(*December 11, 1933*)

International Trade and Finance

By Dr. Herbert Feis.

Chairman Arscott:—It is my great pleasure to welcome to the Club, Mr. Herbert Feis, of Washington. You are all aware that Mr. Feis is economic adviser to the Department of State at Washington, which appointment he received in 1931 and continued under the new administration. Mr. Feis is a graduate of Harvard, from which University he received the degree of Doctor of Philosophy in 1921. Among his university activities he has been on the staff of Harvard and on those of the University of Kansas and the University of Cincinnati, where he was Professor of Economics for a number of years. He was adviser on American Industrial Affairs in the Labor Branch of the League of Nations and assistant to the research director in the Council of Foreign Relations. He is author of a number of books on labor problems and wage settlements, on which questions he is a recognized authority. In brief, I think I may say Mr. Feis is regarded as one of the outstanding authorities on economic and financial problems in the United States. He has chosen as the subject of his address today, "International Trade and Finance." This, I feel, is one of our major problems of today. One of the chief retarding influences which we have encountered in our efforts to bring about revival in business has been the blocking of trade channels through tariffs, embargoes, quotas and so forth. His address is timely and one to which you will all listen with keen interest. I have much pleasure in asking him to address us.

Mr. Feis:—Gentlemen, it was very kind of you to invite me here to talk to you. I am a little bit shocked and more amazed to find my forgotten past remembered. Mackenzie must have been very busy digging up facts I thought no one but my family remembered.

Commerce between nations mounted slowly over the decades preceding the War, despite the increasingly severe restrictions that had been imposed upon it ever since the second half of the nineteenth century. The volume, the value and the variety of that commerce steadily extended itself, despite these restrictions. Even the hostilities, the economic set-backs and maladjustments created by the War could not suppress its vigor; in the years before the depression its volume and importance in the economy of the main nations had again become substantially greater than before the War. The annual average total of the trade that took place between nations in the years 1911-1913 was in the neighborhood of twenty billions of dollars —that much was sold by them to each other, and that much bought. During the years 1926-1929 this trade attained an average annual total of about thirty-three billions. Such was its vitality.

From 1929 on to the present, the movement has been one of rapid and disrupting decline. The result is visible, for one thing, in the large surpluses of food products and raw materials that are stacked up behind national boundaries.

Behind each table of statistics, behind each graph on which the lines descend, lies a bitter tale of failing commerce and of a losing struggle for vanishing opportunity, and of governments dealing desperately with the consequences.

The injuries and recriminations connected with the new trade restrictions with which nations have piled each other have colored the public attitude and have gravely affected the commercial treaty structure on which international commerce rested. The peoples of each country having tried to turn international trade each to its sole advantage, and having failed, and suffering the consequences, now are easily led into resentful mistrust of the whole process of international trade. This is as harmful a form of psychological relapse, as it is when an individual, unable to deal with his fellowmen, unable to bear

the buffets, retreats into seclusion from which he casts merely remote looks of hostility at the world.

We have reached a stage and state of mind, where at the first touch of foreign competition each producers' group has come to regard itself as justified in running to the Government for protection, in the same way as a citizen who thinks he has discovered fever germs in the water immediately calls the health department. The conduct of producers' groups in almost all countries has become such as to justify the fantasy that the only system that would really satisfy them would be the installation of a special broadcasting system, such as is now used in police headquarters to inform police cars on the road of crime news.

The consequences are recorded not only in the decline of that trade, but also in the general commercial treaty structure. Many governments have suspended their ordinary procedure of treaty-making and reclaimed as far as possible their liberty to deal with foreign countries as they believe wise. Even when the treaty-making process is carried on, the agreements reached are apt to be of such short duration as to offer few of the real advantages that treaties used to give. Again, those treaties that have been negotiated are narrow in compass, and facilitate an ever-lessening margin of trade on easy terms. The opportunities granted are less and less often generalized under the unconditional most-favored-nation clause, which was the commercial policy rule through which international commerce secured its great extension during the end of the nineteenth century and the beginning of the twentieth. Lastly, even where that rule still exists in treaties, it has lost a great part of its importance. The new means and methods of regulating international commerce under quota systems, special compensation and clearing agreements, exchange controls, and variable systems of valuation, escape its simplicity. In short, the commercial treaty structure of the world, as it existed before the depression, has largely crumbled.

Behind these developments lie two main causes. They are the great depression and the great growth of governmental restrictions. These and their by-products primarily

explain the decay of international commerce. I can give only secondary importance to those other factors of change, which, according to the arguments of some, are destined to bring international commerce almost to an end by making it virtually unnecessary. I refer to those arguments which emphasize the spread of branch factories, the building up of new centres of production by capital moving from old financial centres, the technical and chemical inventions which enable one product or device to take the place of another product or device imported from abroad.

This process of geographical extension and of invention is not new. It has been active in the world for a century or more at a pace no slower or less revolutionary than in the present. Still international commerce continued to expand, and between no countries at a more rapid rate than between the more highly developed industrial countries. While ending trade in some fields and directions it has created trade in others. These types of change have been merely one minor cause of what has taken place, not the major. The contrary contention remains no less equally misleading, when, as in a recent case in the United States, it is expanded into a fat volume, wrapped in a red, white and blue jacket, and distributed free as propaganda.

Behind the action of governments, when imposing new restrictions, have been the ever-pressing conditions of declining demand and unemployment. Each harassed government has attempted to lessen its unemployment in part by shutting off foreign competition. The action more quickly wins consent, because the person drawing up the restrictive decree can locate definitely with his mind's eye certain flaming chimneys or plowed fields. What the further indirect consequences of the action may be, what other chimneys may be dimmed, what other fields left unplowed, what hulls left to rust, no man, at that moment, can indicate with the same precise detail.

If tariff acts were musical scores, and could be played on an instrument, the underlying beat of many would be the weary trudge of tired men out of work. The beat of the trudge would be in the first line, as inspiration; but no

less full and no less weary it would persist in the final lines. The scores merely confined the inspiration; they did not convert it. But to return from fantasy to literal statement, the acts are on the statute books and their results in part make up the present.

Each government has striven to formulate a more or less complete analysis of the maladjustments in its economy, and a more or less planned position of adjustment at which it hopes to arrive. Into that planned position, international commerce has seemed often to enter only as a disturbing current, one most difficult to fit into the national mazes of policy, and one often at odds with the price commitments which the governments were trying to make come true. Private international trade of an ordinary character, which previously had been the means and terms of mutual enrichment, has now increasingly come to be regarded by government offices as an interference to their plans and rules —which are drawn up primarily from the productive side.

This entry of governments into the increasing supervision or direction of economic affairs is the dominant trend. Subject to great variations in degree and method, it must everywhere be taken into account. If that is so, is not the problem to find the forms and terms under which international trade can be adjusted to the new part which governments have come to play? May not the alternative be that governments will continue to destroy each others' commerce and force each other into more and more desperate remedies for desperate needs?

How the adjustment can best be made, by just what joints and grooves the lines of international commerce may best be fitted into the internal arrangements of each country, is the great task of statesmanship in this field.

The principles adopted and their method of application are certain to be somewhat different in each country. But everywhere there will be required a careful judgment of two crucial sets of considerations. First, for the maintenance and development of national prosperity, what fields of economic activity should a nation seek to sustain within its borders, what fields leave to other nations to supply, taking in return goods which are offered on advantageous

terms? This is merely stating in other words the always recognized central problem of commercial policy.

But there is another problem, new in its almost dominant significance today. To what lengths of state direction or control of economic life (beyond what they would willingly choose on other grounds) will the nations permit themselves to be drawn, before they decide instead to find the mutual terms on which they can again build up trade between themselves?

Each passing month, in each country, that problem presents itself in ever varying instances. Each market closed is a new problem for some government, a new task of direction or control so that new work can be made to take the place of old. Since everywhere millions are disturbed, the governments, willingly or otherwise, must undertake to support and direct ever extending remedial adjustments—not by free choice, but by the existence of displaced men and discarded plants. To maintain a measure of freedom to decide the forms of economic life by preference uncompelled, nations must pursue commercial policies that will offer themselves and each other a necessary minimum of protection against f u r t h e r enforced change.

One thing is clear. No matter what the future forms of international trade, it cannot be expected that if the making of commercial policy is left wholly to the interplay of sectional politics and the pressure of producers' groups that adequate attention will be given to these underlying issues, or that they will be satisfactorily met.

Certainly in the United States there is necessity for developing a coherent policy of international commerce. Many of our important economic occupations such as cotton growing, hog production, automobile manufacture, have developed to serve a large part of the world beyond our borders; homes were built, cities developed, populations massed on that condition. If a short-sighted commercial policy compels the permanent turning aside from international markets, the Government must face the problem of very great internal redistribution of population. It is in my judgment highly desirable that there be worked

out and applied, under conditions of give and take with other countries, a unified commercial policy under which those American industries which are well qualified to supply foreign countries shall find their opportunities, while in return we hold our gates open to the rest of the world for those branches of production which we are not qualified to enter or can renounce without much loss or sacrifice. Despite the current assertion of national self-sufficiency, I am confident that the people of the United States will support the broader conception—if it is supported elsewhere.

Let me add this, in the case of many staple commodities, potentially productive in far larger quantities than the immediate world demand, the only satisfactory method of treatment may be by international agreement such as is illustrated by the International Wheat Agreement to which both our countries are parties.

So much for the field of international commerce. In similar summary fashion, I would like to make some observations in that other disturbed field, that of international monetary affairs — again reiterating the wholly personal nature of these observations.

We are living in a time of fluctuating currencies, and have become acutely aware of it. The purchasing power of a currency may have changed comparatively little in regard to most of the uses for which it is employed; the internal price movement may be a remedial one, in the right direction; yet the relative exchange value of currencies excited attention—and not entirely without reason.

It was a world of fluctuating currencies during and right after the War. We have returned to that condition after the gradual restoration of the international gold standard in the course of the following ten years. During this very period of restoration, many countries found it necessary to revalue their currencies before they could right their international circumstances and balance their accounts with the world.

The oncoming of the depression again faced many governments with conditions which have induced or compelled them to depart from that legal ratio between gold

and their currencies that was established in the time of calm. The dislocations differed country by country, but in each case seemed unmanageable.

In some cases at least a temporary equilibrium was approached by severe slashes in costs and debt burdens. Such instances have involved, let it be remarked in passing, important shifts in the relation between government and private enterprise. In the majority of cases, the course chosen as a result of unmanageable strain has been in the opposite direction — the attempt to stimulate activity by raising prices, and to increase the flow of national money income. Action has been in an inflationary direction, and it has involved a departure from the previous gold parity.

As country after country departed from their previously established gold parities, prices in the countries remaining on gold were affected, usually in a depressive fashion; and for a short time at least the terms of international competition seemed somewhat altered (though this is subject to exaggeration and there are phases of inflationary periods in which the imports of the inflating country may be stimulated more rapidly than its exports).

Certainly after the British Empire had departed from its old gold parity and as gold prices continued to fall, and as the crisis deepened and prolonged itself, I, for my part, have no doubt that it was necessary for the United States to likewise depart from its established parity. Under our circumstances, the pursuit of the deflationary course to the bitter end would have meant only a complete collapse of values, with quite probably a subsequent condition that would have compelled resort to violent inflationary measures. Despite the superficial appearance of voluntary choice that attended our action, due to the fact that at the time the United States was in possession of immense gold reserves, I believe it was dictated by all the ruling considerations.

In March, 1933—the experience is still so fresh it would hardly seem to need representation — the economic life of the United States was paralyzed; its financial institutions were closed in one or another extreme of a panic position, extreme liqudity or extreme vacuity of assets;

the prices of raw products were half of what they had been a few years preceding; the capital markets were demoralized; many of our cities were near or at bankruptcy; our industries running only haltingly and at a great loss; our unemployment ascending.

Under these conditions the new administration was compelled to visualize and immediately to present vigorous and far-reaching measures for reviving the economic and financial life of the country. The task was attacked with the conviction that it could be achieved, but also with the perception that in order to achieve it many far-reaching and novel governmental measures would be required. Here, in this hour, it was certainly the time to regard the Treasury as the proper instrument which the country possessed for bringing stimulation and support where only weakness and fright existed.

Large-scale public expenditure was clearly indicated and no man could see in what directions and how far it might have to be carried before the essential job was done. Government funds would necessarily be required for banking and industrial support, for relief, and for the execution of plans of internal readjustment such as seemed required in the field of agriculture.

It was to be foreseen that while the Government was undertaking these tasks there was a grave risk that this prospect of public expenditure, reflecting itself in the international exchange markets, might well give rise to hoarding, flight of capital, and furnish a made-to-order opportunity for speculative forces to make a fortune by draining gold supplies.

The fact then that the United States Government was in actual possession or control of a large amount of gold was not a sufficient guarantee that it could undertake the necessary measures without being forced into a position where its currency would be speedily undermined, with all the resulting doubts and fears. Confidence would not have been restored; alarm would necessarily have been in the ascendant as in all similar periods elsewhere; and the country without serving any useful purpose would have deprived itself of the means by which it can at any time

reestablish a metallic monetary base. Thus disturbing as it was to have to alter what had seemed the established terms of monetary relationship, it was a necessary act of policy and an essential safeguard to a people who traditionally were accustomed to a metallic monetary base.

Since the departure of the United States from the gold standard, the American dollar has been fluctuating in the world's exchange markets; its decline in terms of gold has far exceeded the decline in its internal purchasing power. Where formerly its value was set at $20.67 per ounce of gold, the American Treasury now offers in the neighborhood of $34.

This, it may be observed, is by no means the most striking change in the gold value of a currency that has taken place in recent years. The value of all the major currencies of the world in terms of gold has been shifted since 1914 with the exception of those of Switzerland and The Netherlands. In the important post-War devaluations of France, Belgium, and Italy, the par value of the currencies was shifted several hundred per cent. in terms of gold. Among the more recent shifts of currencies, among the currencies that now fluctuate, it will be found that the value of the various currencies of the Dominions of the British Commonwealth has depreciated in terms of gold to at least as great an extent as the American dollar, and that of the Japanese yen over 165 per cent.

To country after country it has seemed imperative to take monetary measures that brought greater freedom to pursue its objectives than full adherence to an international standard would have permitted at the time. The leading objective of American policy proper, has been reiterated by the President — the restoration of prices and money incomes approximating that which prevailed in or about 1926, a general range at which our economic system might operate in equilibrium and our burden of financial obligations and debts be sustained.

The attainment, through monetary measures, of this approximate range would of course be no final solution, in and of itself, of many of the underlying difficulties of our economy; the mere envisaging of final solutions may

be the type of dream purpose which statesmen may cherish, but not too fully believe in.

The upward movement of prices which is desired, would, if fairly distributed among the different classes of commodities, be of great assistance in increasing the rate of activity of production, and this is the ultimate purpose. Besides, if this "target" price level (the name fits, because just as a big battleship aims to scatter its volley around the target as a centre, so monetary policy must content itself with a someyhat scattered fire system), if this "target" price level can gradually be attained with a rising rate of activity, the distribution of the flow of money income as between immediately applied consumption expenditure, debt repayment, and savings, should be much sounder than at the present lowered price level. These have been the general aims of policy, the image inside the painter's head towards which hand and eye are trying to give expression.

In judging this monetary policy two general considerations must be taken into full account: first, without some such aim as price improvement it would have been impossible, no matter what the other efforts and plans of the Government, to bring about a state of economic health; second and on the other hand, the results of the monetary policy will be determined only partly and, perhaps, not primarily by the actions taken in the field of monetary policy itself.

The outcome of the monetary measures that may be pursued will be dependent upon the measure of vigor and far-sightedness industry itself displays, and upon the success or failure of many other phases of government policy.

It has been necessary for the Government itself to indicate and supervise the main lines of necessary adjustment. The diverse plans of public expenditure are calculated to relieve the suffering of unemployment and by providing spendable funds to give momentum towards a slow climb of industrial activity to a more normal pace. Through various governmental measures, of which the leading is the National Recovery Act, it is sought to bring about such a reorganization of our highly mechanized industries

so as to increase the numbers they employ and so as to divide the yield of their productivity in such a way as may sustain them on a more stable basis. Through the program in the field of agriculture, effort is being made to relieve the most pressing agricultural needs and gradually to bring about an adjustment in the various branches of agriculture to the markets that may be available. Finally in this enumeration it has become plain that the systems of banking practice must be thoroughly reformed so that there may be supplied to economic activity an adequate but well-controlled supply of financial means compounded out of savings and credit creation. Mastery of this last problem is an essential condition if economic activity is to be financed, as in the past, primarily out of private savings and out of the credit-creating power of a privately owned and directed banking system, rather than by the supply of funds by the Government. It must be achieved no matter how far-reaching the necessary changes may be, and no matter what part the Government may have to play in regulation or participation.

The results of any monetary policy will depend much on the handling of these other matters; while on the other hand, both monetary policy and fiscal policy must be shaped so as to best assist them. Such are the intricate considerations which enter into the making of monetary policy. Its proper guidance would obviously require the constant observation of many different lines of trend. In a society which has become so conscious of economic developments and relationships as ours and so managed either by the pressure of groups or by the direction of governments, how could it be otherwise—at least during the period when the society is called upon to alter the relationships or many of its parts and to change many of its practices?

If I may revert to the nautical analogy I used in speaking of the "target" price level, it might be said that once each gunner merely stood behind the breech of his gun, pointed the muzzle at the object that stood clear before his eyes, and pulled the firing string; while now in a remote room well below decks intricate observations must be made

before the row of heavy guns is swung in a line of fire towards an object which is little more than a puff of smoke on the horizon.

So much by way of interpretation of the purposes and task of monetary policy. I will not here venture to present the insufficient fragments of my own thought as to what system and what rules of policy may best fulfill them, but on one aspect of the situation some comment may be offered.

Each country on leaving the international standard followed the scent of its own need. The divergences between these needs, especially as regards price policy, became evident during the Monetary and Economic Conference last Summer. The divergence still seems to exist and makes up the present international sea of fluctuating currencies. During this period when each country strives to build a monetary system in accord with which its economic life may possess a stability lacking in the past, the concentration is naturally on the national aspect of the monetary problem.

But I believe that all governments remain aware that the systems they create and the policies they may pursue must once again be welded into some international system —if they are to bring lasting benefit. Real stability in the international exchange is an ultimate important requirement, for fluctuations of exchange reach far in their effects. They modify the terms of international competition, they keep alive and stimulate an attitude of trade warfare. Further, through the international commodity markets they bring about sudden and often unwelcome changes in the course of prices in all countries. The attempt to escape from these price effects in turn often leads to the creation of new barriers to international trade, and these in turn create economic disturbances which form new difficulties in the field of monetary and fiscal policy. It would appear that total escape could only be had by the development of national economics even very much more isolated than any so far erected, except perhaps in the Union of Socialist Soviet Republics.

Some measure of ultimate stability in the relationships between the main currencies is desirable and necessary.

Countries may be forced, as is the United States, to pursue each its own path until sufficient headway with internal readjustment has been made. Within each country the wish to develop a monetary policy, a fiscal policy, and a banking policy sounder than in the recent past should and must continue. But wisely each would likewise continue to look at the world horizon each day and study the most suitable means and the earliest possible time when its aims have been sufficiently secured to once again assist in reestablishing international stability. That international stability might then become one of the most important favorable influences for carrying forward the improvement of internal affairs in all countries.

MR. ARSCOTT:—Professor Feis, we have enjoyed your address. We appreciate the careful study which you have given to the various points you have brought out. We have had an opportunity to read a great deal on the subject, but you have categoried the various features which have a bearing upon this wide problem in such an excellent way that we have a much clearer understanding of the financial situation across the line. We appreciate very much your coming here today; and on behalf of the Club, I wish to thank you.