japanese worker. This has been partly explained as due to the difference in diets.

Another item of internal trouble is seen in the fact that the most complaints against Japanese encroachment on trade came from the New England mills. Little was heard from the new southern mills. It is in these new mills, situated close to the source of the raw cotton, that most of the modern machinery is located. Labor is cheaper in the South, although it is still high above the Japanese level of wages. The efficiency of some of these new mills in the South is rated as higher than that of the Japanese mills.

Perhaps the New England textile industrialists are losing more business to the southern mills than to Japan. This possibility is reflected in a letter from Secretary of State, Cordell Hull to Representative Doughton (democrat, North Carolina) on April 12, 1935. Said Secretary Hull:

"Manufacturers and business men frequently display a tendency to exaggerate the importance of competition from new sources (the italics are my own)...Japanese competition in cotton textiles during the first months of this year affords a case in point.....As you know, there is almost continuous pressure upon this government from many groups desiring in-

creased protection against competition, whether it be from domestic or foreign sources.

"In my opinion it is not only unwise as a general policy to yield to the demand for greater restrictions upon imports, but would be particularly unfortunate at this time, since such actions could not but weaken the leadership of the administration in the efforts that it is making to reduce the many restrictions hampering the flow of international trade.

"Furthermore, our international position gives us little justification for raising new barriers against imports at the present time. Although the United States is one of the principal creditor nations, we still export more than we import. The value of the excess of our exports over our imports last year amounted to nearly half a billion dollars. That excess was balanced...by our very heavy imports of gold, but this situation cannot continue indefinitely. We must import more if we are to maintain even the present volume of exports."

Inefficiency of organization and productive equipment at home, large amounts of Japanese cloth imports falling into a few classifications, both effecting the American textile industry. Which is the more serious reason for domestic trouble is debatable. Let it be said in passing, however, that divisions of the textile industry, not affected by Japanese imports, are equally demoralized; this on the authority of the president of the Cotton Textile Institute, C. T. Marchison.

The intensity and quantity of the cries against Japanese cotton goods are not justified. They cover up a domestic evil. As has been said, from this group, the loud

minority, has spread the scare of the "Japanese Trade Menace". The American textile industry should either scrap part of its plants, or renovate them, modernize them and reorganize their production and marketing methods.

In the textile industry we found productive weaknesses in domestic mills accounted for part of the "Japanese Trade Menace". In some of the other industries which have registered complaint against imports of Japanese goods we find another unsalutary condition. These domestic industries are generally more efficiently operated than similar Japanese enterprises. The business taken from them would not be so great were it not for their marketing methods. Perhaps, but for this factor Japanese inroads on such domestic production would be negligible.

2. Monopoly Practice.

These marketing methods are monopolistic. We found that Japan has cartellized her industries, but her financial monopoly over industry is directed at furthering world trade, lowering costs. The marketing methods of the American industries tend toward monopoly aimed at the consumer. The goal is higher prices, higher profits.

One must consider the consumer. There are nearly 130,000,000 consumers in the United States. There are a small number of industrialists. Looking at the inroads of certain American business made by competitive Nipponese products from the industrialists standpoint, there may be cause to complain. Looking at these inroads of Japanese goods, equal in quality to American products and lower in price from the consumers

view point, there is less cause for complaint. Certain difficulties still encountered from other slants than that of the industrialists will be discussed in a succeeding chapter.

As an example of monopoly practices in this country, which Japanese goods might do well to break, since our anti-trust laws do not seem to apply, take the cases of incandescent bulb manufacture and the fish canning operations. These two industries produce goods affected by the Japanese competition.

In manufacturing electric lamps, domestic production is the most efficient in the world. Approximately 90 percent of all domestic production of this commodity is controlled by one large company and six smaller companies operating under its patents. These companies are all members of the National Electrical Manufacturers association recently cited for a variety of malpractices by the Federal Trade commission.

Prior to the appearance of Japanese lamps in the American market, no domestic lamp sold for less than 15 cents retail. (10) When these foreign imports attained considerable volume, the American manufacturers brought out a 10-cent lamp for the first time in history. Prices in larger domestic lamps were reduced. As a result, the American consumer benefited. American production did not sink beneath the waves of competition. In fact, judging from the most recent reports on trade with Japan during 1936 (11), the imports of lamps from Japan had decreased since 1935, domestic production gaining headway. This item is not listed as a principal import from Japan. There are imports valued as low as \$59,083 on the list.

Imminent danger to the domestic canned tuna industry from Japanese imports was claimed. Such contentions were not substantiated by the findings of the United States Tariff Commission. T.A. Bisson summarizes the findings of the Commission which were reported to the United States Senate, January, 1936, as follows:

(12)

"The Commission found that the net effect of the imports from Japan was a reduction of the domestic prices leading to a large increase of consumption, the benefits of which were shared in large measure by the domestic industry. Nor did the lower prices adversely affect the American fishermen. The main result was to reduce the profits of domestic canners, which had greatly increased during the period when the request for an increased duty was made."

Two other industries produce goods which are affected by Japanese commodities listed by the United States Tariff Commission as substantially competitive. They are pottery and the wood bark manufacturing industries. These industries, together with the canned fish and electric lamp enterprises and the large item of cotton cloth manufactures, make up the bulk of the industries affected by the 10.2 percent of Japanese imports listed as competitive by the Commission.

There may be cause for dislike of imports of Japanese earthenware and china into the United States. However, although Japanese exports of such commodities have increased since 1932, they are still smaller than in 1929, and are declining in proportion to domestic production.

Japan only supplied 37.5 percent of total imports of

wood and bark manufactures into this country in 1935. Most of such imports from Nippon were novelty items offering no important competition to domestic production. (13)

Foreign Market Argument.

Another supposed ground for complaint is that Japanese goods are stealing American foreign markets. Investigation reveals facts which tend to minimize this factor. Over 60 percent of American exports are sent to Europe and Canada, markets where Japanese competition is negligible. It was in these markets that the greatest decline in American exports since 1929 is evidenced. The largest absolute increases in Japan's trade occurred with Asiatic countries. (14) The increase in value of American exports since 1933 has been greater than that of Japanese exports. The percentage American exports formed in the total world trade between 1933 and 1935 showed a slightly larger increase than the Japanese figure. (15)

With the exception of cotton goods, Japanese commodities do not seriously compete with American exports. The possibility that part of the trouble in the cotton industries may be found at home has been suggested.

Dr. Ben Dorfman speaks from a position of authority on the U.S. Tariff Commission when he says: (16) "It appears that, for the most part (italics are my own), the United States and Japan specialize in different markets." He further states that the brunt of Japan's conquest of foreign markets is born by other nations than the United States.

Summary.

In review we find that only 10.2 percent of our imports from Japan in 1934 were of an essentially competitive nature. The alarmist reports of a "Japanese Trade Menace" have been coming from a relatively small group. This group included only a portion of the industries affected by this 10.2 percent of competitive goods from Japan. In analyzing the complaints we find that they are occasioned in part--how much is debatable--by internal conditions rather than the comparative advantage which industrialists claim is held over them by cheap Japanese labor. These internal conditions are poor, antiquated productive and administrative efficiency, and domestic monopoly prices with their attendant higher profits for owners.

We find, however, that the advantage of Japanese labor costs is a real one which is enabling the Japanese to sell cotton goods in our markets for from 30 to 40 percent less than can our domestic producers at present. Monopoly prices here enable Japanese goods which are produced with methods less efficient than the American to undersell the local product.

Few manufactures with modern plants and industrial methods, and who are not maintaining monopoly prices, are complaining of Japanese competition. Even in portions of the textile industry not affected by Japanese imports there are serious internal troubles and demoralized conditions.

The difficulties occasioned in this small section of the industrial set-up in the United States should not be nursed

by higher tariffs. Book ^{One}_n of this treatise discussed the effects of such policy. Perhaps a recent remark by a member of the United States Tariff Commission would serve to enforce this point.

In the February 1937 issue of the Far Eastern Review, Dr. Ben Dorfam of the Commission remarks that it is "important for us to appreciate that Japan's trade expansion is a fact which the United States, by itself, is in no position to modify appreciably except at a loss to itself". The raising of tariff barriers indiscriminately would rebound to national harm.

From the standpoint of the consumer, much of the inflow of Japanese goods has been beneficial. Low prices on many goods allow certain classes in this country to enjoy commodities they could not buy at the prices set by domestic industry. If this portion of domestic consumers cannot get such goods at low prices, they cannot buy them.

From industry's viewpoint, especially considering the aspects of labor and the effect on capital outlay, a small percentage of the complaint against imports of Japanese commodities is justifiable. The Japanese damage to American foreign trade has been greatly exaggerated. These difficulties should be met with the aim in mind of doing the greatest good for the largest number and for the longest time. But the road to Utopia is not smooth. The obstacles which block the way cannot be stepped over lightly.

With the Japanese trade menace bogey reduced to its actual proportions, the difficulties which remain can better be approached. Some of these apparent problems will be discussed in following pages.

CHAPTER III

RECIPROCITY

RECIPROCITY

"Reciprocity. Internation Trade. That relation or policy as to trade, etc., between countries under which special advantages are granted by each to the other". Thus speaks Webster's dictionary.

Method.

In accordance with an act on Congress, approved June 12, 1934, (and recntly extended for another three years until 1940), the reciprocal trade-agreements program now being followed by the administration of the United States government comprises an amendment to the Tariff Act of 1930 and adds to its Title III a new portion entitled, "Promotion of Trade".

The addition of this section opened the gates to foreign trade expansion in the United States. This new section liberalized and elasticised the restrictive Smoot-Hawley tariff as follows:

"(a) For the purpose of expanding foreign markets for the products of the United States (as a means of assisting in the present emergency in restoring the American standard of living, in overcoming domestic unemployment and the present economic depression, in increasing the purchasing power of the American public, and in establishing and maintaining a better relationship among various branches of American agriculture, industry, mining, and commerce) by regulating the admission of foreign goods into the United States in accordance with the characteristics and needs of various branches of American production

so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets by affording corresponding market opportunities for foreign products in the United States, the President, whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States and that the purpose above declared will be promoted by the means specified, is authorized from time to time--

"(1) To enter into foreign trade agreements with foreign governments or instrumentalities thereof; and

"(2) To proclaim such modifications of existing duties and other import restrictions, or such additional import restrictions, or such continuance, and for such minimum periods, of existing customs or excise treatment of any article covered by foreign trade agreements, as are required or appropriate to carry out any foreign trade agreements that the President has entered into hereunder. No proclamation shall be made increasing or decreasing by more than 50 per centum any existing rate of duty or transferring of any article between the dutiable and free lists. The proclaimed duties and other import restrictions shall apply to articles the growth, produce, or manufacture of all foreign countries, whether imported directly, or indirectly: (This outlines the non-discriminatory policy of the reciprocal agreements. Cuba alone was granted some special concessions through a former pact of December 11, 1902.) That the President may suspend the application to articles the growth, produce, or manufacture of any country because of its

discriminatory treatment of American commerce or because of
o
other acts or policies which in his opinion tend to defeat
the purposes set forth in this section; and the proclaimed
duties and other import restrictions, shall be in effect from
and after such time as is specified in the proclamation. The
President may at any time terminate any such proclamation in
whole or in part."

The program is thus based upon two fundamental postulates: The encouragement and restoration of foreign trade is essential to the progress of economic recovery in the United States. A foreign trade revival can be greatly expedited by the removal or mitigation of the numerous and various existing restrictions on the flow of commodities in international commerce.

The methods of procedure in working out the reciprocal agreements were briefly outlined by Secretary of State Cordell Hull in an address to the American Farm bureau federation at
(17)
Nashville, Tennessee a little over a year ago:

"Increased imports, however, will be stimulated on the basis of causing the least possible disturbance to domestic production. The most careful scientific study by experts will precede the reduction of duties on our part and the removal by others of barriers obstructing our trade. To those who are fearful of the effects of the trade agreements, I would point out that we are permitted to reduce rates to no more than 50 percent and cannot transfer any article from the dutiable to the free list."

It has been upon Cordell Hull that the responsibility of guiding the ship of reciprocity has rested; he has managed his difficult ship with a skill which should place him among

the greatest secretaries of state in the history of this nation. It is to Cordell Hull that many business men in this country owe the dollars in their pockets they have gained through recent increases in the foreign trade of this country.

The procedure of selecting those commodities for reciprocal treatment which are complimentary rather than competitive is, from the standpoint of domestic industry, the most practical, effective, and least disturbing method of liberalizing our foreign trade with its attendant profits for American business.

What Has Been Done.

By April 24, 1937, sixteen reciprocity agreements had been concluded under the supervision of Secretary Hull. One is now pending with Ecuador. The sixteen now in effect, or soon to come into effect are with: Brazil, Belgium, Haiti, Sweden, Colombia, Canada, Honduras, Netherlands and colonies, Switzerland, Nicaragua, France and colonies, dependencies, and protectorates other than French Morocco, Guatemala, Spain, El Salvador, Costa Rica, and Finland. A treaty with reciprocal provisions was made with Cuba in 1902 and its preferential portions were specifically continued and improved under the provisions of the reciprocal trade agreements program.

As concessions allowed one country under the program apply equally to all, uniformed objectors sometimes claim no one country would benefit largely from such a treaty. The construction of treaties, however, is mostly made up of commodities in the production of which the treaty countries hold peculiar advantages over other nations.

Another source of objection to the present treaty program was voiced by Republicans, led by Senator Vandenburg, when the question of renewing the program for another three years was brought up in Congress recently. Vandenburg pointed out that our imports were increasing more rapidly than our exports.

Remembering the fundamental of trade, that goods must be paid for with goods, in the long run, it might be well to requote a section of Secretary Hull's letter to Representative Doughton, mentioned previously:

"....Although the United States is one of the principal creditor nations, we still export more than we import. (The italics are my own.) The value of the excess of our imports last year amounted to nearly half a billion dollars. That excess was balanced...by our very heavy imports of gold but this situation cannot continue indefinitely. We must import more if we are to maintain even the present value of exports."

Bilateral balancing of trade is, in effect, a nefarious theory. In recent years, Japan's balance of trade has favored the United States. At the same time, the trade Nippon conducts with the United Kingdom has been in Japan's favor since 1933 (up to and through 1935). But, Japan's total foreign trade nearly balances, the indicator shifting from more imports in 1934 to more exports in 1935. As a matter of fact, the edge Japan's total exports held over imports in 1935 was nearly the same figure imports from the United States held over exports to that country.

It is not the purpose of Book Two to argue the merits

of reciprocity and the end toward which it works. It is hoped that that has been shown in Book One. But as the result of the new methods adopted in 1934 and which have been going into force since then, definite increases in the foreign trade of the United States have been noted.

Many factors enter into the development of foreign trade. It is impossible to isolate the absolute effect of the reciprocity treaties. However, statistics indicate a definite beneficial result of the policy. During 1935, the total exports of the United States increased between seven and thirteen per cent. (18) The general improvement of world trade during this time was evidently due in the main to the notable expansion of the foreign trade of the United States.

The connection between such figures and the reciprocity treaties is shown on page 388 of the 1936 Foreign Commerce Yearbook published by the United States department of commerce. It says that the United States "showed an increase of \$310,830,000, while the combined trade of all the other countries increased only \$179,400,000, or less than one per cent. In this connection it should be pointed out that the trade agreements negotiated by the United States with a number of other countries represent the most important attempt to lower the barriers hampering the free flow of international trade. While most of these agreements went into force only in 1936, those with Cuba, Belgium, and Sweden were in force for 12, 8, and 5 months of 1935, respectively; and the trade of the United States with these three countries for 1935 showed an increase of 28 per cent over 1934, as against an increase of only 13 per cent for other countries."

Such figures are prima facie evidence that the concessions made by the provisions of the treaties stimulated exports to these countries.

Need--Japan.

Japan is in the unfortunate position of breaking the status quo of international trade relationships. For years, world trade has gone on without much consideration of Japan as a trade power. Now she is coming to the front, other nations fight against her entry into world markets. More than 60 markets throughout the world have imposed restrictions on Japanese goods. Less than 30 remain open on equal terms.

Japan is in the same position as was the United States in the early days of her industrial development. Then, our goods flooding into England and other European countries were branded by foreign industrialists as "Yankee notions...cheap goods." But, finally other countries had to move over and make room for this nation in the international scheme of trade. Several years ago, this country was upset by "German dumping". Huge amounts of commodities flowed into this country from Germany and were sold here. There was a shout. Tariff barriers were raised against the "menace". Many efficiently produced German goods continued to come into the country. American industry gradually readjusted itself. Germany, again, became a section on the international trade map.

So it is with Japan. The world must move over and make room for her. If not, the consequences will be more costly than minor dislocations of industry.

Said Hiroshi Saito, Japanese Ambassador to the United States, in an address to the Japan Society annual banquet at the Waldorf-Astoria Hotel, March 30, 1937:

"Japan is a growing nation; the population is increasing steadily, and there is but one means by which the people can subsist upon the confined limits of their island empire. This is by industrialization. We have become of necessity the one industrialized nation of the Orient. By manufacturing for others we can continue to live. But in order to manufacture we must have access to raw materials, and in order to sell the products of our labors we must have markets. We are ready and willing to purchase the raw materials, but we should not be able to do so if deprived of markets."

In a few sentences, Ambassador Saito has summed up Japan's need as a nation. From an internal standpoint, also, Japan needs increased trades, that the growing tastes for western products being instilled in the populace might have some chance of being satisfied.

Ambassador Saito's speech gave a veiled hint of the costly consequences of increased restrictions of Japan's trade already mentioned. That is the cost of peace.

Peace.

If Japan cannot gain an outlet for her products by commercial practices she must dominate markets politically, that she might sell as well as buy. The only other recourse open to Japan would be to close her doors, shut down her machines, introduce the old-time infanticide, intensify scientific agriculture, and become a feudal nation shut off from the world

again. Such a consideration, in the view of the present-day world, is asinine.

In asking for the continuation of the reciprocal trade policy in Congress this spring, President Roosevelt spoke of it as a means of bringing about "durable peace" throughout the world.

Continuation of the program, said Cordell Hull to the Ways and Means committee, "insures that our country will continue to have adequate means of action in favor of peace at a time when the world hesitates precariously at the crossroads of peace and war".

With all essential trade difficulties with Japan centered in 10.2 per cent of our trade with her, it would be deplorable if the consideration of the cost of adjustment of the trade relationships were held to be higher than the cost of war.

The United States and Japan are among each other's best customers. The furtherance of trade between the two countries would put too high a premium on political hostilities. Increased trade would, in contrary ratio, bring decreased chances of any war between the two countries. A firm, lasting, and profitable peace with Japan is a great need.

United States.

Admitting that the principal difficulty lay in Japanese competition in the textile field, and reiterating that the bulk of our trade with the island neighbor is non-competitive, C. T. Murchison, president of the Cotton Textile Institute, said in an article in the August 23, 1936 issue of the New York Times:

"The maintenance of this type of non-competitive trade is highly important to the economic welfare of each nation." He pointed out that the United States only received 1.3 per cent of all Japanese exports of cotton goods in 1935 which amounted to 2,275,109,000 square yards. He emphasized the fact that it would be "deplorable and inexcusable" if the profitable trade between the two countries were to suffer from ill-will, competitive practices, or discrimination over a negligible per cent of the foreign trade total between the two nations.

It is essential to the increasing welfare of the country that the foreign trade of the United States expand. Most of our large industries are organized to produce more than enough commodities for domestic consumption. The closing of our doors to foreign imports in an attempt to gain complete dominance of the local market would mean the curtailment of production in such industries; for in closing our doors to our neighbors, we would be effecting the closing of theirs to us. Foreign countries can only buy our goods with theirs. If the United States wishes to increase its production, and, with this increase, her standard of living, she must sell to foreign markets. If she is to sell, she must buy. Why not then encourage trading which will not offer serious competition with domestic production. Such are the methods of the reciprocity program.

Difficulties

The principal difficulties are few but potent. They fall naturally into three major classifications, political,

economic, and social. Of the three, the last is the most obstinant, and important.

Political

Since the days when it used to be forraign trade, politicians have had a peculiar tendency to think of balance of trade only in bilateral terms. The reasons for such narrow thoughts are suspect. They are also fallacious. But, the tendency persists and any negotiations affecting the froeign trade of any country is met by a storm of protest from certain politicians, for sincere or political reasons, if the balance is "not favorable". Fortunately, the numbers of such objectors is shrinking. These numbers dropped perceptibly in this country at the last election.

Stability of any treaty with Japan is uncertain because of the instability of the administrative government. Various classes in the Japanese populace look to increased trade through different colored glasses. The militarists see it as a means of gaining war supplies and capital. The laboring classes see it as a means of satisfying more of their wants. The industrialists see it as a means of gaining more profits. Generally, these internal desires can be coordinated as far as international trade is concerned in volume, but not in commodities.

The recent sweeping election of the Diet in which the militarists received a serious setback might indicate a more stable and reciprocative Japan. A Japan to which this country could sell more of its manufactured products as well as its raw materials; which brings us to another consideration.

Economic.

The United States is the greatest industrial power

on earth. She needs markets for her manufactures as well as her raw material production, which is undoubtedly important, also.

The unfortunate fact about the trade between Japan and the United States has been that exclusive of Japan's export of raw silk to this country, the general volume of trade has shown exports from the United States to Japan as mainly raw materials and the imports from Japan to the United States as largely manufactures.

It has been shown that only a small percentage of Japanese manufactures into this country cause trouble, largely textiles. The difficulty lies in stimulating the exports of American manufactures to Japan. Such a procedure has been resisted by the military class in Japan who have been attempting to make Japan as self-sufficient industrially as possible, inasmuch as she cannot be self-sufficient in natural resources. The case of automobiles is an example. No automobile plant may be organized in Japan, today, unless 51 percent of the stock is owned by Japanese. The building of trucks and cars in Japan has increased under a military dominated government and American supplies of assembled cars and parts have fallen off.

The fact remains, however, that there are certain commodities which can be manufactured in America much more efficiently than in Japan.

The growing tastes for western goods have been suppressed by the government in Japan. As a result of the recent election, this may cease. An increased desire for American commodities would increase the flow of manufactures from this country, as well as raw materials and foodstuffs. Such

a situation would do much to conciliate labor in this country, which would be producing the commodities concerned. This thought leads us to the social question.

Social.

It is here that the greatest obstacle to readjustment of the present unsatisfactory situation lies. With a trade relationship which so naturally lends itself to reciprocal treatment, on paper at least, one would think difficulties could be brushed aside easily. Principal bulwark of the social obstacle is found in the textile industry which comprises a portion of the only 10.2 per cent of goods imported from Japan which are essentially competitive. This item might seem unimportant in relation to the whole; but in itself, it constitutes the greatest substantial reason for trade friction with the Orient.

As the trouble lies in the textile industry, principally cotton, it might be well to consider the extensiveness of the industry, in order to see how serious a displacement of the industry might be.

From the standpoint of employment, the cotton textile industry stands first among all processors of agriculture commodities. The average employment from January to June 1935 was 408,000. The average annual value of woven cotton goods, over a period of years, totals about \$1,000,000,000. This constitutes two or three per cent of the value of all manufactured products of the United States, and about 15 per cent of all textiles.

There has been a gradual drift in the cotton industry

from the northern New England states to the South. Whereas the South produced about 50 per cent of the value of domestic cotton products in 1923, it produced about 70 per cent in 1933.

The obsolescence in the industry is centered largely in the New England mills. As previously mentioned, 60 per cent of the cotton textile machinery is estimated as obsolete and only 10 per cent modern.

A committee appointed by the President to investigate the cotton textile industry found the excess capacity to produce and the obsolescence of the industry to be serious problems. (20) They found that the inefficiency of the industry was generally present throughout the entire industrial organization, in its methods, capital outlay, supervision, etc.

In looking at the situation from the present standpoint, then, the problem of renovating the industrial policy of the cotton textile industry is enormous. Exports are disagreed as to whether the expenditure of large capital outlays would be worthwhile, whether the industry could then shake off the Japanese competition without trouble. As the present time production in this country is about three times as great as that of Japan and nearly 100 times as great as our cotton goods imports from Japan, the renovating process would seem to be able to gain a good start.

If the trouble within the industry cannot be met internally without higher tariffs at the expense of the consumer, then some transition must be made. The surplus labor must be transferred into some field in which the United States enjoys a comparative advantage, of which there are many. It is necessary that trade be stimulated in order to make room for transferring laborers. It is the transition which

presents the major difficulty of all.

To say to the current textile worker in the mills, that in the long run a transition of labor from cotton manufacture into, say, raw cotton production would be beneficial to the United States, sounds fine. But, what of the present worker? His reply is that such a plan is well and good but "what about me? I know nothing about cotton farming. I know little about other types of work. There aren't any jobs open now. My grandson might benefit, but what about me? I've got to make a living or starve. I have a right, as an American citizen to have my job protected".

There is the justification for complaints against Japanese competitive inroads. It lies not in the howls of the industrialist maintaining monopoly prices. It lies with the laborer supporting a family with a job, when other jobs are not now to be had.

Any solution must take this factor into consideration. Labor forms a large portion of the American public. If any reciprocal program with Japan is to be worked out, a possible necessity of transition of labor must be considered seriously in the light of social justice.

The stand of labor in the United States as to reciprocity treatments has in the past been uncompromisingly against any lowering of the barriers to competitive products. However, the suggestion that perhaps the root of the trouble, as pointed out previously in this treatise, is at home in the textile industry and an eradication of this evil would take care of the difficulty, has been recognized lately by labor. Labor's view has lately undergone a startling shift, if

the expressions of one of its leaders means anything.

In the spring of 1935, F. J. Gorman, vice-president of the United textile workers of America, said in a speech to a New England textile groups that labor opposed increasing restrictions on imports of Japanese textiles because, he said, the roots of the present troubles were to be found "within the domestic industry itself".

Gorman's attitude represents a radical shift in the position of labor on this issue for in 1930 when the Smoot-Hawley tariff bill was being discussed in Congress, labor leaders lobbied extensively to obtain increased duties on foreign textile products.

Perhaps, then, labor is now looking at the problem in a fair light. Reciprocity is valuable and beneficial to domestic labor and the United States. The working out of means of increasing trade between countries brings certain difficulties to the front. These difficulties should be analyzed to see if they are the result of internal inefficiency fostered by past lack of competition, or are real results of trade policies in themselves.

The next step is to consider these difficulties, to attempt to minimize or eliminate them, while continuing the general beneficial policy of freeing trade as much as possible.

CHAPTER IV
ATTACKING THE PROBLEM

ATTACKING THE PROBLEM

The Problem.

An estimated 2,225,000 persons, exclusive of those engaged in shipping, brokerage, insurance, and related services, obtained their living by producing goods for export in 1931. (20A) Approximately 1,750,000 of these workers were engaged in agriculture. A million were cotton farmers. There are well over a million others indirectly aided by export trade, those producing foodstuffs and clothing for workers producing exports, in the building and repair of factories, machinery, carriers, etc. used in export production and trade.

In 1933, (world trade figures reached their nadir in 1934 and have been rising since) 66 per cent of all cotton produced in the United States was exported as was 64 per cent of the gum rosin production, 58 per cent of the prunes, 51 per cent of the sardines, 50 per cent of the tractors and parts, 49 per cent of the borax, 47 per cent of the patent side upper leather, 41 per cent of the power-driven metal-working machinery, 30 per cent of the office appliances, 12 per cent of the air-craft (including engines and parts), 11 per cent of the lumber and timber, and seven per cent of the automobiles, to mention only a few important commodities. (21)

The total world trade of the United States for the twelve months of 1936 ending December 31st amounted to \$4,876,274,873. (22) Her exports exceeded her imports by \$26,379,401. Among the purchasers of these exports we find Japan to be our third best customer, buying in 1936 \$204,186,330 worth of commodities which amounted to approximately 31 per

cent of Japan's total imports from all countries.

The reports of the department of commerce in 1935
(23)
on the world trade situation said, in part: "Geared for exports in large volume, American industry and agriculture were seriously upset by the curtailment and, in some instances, the temporarily if not permanently lost markets. At the beginning of 1935, large tracts of productive land, hundreds of thousands of workers, and millions of dollars of machinery are idle, awaiting an increase in the volume of export trade, which, to a large extent, must be generated by or grow out of a revival of import trade...It is doubtful that those who recommend the virtual renouncing of our export effort have fully considered what this would mean. By this time, there should be a clearer understanding of what the great decline in our export trade has meant, in terms of capital losses and employment and paralyzed purchasing power."

It might further be added that those who recommend virtual renouncing of future export effort, necessarily based as it is on an increase of imports, fail to realize what further decline such action would mean to our present export trade. Take for example the case of Japan. Largely because of the high barriers thrown against her by this country and the United Kingdom in recent years, Japan already has experts investigating the possibilities of extensive cotton raising in Brazil, North China, Siam, and Peru, and experimenting for substitutes. She can only buy American cotton, the largest single item on her import list from the United States, with goods she sends to this country. If America will not buy Japan's goods the Nipponese must turn to countries that will, buying her raw materials and commodities from them. She is

already doing this commercially and politically. To repeat, there were in 1931, approximately 1,000,000 cotton producers in the United States. Exports of raw cotton from the United States to Japan in 1936 totalled \$33,210,429. (24)

Viewed as a whole, then, the loss of trade is more disastrous to this country than the difficulties incurred by trade promotion. As we have seen, the true difficulties in the case of Japan are comparatively few, but absolutely worth full consideration. With Japan regularly buying millions of dollars worth of commodities from us, we cannot afford to allow difficulties arising out of a small portion of this trade to damm the flow of benefits to both countries. We must first find some way of surmounting or solving the difficulties. We must then continue to build up our remunerative trade with Japan.

It is to the building of a remunerative trade with Japan, in an effort to raise the standards of living to benefit the consumers, to aid the industries of both countries, that we now turn.

The Working Materials for Reciprocity.

The non-competitive products of Japan are the working materials out of which to construct a reciprocal agreement between the United States and Nippon. The largest item of non-competitive products in our trade relations with the island is raw silk, which is admitted free. However, the findings of the United States Tariff Commission (24) show that non-competitive items which are dutiable under the present tariff act formed the largest group percentage, over 17 per cent, of all United States imports from Japan in 1934, exclusive of

raw silk. The total value of non-competitive imports on the free list, exclusive of raw silk, was \$13,836,540 in 1934. (It must be kept in mind that the general level of imports from Japan in terms of the dollar rose approximately 46.1 per cent between 1934 and 1936. The figures given for 1934 would be somewhat larger for 1936). The total value of non-competitive imports on the dutiable list was \$20,455,749 in 1934.

It is these non-competitive imports on the dutiable list that we now examine. These imports fall into four broad categories:

(25)

1. Imports of which we have no domestic production.

Included in this list are such commodities as various types of hat braids and bodies, natural camphor and menthol, bristles, distilled oils, natural graphite, bamboo and rattan articles, wood novelties and carvings, canned oranges, dried mushrooms, Oriental foodstuffs, Japanese prints, hemp and ramie fabrics, rush and rice straw rugs, straw and grass manufactures, light and medium weight habitae, Fugi cloth, Japanese rice and tissue paper, Japanese etchings, Oriental clothing, sandals, kimonoes, etc., and novelties.

Although these goods have no domestic counterpart, the principal rates of duty are 25,35,40,55, and 90 per cent of the production value of the goods, with the result that domestic sales are curtailed and a serious restraint is placed against their importation.

2. Commodities, for which our domestic production is insufficient and which we depend upon Japan for most of our

consumption. This second category includes certain vegetable powders, agar-agar, decorated china and porcelain articles, novelty glassware and baskets, wool hooked rugs, silk handkerchiefs, papier mâché, copying paper, incense, glass beads, dolls with movable parts, china porcelain, and bisque dolls, miscellaneous brushes, and Christmas decorations. With duties on these products ranging from 25 to over 100 per cent, the resulting exclusion of commodities again is not aiding the development of any industry.

3. Commodities imported which are inferior to and cheaper than similar domestic products and reach a distinctly different class of buyers which do not buy such goods unless they can get them at the cheap Japanese prices. In this group are found low priced jewelry, cheap optical instruments and magnifiers for popular use, silver-plated table, household and kitchen utensils, inexpensive friction tape, cheap tennis rackets for children, low priced imitation pearl beads, and inexpensive mechanical toys, musical instruments, and fishing baskets.

Despite the fact that these commodities are of a distinctly different type or grade from the domestic production and reach a different layer of local demand, the tariff rates vary from 40, 50, and 60 per cent up to 100 per cent.

4. Commodities which are superior to and more expensive than similar domestic products in some cases and of which there is no exact domestic duplication in others. This group of highly taxed imports includes, silk fabrics and silk, cotton and rayon wearing apparel probably embroidered by hand, cer-

tain broadsilks such as genuine pongee and Fugi cloth (Fugi cloth is listed in section 1 as there is no domestic production. However there is a small production of imitation pongee in the United States, inferior to the Japanese and not made of the real Tussah silk). There is, of course, vast production of silk, cotton and rayon wearing apparel in this country, but the imports here indicated are the hand embroidered and very expensive type, and the cotton bedspreads, and table and bureau covers which are chiefly India prints or Japanese blue prints. There is a considerable demand for such goods in America, but no domestic production. Other commodities in this category are fresh-water pearl buttons and handmade fans.

These goods tap a different layer of demand than the inferior and cheaper domestic production and yet suffer under rates of duty ranging from 30 to 150 per cent.

Such is the unsatisfactory and unfortunate policy of trade with Japan in regard to over \$20,000,000 worth of commodities which are not essentially competitive with domestic production. Duties on these non-competitive items range from 25 to 150 per cent, thus keeping goods out of the United States which would not interfere with sound domestic production and would tend to raise the standard of living in this country, would benefit the consumer.

(It might be well to pause to answer again a question that comes to mind at this point. Are not many of the preceding goods competitive indirectly, if not directly? In the first place, a rising standard of living is absolutely predicated upon an increasing consumption of enjoyable goods. Secondly, if the substitutes, or indirect competitors are superior utilities, the American consumer will turn to them. If

not, they should not be encouraged for their continuance will build up an artificial situation.)

The Competitive Problem.

Now, to consider the all-important question of what to do with the troublesome competitive 10.2 per cent of American imports from Japan. As has been shown this difficulty is centered in the textile industry. As has not been shown, a definite step toward remedying this condition has been taken.

On August 23, 1936, C.T. Murchison, president of the Cotton Textile Institute, was quoted by the New York Times as giving three ways of meeting the trouble: higher tariffs, which he discarded; voluntary quota by Japanese government--self-imposed or by mutual agreement, which he termed valuable but as to the fruition of which he was skeptical; voluntary quotas between the textile industries in the two countries (the Japanese Cotton Spinner's association members own 97 per cent of Japan's 11,000,000 spindles and is powerful enough in itself to make a binding agreement), which he favored.

Said Murchison, "a strong sentiment has developed in America and...Japan for a solution of our trade problems by voluntary and amicable agreements between the two governments, or perhaps, and more effective, (italics are my own) between the two industries".

On December 24, 1936, Murchison, Manufacturers H. L. Bailey of New York, Donald Comer of Alabama, Casson Calloway of Georgia, and Cotton's Editor Bob Philips formed a United States informal mission which sailed from San Francisco for the land of the Cherry blossom. The inflow of Japanese cotton goods,

especially in a few major fields, was increasing by leaps and bounds. They were much afraid nothing could be done about it.

On January 24, 1937, the Spinners' Treaty was signed with the Japanese industrialists and without ineffectual pomp of diplomacy, whereby it was agreed to limit cotton goods exports to the United States to 155,000,000 square yards in 1937 and 100,000,000 in 1938, with the option of transferring not more than one-fourth of the 1938 quota to 1937. The 1937 quota nearly doubled the figure for 1936 exports of Japanese cotton goods to America, but Murchison and cohorts were glad to get the quota fixed at 155,000,000. In spite of the restrictive tariff of almost 40 per cent on cotton goods, Japanese bookings of American business has totalled more than 150,000,000 square yards by the time the year was three weeks old. Three days before the agreement was signed, 155,000,000 square yards of cotton piece goods were booked for delivery to America and Murchison ventured the statement that had nothing been done, bookings might have reached the 500,000,000 mark.

Before sailing home, the conferees agreed to appoint members to a joint standing committee before April 1 to set similar quotas in manufactured goods such as tableclothes, bedspreads, handkerchiefs, hosiery, etc.

Coming home, Murchison advised American buyers to purchase Japanese cotton piece goods without fear or favor.

Thus an evil has been met. The day of reckoning has been postponed. Although the cotton trouble was trivial in comparison to total benefits of trade with Japan, it was best that it be met before important trade which is non-competitive

in nature is further jeopardized. The present amount of cotton imports from Japan do not at present make any essential difference to the business of either country. It was the correct time to tackle the problem.

The American textile industry now has a breathing spell which is secure and stable. They have been saved the expense and troubles and worries of political action. The Japanese are getting more business in cotton goods than ever before and don't have to worry over further tariff increases, or other forms of restrictive legislation.

However, as has been suggested, the quota arrangement has merely poured oil on the troubled waters. The trouble has not been eradicated.

Two courses are not open to the American textile industry which has suffered from the inflow of Japanese goods: It must reorganize its industrial policy, renovate the industry and make its production efficiency greater than the Japanese, or: it must begin to look toward transferring its labor and capital, with government help if necessary, to other fields of greater comparative advantage.

Many believe the first policy, carefully worked out nationally (with a view to international conditions), would be sufficient to take care of the difficulty. Such a procedure is ample subject for a separate study and has been carefully worked out in a recent report on the cotton textile industry of the United States.

(26)

If the first alternative is the correct one, the second will not be needed. However, there are certain industries,

i.e. pottery, woolen textiles, etc., which are suffering from Japanese competition to some extent and to which the second alternative would apply equally. It might be well to discuss it.

Reciprocal Considerations.

Assuming that the cause for trouble in the textile industry cannot be cleared up by internal action, then what can be done with relation to the trade with Japan. In the interests of labor, which are justly worth considering, some stop to inroads on their chances to make a living by Japanese competition should be made. Tariffs have not been sufficient, and furthermore are the wrong method of attack. As the leader of the group most affected by Japanese imports, Michison himself said that it would be impossible, from both the important standpoint of peace and of internal prosperity, "to damn the inflow of Japanese goods with further import duties".

The possibility of giving time for readjustment through quota arrangements between industries is advisable. Such procedure should only apply to those industries which are truthfully harmed by Japanese competition and whose complaints are justifiable.

As Japanese industry is so centrally controlled, the mutual industrial agreement seems best and most capable of working. Returning to our example of the cotton textile industry, the principal trouble, we find a quota arrangement has already been made. Now, what to do?

The Reciprocity Process.

The next thing is to build up trade in those fields

where there is no competition. It has been shown that present tariffs on non-competitive imports from Japan are greatly restrictive. Under the provision of the trade agreements program these tariffs may be lowered as much as 50 percent. Such action would result in the increase of their import into this country. In payment, Japan would take more goods from this country. There are many commodities Nippon has been unable to purchase from this country through her lack of means of paying for them.

Some of the commodities and raw materials Japan could use in increasing amounts from this country, given a means of paying for them, are wood pulp, crude petroleum, gas and fuel oil, calf and kid skins, iron and steel scrap, aluminum, refined copper, brass and bronze, motor trucks, busses, autos, and auto chassis, phosphate rock and fertilizer material, cattle hides, rubber tire casings, rosin, leaf tobacco, cedar logs and timber, fir and hemlock boards and planks, gasoline, kerosine, lubricating oil, wire rods, steel sheets, tin plate, welded black pipe, lead, auto parts, and raw cotton.

The above constituted over 90 per cent of our exports
(27)
to Japan in 1934. There is another group of commodities

of western civilization for which the Japanese have variously indicated their desire. Give Japan a means of purchasing such commodities and perhaps exports of cosmetics, fruit, fustuffs, radios, fabricated houses, flax (linen manufacture is to be introduced into Japan soon according to a recent report from the secretary of the Japanese consul in Portland, Oregon), air-conditioning apparatus, electric appliances, etc. would commence in substantial amounts.

The resultant increase in trade would create new opportunities for American labor and capital in the export, transportation, and merchandising industries as well as those indirectly connected.

It is here that the fruits of such encouragement of trade are reaped. (Complete elimination of tariffs on non-competitive commodities would further increase trade--even complete elimination of the revenue tariff sometimes redounds to national advantage.)

At present the transferring of labor from comparatively inefficient production centers of the cotton textile industry cannot easily be made. There are not enough openings in other industries to take up the present slack in employment. However, an increase in the export trade would immediately start an increase in employment. The gradual shifting of surplus labor from the cotton textile field to other fields could be started. The process would be slow, but with a quota agreement holding up foreign competition, it could be slow, less painful, and more beneficial.

Another consideration results from such encourage-

ment of trade. The increased production of Japan, plus the increased consumption of American goods there, would result in a gradual raising of the Japanese standard of living in terms of our own (a general unrest among labor and evidences of organization in the large-scale industries has already been noted). A force from underneath, as well as from above, would then be exerted to raise wages in Japan.

Thus, Japanese prices would have a tendency to rise, making a complete transition of labor from the domestic textile industry to other fields unnecessary. The process would be slow, undoubtedly. But, with quota arrangements temporizing the difficulties, and reciprocal treatment of non-competitive commodities, the benefits would start immediately and the entire trade would tend to come into a cooperative balance, each country's exports tending to supplement and compliment the production of the other. The result would be increased enjoyment and standards of living for the consumers, without the usually predicted fall in standard of living in the United States during the transitory period.

The First Step.

Having seen the value of the foreign trade of the United States with the world and with Japan; having realized that the abundant labor of the Orient is too much of a genuine bargain for the American consumer to overlook, having been convinced that increased tariffs are not the correct answer, that stimulation of our export trade is the key to increased prosperity; we find the first step is to meet competitive difficulties with mutual agreements between governments and/or industries, to eradicate the difficulties during the time when

the pressure if turned off, to direct the flow of trade into non-competitive channels, through government action in the reciprocal method, to build up this complimentary trade by means of lowering tariffs and through such agencies as are listed below, to shift surplus labor and capital from over-gearred industries, perhaps, with government help to the new stimulated export industries and those other groups indirectly affected.

Supplementary Suggestions.

At the same time there are certain additional suggestions which the author would like to make, which he feels would facilitate and strengthen the above process. Each one suggested is believed to be of value in itself as a means of coordinating and increasing international trade as well as suggestions which aid any reciprocal agreements between the United States and Japan and add materially to their value.

1. Government agencies in Japan and the United States to study human wants and to devise new methods of satisfying them with new products. In considering the foreign trade situation one is prone to base his suggestions for future action on the basis of review, rather than preview. As a result, his suggestions are likely to resemble the spectacle of the old, conventional markets contracting and barricading themselves. There is another, a fresher outlook which is all too often ignored--the likelihood of the development of important and new markets.

Many potentialities of trade are to be found in a people lately come into the arena of world buying. Such are

the Japanese. As has been explained, the success of such a suggestion would depend on the government in power. The practice of past governments in Japan has not been to encourage the purchasing of anything from without except the necessities for her trade and internal economy. The culminative effect of such tendencies is the reduction of foreign economic intercourse to necessities and a gradual deterioration of the general standard of living. Coupled with such action has been the low wage situation in Japan, which has kept down purchasing power, and which will be discussed later.

The activities of such agencies would not be confined to Japan. Inventive studies on possible products for American production as well as consumption would bring benefits to her trade and her consumers. Some such action has been taken but unfortunately not intensively enough. For example, the United States is far ahead of the rest of the world in the production of fabricated dwellings and air-conditioning as a result of inventive studies and action.

It must be remembered that although the supply of a single commodity may saturate the demand, that the total of human wants is unsatiable. In a country with an improving standard of living the wants of the people are continually rising becoming those, which if viewed several years previously, would have been branded as extravagant luxury.

Agencies which would study such wants and suggest products to go into the foreign trade agenda between Japan and the United States would be invaluable. Their close cooperation would be essential, for as they would be the incubator of

new production, such production should be guided into channels best suited for its development, whether that be in Japan or the United States. Considerations which would affect such judgments would be natural resources and machine efficiency, in which the United States is supreme, intensive use of the labor element, in which Japan is favored. The element of competition would be discouraged from the start.

2. Labor organization in Japan. As has been mentioned, labor unrest is growing in Japan. There are already indications of organization. Such organization has been discouraged by the natural factors of abundant supply of labor, plus two artificial factors. These are the small-unit production which constitutes a large part of Japanese industry and which presents a great difficulty to labor organization; the policy of large-scale industrialists to give non-cash benefits such as recreation facilities, classes in social customs, dormitory and food arrangements etc., all of which could cost the industrialists less than they would cost the workers.

The effects of labor organization in Japan would ultimately be to raise the purchasing power of the Japanese populace. The unfortunate fact in the past has been that the benefits of Japan's trade flowed largely into a few copious pockets in the owner class.

Many hail such raising of the purchasing power as a means of settling the tariff difficulties. They reason that Japanese wages will rise to the American level and then Japan will no longer have any advantage. Such reasoning is not only misdirected but sadly uninformed. As had been suggested, the combined force of social customs, population difficulties,

productive limitations, and government control are so strong that the raising of the Japanese wage level to that of the American in terms of our money is rash supposition.

However, there is another way of looking at the problem. The raising of wages in Japan will be a slow process. But, it is one which is inevitable. Viewing the situation from the Japanese standpoint, one can see benefit for the United States. Namely, an increased purchasing power among the 69,000,000 Japanese would mean increased sales of American goods there. A small raise in the wage level would leave the average workman with a larger percentage of his income for incidentals.

The effect of labor organization on Japan is a moot question, but the fact remains that a substantial increase in Japanese wages would benefit the United States. This benefit would not be realized so much in a slackening of the flow of Japanese imports. It has been the major suggestion of this treatise that the trade be encouraged in non-competitive lines rather than competitive. The benefits would accrue to America through a raising of the purchasing power of 69,000,000 Japanese.

3. Merchandising Agencies. This field in itself would supply jobs for numerous clever and forceful young Japanese and Americans. The purpose of such organizations would be to sell Japanese goods to America and American goods to Japan. To prevent the unstable effects of commercial greed from entering the picture it would be recommended that these agencies be managed by the government and supplied from the civil service.

These agencies would disseminate truthful advertising for Japanese and American products of a non-competitive nature.

Such organizations have been considered commercially, but no definite action has been taken. The possibilities of such groups working in conjunction with the agencies listed in section one could be dwelled on extensively if the confines of this treatise permitted.

(Sections 1, 2, and 3 are suggestions which could well be coordinated through such an office as that set up by the International Labor organization.

4. Monetary stabilization. For many years there has been no monetary system international in scope. Today, there is the sterling "bloc", the gold "bloc", the dollar "bloc". Before the war, the world enjoyed such an international monetary system for over half a century. It is recommended that further intensive studies be made of this important situation and an agreement be reached even if it involve compromise. The demoralizing effect of unstable currency exchanges on international trade is a paramount evil.

5. Consideration of trade relations on a triangular or polyangular basis. There are Japanese goods such as cotton goods which America finds difficulties in receiving but which are of especial value to, say, South American countries. There are products of South American countries which the United States cannot produce at home and which they Japanese with their peculiar habits are unable to absorb. There are many raw materials and products of the United States which Japan needs and desires.

The possibilities of either formal, or informal arrangements between three countries has refreshing possibilities. The 500,000,000 customers in China would begin to look profitably closer. It must be kept in mind, of course, that the American

tariff policy is non-discriminatory. Such treaties or agreements would have to apply to all countries. But, to continue the example, no countries produce textiles as efficiently as Japan, peculiarly few countries raise Brazilian coffee, no country equals the United States production of raw cotton. These are but suggestive examples.

6. Cleansing the Atmosphere. In cooperation with the agencies suggested in section one and three, various business and governmental agencies now in operation could take it upon themselves to promote Japan in America and America in Japan. Such action would redound to their benefit. The government consuls and agencies are already working toward this end. Such organizations as the Chamber of Commerce in the United States and the Chambers of Commerce and Industry in such cities as Osaka, Kobe, Nagoya, Yokohama, and Tokyo, which are always ready to cooperate with similar organizations in America, could plan definite action toward raising the cloud of fear and suspicion which has shadowed too much of the trade and political relations between Japan and the United States.

In this endeavor the two governments could do much. Such action as the two navies putting on their best Sunday clothes and parading up and down in each others front yards is not conducive to peace and prosperity. The culminative effect of such American tactics in Japan has been to strengthen the hold of the military class on the government with the depressing results which have been variously noted.

7. Consideration given to many factors, mostly minor ones, in the working out of a reciprocal agreement on the

broad basis previously outlined. In some of the minor aspects of trade practice there are certain new policies which would result in stimulus to imports and export business. Some of these policies are:

- a. encouragement to tourist travel through lowering of general ocean and land transportation rates, reductions in passport visa fees, government cooperation in making the way easy and enjoyable. The invisible items are important.
- b. encouragement to commercial travelers through issuance of licenses valid throughout an entire national jurisdiction, free admission of samples of no special commercial value, and similar problems as a minor incentive to salesmanship and thus to the exchange of commodities.
- c. the exact and complete compilation of international trade statistics, and the classification of particular commodities, comparable from country to country. The League of Nations comes the closest to meeting this need at present, but further work in this field would clarify trade relationships. The dearth of recent material of this sort in a rapidly changing world is sadly evident.
- d. the elimination of certain international double taxation would remove a serious obstacle to normal trade relations. Such double taxation applies to capital, persons, and commodities.
- e. extension through mutual agreement of period in which protests to registration of a trade-mark may be filed--a blow to trade-mark piracy.
- f. uniform ocean bills of lading based on some neutral outline--one government official suggested the Hague rules, in a form applicable to American conditions, as worthy of consideration.
- g. quarantine regulations for the prevention of the transfer of certain plant and pest diseases, based upon a scientific study and not political considerations.

With the need for reciprocity with Japan recognized, with the process of furthering such plans initiated officially, what then?

CHAPTER V

FROM THEN ON

FROM THEN ON

A long time ago, England climbed to the top of the commercial and financial mountain with the aid of free trade. She traded with and throughout the world. She was the greatest industrial power on earth.

Today the United States is the world's greatest industrial power because of peculiar advantages, plus a shift in economic events which was abnormal but powerful, the war. With the growing industrial efficiency, American eyes have at last turned from within to without, as did English eyes a century ago.

As a means of furthering the expansion necessary to industrial progress, the United States now eyes world markets. The man who is guiding her in search of world markets, Cordell Hull, realizes these are not gained without concessions. He realizes they are not gained without receiving payments in goods for goods sent.

The way to world markets is through a breaking down of the trade barriers. The most potent force in this task has been the reciprocity treaty. The working out of a reciprocity treaty with Japan would be one more step up the mountain of world supremacy for American commercial and financial enterprises.

If the world is wise, it will climb with the United States. On top of the mountain is a plateau; room for all.

FOOTNOTES

1. Y. Kemi. "Industrial Recovery in Japan" International Labour Review Jan '37, pp. 33 quoted from League of Nations: Monthly Bulletin Statistics.
2. Foreign Commerce Yearbook 1936, pp. 305.
3. International Labour Review op. cit. p.33.
4. Bureau of Foreign and Domestic Commerce Statistics
5. Chamberlin, W. H. "Japan's Trade Challenge", Current History, 44: 91-6, Sept 1936.
6. Dorfem, Ben. "Japan's Trade Expansion" Far Eastern Review 33:29, Jan. 1937.
7. International Labour Review, op. cit. p.40
8. Latest available figures in the Statistical Abstract of the United States, 1935, pp 417, give the total net value of all manufacturing production in the United States as between \$20,700,000,000 and \$22,100,000,000 in 1933.
9. Classification based on Report number 105, second series, of the U. S. Tariff Commission, Recent Developments in the Foreign Trade of Japan. Table taken from Foreign Policy Reports, March 15, 1936 by T. A. Bisson.
10. Bisson, T. A. Foreign Policy Reports 12:13, March 15, 1936.
11. Figures compiled by the commercial secretary of the Japanese embassy in New York from available statistics of the United States Commerce department.
12. Foreign Policy Reports, op. cit. pp 11.
13. Report No. 105, U. S. Tariff Commission, "Recent Developments in the Foreign Trade of Japan" pp. 127.

14. Foreign Policy Reports, op. cit. pp.13
15. Foreign Commerce Yearbook, op. cit. pp. 394
16. Far Eastern Review, op. cit.
17. Reciprocal Trade, The Key, 1936 p.7 pub. by the American manufacturers export association.
18. World Economic Survey. League of Nations. 1935-36 pp. 189.
The 13 per cent was the figure given in the Foreign Commerce Yearbook, op. cit. It is very difficult to get exact figures on increase or decrease of world trade. Some statistics take only merchandise into consideration. Others include bullion and coin. The true figure in this case was probably closer to 13 per cent than to 7 per cent.
19. Cotton Textile Industry, message from the President to Congress, transmitting a report of the conditions and problem of the cotton textile industry, made by the cabinet committee appointed by him (Daniel C. Roper, secretary of commerce; Cordell Hull, secretary of state; H. A. Wallace, secretary of agriculture; Frances Perkins, secretary of labor). Document number 126. Read August 21, 1935.
20. Ibid.
20. (a). Factors Affecting Foreign Trade Policy
Memorandum of the Department of Commerce. April 1935, pp.8.
21. Ibid.
22. Figures compiled by the commercial secretary of the Japanese Embassy in New York from figures available at the United States Department of Commerce.
23. Factors Affecting Foreign Trade Policy op. cit. passim.

24. Figures compiled by commercial secretary, etc. op. cit.
25. Commodities and tariff rates gathered principally from a comprehensive list prepared by Vernon A. Mund in the American Economic Review-- "The Trade Problems of the Pacific".
sup. No. 1 27:43. Other sources were Foreign Policy Reports, op. cit., pp. 889 and the Custom House Guide--
Tariff schedule of the United States. The figures on tariff rates are those of Mr. Mund, inasmuch, as it is almost impossible to transfer specific duties into terms of ad valorem rates unless one has a complete list of prices for all commodities considered. Mr. Mund's source for the figures is not specifically given.
26. Cotton Textile Industry, op. cit.
27. Far Eastern Review, op. cit.

BIBLIOGRAPHY

1. Custom House Guide 1936
U. S. Tariff Act of 1930, Amendments and the schedule.
2. Mears. Maritime Trade of Western United States
Stanford Univ. Press 1935
3. Asahi, Isoshi. The Secret of Japan's Trade Expansion
The International Association of Japan Tokyo 1934
4. Statistical Abstract of the United States 1935
5. International Trade Statistics
League of Nations 1935
6. Statistical Yearbook
League of Nations 1935-'36
7. World Economic Survey
League of Nations 1935-36
8. The Food of Japan
League of Nations 1928²³
9. Memorandum on Internat. Trade and Balances of Payments. League of Nations.
1913-27
10. Memorandum on Internat. Trade and Balances of Payments.
League of Nations 1927-29
11. World Production and Prices
League of Nations 1935-36
12. Monthly Production and Prices
League of Nations 1937
13. Internat. Trade in Certain Raw Materials and Foodstuffs
League of Nations 1935 (1936)
14. Foreign Commerce Yearbook--U. S. Dept of Comm. 1936
15. U. S. Commerce Yearbook 1932 Vol. I and II:

16. The Import Tariff of Japan
Tokyo Press Ltd. Japan 1935
17. Japan Yearbook 1935
18. Japan-Manchukuo Yearbook 1936
19. Fujihara, C. The Spirit of Japanese Manufacture
Hokuseido Press Tokyo 1936
20. Cotton Textile Industry, message of President to Congress
based on report of government comm. 1935
21. Recent Development in the Foreign Trade of Japan
Rep. 105, Second series, of U. S. Tariff Com. 1936 207 pages.
22. Trade Opportunities in the Orient (mimeographed brochure)
Department of Commerce and shipping
Los Angeles Chamber of Commerce--Sept. 1, 1936 60 pages

1. Oriental Economist; supplement, Trade and Ind. in 1936 50 pages
2. International Labor Reviews 1936-37
3. Memorandum on Factors Affecting Foreign Trade Policy
U. S. Dept of Commerce 1935
4. Foreign Policy Reports 1935-37
5. Mimeographed copy of Ambassador Hiroshi Saito's address to
Japan Society Annual Banquet March 30, 1937 from Japanese
Consulate, Portland, Oregon.
6. Figures compiled in pamphlet form by Commercial Secretary
of Japanese Embassy, New York City.
7. South Manchurian R. R. information reports Nos. 2263 and 2249.
8. Farley, M.S. "Japan as a Consumer of American Cotton"
Far Eastern Survey July 3, 1935.
9. Far Eastern Survey 1936-37
10. Far Eastern Review 1936-37
11. Amerasia. recent copies
11. American Econ. Review and supplements 1936-37
12. Monthly Labor Review - U.S. Jan and Feb 1937
14. Dept. of State releases Since Nov. 4, 1936
15. Reciprocal Trade, The Key
American Manufacturers Export Ass. 1936
16. Dept. of Commerce releases, most recent copies.
17. Camberlin, W. H. "Japan's Trade Challenge"
Current History 44:91-6 S 1936
18. Business Week "Japan Comes Closer"
pp 38 D 26 '36
19. Harding, G. "Checking Up on Hull Agreements"
Printer's Ink Monthly 34:30 Mr 22'37

20. Iron Age 139:52-3 Ja 21 '37 "Industry to Aid in Reciprocal Treaties."
21. Fetter, F. W. "Measurement of Effect of Reciprocal Trade Agreements" American Statis. Ass. Journal 32:50-61,61-64 Mr. '37.
22. Business Week "More Trade Treaties Coming Up" pp 48 N.21 '36
23. Business Week "Japan Controls All Exchange Transactions" pp. 53 Ja 16; 50 Ja 23 '37.
24. Commercial and Financial Chronicles "Japan Issues Import Regulations to Stabilize Yen Exchange" 144:328 Ja 16 '37.
25. Commercial and Financial Chronicle "Roosevelt Asks 3 Year Extension of Reciprocal Trade Policy" 144:543-4 Ja 23, '37
26. Case, W. W. Annalist 49: 270 F 12 '37
27. Time "Spinner's Treaty" 29:73 Mr. 8 '37
28. Feiler, A. "Current Tendencies in Commercial Policy" Am. Econ. R. 27: sup 29-42 Mr. '37
29. Nadler, M. "Economic Interdependence, present and Future" Am. Econ. R. 27: sup 12-28 Mr '37.
30. Fox, A. M. "Quantitative and Qualitative Changes in International Trade during the Depression" Am. Econ. R. 27: sup 12 28 Mr. '37.
31. Hutton, D. G. "World Trade and Peace" Fortune 147 (no. 141) :312-20 Mr '37
32. News Week Congress gives president more time to get reciprocal tariff program in working order. 9:11 Mr 6 '37.
33. Kami, Yoshio "Industrial Recovery in Japan" Internat. Labor Review 35:31 Jan '37
34. Gregory, T. E. Memorandum on Japanese Competition 1935

35. Senate Document "Report of Cabinet Comm. on Cotton Textile Institute" no. 126 (1935) pp. 114-8
36. "Small Scale Industries in Japan" Japanese Council, Institute of Pacific Relations Tokyo 1936
37. Bisson, T. A. "Japan's Trade Boom" Foreign Policy Reports March 15, 1936
38. National Foreign Trade Convention Nov. 1936
"The Promotion of Japanese-American Trade Relations"
39. U. S. Tariff Comm Report 105, 1936 pp. 25
"Recent Developments in Foreign Trade of Japan"
40. New York Times
Enright, W. J. "Mill Modernization Called Too Costly"
Apr. 28, 1935
Murchison, C. T. "Reciprocity Urges on Textile Imports"
Apr. 23, 1936

1936 Mr. 1, IV, 4:5

Mr. 7, 6:2

Ap. 17, 39:1

Ap. 26, II, 12:1

My. 2, 1:16

My. 23, 1:6

1937 Ja. 22, 1:5

Ja. 22, 12:2

Ja. 22, 20:1

Ja. 22, 27:7

Ja. 4, 35:5, 61:5

Ja. 10, II, 3:6

Ja. 22, 27:6

Ja. 23, 9:3

Ja. 28, 24:3

F. 11'37 22:2

F. 4 5:5
F. 9, 40:6
F. 12, 35:1
F. 15, 9:4
F. 28, IV, 5:7
F. 15, 15:3
F. 15, 32:4
F. 18, 30:5
F. 4, 20:7
F. 7, 26:1
F. 8, 14:5
F. 15, 14:7
F. 13, 32:4
My 2, 1:6
My 22, 1:7
F. 28, III 9 :5
F. 26, 41:1
F. 25, 40:4
F. 16, 1:7, and 6:3
Ja. 4, 35:7
Ja. 5, 22:7
Ja. 10, IV, 9:6
Ja. 7, 35 : 1
Ja. 10, 1:2
Ja. 14, 46:2

41. Time and News Week magazines and Oregonian, Register-Guard,
and New York Times scanned through regularly.