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Battles without bullets: The story of economic warfare

Thomas P. Brockway

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BATTLES WITHOUT BULLETS

THE STORY OF ECONOMIC WARFARE

THE FOREIGN POLICY ASSOCIATION

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BATTLES WITHOUT BULLETS

THE STORY OF ECONOMIC WARFARE

by

THOMAS BROCKWAY

ILLUSTRATED BY
BUNJI TAGAWA

THE FOREIGN POLICY ASSOCIATION

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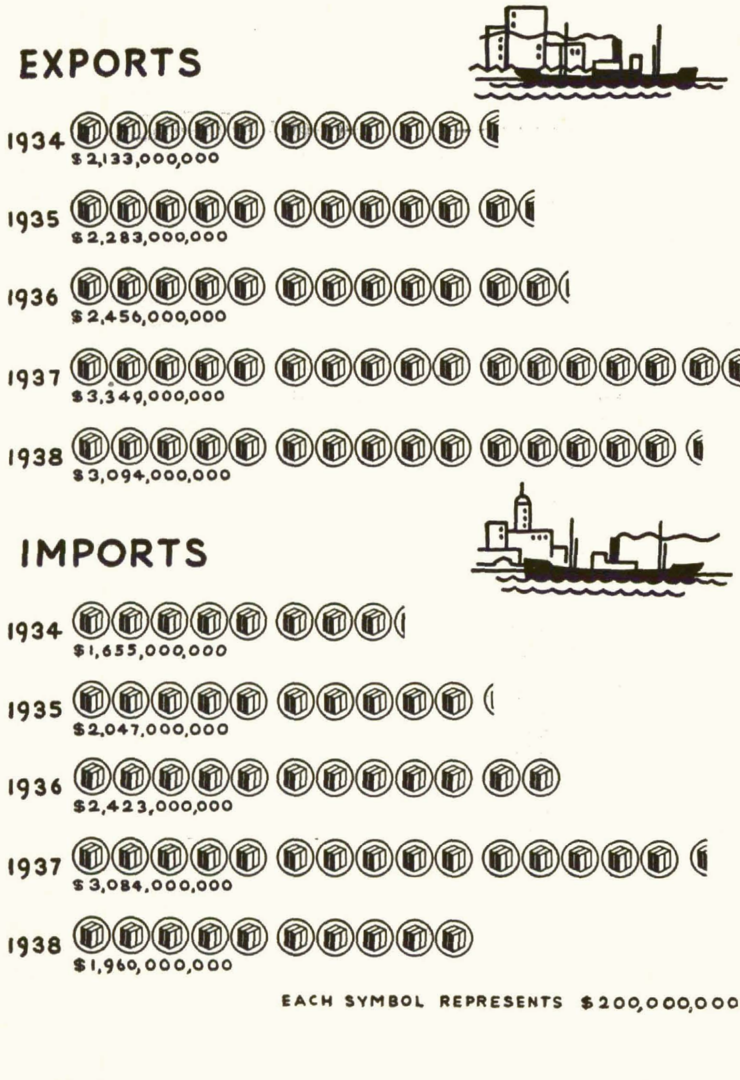
VALUE OF U.S. FOREIGN TRADE



1. The Undeclared War

The war this book is about is a world war on the economic front. While the great powers are arming themselves for a future war of bullets and bombs, they are already engaged in a war of textiles, oil and iron. The "have-not" countries are expanding by war and threats of war. At the same time they are fighting an undeclared war for foreign markets and raw materials. The wealthy countries are seeking to prevent war, but they, too, have thrown themselves into the struggle for customers and essential supplies.

WHAT IT IS ALL ABOUT

What is the nature of this economic struggle? What are its weapons, its strategems and its aims? What is the relationship between economic war and real war? These are the questions we shall try to answer in the pages that follow.

We are all fairly familiar with the *politics* of international affairs. But few of us know anything like as much as we ought to about the *economics* of international affairs. Now and then your morning newspaper mentions a trade treaty or a foreign loan, and an international "crisis" always sprouts a crop of economic facts. But the newspapers bury much of their economic news in the financial section, and there's a widespread belief that the average person can't understand economics anyway. This story of economic warfare is written in the belief that ordinary people not only can but should understand such matters.

WHY IT IS IMPORTANT

The point is not that everything that happens in the world can be explained in terms of trade, currency, raw materials, profit and loss. The point is that international relations are profoundly influenced by economic rivalries between the great powers, and that these rivalries can and should be taken into account if one is to understand world affairs.

Furthermore, a knowledge of these rivalries not only helps to explain events and trends in Europe and Asia. It also makes clear that the United States influences these foreign events and trends, and that the influence works both ways. That is, what is happening in Europe and Asia is of the greatest importance to the United States. For, as we shall soon find out, the United States is an active combatant in the current trade war, with a real stake in its outcome. And this stake is of direct or indirect concern to every American.

PREVIEW

As an introduction to the subject of economic warfare, we begin with a rapid sketch of current trade practices. In order to explain these practices we then go back and take a brief look at the age before our own, when international trade flourished. By comparing that age with ours we try to find out what it is that has cut down international economic intercourse and sharpened economic competition in our own times. The subject of Chapter 3 is the part finance plays in international relations today. Then in the next chapter we look at the weapons and tactics Japan, Germany and the United States employ in the current trade war. In Chapter 5 we discover that the stake for which this trade war is waged most violently is the acquisition and control of raw materials. And in the last chapter we discuss the relation between the economic war now being waged and the real war which often seems to be just around the corner. This brings us in the end to the question of our own country's policy as it bears on the problem of war.

From this rapid "preview" we now turn to our background chapter, which will carry us well into the current world war of trade and finance.

2. From World Trade to Trade War

Now for a brief sketch of present-day trade war. You might suppose that competition in international trade is simply a matter of Germans and Americans, say, selling machinery in Latin America, with price and quality deciding who gets the orders and prices being controlled by costs of production back home.

This was certainly true once. But today selling goods abroad is no longer just a question of individuals and corporations seeking private profits. Today governments themselves play an important part in the foreign trade of their nations. Soviet Russia, for instance, trades as a national unit and makes her contracts in the form of diplomatic agreements. And Germany, Italy and Japan control and direct their foreign buying and seek foreign markets through a variety of expedients, including political pressure and even outright conquest. In fact, not even the democratic states expect their business men to get along in foreign markets without some help from their governments. For Great Britain, France and the United States have all extended trade credits to prospective foreign customers in order to enable their business men to capture or hold foreign markets against the competition of the totalitarian countries.

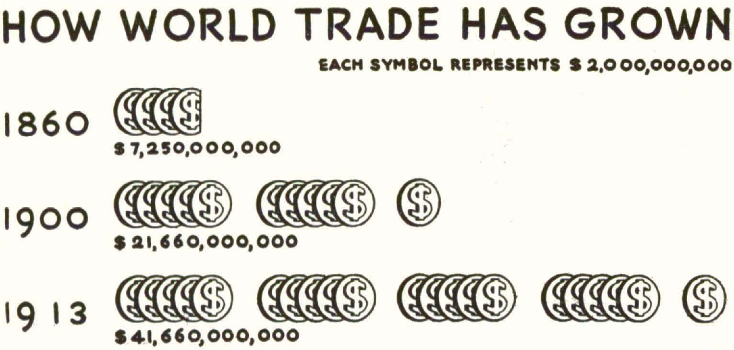
BOOSTING EXPORTS, SQUEEZING IMPORTS

While the nations are energetically invading foreign markets, they are also stoutly defending their own markets against foreign competition. Stephen Leacock recently wrote that "you can't expect a really highchested nation to stoop to buy things from other people." Of course, most nations *have* to import raw materials, and some nations, notably Great Britain, would starve if they didn't import foodstuffs. But there's certainly a marked tendency today to restrict imports to the barest necessities. This is done by raising tariff barriers, setting limits to specified imports, paying for imports with blocked currency which can't be spent outside the country issuing it, or prohibiting certain imports altogether.

Such is, in briefest outline, the nature of present-day foreign trade. Each nation is deliberately boosting exports and deliberately squeezing imports. But as my export is your import, we are really working at cross-purposes. *Why*, then, are nations trying to batter down the barriers to foreign markets while at the same time they are busily barricading their own?

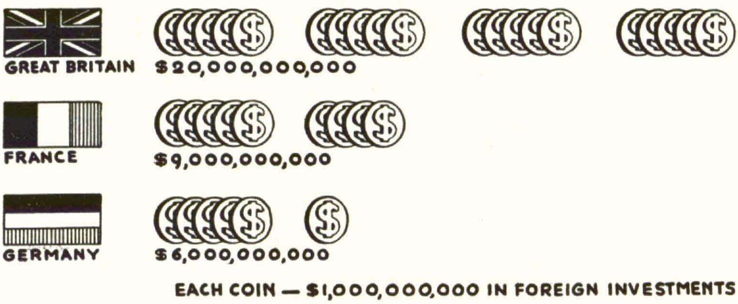
THE RISE OF INTERNATIONAL TRADE

Before we try to answer this question, we'll have to glance for a moment at the rise of modern international trade. Trade itself is doubtless as old as man. But trade between nations was enormously increased by the productivity of modern machinery. In the eighteenth century Great Britain was the pioneer in modern industry. She made the whole world a market for her woolens and manufactured goods. In fact, well into the nineteenth century Britain was the world's only great industrial state. But before the end of Victoria's reign



'The value of international trade tripled between 1860 and 1900 and doubled in the thirteen years before the World War.'

WORLD'S BANKER NATIONS IN 1914



'By 1914 Great Britain had become the world's chief banker, with twenty billion dollars invested abroad.'

rivals had come on to the field. Other nations borrowed from London bankers, bought English textile machinery, stopped buying English cloth. By 1910 Great Britain was still the leading producer of textiles, but all the great powers were competing with her in foreign markets. Even backward Russia, using export subsidies, was underselling Manchester in the cotton bazaars of Central Asia.

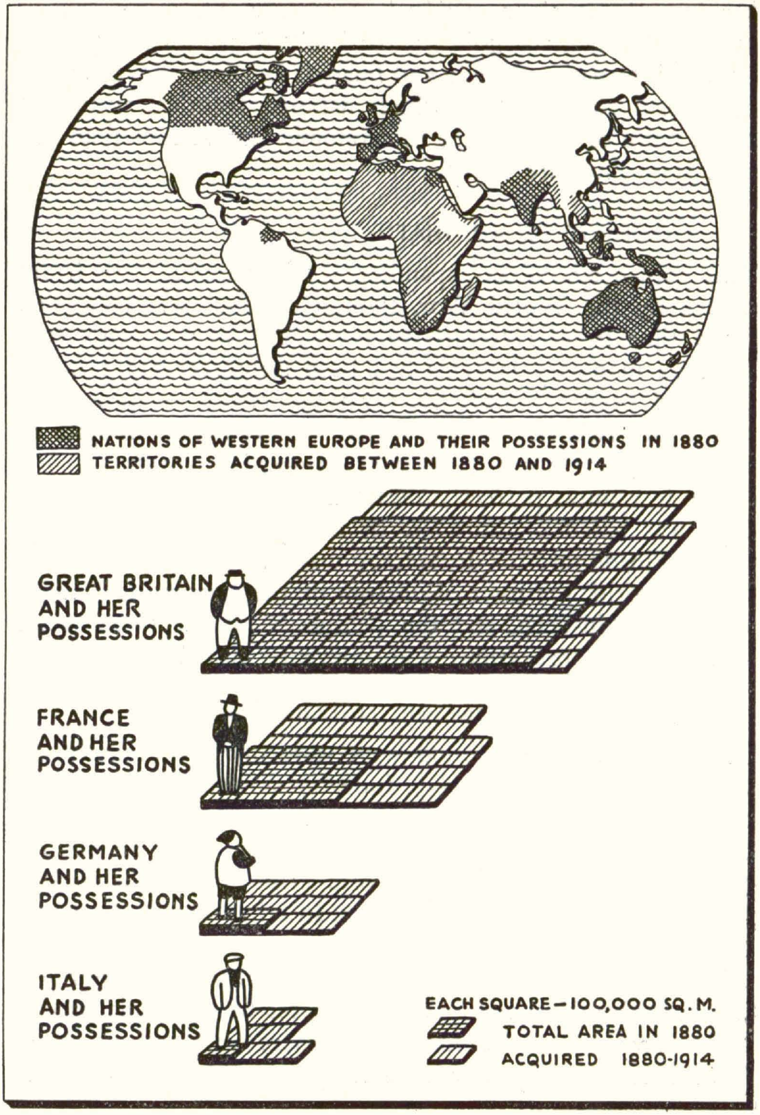
This competition, and the technological improvements that went along with it, led to lower prices and a rapid expansion of the world markets. The result was what the chart opposite shows. In other words, the value of international trade tripled between 1860 and 1900 and just about doubled in the thirteen years before the World War. Meanwhile, commercial and industrial profits piled up beyond domestic needs and were exported in the form of foreign loans and investments. So by 1914 Great Britain had become the world's chief banker, with twenty billion dollars invested abroad. But London had competitors. France had nine billion dollars and Germany six billions (see the chart on this page). And the rapid export of capital in turn developed new foreign markets and new industries the world over.

THE AGE OF EMPIRE-BUILDING

This competitive expansion of capitalist economy produced an age of empire-building such as the world had never witnessed before. Poets sang the glories of empire, statesmen, soldiers, missionaries, traders brought new lands and strange peoples under the flags of the industrial nations. Between 1880 and 1914 virtually the whole of Africa and much of Asia became colonies, protectorates and spheres of influence of the great powers. Britain already had the world's largest empire when the land-grabbing began, but she enlarged it by three and a quarter million square miles between 1880 and 1914. When the World War broke out France had acquired an empire of four and three-quarter million square miles, Germany one of a million. Italy, Belgium, Japan and the United States were also bitten by the bug of empire and extended their rule over foreign lands and peoples during this period. In terms of economics, this remarkable movement provided the empire-building nations with new markets which they could partially close to rival countries.

THE AGE OF WORLD ECONOMY

Thus the generation before the World War lived in an age of intense competition between the great powers for markets and colonies. In fact, this competition was one of the causes of the war. Yet the world economy was expanding rapidly enough to absorb most of the ever increasing production of the industrial nations, and there were few barriers to economic intercourse between them. People, goods and capital moved across national lines with relative freedom. The United States had sizable tariff barriers but accepted millions of European immigrants without question. The "open door" and virtual free trade prevailed throughout the British Empire. Capital in the form of loans and investments flowed freely from the wealthy nations to the ends of the earth. And by


NATIONS OF WESTERN EUROPE AND THEIR POSSESSIONS IN 1880
TERRITORIES ACQUIRED BETWEEN 1880 AND 1914
GREAT BRITAIN AND HER POSSESSIONS
FRANCE AND HER POSSESSIONS
GERMANY AND HER POSSESSIONS
ITALY AND HER POSSESSIONS
EACH SQUARE—100,000 SQ. M.
TOTAL AREA IN 1880
ACQUIRED 1880-1914

keeping the various national currencies at fairly steady exchange values, the gold standard solved many of the problems of international trade and finance. In short, it was an age of "world economy" in which national frontiers were not much more of a hindrance to economic transactions than our own state lines are today.

GOOD-BYE TO ALL THAT

This golden age of an expanding world economy was badly shaken by the World War, though the fact was concealed for a time by the "return to normalcy" at the war's end. By 1924 monetary systems had been stabilized and production had been resumed. So, with the return of prosperity in the late twenties, it was widely believed that, in spite of the war, this was still the best of all possible worlds.

But it is now perfectly clear that the optimism of those days was based on illusions. In reality the world that the war had made safe for democracy was an exceedingly undemocratic world, the internationalism of the League of Nations was only skin-deep, and the prosperity of the boom years was artificial, precarious and unevenly distributed.

THE AGE OF ECONOMIC NATIONALISM

The illusions of this period were suddenly shattered by the world depression of 1929-33. Industry slowed down, millions of men were thrown out of work, world trade collapsed, currencies tumbled, securities declined in value or became mere paper. In the end the world crisis forced the nations to fall back on their own resources. In other words, it ushered in an age of economic nationalism.

Now economic nationalism was not a new policy, nor was it a new idea. You can find some degree of economic nationalism being practiced as long ago as there were nations. Every tariff barrier, every law restricting immigration, every act discriminating against foreign shippers withdraws a nation from the world economy and is therefore a step towards economic nationalism. And special interests, such as agriculture, industry or organized labor, have long demanded such acts of their governments, as students of American history will recall.

But the world depression at once made the idea of economic nationalism irresistibly attractive and its adoption almost inevitable. One after another the nations took measures designed to protect their shrinking home markets from foreign competition and support their falling currencies. Even Great Britain, long the champion of free economic activity in an open world market, suspended gold payments, embargoed foreign loans and put up a tariff wall.

THE WAR BEFORE THE WAR

The depression thus intensified economic nationalism at the expense of the world economy. But there was more to come. Hitler's rise to power in 1933 and the aggressive cooperation of Germany, Italy and Japan a few years later raised anew the spectre of war. For the policies and ideologies of these three countries exalted war as a means and an end. Thanks to them, wars of conquest in Ethiopia and China, intervention in Spain and recurring war scares and aggressions in Europe have become part of the normal course of international affairs. In fact a British military expert, Captain Liddell Hart, asserts that the second world war has already started, with the fascist nations jockeying for strategic positions in China, Spain and Central Europe before the general conflict begins.

With ever increasing emphasis, therefore, the other countries have been obliged to think in terms of an approaching war. So, if they were grappling with industrial paralysis, unemployment and currency problems before Hitler came to power, they now have the additional task of preparing for another great war. For the age of Hitler seems to mean more cannon and less butter not only in Germany but elsewhere as well.

THE EFFECT OF GEOGRAPHY

Of course it's obvious that the prospect of war doesn't affect *all* countries alike. In fact, we'll find that the economic policies of the great powers differ in proportion to the relative importance they assign to two aims, economic recovery and preparation for war. The United States, for instance, is some distance from the storm centers of Asia and Europe and is therefore in no immediate danger of attack. So she has been free to devote her attention to economic recovery based in part on international trade rather than to military strength based on a closed economy. But France and England are in the European line of fire, and so they have no choice but to raise their military budgets sharply. Yet the fact that, between them, they can command the seas means that it is less important for them to make themselves self-sufficient than it is for Germany and Italy. For in case of war France and England could probably continue to meet their needs by importing goods and raw materials from overseas. Hence they are still a long way from totalitarianism.

Germany and Italy, on the other hand, are pursuing policies which may cause them to resort to war at any moment. Furthermore, they are almost certain to be cut off from overseas supplies if and when war comes. So they have made power and self-sufficiency, rather than economic well-being, the controlling factors of their policy. Similarly, in the East, Japan's economic policies are today wholly controlled by the war in China. And the Soviet Union, threatened by Nazi ambitions in Europe and Japan's advance in China, is obliged to give military preparedness an important place in its third Five-Year Plan.

We are now ready to answer the question: why are nations energetically trying to invade foreign markets while barricading their own?

WHY EVERYBODY WANTS TO EXPORT

There are several reasons why governments attempt to increase exports. In the first place, they are under almost constant pressure from individuals and corporations seeking profits in foreign markets. For capitalistic economies like our own produce more goods than can profitably be sold at home and so look for foreign markets to absorb the surplus production. Then nations want income from exports in order to be able to pay for the imports they can't get along without. Third, debtor nations (in other words, most of the nations of the world) must export more goods than they import in order to have a credit balance left over with which to pay interest and amortization charges on their debts to foreigners and foreign nations. Finally, the great powers may seek foreign markets as a means of extending their political influence. These, then, are the chief reasons why governments back up their salesmen in foreign markets and help them to overcome their foreign competitors.

So much for exports. Now why are *imports* in such bad repute?

WHY NOBODY WANTS TO IMPORT

In defending their home markets by means of tariff walls, governments used to be interested primarily in guaranteeing the prosperity of certain private interests, such as the sugar-beet industry, which demanded protection against imports of cane sugar. As a matter of fact, imports are still restricted in order to protect local producers against foreign competition. But imports are also curtailed today as a means of stabilizing currencies and preparing for another war.

PROTECTING CURRENCIES

Unless the difference can be made up by shipping gold, a nation's currency is in danger when the value of its imports exceeds the value of its exports. We'll take up the problem of currency in Chapter 3. But we ought to say right here that nine-tenths of the nations of the world can't afford to balance their international accounts by exporting gold and must therefore protect their currencies by keeping the value of their purchases abroad at or below that of their sales abroad. This means that they limit imports to the barest necessities.

PREPARING FOR WAR

In preparing for another war the nations, great and small, are now spending between seventeen and twenty billion dollars annually on fortifications, armies, navies, airfleets. But armaments programs obviously mean increased imports of certain essential raw materials. To offset these imports, certain of the great powers have strictly limited other imports, even of foodstuffs. Moreover, the drive for national self-sufficiency has led them to cut down their imports still further. Take Germany, for example. Remembering the devastating effects the blockade had on her economy in the last months of the World War, Germany has been trying to make herself independent of overseas supplies by producing substitutes for various materials such as cotton and rubber. In carrying out this program she has drastically reduced imports of these materials with the deliberate intention of forcing German manufacturers to use the more costly German-made substitutes, or *Ersatz.*

Of course, if a nation could really achieve complete self-sufficiency, or *Autarkie*, as the Germans call it, it wouldn't be fighting for foreign markets. But as a matter of fact it would be almost literally impossible for any nation to make itself completely self-sufficient today. At least no country in the world could maintain its present economy if it were forced to get along entirely on its own resources, whether in peace or in war. And that goes even for the United States, the most nearly self-sufficient of them all.

THE LONG AND THE SHORT OF IT

This is the basic fact which makes it virtually certain that trade warfare and rivalry for raw materials will continue *in spite of* the trend toward closed national economies. For the great powers *must* import certain essential raw materials. But the world's supplies of oil and iron and other essential materials are limited. So the great powers are competing with one another to get and hold them. Furthermore, these raw materials must be paid for, and most of the great powers can pay for them only by exporting their own products. But finding foreign markets for their exports is more difficult than it was in the relatively open world economy of 1913, or even of 1929. So several of the powers are battling with each other for the same restricted markets.

This, then, is the nature of the economic war we are about to examine at closer range.

3. Finance and Currency

Judged in terms of military and economic strength, there are seven great powers in the world: Great Britain, France, Germany, Italy, Soviet Russia, Japan and the United States. But only three of them possess the weapon of finance for use abroad. Great Britain, France and the United States hold among them almost three-fourths of the world's gold. They are the world's great creditor nations, with large incomes from foreign loans and investments. They alone have capital available for export in large quantities. Russia, Germany, Japan and Italy, on the other hand, are debtor nations with little or no income from foreign loans and investments. Unlike the other great powers, they haven't enough capital to be able to do much financial maneuvering abroad.

To be sure, Germany bettered her financial position by seizing the reserves of gold and foreign currency she found in Vienna when she annexed Austria, in March 1938, and in Prague when she occupied Czecho-Slovakia, in March 1939. Recently she has even extended trade credits to Turkey and Poland. Japan likewise has made some investments in China, chiefly in the territory under the Japanese currency system. But, generally speaking, we can say that the totalitarian countries aren't able to compete with Great Britain, France and the United States in seeking profits and power through foreign investments. They are also less able than the other great powers to influence smaller nations by means of loans. Furthermore, their currencies would be exceedingly vulnerable in the world market if they hadn't taken drastic measures to armor-plate them.

From the point of view of finance, then, the world's seven great powers are sharply divided into "haves" and "have-nots." In this chapter we shall try to discover what bearing this fact has on international affairs.

FOREIGN INVESTMENT BEFORE THE WORLD WAR

Before the World War foreign investment was a powerful force in international politics. Investments in backward countries employed capital that couldn't be profitably invested at home and created opportunities to make more profits. Take the famous Berlin-to-Bagdad railway for an example. It rewarded the bankers who underwrote the bond issues, yielded a good return to the investors who bought the bonds, enabled Germany to triple her trade with Turkey in ten years and created unlimited openings for German business enterprise within the Turkish Empire.

THE DECLINE OF FOREIGN INVESTMENT

Since the war, however, and particularly since the depression, foreign investment has declined as a vital force in world politics. Before the war annual long-term capital exports from all nations rose to almost two and a half billion dollars. But between 1924 and 1930 the annual export was only about one and a half billion dollars. And since 1930 foreign investment has been close to a standstill.

Of course undeveloped regions the world over would profit from new investments if made under proper controls, and foreign investing will undoubtedly increase in another boom. But there are indications that it won't regain its former importance. The reasons are two: foreign markets for investments are now relatively unsafe and inhospitable; and a part of the world's capital which was formerly available for export has been virtually locked up at home. These two facts are worth closer attention.

THE EFFECT OF NATIONALISM

The enemies of foreign investment are nationalism and socialism, whatever the brand. One of the aims of the new nationalism which has swept over China, India, Iran and Turkey since the war is to seek financial as well as political independence of the western powers. This means that public works and industry, even in British India, are being financed more and more by *native* capital. If this trend continues, it looks as though foreign investors will eventually be eliminated altogether. In the circumstances, it's scarcely surprising that they aren't much inclined to send any more of their capital to Asia.

THE EFFECT OF SOCIALISM

Socialism is even harder on foreign investors than nationalism, as Soviet Russia and Mexico both go to show. Immediately after the Russian revolution of November 1917, the Bolsheviki took over foreign holdings in Russia and paid little or no compensation to the owners. Similarly Mexico has seized large foreign-owned plantations from time to time and distributed them among the peasants. Recently the Mexican government has also expropriated extensive British- and American-owned oil lands. On the insistence of the United States, Mexico has recently agreed to pay the American landowners, and it is possible that the oil companies will receive some compensation for their losses, too. Nevertheless it's clear that neither Russia nor Mexico accepts the idea that foreign investments are sacred and must not be touched. It's clear, too, that such experiences as they have had in Russia and Mexico aren't likely to encourage investors to sink any more of their funds in those countries. And it's probable that state and national socialism will spread to other countries as time goes on and so will narrow the field for foreign investments still further.

CAPITAL IS NO LONGER FREE TO EXPORT

Furthermore, private capital has recently been less free than it once was to seek foreign markets anyway. This is because more and more of it has been going into government hands in the form of taxes and loans and also because, to meet their mounting expenses, several of the great powers have limited or prohibited the export of capital from their countries altogether. Thus new overseas investments have declined not only because the foreign investor's capital is unsafe abroad but also because it is needed at home.

BUT PAST INVESTMENTS STILL PLAY A PART

In spite of this decline in *new* foreign investments, however, *old* foreign investments continue to have a direct bearing on international relations. For they divide the world into two antagonistic camps. In one camp are the nations which have no income, or very little income, from *past* investments abroad—may in fact be indebted to investors and bondholders in the wealthier nations. In the other camp are the creditor countries, the countries which realize an income from *past* investments in foreign lands. Thus Great Britain, France and the United States have billions of dollars in foreign investments which they made in the days when capital flowed freely over the world. Though less than it once was, the income from these investments remains a large credit item in the international accounts of the nations which made them.

Moreover, this income is an important factor in the present armaments race. For the "have-not" powers, with debts, small stores of gold and very little income from abroad, find it very hard to pay for imports of essential raw materials for their armaments industries. What they can buy depends almost entirely on what they can sell. But Great Britain and France can and do use the income they get from past investments abroad to buy not only raw materials but actual instruments of war manufactured abroad—notably American-made bombing planes. Thus they have a distinct advantage over the totalitarian countries—one, furthermore, which they could continue to exploit in wartime. In fact, as Prime Minister Neville Chamberlain complacently told the House of Commons in December 1938, Britain's financial resources (including her investments abroad) might perfectly well prove to be the deciding factor in another world war.

HIGH FINANCE AND WORLD POLITICS

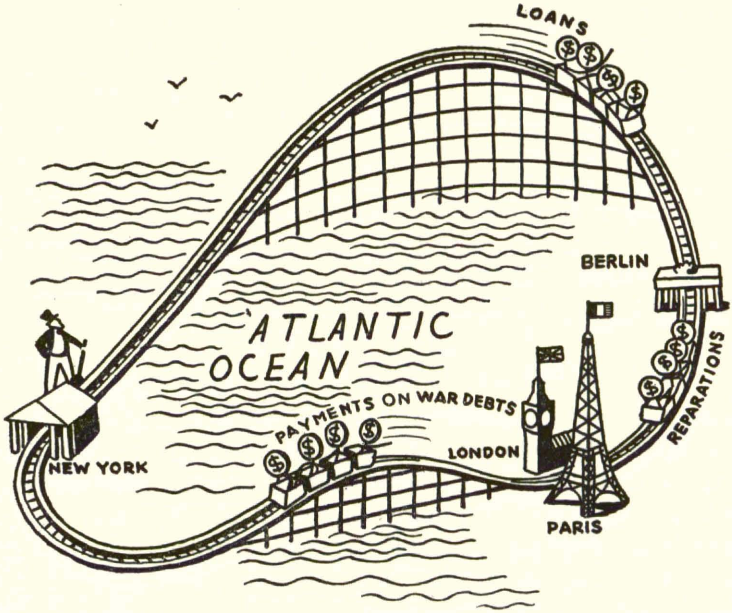
We've seen that foreign investments are less important than they once were, but that they still strengthen the hands of the creditor nations in the great game of power politics. Now let's look at the weapon of finance as it may be used to inflict punishment or to reward friendship. To illustrate the first of these uses–inflicting punishment–we'll take the "reparation" bill the Allies handed Germany at the end of the war. To illustrate the second–rewarding friendship–we'll turn to certain political loans which have influenced Europe's diplomatic alignments in the past twenty years.

INFLICTING PUNISHMENT

The peacemakers at Versailles imposed on Germany terms which were designed to eliminate her as a force in European affairs. Among these terms were provisions for enormous "reparation" payments–compensation for all the damage done in the war. Reparations saddled the Germans with a debt it would have taken them generations to pay off. The initial payment itself went far towards cleaning the young German Republic out of gold. The result was that she could pay the remaining debt of more than one hundred billion marks only by means of exports. But other nations raised emergency tariffs against German goods, and thenceforth reparations could be paid only with the aid of foreign loans.

Thus a curious merry-go-round of high finance enlivened the boom of the late twenties. The United States raised loans for Germany. Out of these loans Germany paid reparations to France and Great Britain. And from the reparation payments France and Great Britain paid us installments on the money they had borrowed from us during the war.

By the Young Plan of 1929 reparation demands were scaled down and a "final settlement" was made in which the German government agreed to continue payments until 1988. With



'Thus a curious merry-go-round of high finance enlivened the boom of the late twenties.'

the depression the whole shaky business of loans, reparations and debt payments collapsed, as many economists had predicted it would. Yet even after she had stopped paying reparations, Germany was left with an impoverished middle class and a huge burden of foreign debts.

REWARDING FRIENDS

Reparations, then, are as good an example as you could find of the way in which nations may use finance as a means of inflicting punishment. But the power of finance could scarcely be used this way except at the end of a war. Financial power may more readily be employed to gain and strengthen friends, as France demonstrated in the years after the war. For while

Germany was paying reparations in the twenties France was building up and financing an elaborate system of military alliances designed to keep defeated Germany in her place.

Before the rise of Hitler, in 1933, France had five allies in Europe: Belgium, Poland, Czechoslovakia, Rumania and Yugoslavia. In order to arm and strengthen these allies, France lent them money, not only through the twenties but well into the depression. Although these loans were profitable to French bankers, investors and armaments makers, the principal reason for making them was clearly political.

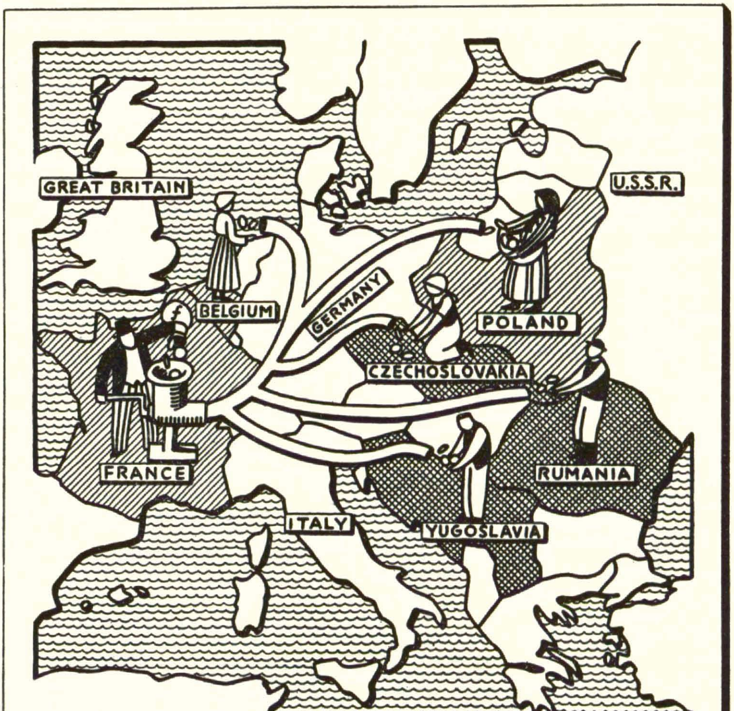
PREVENTING *ANSCHLUSS*

The peace settlement of 1919 was further bolstered for a time by political loans to Austria. These loans were designed to prevent *Anschluss* (union) with Germany. The two German states would have been united in 1919 if the peacemakers had followed Wilson's principle of the self-determination of peoples. But no one at the Peace Conference showed any interest in making Germany larger than she had been before the war, and so Austria was made a separate small state without enough resources inside her borders to live on. When Austria came near economic collapse, in 1922, the League of Nations took over the management of her finances. France and other countries then carried the Austrians through a protracted crisis by means of loans totaling some $125,000,000. But in 1931, when Austria and Germany proposed to form a customs union, France and her allies summarily vetoed the project, and the World Court declared it illegal by an 8-to-7 vote. At the same time the powers granted Austria a new loan in return for a promise to renounce *Anschluss* for another twenty years.

With the rearming of Germany under Hitler, however, the French weapon of finance lost its cutting edge. And when the Nazis seized Austria, in March 1938, France lost her political influence in Vienna altogether.

THE WEAPON OF FINANCE TODAY

Thus the fate of Austria suggests that the weapon of finance is less potent today than marching men and rolling tanks. And so it may be. Nevertheless, foreign loans are still a factor in world politics. Of course, it is not very likely that France or Britain will be able to use loans to influence small states that



'Financial power may more readily be employed to gain or strengthen friends, as France demonstrated in the years after the war.' (Shading shows France and her post-war allies; darker shading the Little Entente states.)

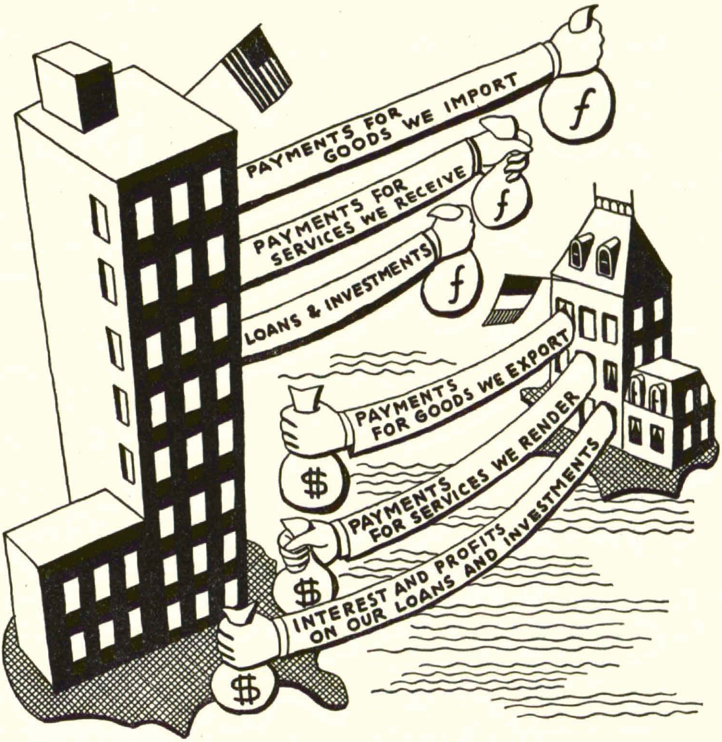
live in the shadow of Nazi Germany's military machine. But small states which are too far away to feel the threat of German arms may still be influenced by foreign loans. In Latin America, for instance, the outcome of the German-American trade war may yet be decided by the United States' superior ability to extend credits and loans. And Franco's Spain may prove to be no puppet of Germany and Italy for the reason that Spain's reconstruction will require foreign financial aid only London and Paris can afford to give.

As a final comment on the power of finance, we ought perhaps to point out that not even military conquests can be turned to economic advantage without large expenditures. We ought perhaps to point out, too, that the three nations which have recently acquired new territory are in no position to finance such expenditures. In other words, thanks to their military adventures, the "have-not" countries are in even greater need of foreign loans today than they were before they made their conquests. But their credit is extremely low with foreign bankers and investors. Therefore their only recourse is "political borrowing." Nazi bonds, for instance, could probably be sold in England if the British government would endorse them. But the British government isn't likely to endorse them unless Berlin agrees to a breathing-spell in the arms race and an end to German expansion. This now seems very unlikely. Yet, sooner or later, Germany's need for a foreign loan may force her to come to terms.

THE CURRENCY HEADACHE

Antagonism between the "haves" and the "have-nots" continues to be our theme as we turn to the subject of *currency* in international relations.

We've already seen that protecting their currencies is one of the chief concerns of the nations today, and that a nation's currency is in no danger if the nation keeps its international accounts balanced. These accounts we call a country's "balance of international payments." Such a balance is nothing more than a statement of all the income a nation receives from abroad and all the payments it makes to foreigners and foreign governments. As the cartoon on this page shows, the income includes the obvious item of payments for exports and the less obvious item of payments for "services rendered," such as



'These accounts we call a country's "balance of international payments." Such a balance is nothing more than a statement of all the income a nation receives from abroad and all the payments it makes to foreigners and foreign governments.'

carrying foreign goods at sea and feeding, housing and transporting tourists. Income also includes interest and profits on foreign loans and investments. All these items are credits in a nation's international accounts. Similarly, every nation has debit items in its balance of payments. These include not only payments for the imports it has taken in but payments for services received from foreigners and the value of capital exported in the form of foreign loans and investments.

THE PROBLEM OF FOREIGN EXCHANGE

Now there is only one essential difference between international accounts and the private accounts we are all familiar with. That difference is the difference between one national currency and another. You can't go into an American store and buy things with pounds, shillings and pence, and English landladies would be astonished to be offered dollars for their rents. So Englishmen visiting the United States must buy dollars, while Americans living in London must buy pounds.

This, of course, is a problem we're only too glad to turn over to the bankers. And they have no trouble solving it, with the cooperation of bankers abroad, if the American demand for pounds is the same as the English demand for dollars. For then the bankers can just agree to swap.

Usually, though, the English demand for dollars is much greater than the American demand for pounds. What happens then? Then London bankers buy dollars in Paris, Amsterdam, Tokyo or anywhere else that dollars can be bought for pounds (or for any other currency the London bankers have to offer).

WHERE GOLD COMES IN

But if the demand for dollars in the world's money markets rose beyond the supply, the price of the dollar would rise relative to the price of the pound or other currencies. And at a certain point in that rise, London bankers would find it cheaper to buy gold with their pounds and ship the gold to New York to square their accounts than it would be for them to buy dollars.

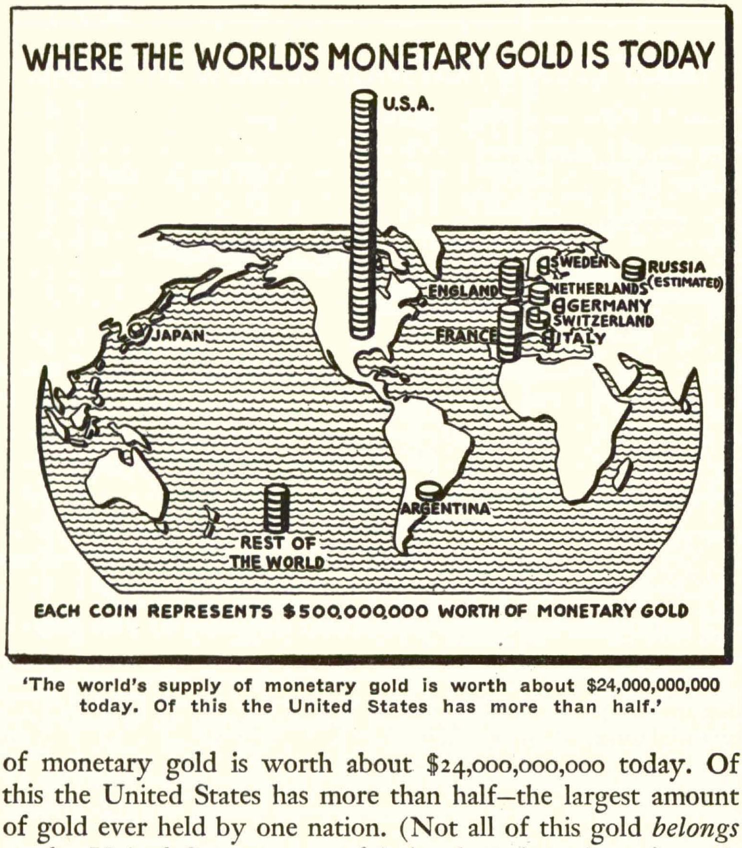
Naturally this is perfectly all right with the American bankers, because gold is the universal medium of exchange on which virtually all currencies are based. But it's obvious that a nation that settled its international accounts by shipping gold year after year would eventually exhaust its gold stores. And this would not only leave it with no base for its money but would make it an international bankrupt.

As a matter of fact, before the war, and for some years after the war, international accounts didn't often have to be balanced by gold shipments. For in those days people, goods and capital moved across national frontiers fairly freely, tariff walls were low and the world market expanding. So it wasn't very hard for most countries to match their imports with exports. If a nation did ever find itself with large debit items its international credits wouldn't cover, it could usually get loans abroad without much trouble and make the balance up that way.

For all these reasons, it was seldom necessary to ship gold to settle international accounts before the war—or even in the early twenties, for that matter. When it *was* necessary, most nations could ship small amounts of gold to cover their deficits without running the risk of losing their whole supply. In other words, nations were then "on the gold standard."

THE GOLD STANDARD GOES, AND WHY

Today most nations have abandoned the gold standard in international relations. They have done so for two reasons. The first is that people, goods and capital no longer move freely enough to keep international accounts more or less automatically balanced. The second is that the available supply of gold is now very unevenly distributed. This is strikingly shown on the map opposite. According to it, the world's supply



'The world's supply of monetary gold is worth about $24,000,000,000 today. Of this the United States has more than half.'

of monetary gold is worth about $24,000,000,000 today. Of this the United States has more than half—the largest amount of gold ever held by one nation. (Not all of this gold *belongs* to the United States—some of it has been sent here for safe keeping. But very little of it belongs to the "have-not" countries.) And a quarter is shared by Britain and France, Britain having about three billion dollars worth and France two and a half billion dollars worth.

Hence, today, less than one-fourth of the world's gold has to serve as the basis for the currency systems of some fifty-odd nations. Partly because of this unequal distribution of gold and partly because of the recent trend away from an open, international economic system, most nations have been forced off the gold standard. That is, they no longer allow their international accounts to be settled by shipments of gold.

WHAT ITS GOING HAS MEANT

But this means that they must maintain a balance between their international credits and their international debits *without* shipping gold. For otherwise their currencies would collapse. So to protect their currencies they increase their credit items by subsidizing exports, encouraging tourists to visit their lands and stimulating their shipping, both freight and passenger. At the same time they cut down their debit items by limiting or prohibiting imports and partially or wholly repudiating past debts. Of course they also set up rigid controls over foreign exchange itself.

Now it is the totalitarian countries which have carried government control of foreign trade and exchange the farthest, and the result, in terms of currency, has been a high degree of stability. During the Sudeten crisis, for instance, most European currencies fell rapidly. But the German mark scarcely trembled. The explanation is to be found in the drastic measures the Nazi government has taken to balance its international accounts as well as in its complete control of foreign exchange. Thus in 1934 the export of marks was prohibited, and in 1936 the export of capital was made punishable by death. As a result, whatever the condition of Germany's economy may be, or however acute the crisis in Europe, there is no "flight from the mark." That is, panicky Germans do *not* try to get their money out of Germany, and thus depress the mark.

By such drastic measures the Reich has maintained the par value of the marks used by foreigners at forty cents. Of course, this means that the mark is out of line with most of the other currencies of the world. But Germany has gained at least one advantage from this fact. (Or, to put it the other way round, in meeting interest and other charges on her foreign debts she has profited by the devaluation of the franc and pound.) For her forty-cent marks pay off a larger part of her debt to France and Great Britain than would an equal number of devalued marks.

THE USES OF DEVALUATION

Unlike Germany, the other great powers have all devalued their currencies, either because their economic situations forced them to or because they sought to gain by devaluation either at home or in trade competition abroad. There are advantages and disadvantages in devaluation. Domestic prices tend to rise. This means that debtors are benefited. For, with prices up, fifty sacks of potatoes, say, will pay off a larger part of a farm mortgage than before. Consequently certain interests and classes will argue for "cheap money," while other interests and classes will denounce it. But, paradoxically, though devaluation usually raises prices at home, it lowers them abroad, at least temporarily. Therefore governments have occasionally decreased the gold content of their currencies in order to enable their citizens to undersell foreign trade competitors abroad.

JAPAN'S EXPERIENCE

A good example of this maneuver is what Japan did early in the thirties. Japan decided upon an intensive invasion of the world's markets in 1931. So she depreciated the yen. In that way she lowered the prices of Japanese goods in foreign markets. For, since pounds, francs and dollars would now buy more yen, they would also buy more Japanese wares. For this and other reasons, although depression was world-wide and international trade at a low ebb, Japanese exports doubled in value between 1931 and 1934.

Japan's advantage was a temporary one, however. For the other nations met her trade aggression by raising their tariffs against the cheapened Japanese goods. Then, too, currencies were generally devalued. The pound, for instance, began falling late in 1931. Since 1934 it has been held at between 55 and 60 per cent of its former value. And, shortly after the pound was devalued, the entire "sterling bloc" followed suit: in other words, most of the nations of the British Commonwealth, the Scandinavian countries and other states in close economic relationship with England devalued their currencies also. In 1934 the United States reduced the gold content of the dollar about 40 per cent. Finally, in 1936 the members of the "gold bloc," consisting of France, Switzerland and the Netherlands, likewise devalued their currencies.

THE CONSEQUENCES

Now though this country-by-country devaluation of currencies brought temporary trade advantages to the nations which resorted to it, by constantly upsetting foreign exchange values it put a new obstacle in the way of international transactions. Between 1930 and 1933, for example, the yen was quoted as low as 30 cents and as high as 50 cents, and it fluctuated widely within single years. Obviously this nervous, jumpy condition of international exchange has made it difficult and risky to do business outside your own country.

THE REMEDIES

Various nations have attempted to solve this problem either by avoiding the use of foreign exchange entirely or by agreeing to maintain their currencies at fixed relations to other currencies.

BARTER

The first of these expedients, dodging the issue by avoiding the use of foreign exchange altogether, has given rise to international barter on a large scale. Goods have been exchanged across national boundaries almost exactly as goods must have been traded in prehistoric times. An example of this sort of thing today is the trade between Germany and Russia.

CURRENCY STABILIZATION

The second solution, that of currency stabilization by international cooperation, was written into the tripartite agreement which the United States, Great Britain and France concluded in the fall of 1936. By that agreement, those three countries pledged themselves not to depreciate their currencies again for trade advantage. Thus they ruled out a "currency war" among themselves. But they also agreed to cooperate to maintain the relations existing between their currencies at the time the agreement was signed. To carry out this part of the agreement each power set up a stabilization or equalization agency which buys and sells foreign exchange as may be necessary to keep the dollar, pound and franc approximately at the agreed relationship. Thus the United States has a stabilization fund of some two billion dollars. This fund is operated in complete secrecy by Treasury officials whose job it is to keep the dollar from rising and the franc and pound from falling.

Unfortunately, recurrent European crises tend to force the dollar up and drive the franc and pound down. Yet during the Sudeten crisis of September 1938 the tripartite agreement undoubtedly kept the franc and pound from falling faster and farther than they did. In general its effect has been to insure a fair degree of stability in the relative values of the three currencies. From the point of view of international economic intercourse this has been a distinct gain, not only for the three powers which made the agreement but also for the whole sterling bloc and the other states whose currencies are kept in constant relation to the dollar.

WIDEN THE RANGE?

Furthermore, the tripartite pact is not an exclusive arrangement but is open to the signature of any government which is interested in widening the range of stable economic relations. Before international exchange can be widely stabilized, however, it will be necessary to build up the gold reserves of the poorer nations and thus relieve them of the necessity of resorting to paralyzing economic controls to protect their currencies. And before these reasonable economic adjustments are possible, the "have-not" powers will have to abandon war and threats of war as their everyday instruments of foreign policy.

So in the present world situation it looks as though currency stabilization on an international basis will have to remain a monopoly of the great democracies and the small states that are closely associated with them in economic matters. So, too, the totalitarian "have-not" powers will have to content themselves with currencies whose stability depends on the crude expedient of barter and on drastic controls and penalties—a sign of political strength, perhaps, but a sign also of economic weakness.

TO SUM UP

We have now dealt with finance under the topics of foreign investment, foreign loans and currency. From our survey it should be clear that there is great inequality of financial resources among the great powers. This means that the United States, Great Britain and France have a decided advantage over the "have-not" countries both in trade warfare in general and in the struggle for raw materials in particular.

But it should also be clear that levelling tendencies have been at work. For, on the one hand, the wealthy nations now derive less advantage from foreign investments and loans than they used to. Thus we no longer hear about Great Britain producing nothing but living comfortably on the proceeds of her foreign investments. Nor does the accumulation of the world's gold in the United States contribute anything to our own national income.

On the other hand, the poorer great powers have thought up ways of keeping their currencies at par without having to ship gold and have discovered that even without gold or foreign exchange they can supply at least part of their needs by barter.

Furthermore, the totalitarian states have made up for their financial weakness to some extent by arming themselves to the teeth, glorifying war as an instrument of national policy and pursuing economic as well as political ends by war and threats of war.

But the "have-not" countries haven't solved their financial problems by their conquests and annexations. In fact, the costs of their political and military victories have reduced their standards of living and driven them step by step nearer the point of bankruptcy.

THE ELEMENTS OF A BARGAIN?

Thus the world is divided into aggressor countries which are in increasing need of foreign financial help and creditor countries which could and probably would pay a large price for genuine assurances of peace. To the casual onlooker, there would appear to be the elements of a bargain in this situation. So it's not beyond the range of possibility that international finance may reappear as a vital factor in world affairs yet.

But no bargain can be struck unless the "have-nots" set limits to their expansionist ambitions. As long as the present trend toward another world war continues, the prospects for financial "appeasement" aren't bright. That is, no great power is likely to come to the financial aid of another great power that seems likely to attack it or precipitate another world war. In fact, the financial resources of the wealthy nations are now being spent on armaments, though they *could* conceivably be used to get an agreement to limit armaments. And, if war should occur, the financial resources of the great democracies would help to determine the outcome.

4. Trade Warfare

The rise of great industrial states was marked, as we have noticed, by intense competition in the world's markets. But before the war new markets were opened by traders, missionaries and marines and world consumption increased rapidly enough to absorb the expanding volume of goods produced by modern technology. The chart on page 43 indicates the upward swing of world trade before the war. Periodic depression and wars interrupted this process, and the World War shifted a large part of production and commerce to destructive purposes. But by the end of the twenties world trade had recovered from the war and the first post-war depression. In fact, aided by foreign loans and investments, trade in 1929 was well *ahead* of the 1913 level. (Notice, however, that the *rate* of increase between 1913 and 1929 was only half the rate of increase between 1900 and 1913.)

THE WORLD MARKET SHRINKS

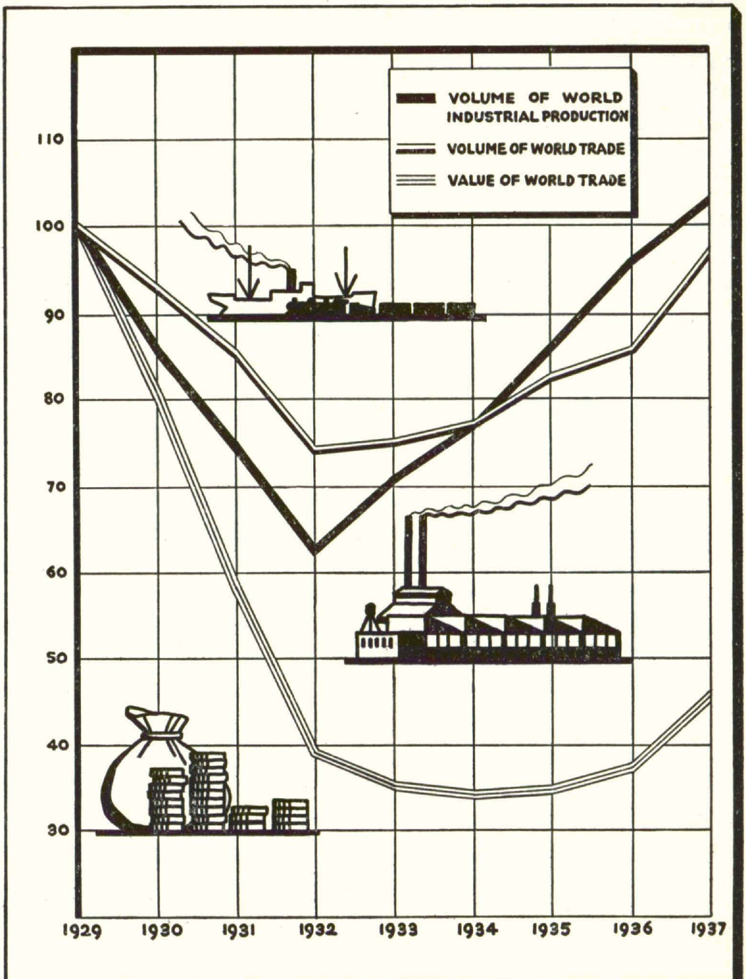
This upward trend was interrupted by the war and was brought to an end by the depression of 1929-33. Purchasing power declined with the slowing down of industry and the coming of hard times; currencies collapsed; and governments employed political measures to give domestic producers a monopoly in their shrunken home markets.

One of the most drastic of these measures was our own Smoot-Hawley Tariff Act, passed in 1930. This act led to a wave of protectionist reprisals abroad. In 1931 even Great Britain abandoned her championship of free trade and encircled the British Isles with tariff walls. In 1932 the whole British Commonwealth of Nations agreed to a scheme of preferential tariffs against foreign imports, while the German Republic raised its customs duties on some commodities as much as one hundred per cent. Since 1933, the year in which Hitler came to power, Nazi Germany has invented new and ingenious devices for controlling imports and keeping out altogether foreign goods which are not considered essential to her new military economy.

Thus the world market was greatly reduced by the depression. And it has failed to open up sufficiently to keep pace with general economic recovery since. Look at the graph on page 41. Industrial production has now recovered from the world depression. In fact it has gone considerably ahead of the 1929 level in almost every country. And, as the following chart shows, during 1937 the *volume* of world trade reached almost the 1929 level—though it slipped back again in 1938. But the *value* of world trade remains at less than half the 1929 figure. (The explanation of this difference between the *volume* and the *value* of international trade lies in the nature of the products now exchanged. Today there is less trade in manufactures and more trade in raw materials and semi-finished materials than there was in 1929. One reason for this is that many nations now limit imports of consumers' goods, such as textiles, in order to import raw materials for their industries, particularly their war industries.)

THE TREND TOWARD *AUTARKIE*

The world market has shrunk since 1930 not only because the nations have *wanted* to meet their needs by their own production, but also because they have been *obliged* to buy less from abroad. For nations that can't export goods can't pay for imports, and the protected world market has consequently forced almost every nation to produce at home some of the things it formerly bought abroad. The Germans have made a virtue of this necessity by exalting the ideal of *Autarkie*, or economic self-sufficiency, and German scientists have been given the task of producing satisfactory substitutes for such imports as cotton, wool and rubber. Italy, too, has increased



'Industrial production has now recovered from the world depression. But the value of world trade remains at less than half the 1929 figure.'

her wheat production enough to feed her people on a reduced diet without imports. She has also experimented with substitute materials. The Italian ambassador to Great Britain is even reported to have worn a suit made of skimmed milk to demonstrate the remarkable qualities of casein!

Now a relatively balanced economy is a possibility for most nations. For, if they have arable land, industrial nations can raise at least part of their own foodstuffs. And agricultural nations don't need to forego the luxury of factories and mills if they can finance and operate them—even, for that matter, if they have to import the necessary raw materials—Italy, for instance. But complete self-sufficiency is a fantastic ambition for any nation. It can be *achieved* only by resort to a medieval economy, and it can be *approached* only at the cost of a lowered standard of living.

THE STRUGGLE GROWS BITTER

So the economic interdependence of the world remains a stubborn fact. And this stubborn fact is the basis of the present war of trade. For to pay for imports the nations need markets for their own goods. And this in turn means competition with other nations producing the same wares. Furthermore, the competition is keenly, even bitterly fought, for the world market is much less friendly to foreign goods than it was in 1913, or even in 1929.

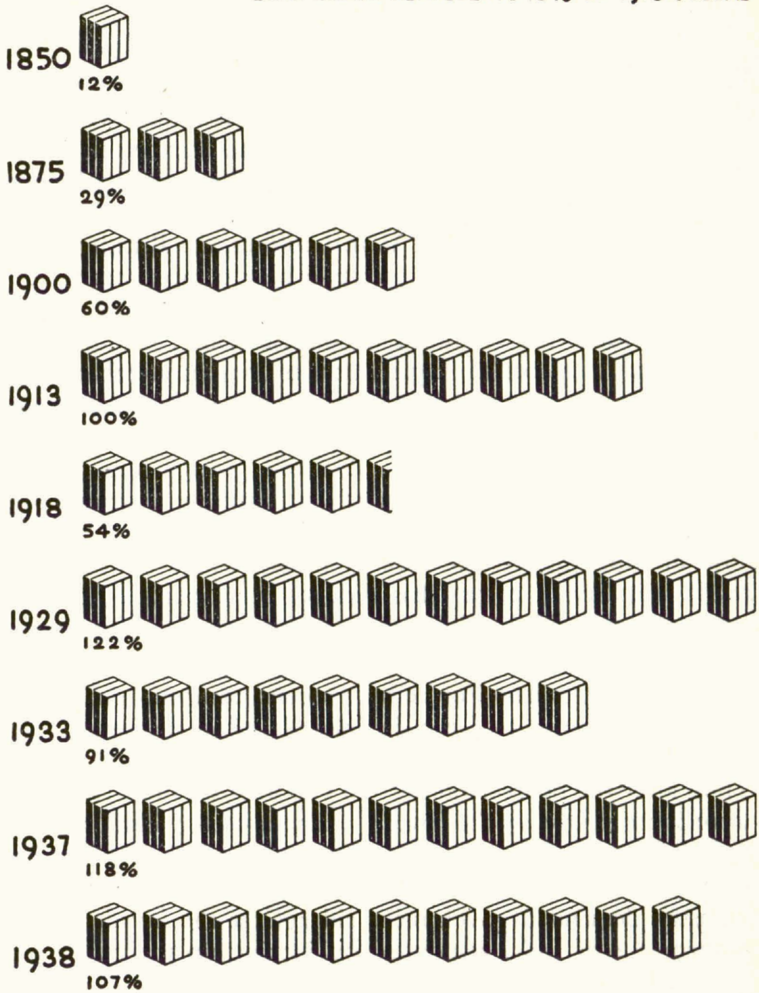
Now that we've seen what forces have produced the trade war which is being waged so actively all over the world today, let's look at it a little closer and learn what it means in action on the battlefront. To do this we can examine the weapons and tactics of three of the belligerents: Japan, Germany and the United States.

JAPAN'S TRADE WAR WITH THE WEST

Since 1931 Japanese trade competition has been felt the world over. But Japan has made particular efforts to capture the

THE RISE AND FALL OF WORLD TRADE

EACH CRATE REPRESENTS 10% OF 1913 VOLUME



markets of Asia by eliminating her western competitors, particularly the British. This she has attempted to do in two ways: by peaceful penetration, as in British India, and by military conquest, as in China.

JAPAN IN INDIA

For a century and a half India was Great Britain's most profitable colonial possession. The reason was that India was a vast and expanding market for British goods and an open field for British business enterprise and investment. Chief among India's imports for a century were the cotton piece goods of famed Lancashire. Since the World War, however, the British textile manufacturers have had to meet two new competitors in the Indian market. The first of these competitors is the native Indian producer. The Indian nationalist leader, Gandhi, has carried on a boycott of English textiles and has attacked "the machine" as an enemy of spiritual values. As a result there has been an increase in India's native handloom production of wearing apparel. But what is of much greater importance, from the point of view of Lancashire, is the rapid growth of modern machine industry within India itself. This industry is now meeting the greater part of India's textile needs. As a result, this British colony has reduced its imports of cotton textiles by two-thirds within the past quarter of a century.

But that isn't the end of the cotton-minded Englishman's worries by any means. For he has a second competitor in India. Within the confines of the diminished Indian market, Great Britain has been challenged and adroitly fought by Japan. Thus, after the depreciation of the yen in 1931, Indian bazaars were increasingly stocked with Japanese cotton cloth priced well below the English cloth. Alarmed, both British textile interests and the influential Indian Chambers of Commerce and Industry demanded government aid against the invader. The government of India responded by jacking up the tariffs on non-British textiles. But this expedient failed to check the Japanese advance, and so a prohibitive tariff was demanded.

KING COTTON SPEAKS

At this point Japan brandished a new weapon: by threatening to cut off her substantial imports of India's raw cotton, she forced the government of India to come to terms. Rather than lose the Japanese market for her raw cotton India agreed in 1934 not to raise her tariffs against Japanese textiles again. At the same time the two governments set a fixed ratio between India's imports of Japanese cloth and Japan's imports of Indian raw cotton. As a result of this bargain, Japan was able to continue her trade war with Britain as long as she continued to buy her raw cotton in India. The present war in China has forced Japan to concentrate on producing war materials at the expense of textiles. Yet during the first half of 1938 it was Japan, not Britain, which was at the top of the list of nations supplying India with textiles.

It's clear, then, that Japan's peaceful penetration of India has been a success. And the British textile interests seem to be on the run. But, thanks to India's new nationalism and her economic development, neither British nor Japanese trade is going to have a very brilliant future there. For the growth of India's own textile industry is gradually reducing her dependence on textile imports from *any* country. In fact it's possible that Indian bazaar merchants will some day be selling no cloth that isn't stamped "Made in India."

JAPAN IN CHINA

Just as Japan's trade prospects in India are limited by Indian nationalism, so in China before the outbreak of the present war Japan's trade prospects were limited both by western competition and by the rise of Chinese nationalism. Indeed, this fact is a clue to the cause of the present Far Eastern war. For Japan is really waging *two* undeclared wars in China. One of these wars aims to destroy the Chinese nationalists, who have carried on boycotts of Japanese merchandise and who march under the banner of "China for the Chinese." The other war aims to eliminate western competitors, who have operated in China under the principle of the "Open Door."

The "Open Door" principle means simply that China shall remain a sovereign state open to the trade and investments of all nations on equal terms. This principle the powers have from time to time approved. But Japan's conquests have greatly reduced the territory under Chinese sovereignty. Furthermore, it is now evident that Chinese territory that falls under Japanese rule is likely to be reserved largely for the trade of its master. For Japan has systematically eliminated foreign competition in her puppet state, Manchoukuo, and foreign traders are now being squeezed out of her newly acquired territory in North and Central China also. In short, Japan's aim seems to be to create a great regional economy in eastern Asia under the acknowledged and exclusive domination of herself.

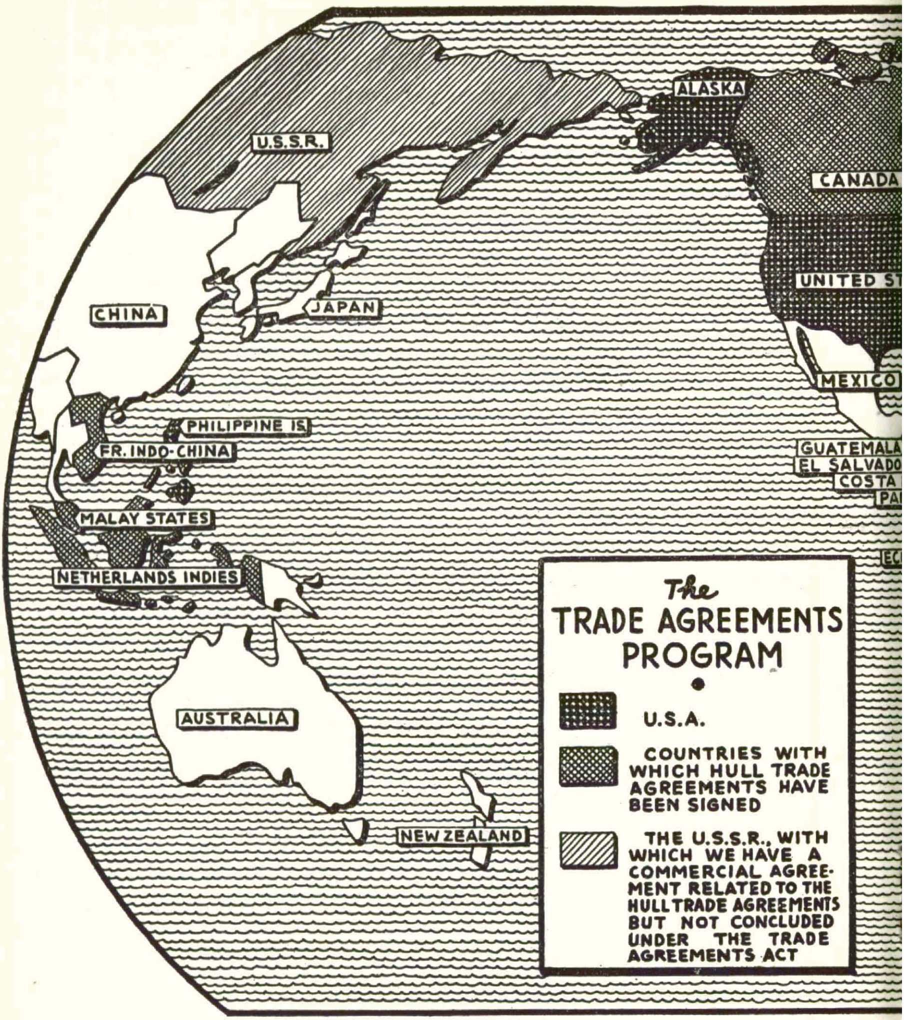
Now the economic union of China, Manchoukuo and Japan could conceivably go a long way toward improving Oriental living standards. But Japan's choice of war as the means of bringing such a union about suggests that her policy is not controlled by her solicitude for the well-being of the Chinese people. Japan's aim seems to be, rather, to increase the resources at her command in order to be able to play the game of power politics on equal terms with the strongest western nations. Whether she can reach this goal will depend not only on whether or not she wins the war but also on whether or not she succeeds in solving the grave economic problems the war has raised for her.

BUT WHAT HAS SHE GAINED?

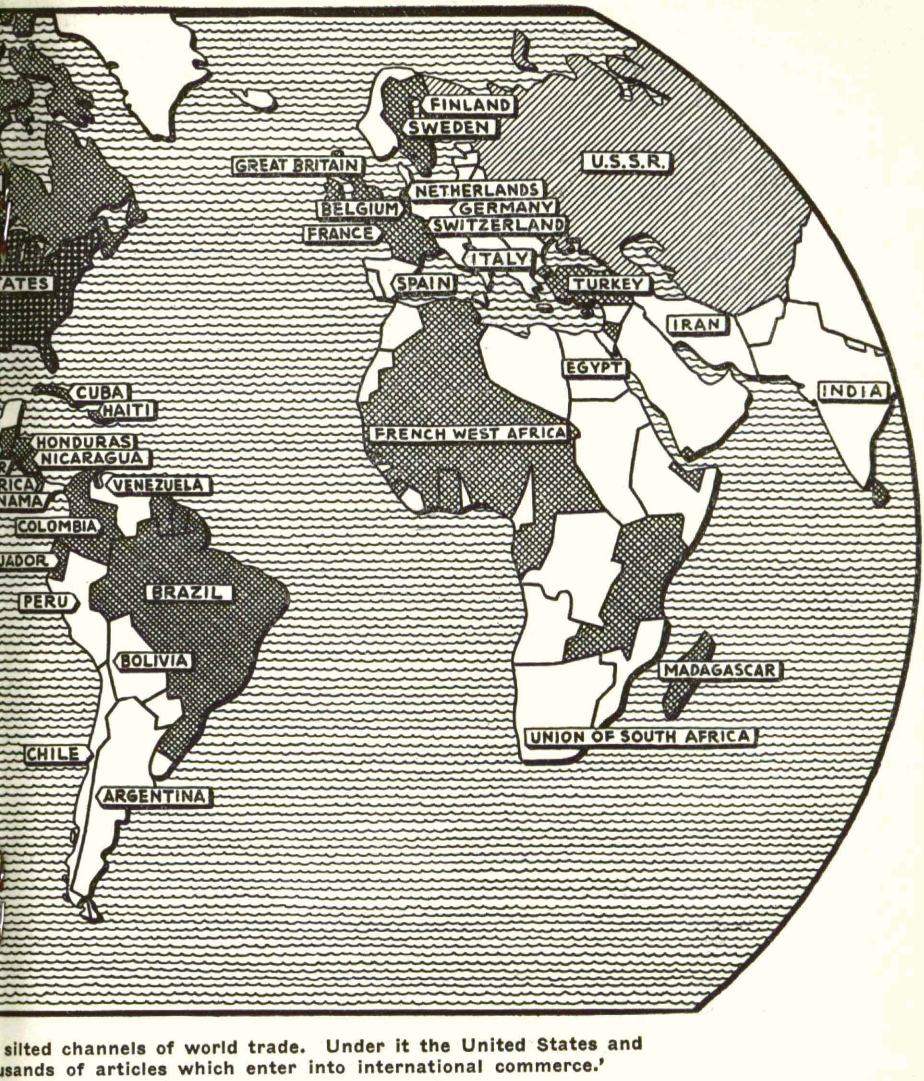
While we're on this subject, there are two things we might say about this war of Japan's, both of them very much to the point. First, the conflict has cost the Japanese nation a considerable part of its wealth and an increasing proportion of its income. Here is one minor item in the cost: Japan has had to speed up her heavy industries in order to meet the demands of her war machine. To do this, she has had to import so much iron and oil that she hasn't been able to keep up her imports of raw cotton for her textile industry. So her production of cotton textiles has fallen off, and this in turn has cut down her exports of cotton cloth and has thus made it difficult for her to pay for the iron and oil she has had to import. The result has been that Japan has had to ship abroad more than half her small gold stores. For she hasn't had any other way of keeping her international accounts balanced.

The second thing to be said here about Japan's war is that eighteen months of it have worked havoc with China's cities, factories and railways and have created a reconstruction problem which must be solved before Japan can begin to exploit her conquests. But Japan hasn't enough financial resources, raw materials or machinery to undertake the reconstruction job herself. And the nations that are in a position to help her are fundamentally opposed to her policies and aims in China. Thus Great Britain and the United States have protested vigorously against the slamming of the "Open Door." At the end of 1938 they began belatedly contributing to China's resistance by extending trade credits to the government of Chiang Kai-shek.

The conclusion to be drawn from this seems to be that while bombing a market may eliminate foreign competitors, it involves so much economic waste that it is likely to impoverish the bomber as well as the bombed. Quite apart from any humanitarian considerations, therefore, this is a trade practice we can't recommend. In fact it's possible that "have-not" countries that resort to war will remain "have-not" countries. For what they gain in territory, trade monopolies and raw materials



'The Hull trade program is a notable attempt to dredge the
nineteen other nations have lowered their tariffs on tho



silted channels of world trade. Under it the United States and
usands of articles which enter into international commerce.'

will probably not cover the costs of war and reconstruction. Besides, conquered peoples don't always stay conquered. In the past the Chinese have even been known to absorb their conquerors and put them to work!

NAZI MARKETING METHODS

So much for Japan's part in the current trade war. Now comes Germany.

As we have already said, Nazi Germany's policy of *Autarkie* has not made her independent of foreign trade by any means. So, to pay for essential imports of raw materials and food, Germany must export. As Hitler has said with great emphasis, she must "export or die." But the Reich's export trade has been confronted by three major obstacles. In the first place, the Nazis' persecution of the Jews and Hitler's aggressions have shocked foreign opinion and have led to determined efforts to boycott German goods. Second, with the mark kept at 40 cents, German goods are costly in terms of devalued foreign currencies. Third, foreign markets are well protected by tariff walls, and some nations, notably the United States, collect higher customs duties on German goods than they do on other foreign goods.

GERMANY'S COUNTER-MOVES

Here are some of the things Germany has done to remove or get around these obstacles: she has attempted to check the boycott by calling it a hostile act and thus obliging small states under her influence and great powers seeking her friendship to discourage or even forbid it. Also, by treating German Jews as hostages, she has sought to weaken boycott movements in still other countries.

EXPORT SUBSIDIES

In order to meet the trade competition of devalued currencies, Germany has liberally subsidized her exports. That is, she has actually paid her manufacturers part of the cost of production of their export goods in order to bring the prices of the exports down to or even below the prices asked by foreign competitors. To finance this policy, each branch of German industry is obliged to take part of the proceeds of its sales inside Germany and contribute it to the subsidy fund, which is administered by the Ministry of Economics. In this way it is estimated that about one billion marks have been made available each year to enable German exporters to outbid and undersell their competitors abroad. In addition, the German government itself now contributes about half a billion marks a year for the same purpose. So it's not surprising that Germany's export subsidy has been the subject of indignation and protest among the Nazis' commercial rivals.

BARTER AGREEMENTS

Finally, in order to crash foreign tariff barriers, Germany carries on the greater part of her trade through barter agreements. But she generally streamlines the barter principle in two ways. She may pay for imports by depositing marks to the credit of the importing countries in "clearing accounts" in Berlin. The importing countries can then "clear the accounts" only by buying German goods. Or Germans may pay for imports with "ASKI" marks. These marks are worthless outside the Reich and so must be spent for German goods or services if they are to be spent at all.

By purchasing foreign foodstuffs and raw materials through clearing agreements or with ASKI marks, Germany virtually forces other countries to buy German goods *in spite of* their tariff walls. She also forces them to buy German goods even if they could buy more cheaply from some other producer. The use of clearing accounts and ASKI marks therefore has the effect of eliminating foreign competitors in foreign markets. The extent to which Germany has traded through direct barter, clearing agreements and ASKI marks is indicated by the fact that during 1937 only 15 per cent of her imports were paid for in free, or "negotiable," currency. This record was not matched in 1938, however, for in that year Germany bought large quantities of war materials which she couldn't get by the barter method and for which she accordingly had to pay cash.

THE NAZI TRADE DRIVE IN THE BALKANS

These trade practices of Germany's have been employed with particular emphasis along the route of the famed Berlin-to-Bagdad railway of pre-war days. Nazi Germany began her recent trade campaign in the Balkans with large purchases of agricultural products and raw materials. These goods she bought at handsome prices, thus creating goodwill and to a great extent eliminating foreign buyers. She then solved the problem of how to pay for the goods by depositing the amounts due in clearing accounts in Berlin. As these accounts could be used only in Germany, they forced the Balkan nations to restrict imports from other countries in order to use up their accumulating credits in Berlin. As a result the economy of southeastern Europe, from Hungary to Turkey, was to a considerable degree joined with that of the Third Reich.

This German trade drive may have deprived the Balkan states of foreign currency and prevented them from buying wherever the buying was good. But it has brought a certain amount of prosperity to the principal industry of the Balkans, namely agriculture. For Germany has actually bought Balkan farm products on a large scale, and that is something that no other great power has been able to do. On the other hand, the trade advance has gone hand in hand with Nazi encouragement of Balkan fascist movements and diplomatic attempts to line up southeastern Europe with the German-Italian partnership, the so-called Rome-Berlin axis. Hungary has already yielded to Berlin's pressure and become a member of the axis. But the Balkan states have drawn closer together in the face of Germany's political advance. Yet without the support of the other great powers they can scarcely hope to withstand German diplomatic pressure indefinitely. For behind the pressure is the mighty German war machine.

TRADE WAR?

On the other hand, Great Britain has signified her intention of challenging the advance of German trade in the Balkans. In December 1938 the British government dramatically marked southeastern Europe as a commercial battleground, and British officials declared they would fight the Germans to a finish with their own trade weapons. Parliament enthusiastically voted a "war fund" and the newspapers drummed up support for export subsidies and trade credits.

So there is the prospect of a trade war in the Balkans. In such a war, German diplomacy would have superior military backing, British diplomacy would have superior financial backing. But Great Britain would be at a disadvantage just the same. For though, like Germany, she imports foodstuffs such as are produced in the Balkans, she can't open her markets to Balkan products without cutting down her purchases of the agricultural staples which are produced in the British Commonwealth of Nations. Hence, to a certain extent, at least, she must choose between being a dominant power in Europe and holding the loyalty of her self-governing Dominions.

Furthermore, certain of the Balkan states may refuse to ally themselves with Britain in this trade war for fear of Nazi reprisals. Thus, immediately after Hitler's absorption of Czecho-Slovakia in March 1939, Rumania made Germany new trade concessions in the hope that these would permit her to remain outside the growing Third Reich and keep a certain amount of independence.

BUT THE PROBLEM REMAINS

Whatever the eventual results of the trade war in the Balkans may be, Germany has so far established herself as the dominant economic power there. But that fact hasn't solved her own economic problems. For the Balkans produce little cotton, wool, iron, manganese and mercury and no rubber, tin or tungsten at all. Consequently Nazi Germany can't withdraw from the world economy by exploiting the Balkans. True, a regional economy embracing Germany, the whole of Central Europe *and* the Russian Ukraine *would* approach self-sufficiency. For this reason the Nazis are generally thought to have marked the Ukraine for conquest. But so far the Reich has been compelled to buy heavily in the world market. And here the ASKI mark and direct barter have proved less acceptable than in the Balkans. Germany has therefore had to buy from nations that have not bought from her to the same extent. The result is that she can't be sure of balancing imports with exports. In 1938, for instance, her trade deficit actually amounted to more than 400,000,000 marks. This deficit she met by paying out the foreign exchange she found in Vienna at the time she annexed Austria. And future deficits she will apparently be able to cover for a year or two with the gold and foreign exchange she got when she occupied Czecho-Slovakia. But what she will use to meet similar deficits after these resources are exhausted is an open question. Yet she is likely to go on having trade deficits as long as she persists in arming to the teeth and using the threat of her arms to gain bloodless military victories.

THE HULL TRADE PROGRAM

With Japan forcing her wares on the world market and closing the Chinese market outright by conquest, and with Germany using export subsidies and barter to capture markets not only in Europe but in Latin America, the United States can scarcely afford to remain a disinterested neutral in the struggle. Yet in several respects her trade-war aims are unlike those of the two nations we have just considered. In the first place, the United States has all she needs of most of the raw materials essential to modern industry and therefore doesn't need to export in order to be able to pay for large imports of these materials. This is true of her present peacetime economy and would be true also in wartime. In the second place, the United States is a creditor nation, with income from foreign investments and loans. Barring extraordinary debit items, such as unusually heavy tourist expenditures abroad, she could therefore balance her international accounts even though her imports were greater than her exports. Finally, the United States has more than half of the world's gold supply: she could therefore ship gold abroad if her accounts couldn't be balanced any other way.

ITS AIMS

Now the aim of our present trade program is, primarily, to open foreign markets to American goods. For an important part of our economy depends upon exports for its prosperity and even for its existence. This is true of such agricultural interests as cotton, tobacco and wheat. It is true also of those of our industries which are capable of producing far beyond the purchasing power of the American people. In order to open foreign markets to our surplus products, Congress in 1934 gave the Executive special powers to negotiate reciprocal trade treaties. In return for foreign tariff reductions on the goods we export, the President and State Department were authorized to reduce our own tariffs on specified articles by as much as 50 per cent. This they have done step by step as each new trade treaty has lowered tariff barriers both at home and abroad.

Thus the Hull trade program takes account of the elementary fact that we can't sell goods abroad unless we buy goods abroad. It therefore marks a reversal of the strong protectionist trend which culminated in the Smoot-Hawley tariff of 1930. Consequently it has been roundly condemned by the protectionists, and American interests which fear the competition of foreign imports have attempted to restrict the Executive's power to lower tariffs by demanding that each new trade treaty be submitted to the Senate for ratification. On the other hand, the producers of export goods, shippers and international traders and bankers have warmly approved the Hull program.

THE PROGRAM GETS RESULTS

Whatever the merits of this controversy, the Hull trade treaties have apparently served their purpose of contributing to a revival of our foreign trade. Thus in 1929 the United States accounted for about 14 per cent of the world's total international trade. But following the Smoot-Hawley Tariff Act of 1930 and the reprisals which foreign governments took against it, our share dropped to about 9.5 per cent. Since 1934, however, the United States has regained some of the ground it lost. In 1937 its share of world trade was 11.8 per cent. The chart on page 6 shows the rise of our foreign trade since 1934 in terms of dollars. Between 1934 and 1937 our exports increased 55 per cent and our imports 65 per cent.

Of course, this rise can't be attributed *solely* to the reciprocal trade program. And there was in fact a drop in our foreign trade—as in world trade as a whole—during 1938. But supporters of the program point to a fact which seems to justify the trade treaties as a means of stimulating exports. This fact is that during the fiscal year 1937-38 our exports to agreement countries were 66 per cent higher than in the years before the program went into effect, while our exports to non-agreement countries were only 47 per cent higher.

But we are interested in the Hull trade program not only as an aid to American exports (and thereby our economic recovery) but also as a solution to the general problem of world trade. As we have seen, Germany's trade agreements are two-way bargains which limit trade to rigid channels and confer no advantages on third parties. The Hull treaties, on the other hand, follow the traditional American practice of extending to all nations that don't discriminate against us in their trade practices whatever concessions are made to any one nation. Because of her discriminatory trade practices, Germany is on our "blacklist," and her exporters are therefore denied the benefit of the tariff reductions agreed to in the Hull treaties. But exporters of all other nations are accorded equal treatment in our customs offices, whether or not their governments have signed trade agreements with us.

. . . AND HAS POLITICAL SIGNIFICANCE

In short, the Hull trade program is a notable attempt to dredge the silted channels of world trade. Under it the United States and nineteen other nations have lowered their tariffs on thousands of articles which enter into international commerce. These nations include the great powers France and Great Britain. They do *not* include any of the totalitarian countries. (See the map at the center of the book.)

Thus through the Hull trade agreements, as well as through the tripartite currency pact, the United States, France and Britain are in fact linked in an informal understanding which seeks to revive international economic intercourse. This understanding challenges the world trend toward closed national economies in general and the paralyzing controls and weapons of the totalitarian régimes in particular.

BATTLE IN BRAZIL

Important though it is, the Hull trade program is not the only weapon in the economic armory of the United States. Our other trade weapons we may examine by turning to the commercial battlefield of Brazil. There the United States and Germany are now engaged in a determined struggle for trade supremacy. Throughout the greater part of the nineteenth century Great Britain ranked first in Brazil's foreign trade. During the World War, however, the United States drew ahead of Britain. And recently Nazi Germany has drawn ahead of us.

Germany's methods in Brazil are similar to those she employs in the Balkans. By export subsidies and the use of ASKI marks, Germany has increased her sale of manufactures in Brazil and has obtained a supply of cotton, coffee and frozen meats, as well as of minerals and other materials essential to German industry. By this barter arrangement, Brazil secured a market for her goods. But for these goods she received no currency she could use to meet payments on her foreign debts, and she couldn't buy in Germany the raw materials she needed for her own industries. For these reasons Brazil has broken off trade relations with the Nazis several times. Each time, however, Berlin has been able to force Brazil to resume trade relations by threatening to close the German market to Brazilian products altogether. Thus German trade with Brazil has continued on a precarious footing. Nevertheless German sales rose from 9 per cent of Brazil's total imports in 1932 to 23.5 per cent in 1936 and remained at approximately that level during 1937.

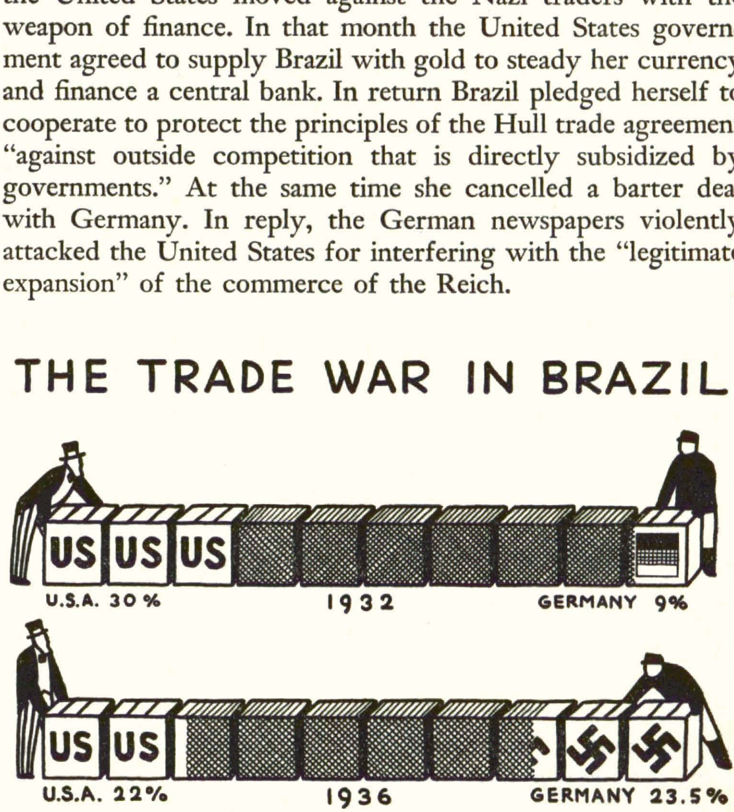
Germany's remarkable trade success in Brazil undoubtedly contributed to the fall in our sales there. In 1932 those sales amounted to 30 per cent of Brazil's total imports, while in 1936 they had fallen to 22 per cent (chart, page 59).

WE GO INTO ACTION

Now let's see what the United States has done to meet this German challenge. On January 1, 1936, the Hull trade agreement with Brazil went into effect. In it the United States agreed to keep most of Brazil's products on the free list and to cut her duties on Brazil nuts, castor beans and manganese in half. Brazil reciprocated by lowering her tariffs on a number of American products, including automobiles, certain machines, canned fruits and cereals.

This was encouraging to American exporters, but it wasn't enough to offset the advantage their German competitors were getting from the Reich's export subsidies. So in August 1937 the United States moved against the Nazi traders with the weapon of finance. In that month the United States government agreed to supply Brazil with gold to steady her currency and finance a central bank. In return Brazil pledged herself to cooperate to protect the principles of the Hull trade agreement "against outside competition that is directly subsidized by governments." At the same time she cancelled a barter deal with Germany. In reply, the German newspapers violently attacked the United States for interfering with the "legitimate expansion" of the commerce of the Reich.

THE TRADE WAR IN BRAZIL



EACH CRATE REPRESENTS 10% OF BRAZIL'S IMPORTS (BY VALUE)

Finally the United States government prepared to throw its Export-Import Bank into the fight. This official bank was set up to lend money to foreign buyers who are not necessarily in a position to borrow from private sources. In the summer of 1938 the president of the bank spent several weeks in Brazil, and early in 1939 Brazil's Foreign Minister came to the United States to work out an agreement designed to increase trade between Brazil and the United States. As reported in March 1939, the terms of this agreement included a loan of $50,000,000 worth of gold to Brazil, a short term credit of nearly $20,000,000 to make it possible for Brazil to relax her control over foreign exchange, and long term credits to finance Brazilian purchases of railroad equipment and other materials in the United States. By concluding this agreement our government has enabled Brazil to resume the interest payments on previous loans and has also opened up the prospect of a considerable increase in trade between the two countries.

NECK AND NECK

When this book went to press, the German-American trade war in Brazil was a very close affair. But there were reasons to believe that the odds favored the United States. True, Germany's trade strategy contains a sharp element of compulsion, and Brazil may continue to yield to it. Certainly Germany's threat of putting an embargo on Brazilian products should be enough to keep the Brazilian market open to German manufactured goods. But this economic weapon is not as powerful in Brazil as it is in Central Europe, where Nazi military force is at hand to back it up. Furthermore, the United States is basically in a stronger position than Germany on the Brazilian battleground. The reasons for this are three: the United States is Brazil's best market; the United States has for sale what Brazil needs; and the United States can help Brazil financially.

TAKE YOUR CHOICE

To sum up our discussion of trade warfare, we can say that there are various ways of buying and selling across national frontiers. These various trade practices fall under two opposing banners. The first is the banner of economic nationalism, exemplified in its extreme form by Nazi Germany. The second is the banner of world economy, exemplified, as yet but tentatively, by the United States. Germany's trade strategy seeks to obtain essential supplies and open foreign markets through two-way, or "bilateral," trade agreements. The result is an exchange of goods which is undoubtedly better than no trade at all. But Germany practically obliges the small nations she buys from to buy from her; thus she dries up their trade in the world market. But both Germany and the states she makes exclusive agreements with might do better by shopping around. This is in fact the chief argument for an open, world economy. In contrast with the German policy, the Hull reciprocal trade program extends the scope of world economy by lowering tariff walls generally.

If we were going to judge these two programs from the point of view of national standards of living, we'd probably choose the second. But questions of public policy aren't always decided by the yardstick of human living conditions. For in some states the national interest is identified with military power, while in others it is identified with the prosperity of certain classes or interests without regard for the well-being of the whole nation. Moreover, some degree of economic nationalism and economic planning may be justified even in terms of the general welfare, for it may protect a nation from the effects of sudden shifts in the economic policies of other nations, and to some extent it may even cushion the shock of a general paralysis of world trade, such as might be caused by depression or by war.

For all these reasons the world appears destined to live some years longer under the shadow of economic nationalism. Yet the Hull treaties show that world trade can be partly freed even in an age of economic nationalism. In fact, for states not yet committed to the uneconomic ideals of barter and *Autarkie*, the present trade program of the United States offers at least a partial escape from the straight-laced commerce of blocked currencies and the belt-tightening of self-sufficiency.

5. Maneuvering for Essential Supplies

So far we've been discussing the great powers' competition for foreign markets. But economic warfare isn't only a matter of selling goods abroad. It is also a matter of securing essential supplies abroad. All the great powers are more or less dependent on imports of raw materials for their industries. And for some of them the search for raw materials has become a major problem of foreign policy. In this chapter we shall examine the raw materials problem, see what the nations have done to solve it and observe how it affects world economic tensions.

WHAT ARE ESSENTIAL SUPPLIES?

What are these raw materials that the nations must have? Listed in the order of their industrial importance, the indispensable minerals begin with the energy producers, coal and oil. Without these fuels a nation's work would have to be done by men and mules, windmills and waterwheels. Next in importance comes iron, the basic metal of the machine age; then copper, lead, zinc and aluminum; the precious metals, particularly gold; and the so-called ferro-alloys (metals commonly alloyed with iron to make steel and other materials), such as chromite, manganese and nickel.

As you know, the distribution of these minerals in the earth's surface is exceedingly uneven. North America and Europe together acount for almost two-thirds of the world's production—three-fourths if Russia is added. But Asia, excluding Russia, produces less than 10 per cent of the world total, Africa less than 7 per cent, and South America only about 5 per cent.

WHO HAS THEM?

This uneven distribution is reflected in the relative standing of the nations as measured by their production of minerals. Since we are concerned here with the industrially important minerals, we shall borrow the method of rating the powers devised by Professor Edward Sampson of Princeton. This method takes account not only of each nation's total output of minerals but also of the industrial importance of the minerals it produces. It does not, however, take into account either population or mineral *reserves*. With these points in mind, let's have a look at the table on page 65.

By Professor Sampson's reckoning, the United States is at the head of the list, with 29 per cent of the total world score. Second is the British Commonwealth of Nations, with nearly 21.6 per cent. (This rating should not be confused with that of the United Kingdom, which is far down on the list, because a considerable part of the production of the British Commonwealth is controlled not by Britain but by the self-governing Dominions.) Third on the list is the Union of Soviet Socialist Republics, with just over 9.2 per cent (a rating that may be much higher in time, incidentally, since Russia has great mineral reserves which she hasn't yet exploited). Greater Germany scores 8.8 per cent; France and her possessions, 6 per cent; France alone, 4.7 per cent; the United Kingdom, 4.5 per cent; Japan with Korea and Manchoukuo, 2.9 per cent; and Italy, 1.5 per cent.

These figures show clearly that when it comes to measuring them up according to the quantity and importance of the industrial raw materials they produce, the so-called "great powers" are not all great by any means. In fact, there's about as wide a difference between them as there well could be. Now you might suppose that this problem could be solved by international trade. Before the World War that was the way it was solved. Italy, for example, was and is a poor country, with almost none of the raw materials which are essential for modern industry, such as coal, oil, iron and copper. Yet before the war she set up light and heavy industries by buying machinery and raw materials from more favored nations and paying for them with exports of agricultural products, the money her emigrants sent back home and foreign loans.

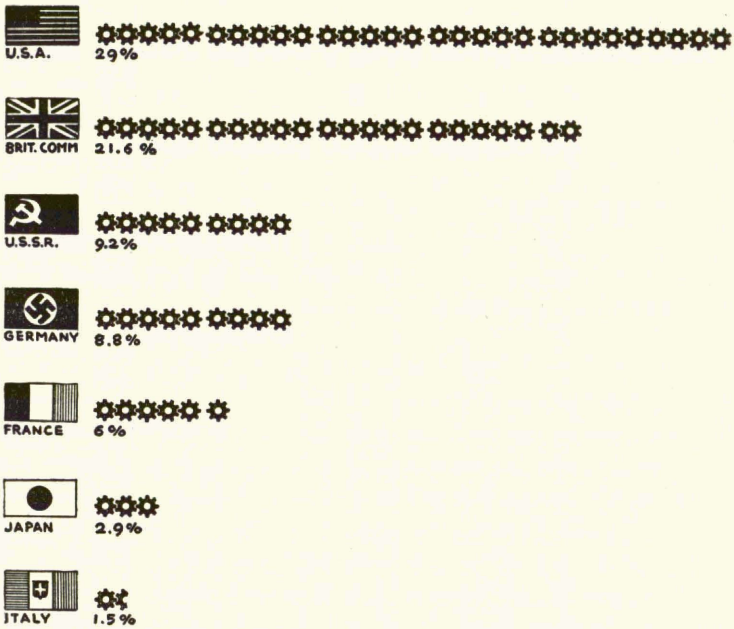
WHY THE PROBLEM?

Unfortunately, there are certain difficulties in the way of such a peaceful and sensible solution of the problem of raw materials today. One is that the "have-not" nations are obliged to buy certain of their mineral supplies from international cartels which control output and prices. (An international cartel is a combination of various large producers of a single commodity or material. Because of its complete or partial monopoly, it is able to restrict production, fix prices and divide the world market among its members. The result is that certain raw materials are available only at unreasonably high prices.)

A second difficulty is the old problem of payment. As we have seen, nations for the most part can buy only by selling. And they can sell only to the extent that they succeed in the trade war we considered in the last chapter. Therefore, since some countries are bound to be beaten in that trade war, some countries are also bound not to be able to buy all the imports they need.

Finally, the progress of industrialization and the present armaments race have increased the great powers' dependence on certain raw materials. Since 1900 the great powers have consumed ever increasing amounts of oil, iron, copper and manganese for ordinary industrial purposes. And recently they

HOW THE GREAT POWERS RANK IN TERMS OF MINERAL WEALTH



EACH SYMBOL REPRESENTS 1% OF TOTAL WORLD SCORE

have had to procure still larger quantities of these raw materials in order to be able to produce the armaments and munitions they are all piling up.

But that isn't all. They also have to look ahead to the problem of how they will obtain supplies of these essential raw materials in case of war. For in wartime customary sources may be cut off by blockade or captured by the enemy. The governments of Europe recall the devastating effect the British blockade and Germany's submarine warfare had in the last war, and their strategists can't guarantee that, if there is another world war, it will be a *Blitzkrieg*, or lightning war, either. In fact, it's more than likely that, after the first swift air attacks, another general war would turn out to be, like the last, a long, slow process of each side trying to starve the other out and deprive it of the raw materials it would need to carry on. Therefore the great powers must face the problem of obtaining foodstuffs and raw materials not only for their immediate needs but also for a future war of unknown duration.

WHAT IS THE ANSWER?

We have now made the problem of raw materials sufficiently difficult to raise the doubt that there can be any solution of it. There are, however, several partial solutions.

INCREASE PRODUCTION, INVENT SUBSTITUTES

The first is the obvious one of increasing home production to the limit set by nature and then getting ahead of nature by producing synthetic materials. Soviet Russia, for instance, has more than doubled her production of essential industrial raw materials since 1929 and hasn't yet come anywhere near her maximum potential output. Germany, on the other hand, has been exploiting her mineral resources for centuries, and her hope now lies in finding ways to use inferior ores and performing miracles in the laboratory. Miracles already performed include a substitute for rubber (*Buna*), made of chalk and coal products, artificial nitrates and synthetic gasoline. Since these substitutes are made from materials found in Germany, their invention has made the Nazis less dependent on imports. But so far no satisfactory substitutes have been invented for most of the minerals required by modern industry.

STOCK-PILING

A second partial solution of the raw materials problem is directly related to war. It is to buy the materials that can't be found at home and store them up for use during a blockade or other emergency. This practice is called stock-piling. Employing it, Japan prepared for her war in China by laying in large stocks of scrap iron. Germany, too, has laid in supplies of foodstuffs and raw materials.

Stock-piling, however, is difficult to carry out, because the frenzied preparations for war use up exactly the stocks that should be stored. Furthermore, stock-piling is costly, and the countries most in need of raw materials from abroad are those which are least able to buy beyond their immediate requirements. For while it has been estimated that it would cost the United States only about $100,000,000 to buy a two-year supply of the essential materials she lacks and couldn't produce synthetically, the other great powers, excluding the U.S.S.R., would have to lay in infinitely larger and more varied stocks. So it's not surprising that the nations aren't indulging in stock-piling to any great extent at the present time.

OTHER MEASURES

Besides stepping up home production and resorting in some slight degree to stock-piling, the great powers have made other moves to prepare themselves for a general war. Many of these moves constitute partial solutions of the raw materials problem. Thus Great Britain has enlarged her navy to insure uninterrupted communication with her usual overseas sources of supply in case of war. France has kept a naval lead over Italy in the Mediterranean in order to make sure that, if war breaks out, the lines which link her with her empire in Asia and Africa won't be broken; for she counts not only on the manpower of her colonies in case of war but also on her empire's considerable mineral resources. Italy is making a systematic search for raw materials in Ethiopia and has helped Generalissimo Francisco Franco capture the mercury, iron and copper mines of Spain. She has also increased her grain production and has restricted imports of foodstuffs, even at the cost of lowering the Italian standard of living, in order to be in a position to import larger quantities of iron, coal and ferro-alloys for her heavy industries. Germany similarly has restricted imports of certain foodstuffs. At the same time she has increased her imports of minerals from Central Europe, has put in a strong bid for Spanish iron and has begun exploiting the raw materials of Austria and Czecho-Slovakia. Japan, too, has prohibited the importation of long lists of "unessential" goods in favor of the raw materials demanded by her heavy industries; she has exploited the resources of her puppet, Manchoukuo, and is now seeking through war a monopoly of China's coal, iron, tin, tungsten and magnesite.

THE STRUGGLE FOR IRON

Having indicated by these general statements how important a part raw materials play in power politics today, we can now be more specific by turning to the nations' competition for iron. Iron is a stake in modern diplomacy because it is a major essential for peace and war, and also because geological forces ages ago distributed it very unevenly beneath the earth's surface. Like coal, iron is found most abundantly in Europe and North America. In fact, the presence of iron has been one of the causes of the industrial supremacy of those regions. In 1936 the United States accounted for almost 30 per cent of the world's total output of iron ore, Russia and France together produced about 35 per cent and Sweden, England and a dozen lesser countries the remaining 36 per cent. But the United States, Russia and France are the only great powers that produce enough iron to meet their own needs and have some left over for exports. The others, including Great Britain, are partially or wholly dependent on imports of iron ore. And while Britain's financial resources enable her to buy freely in the world market, Japan, Italy and Germany are less fortunate.

For these three "have-not" countries the problem of iron is therefore an acute one. Let's see what they have done about it.

WHAT THE JAPANESE HAVE DONE

Japan's reserves of iron ore in Japan and Korea are estimated at about ninety million tons, plus some additional low-grade ore. But even though these reserves have been exploited energetically, they have failed to meet the needs of Japan's industries. This has been particularly true since the outbreak of the war in China, for under the stimulus of war Japan's heavy industries have developed an enormous appetite for iron. So Japan has been dependent on large imports from the West. In order to free herself of this dependence, she has tried to meet her needs by getting her iron in the East. Her government has helped Japanese nationals acquire iron deposits in British Malaya and prospect for iron in the Netherlands Indies. Nearer home Japan has tried to find a solution of the raw materials problem in China.

After her conquest of Manchuria, in 1931-32, Japan began to exploit the iron deposits in her new puppet state of Manchoukuo. And recently she granted a monopoly to the Japan Iron Manufacturing Company for the exploitation of whatever iron fields she may acquire in the present war in China. But even if her army meets with complete success in China, she still won't be able to provide herself with enough iron for her heavy industries. For the most recent studies of China's raw materials indicate that her iron deposits aren't extensive enough to improve Japan's position materially. So in all probability Japan will have to go right on being dependent on the United States and Europe for a considerable part of her iron.

Of course, in peacetime Japan should be able to pay for imports of necessary raw materials by exporting raw silk, cotton textiles and manufactured goods. But since the beginning of her present war with China she has had to import such enormous amounts of raw materials, particularly iron ore and scrap iron, and at the same time cut down her exports so drastically, that the value of her imports has been higher than the value of her exports. Consequently she has had to make frequent shipments of gold to the United States in order to balance her accounts. But because of her diminishing gold stores she can't keep this up much longer. What she will do when her gold is all gone is anyone's guess.

ITALY'S TIGHT SPOT

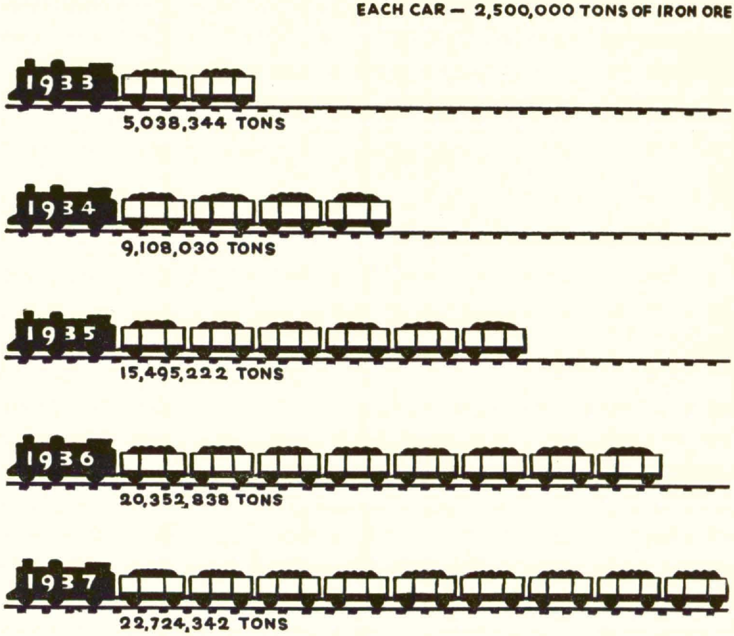
If Japan has little iron ore, Italy has virtually none. Therefore she is completely dependent on imports, whether for peace or for war. But already her Ethiopian war and her intervention in Spain have taxed her capacity to pay for imports. And a general European war would make her problem graver still. For in such a war Italy couldn't expect to receive any raw materials from Germany except coal, potash, nitrates and aluminum. Like her axis partner, Italy would have to import both iron and oil. But if her enemies bottled up the Mediterranean, the only place she could go for iron ore would be Spain. And if the British or French fleets patrolled the Mediterranean, she would be cut off from this source, too. Furthermore, as we'll see in a moment, both Germany and Great Britain are competing for Spain's iron ore.

Whether Italy's lack of iron and other war materials will prevent Mussolini from engaging in anything but a limited war is a question. But it's a sure bet that Italy's shortcomings would make her a pretty weak partner in any large-scale war that lasted more than a few months.

THE NOT SO GREAT GREAT REICH

Bismarck, Germany's "iron chancellor," once remarked that the great problems of his day would not be decided by parliamentary votes but by blood and iron. And he proceeded to unify Germany by means of three rapid wars. Since his day

HOW GERMANY'S IRON ORE IMPORTS HAVE GROWN



the political importance of iron has increased. But most of Germany's pre-war iron reserves were in Lorraine, and after the World War Lorraine was returned to France. Today Germany's iron resources aren't enough for her peacetime needs and would be hopelessly inadequate in case of war.

Even with the addition of Austria and Czecho-Slovakia, Germany can't get on without large imports of iron. For Austria's record production of iron ore is less than two million tons a year, and Czecho-Slovakia used to import a good deal more than she produced. Of course Germany may be able to change the picture somewhat by determined exploitation of the Austrian and Czecho-Slovak iron mines. But even so Greater

Germany's total output of iron ore will still meet only a little less than one-half of her requirements in these years of armed truce. So the answer is imports. In 1937 Germany's imports of iron ore reached the enormous total of 22,724,000 tons. And as long as she continues to arm at the present pace she will almost certainly have to continue to import at least fifteen to eighteen million tons a year.

Now let's see where Germany gets her iron ore, who competes with her for it and what her chances of keeping her heavy industries fed with this essential raw material would be in case of war.

WHERE THERE'S A WILL . . .

Nearest at hand are the iron mines of Lorraine, France's richest World War prize. We're so accustomed to think of France and Germany as inveterate enemies that it's very surprising to learn that the two countries have cooperated amiably in economic matters ever since 1925. But they have. For the German iron and steel industry has been getting a considerable part of its iron ore from the mines of Lorraine; and the French steel industry has been supplied from the coal mines of the Ruhr valley and the Saar. In fact, for the past dozen years the iron and steel industries of France and Germany have joined together and, with Belgian producers, have operated a cartel designed to keep up the prices of their products.

This cooperation has continued into the age of Hitler. Recently the French and German governments made a highly significant barter deal. By its terms, Germany is assured a steady supply of French iron ore in return for German coke. So we can say that the Reich's imports of iron ore from France—28 per cent of her total imports of iron ore in 1937—cause no *economic* tensions. But of course it's obvious that in case of a Franco-German war Germany's heavy industries would be severely handicapped unless the Nazi war machine could crash the strong French defenses and recapture the iron mines of Lorraine.

WHY SWEDEN FOLLOWS THE MIDDLE WAY

But Germany has another source of supply—Sweden. In fact Sweden has long been Germany's chief source of iron ore. In 1933 German imports of Swedish ore stood at three million tons. But as the Nazi régime turned to rearmament, this figure rose rapidly. Since 1935 Germany has bought eight or nine million tons of Swedish ore annually—nearly half her total iron ore imports. This rapid increase in Germany's demand for her iron ore put Sweden on the spot. Some years before, in an effort to conserve her own supply in case of need, Sweden had set an annual average limit of 9,000,000 tons on the quantity of iron ore that could be exported. At that time Great Britain was buying only about an eighth of her iron ore imports in Sweden. But with the speeding up of armament-building that came after 1935, Britain followed Germany's example and turned to Sweden for increased supplies of iron. As a result her imports of Swedish iron ore rose rapidly: by 1937 they had reached the figure of 1,645,000 tons.

Consequently, at this point the Swedish government was faced with the choice of refusing to let Great Britain increase her purchases of iron ore any further, cutting down the customary exports to Germany and transferring the difference to Britain, or raising the legal limit on total exports. It chose the last alternative: in 1938 it raised the legal limit on iron exports from nine to fifteen million tons a year. In this way Sweden made it possible for Great Britain (and other countries) to buy more of her iron ore while at the same time she avoided running the risk of antagonizing Nazi Germany by cutting down her share of it.

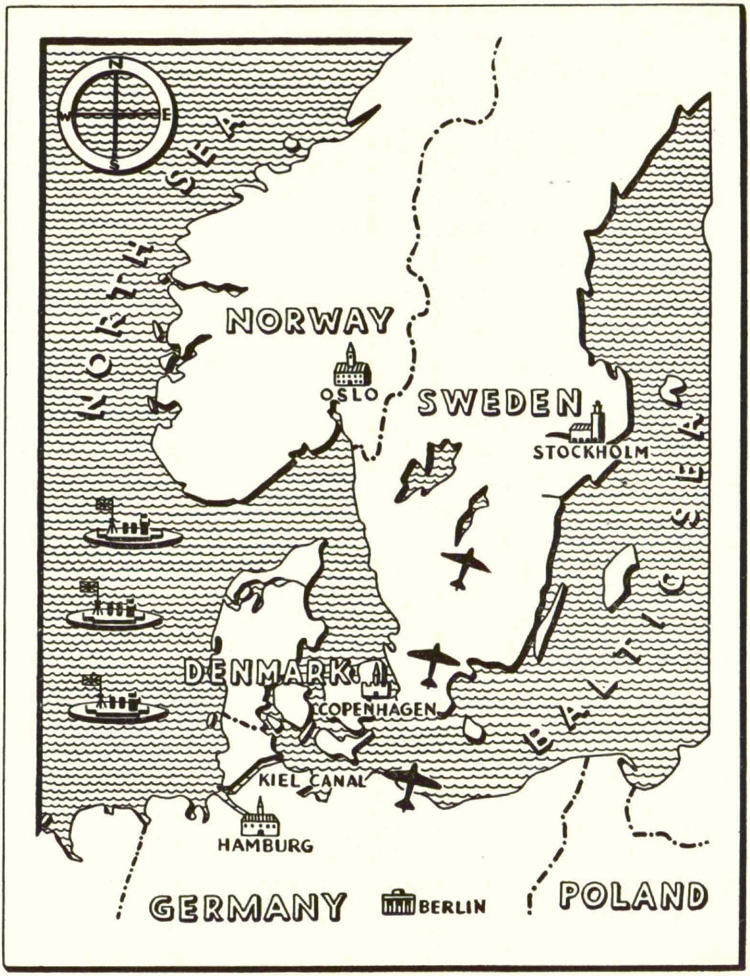
Thus Sweden solved, at least for the time being, a peacetime problem of raw materials. Thus, too, she decreased the likelihood of international tension over her ores. In case of war, however, she would be in a pretty tough spot. For if Germany were cut off from other sources of iron, she would undoubtedly demand the whole output of the Swedish mines. And, whether or not she made the same demand, Great Britain would make it one of her war aims to prevent the Swedish ore from getting to Germany. Furthermore, both powers could put the screws on Sweden, for in wartime Germany's threat would be to bombard Sweden's Baltic ports, Britain's to stop Sweden's foreign trade in the North Sea.

Here, then, is an explanation of Sweden's "middle way" in international affairs: because she can't afford to alienate either Germany or Britain, willy-nilly she must tread a wary course between them.

FRANCO FOOLS THE FUEHRER

Spain has been one of Europe's lesser producers of iron ore, her annual output between 1931 and 1935 having averaged just over two and one-quarter million tons. The Spanish mines are largely owned by British interests, and before the outbreak of the Spanish civil war, in the summer of 1936, half of their output was regularly shipped to England. But Generalissimo Francisco Franco's rebellion offered Germany as well as Italy a new source of raw materials. In June 1937, when Franco had just conquered Spain's richest iron deposits, near Bilbao, Hitler declared that Spanish iron ore was in fact "the reason we want a Nationalist government in Spain."

At that time Franco was deeply indebted to the German government for goods and services, and Berlin had every reason to expect to get Bilbao's entire output of iron in return. (The fact that the mines were owned by British stockholders hardly stood in the way, for Franco had assumed control over all production in the conquered territory.) But Franco was in urgent need of foreign currency, and so Great Britain, with



'In wartime Germany's threat would be to bombard Sweden's Baltic ports, Britain's to stop Sweden's foreign trade in the North Sea.'

her superior financial resources, was in a better bargaining position than Germany. We can't yet be certain that this is the whole story, but at any rate during the following months the bulk of Bilbao's iron shipments went not to Germany but to Britain. And it seems likely that the British will continue to compete with Germany for Spanish ores now the war is over. In fact it's possible that the weapon of finance will decide who is the real winner during the period of Spanish reconstruction.

STYMIED?

From this rapid survey it should be clear that whatever Nazi Germany has done to solve the problem of blood, she hasn't yet solved the problem of iron. In peacetime this fact need not necessarily have serious consequences for her. But in wartime it almost certainly would. For in wartime Germany's ability to continue getting Swedish iron ore would be problematical, while her French and Spanish sources would almost certainly be cut off. German industry would then rapidly exhaust its own supplies, and the German war machine would be slowed up or stopped. At the same time, Germany's losses would be France and Britain's gains. In fact, Germany's failure to achieve or even approach self-sufficiency in iron would be one of her fundamental weaknesses in case of war. But whether this fact will contribute to European peace by preventing war or only become a factor in European politics *after* war has begun nobody can say.

CUT AND DEAL AGAIN?

We have now seen that there is great inequality in the possession and production of raw materials, ranging from the extreme poverty of Italy to the vast wealth of the United States. This inequality is widely believed to be a possible cause of war. Consequently it has been urged that, in order to prevent war, the world should be redivided to give the "have-not" countries a "fair share" of the available mineral wealth. For then, so the argument goes, those countries would no longer be compelled to resort to aggression to gain markets and sources of raw materials.

Of course colonies are the only parts of the world that could be readily re-dealt among the great powers. But re-dealing colonies won't solve anyone's raw materials problem. For less than five per cent of the world's total output of important raw materials comes from colonial areas. The rest is produced in sovereign territory which could be assigned to the needy nations only by such settlements as were made at Paris in 1919 and at Munich in 1938. (Incidentally the Nazis' attachment to the pre-war German colonies is a matter of sentiment and power politics rather than economics. For Germany's old African lands were a constant drain on the imperial treasury.)

OR REVIVE WORLD TRADE?

Impartial studies have therefore concluded that the solution of the raw materials problem lies in trade rather than in territorial readjustments. These studies point out that every essential raw material is now on sale in the world market. They point out also that although some raw materials, such as aluminum, are priced high by international cartels, others, such as English coal, are "dumped" abroad at prices which are actually *below* domestic prices.

THE HEART OF THE PROBLEM

So from the point of view of the "have-not" countries the problem is how to pay for raw materials. For, as we have repeatedly said, Germany, Italy and Japan have very little gold and foreign currency. And nine-tenths of the lesser nations are in the same boat. Their purchases of raw materials abroad are therefore limited to what they can pay for by exports. And the volume of their exports depends to a large extent on how successful they are in the trade war we have discussed.

TWO SOLUTIONS

Yet there *are* two ways whereby these "have-not" countries can increase their exports (and therefore their ability to import more raw materials) without resorting to cutthroat competition or conquest. The first is the expedient of large-scale barter; the second is a trade treaty with the United States, or commercial agreements with other countries.

BARTER

Barter, of course, is a crude means of exchanging goods. But it has the prime merit of raising no foreign exchange problems at all. And, embodied in long-term agreements, it guarantees a steady supply of essential materials or commodities. Furthermore, barter, like trade in general, cuts across political differences. Thus, despite the fact that, politically, they are poles apart, Mexico has shipped her oil to Germany and France has supplied the Reich with iron ore in exchange for German coke. Even Soviet Russia's great wealth of raw materials is to some extent available to the "have-not" countries through barter deals. Between 1935 and 1937, Russia supplied Germany with from three hundred to four hundred thousand tons of oil yearly. And early in 1939 Russia and Italy concluded a barter agreement by which Italy will get essential raw materials from the Ukraine in exchange for manufactured goods.

TRADE TREATIES

A second means by which the "have-not" countries could obtain supplies of essential materials would be to make trade treaties with the United States and commercial agreements with other nations. For, as we've already seen, though it rules out direct barter deals, by lowering tariffs the Hull trade program makes it possible for the buyers of our goods to sell more of *their* goods to us. So by negotiating a Hull trade agreement with us a "have-not" country would probably be able to increase its sales in the United States enough to enable it to cover purchases of the raw materials it has to import. If Italy, for instance, had signed a trade agreement instead of conquering Ethiopia, the Italian standard of living might not require the belt-tightening it does today.

Of course the "have-not" countries couldn't avail themselves of this means of acquiring raw materials today without first changing their foreign policies. For since the Hull trade program reflects American opinion on the foreign policies of other countries, it would be out of the question for our government to consider a trade agreement with Germany, Italy or Japan while those countries are pursuing expansion programs that shock American opinion and injure our national interest. Nevertheless the Hull trade program remains a standing opportunity to any "have-not" country that is sufficiently interested in solving its economic problems to be willing to give up its warlike methods. Meanwhile, of course, there are other nations than the United States which have been willing to make commercial agreements with the "have-not" countries if properly approached. Great Britain was in fact on the point of negotiating a trade agreement with Germany when Hitler invaded Czecho-Slovakia. But the shock of his military action brought the plan to an abrupt end, at least for the time being.

THE PROBLEM IS A WAR PROBLEM

As a final comment on the raw materials question we may say that the "have-not" countries can now satisfy their *peacetime* requirements of iron and oil for the most part on their own terms. What they find difficult is importing the raw materials required for their vast armaments programs and making themselves self-sufficient in case of another world war. They can therefore take the first step toward solving their raw materials problem themselves—by giving up war as an instrument of foreign policy and calling a halt to the armaments race.

6. Economic War and Real War

We are now near the end of our story. We have seen how economic nationalism has arisen at the expense of a world economy. We have noted the financial inequality which divides the great powers into hostile camps of "haves" and "have-nots." And we have examined the weapons and tactics of these powers in their war for markets and raw materials.

But our hardest job remains to be done: it is to discover the relation between the economic war we have been discussing and the real war the world is kept in constant fear of. The job is a hard one because it's almost impossible to state exactly how big a part economic forces play in causing war. Historians disagree as to how much economic factors were to blame for the last world war. So what are we to say about the economic causes of the *next* world war?

THE COSTS OF WAR

We may rule out at once the idea that governments calmly calculate the costs of war and the economic gains they expect to get out of it, and then choose war or peace accordingly. If they did, this would be a very peaceful world. For it's now recognized that the material gains from war are almost invariably offset, and offset many times over, by the cost, win or lose. Even Mussolini's minor war against the Ethiopian tribesmen cost Italy more than the new colony can reasonably be expected to pay back in decades of systematic exploitation. In fact, quite apart from the costs of the conquest, it's possible that Ethiopia will remain a liability and a drain on the Italian treasury, as Germany's former African colonies were on her.

THE ECONOMIC FACTORS IN THE CAUSES OF WAR

Uneconomic as war is, there are, however, economic factors among its causes. For back of the sharp international crises which sometimes end in war is the clash of conflicting national aims. Some of these aims may be primarily economic, like securing fishing rights in foreign waters or helping nationals to make profitable foreign investments and bag new foreign markets. Others, like prestige, security and power, may contain less obvious economic elements. Perhaps we can make these economic elements clearer by looking for a moment at power as a factor in national policy.

POWER—END OR MEANS?

Every great nation is shaping its policies today in such a way as to increase its power. Once achieved, this power may be turned to the advantage of manufacturers or bankers or farmers or workers or a party in colored shirts or a decadent aristocracy. Conceivably it may even be turned to the advantage of the whole nation. So we can think of power as a means to various ends. But means have a way of becoming ends in themselves. And some countries seem to be seeking power as an end in itself today.

In any case, we measure power in international relations by its bargaining effectiveness in diplomacy. And this in turn is generally determined by the crude yardstick of military might. Military might is a product of various factors, as a jingle popular in England in the time of Queen Victoria suggests:

We don't want to fight;
But, by jingo, if we do,
We've got the ships,
We've got the men,
We've got the money, too.

Of course, to bring this jingle up to date we'd have to add a few military items like tanks and bombing planes. But we'd also have to add industrial plant and technology, skilled workers, essential fuels and basic minerals. For today military might, and therefore power, depend as never before on industrial output.

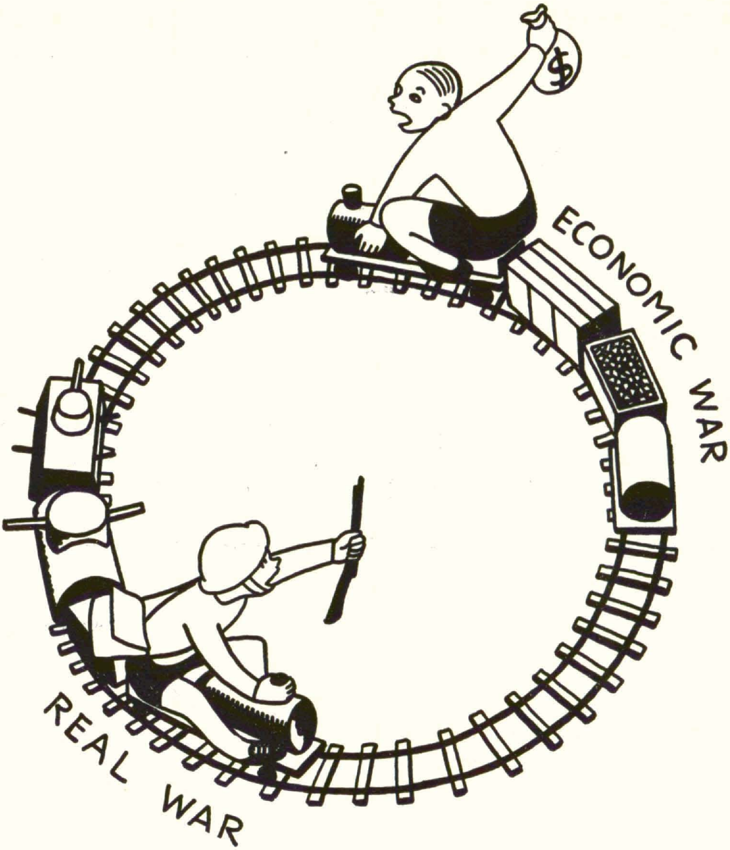
In other words, if a nation aims to build up its military might it has to take economic factors into account. As a matter of fact, *whatever* a nation's aims are nowadays, they are bound to be linked up with economic considerations.

ECONOMIC WAR AND REAL WAR

For this reason the clash of national aims which leads to war is tied up with the economic warfare we have been discussing in this book. For the race for power is itself one of the causes of war, and the race is a matter of *economic* armament as well as military armament. A nation lacking capital, markets and raw materials is forced to choose between seeking these components of power or dropping out of the race. If it chooses the former course it plunges into international economic warfare carried on without rules, sidelines or umpires. Such a worldwide brawl naturally heightens international tensions and thus brings real war nearer. At the same time, the nearer war comes the greater becomes the powers' need of war supplies, and thus the fiercer the economic competition. We may therefore think of economic war and real war as being joined in a vicious circle.

ECONOMIC OBJECTIVES IN WAR

This intimate relationship between economic war and real war becomes clearer when war actually occurs. For then the economic war is immediately merged in the larger struggle. Look, for example, at Japan's current war in China. There trading centers, factories and mines have been marked as military



'We may therefore think of economic war and real war as being joined in a vicious circle.'

objectives. Japanese business men have followed the troops and have all but chased stretcher-bearers in their search for customers. The exploitation of China's mineral resources has already begun. And, when the war ends, the peace settlement, if it is like that drawn up at Paris after the World War, will dispose of men, land, markets, industrial plant, gold, foreign currency and raw materials alike.

Now before we ask if anything can be done to break this vicious circle of economic war and real war, we ought to point out emphatically that economic transactions between nations are not *all* sinister and war-making. In fact for the most part nations carry on business with each other even today in a dull and orderly manner and without endangering the world's peace at all. As we have seen, even nations that are thought of as sworn enemies trade with each other without unpleasantness at the frontier.

BREAKING THE CIRCLE

Now let's look into the possibility of breaking the vicious circle in which economic war and real war are joined. If we could make real war less likely, the economic war would unquestionably be less fiercely fought, for the great powers would be less harassed by the problem of getting raw materials for armaments and less concerned with making themselves self-sufficient in case they are faced by a blockade or an embargo. And if, on the other hand, we could ease the tensions of the economic struggle, international friction and ill will would diminish and the danger of war would recede.

TWO PROPOSALS

We can get into this subject by considering two well known proposals. The first of these proposals is that war should be prevented or stopped by means of economic weapons like the boycott and the embargo. The second is that the economic war should be eased by such measures as opening markets and making raw materials more easily obtainable. We'll find at once that neither of these proposals can be seriously considered without taking the foreign policy of the United States into account.

PREVENTING WAR BY ECONOMIC MEASURES

The prevention of war by economic measures is an old idea, but it was not until 1919, when the Covenant of the League of Nations provided for "economic sanctions" against war, that it seemed to be on the way to practical application. The League's sanctions were designed to cut off an aggressor state from all foreign loans, markets and supplies. Since no nation could carry on a war on its own resources for very long, the League's provisions for a general embargo were expected to prevent war by greatly increasing the risks involved in it. If, in spite of those risks, war occurred, an embargo against the aggressor was expected to bring it to a speedy end.

But economic measures can't be effective in restraining nations from resorting to war or in stopping a war once begun unless all the exporting countries agree to join in applying them. Furthermore, since an embargo is considered a drastic measure and may provoke equally drastic counter-measures, the nations resorting to it must be prepared to back it up by force if necessary. When the League attempted to save Ethiopia from being conquered by Italy, neither of these important conditions was fulfilled and Italy won the war on oil supplied by the United States, Soviet Russia and Great Britain.

WHERE WE COME IN

Since an embargo against an aggressor state would be almost certain to fail without our cooperation, the policy of the United States is of paramount importance to the success of economic sanctions. But our policy has been to avoid commitments to act with other nations against war. Joining the League would have committed us to cooperate with other League states in applying economic sanctions to prevent war; but we declined to accept membership or the responsibilities of membership. Thus, from the first, uncertainty as to what we would do in case it imposed an embargo on an aggressor has weakened the League as an instrument for preventing war.

THE NEUTRALITY ACT

This uncertainty has been largely removed by our present Neutrality Act, for in that act we have abandoned some of the old "neutral rights" under which we claimed the privilege of lending money to belligerents and trading with them. Yet the Neutrality Act was framed not to prevent war but to keep the United States out of war. To do this, the act puts all belligerents in the same boat, cuts them off from American loans and munitions and gives the President the authority to forbid them to buy from us such war supplies as chemicals, iron, oil, etc., unless they can pay cash for them and carry them away in other than American ships.

CASH-AND-CARRY

This so-called "cash-and-carry" provision would aid some belligerents more than others. In case of a general European war, for instance, Great Britain and France would be able to buy whatever they needed in the United States short of munitions and instruments of war. For they have financial resources, merchant ships and seapower. But Germany and Italy would be able to buy much less here even if the British fleet allowed their overseas trade to continue. The cash-and-carry provision therefore seems designed to aid the European democracies in case of war.

In the Far East, however, the act, if it had been invoked, would have aided Japan rather than China. For that reason it has never been proclaimed in effect there. If it had been in effect, the sale of munitions to both belligerents would have been cut off, but Japan could have gone on buying essential war materials other than munitions under the act's cash-and-carry provision. For Japan has paid cash for her imports of American scrap iron and oil and has carried them off in her own ships. China, on the other hand, would have been unable to obtain supplies from us for lack of ships and seapower.

Furthermore our recent loan to the Chinese government couldn't have been made if the act had been invoked.

REVISE THE NEUTRALITY ACT?

Under the Neutrality Act, therefore, the economic resources of the United States would in some instances aid resistance to aggression, in others aggression itself. For this reason it has been urged that the act should be revised to permit our policy to distinguish between aggressors and the victims of aggression. President Roosevelt has advocated an "economic quarantine" of nations violating treaties and frontiers, and the State Department has recently taken a short step in this direction by getting all American manufacturers of bombing planes to agree not to deal with warring powers that bomb civilian populations.

BOYCOTTS AND EMBARGOES

But, as we've already said, economic measures can't be effectively employed against war unless all the exporting nations cooperate. Thus, also, boycotts generally fail because they seldom enlist more than a fraction of the buying public. Of course the embargo is a stronger weapon than the boycott because it is enforced by law. But just as the success of the boycott depends on the general cooperation of individuals, so the success of embargoes depends on the general cooperation of nations.

Now, as we've seen, any power employing economic weapons against war must be prepared to accept the risk of war itself. An Anglo-American embargo against Japan might well have ended the war in China, for Japan's advance has depended on imports of oil and iron. But Japan would undoubtedly have construed the embargo as a war measure and would have replied to it by taking reprisals against the nations which applied it. Reprisals might have included seizing American and British properties in China and Japan and capturing Hong

Kong and the Philippines. Thus the use of economic weapons against war requires not only cooperation in depriving aggressor states of war supplies but also cooperation in meeting the consequences, even if this means war itself.

WHAT ARE THE PROSPECTS?

From this it seems clear that the key to successful economic action against wars of aggression is international cooperation of a very fundamental sort. But this sort of cooperation is difficult to achieve. For whenever war or threat of war occurs, each nation looks the situation over and, if its own immediate interests aren't vitally affected, does nothing. Or it may do as the United States has done during the present war in China—write diplomatic protests to the aggressor state and sell munitions, iron and oil to *both* sides! Therefore whenever cooperative action might prevent or end a war, at least one of the great powers is almost certain to be a hold-out and spoil the show by permitting exports for the war machines.

Yet this sort of international cooperation must be achieved if the world is to be organized for peace. And it's possible that the diplomatic union of Germany, Italy and Japan, and their steady advance by war and threat of war, may still force the world to unite in self-defense. But in this case we shall probably be faced with war itself, and not the use of economic weapons to prevent or stop war.

Therefore we must conclude that there is no immediate prospect of using embargoes to break the vicious circle joining economic war and real war.

EASING ECONOMIC TENSIONS

Let's turn now to the second proposal, namely, lessening the danger of war by easing world economic tensions. As we've already seen, these tensions arise from problems of currency, the debtor-creditor relationship between nations, trade barriers and the unequal control of raw materials.

STABILIZE CURRENCIES, REDISTRIBUTE GOLD?

We have seen that the nations' currencies rise and fall, but not with the regularity of the tides, so that no one knows from one day to the next what his own currency will be worth abroad. This of course makes business transactions across national frontiers very difficult. The tripartite agreement, signed by the United States, Great Britain and France, was a notable attempt to lessen the chaos in international currency relations. And the agreement is open to signatures. But if currencies are to be stabilized, something must be done to redistribute the world's gold supply. For, as we said before, the United States has some sixty per cent of the world's gold, most of it salted harmlessly away in Federal storage vaults in Kentucky. And every month millions more pour in as the remaining democracies are driven nearer the rigid controls of totalitarian finance.

The simplest way to pump this gold back into international circulation would be to build up the debit items in our international accounts. This could be done by admitting more foreign goods or by exporting capital in the form of loans and investments. In either case, we'd then have to balance our international accounts by shipping out gold which is useless to us but is urgently needed by some fifty other nations.

LET DEBTORS PAY THEIR DEBTS?

Our international balance of payments comes up again when we consider debtor-creditor relationships. Most of the great powers owe us considerable sums of money but pay us nothing, and it's news when a small state like Finland pays installments on its debt to us. Now there's something very strange about this, for many of the world's intergovernmental debts are being paid regularly in part or in full. Even Nazi Germany is giving her European creditors partial satisfaction. The explanation of our inability to collect from our debtors is not that foreign governments choose to discriminate against us by paying every creditor but Uncle Sam. Generally speaking, the explanation is that our tariff walls make it difficult or impossible for them to pay us.

This was the lesson of our third chapter. Most debtor nations can pay their debts only by exporting more than they import. Conversely, creditor nations can collect their debts only by importing more than they export. Great Britain learned this principle some years ago, and her debtors default less frequently than ours. For by importing a billion or so more dollars worth of goods every year than she sells abroad Britain makes pounds available to her debtors to pay her with.

LOWER OUR TARIFF WALL?

The United States, on the other hand, thinks in terms of a "favorable" balance of trade or, in other words, of exporting more than she imports. But, as a financial writer in *The New York Times* recently suggested, the United States and the world would both benefit if we had an "unfavorable" balance of trade. "Traditionally this country looks upon a favorable balance of trade as a sign of good business," he wrote. "If an excess of imports appears, there are rumblings, clamor that something be done about it. That feeling dates from the prewar days when the United States was a debtor nation. Then favorable balances were essential. Now they are almost suicidal. It is not merely a question of allowing Europe to pay its war debts to us by our accepting Europe's goods. It goes much deeper. It is now a question of giving Europe gold, so that European nations may have more money to trade with each other, and more money to trade with us."

Of course, the Hull trade agreements *have* lowered our tariff walls section by section, and for a time they promised to increase our imports at least as rapidly as our exports. But recently a "favorable" balance of trade has brought more gold into the country. During 1938 our exports were worth a billion dollars more than our imports, and gold came to us from abroad (part of it in panic flight from jittery Europe) to the tune of nearly one and three-quarter billion dollars. Therefore, to fit our economy to our present world position as a creditor nation, we may have to lower our tariff barriers even further than the Hull treaties have. Opening our market would probably *not* enable us to collect the war debts—they may as well be considered dead and buried. But it *would* help to salvage a part of our foreign investments, and it would also put new foreign loans on a sounder basis.

WHAT THIS WOULD DO

Further lowering of our tariff walls would thus ease world economic tensions, for it would lead to a redistribution of our vast stores of gold now lying idle, it would make new foreign loans possible that could be repaid in goods, and it would make our raw materials available to nations that can't now buy them but could then buy them by increasing their exports to us.

So opening the American market would contribute to the solution of the world's most difficult economic problems. But what effect would this have on the United States? If our tariff wall were entirely demolished, many American interests would undoubtedly suffer and some would be put out of business altogether by the competition of foreign goods. But if our tariffs were lowered piecemeal, each reduction could be designed to produce more gains than losses. The losses might of course include the disappearance of certain inefficient or uneconomic industries which have been kept alive by high tariffs. But, thanks to their better machinery and their lower transportation costs, most American producers would be able to meet foreign competition. Moreover, the competition of foreign goods would lower prices, particularly the prices of goods produced by American monopolies, and so would benefit the consuming public. Furthermore, many American producers would find new foreign markets, for nations exporting more to the United States could buy more from us.

The difficult subject of tariffs could be continued, pro and con, indefinitely. But this is perhaps enough to suggest that our tariff walls could be lowered still further and in such a way as to contribute to a lessening of world economic tensions and to serve our own national interest at the same time.

EQUAL ACCESS TO RAW MATERIALS?

The United States therefore has it in its power to make a major contribution to world economic peace. But the nations in greatest need of our markets, gold and raw materials have alienated American opinion and challenged American interests by their policies of repression and violence at home and expansion by threats and war abroad. To offer economic appeasement to these nations is therefore scarcely a timely proposal.

AMERICA MUST CHOOSE

In the meantime, it's clear that our own economic position in the world is being affected by the trend toward exclusive, regional economies in Europe and Asia. East of France and west of Russia, Nazi Germany is building a regional economy which may be able to get on without any business relations with the United States at all. The Soviet Union is virtually a self-contained economic unit, second only to the United States in its natural resources. And Eastern Asia is being rapidly closed to American interests by Japan's war in China.

HOE OUR OWN ROW?

In this situation, there are three practical courses for the United States to follow. The first is to take particular account of the possibilities of the world's richest market, namely the United States. A large part of our population is undernourished, poorly clothed and badly housed. If we can bring American production into line with human needs in the United States, and if we can find a way to increase the purchasing power of our "submerged third" enough to buy the increased output of our mills and factories, perhaps we won't have to worry particularly about losing our foreign markets.

CULTIVATE PAN-AMERICA?

The second course is to build up a vast regional economy embracing North, Central and South America. In contrast to the regional economies now being set up by intimidation and force in Europe and Asia, an all-American economy could be established on the basis of mutual advantage and consent. In fact, a promising basis for inter-American cooperation has already been provided by our Good Neighbor policy. But it's obvious that this policy can't be defined in Washington, Wall Street or Pittsburgh alone. To become the working basis for relations throughout the Americas, the Good Neighbor policy will have to be defined jointly by importers as well as exporters, debtors as well as creditors. Defining the Good Neighbor relationship is a job for the Pan-American conferences and for such agencies as the conferences set up. The conference held at Lima, Peru, in December 1938 was marked by the customary oratory. But behind the scenes there was evidence of a general desire to bring the policies of the various nations of North and South America into harmony. If we could capitalize on that desire and create a regional economy in the Western Hemisphere, maybe we could let the rest of the world go hang.

FIGHT ON THE WORLD FRONT

Finally, there is the wide world, and here the United States hasn't by any means conceded the victory to the totalitarian régimes. The Hull trade program is a dramatic challenge to trade practices like subsidy, intimidation and conquest, and our map indicates that the United States isn't alone in making this challenge, either. For nineteen other nations, including France and Great Britain, have so far joined the side of freer economic relations.

Such an extension of economic relations in the direction of an open, international economy will perhaps contribute to at least a partial solution of the problems we have considered in this book. And even a partial solution of those problems may suggest a means of blunting the sharpness of economic warfare and thus perhaps even slowing the march on the road to real war.

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ABOUT THE AUTHOR

Dr. Brockway is a graduate of Reed College, Oregon, and of Lincoln College, Oxford, where he was a Rhodes Scholar. He obtained his Ph.D. from Yale University with a dissertation on *Iran and the West: A Case Study in Modern Imperialism.* He has taught at St. John's College, Dartmouth and Yale. Since 1933 he has been a member of the Faculty of Social Studies at Bennington College, Bennington, Vermont.

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