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How Tariffs Affect Farm Prices

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THE NATURE OF TARIFFS

A tariff is a tax collected on a commodity as it crosses a national boundary. The payment is made to the State by the person who brings the commodity in.

The term "tariff" was first used to refer to a table that listed those articles, with their corresponding taxes, that were not permitted free entrance. At present these tables are usually called schedules. They are extremely complicated affairs. The Tariff Act of 1930, for instance, is a document of 283 pages. In it the dutiable commodities are divided into 16 schedules with a total of 1,814 paragraphs, many of which in turn list duties on a large number of articles. In addition to the dutiable list there are 353 sections, nearly 100 pages, of special provisions.

Tariff systems are based upon either ad valorem or specific duties, or upon a combination of the two. Ad valorem duties are usually a fixed percentage of the value of the goods and when the value changes, the duty also changes. Specific duties are based upon a unit of weight, measure, or count—so many cents a pound, so many cents a dozen, or so many dollars a ton, and so on. Specific duties are much simpler to administer than are ad valorem duties.

PURPOSE OF TARIFFS

Tariffs like other taxes have two main purposes, (1) to raise revenue, and (2) to discourage the activity that is being taxed. In the modern State the chief purpose of taxes, other than tariffs, is to raise revenue, while tariffs are used largely to check imports.

Before the war all countries raised most of their revenues with tariffs. At the present time most advanced countries depend largely upon income taxes.

The revenue aspect of tariffs is today of secondary importance; their protective features are being increasingly stressed. But even so, a substantial part of the revenue of our federal budget is raised by tariffs. They contributed an average of $548,000,000 yearly to the receipts of our federal government from 1927 to 1931, which was 14 percent of the total. Before the war, however, they provided over half the national revenue. "Free-trade" Great Britain, in 1930, raised $588,000,000, or 15 percent of her budget, by tariffs.

The United States has no strictly revenue tariffs. The duties that are enforced were enacted to protect domestic producers. They were not planned primarily for thir revenue-raising ability. Obviously, a duty that keeps foreign produce from coming in fails as a revenue measure. Duties on tea and coffee, since they cannot be produced here, would be examples of revenue tariffs. Since domestic tomatoes do not ripen during the winter months, unless grown in hothouses, the duty of 3 cents a pound on them is, in effect, a revenue measure during December and January. The tariff on sugar produces one-fourth of our customs receipts. But, to make the tariff, for instance on sugar, a purely revenue duty, it would be necessary to levy an equivalent excise tax on all domestic production. This would cancel its protective feature.

But why should a country discourage imports? No person thinks of making everything for himself. Are there some special reasons why a nation should do so? Before taking up the specific arguments for tariffs and the protection that they afford, it is necessary to understand some first principles that underly all trade.

In simplest terms international trade rests upon two fundamental propositions: (1) The law of comparative advantages, which determines the kind and quantity of goods and services exchanged, and (2) the fact that imports pay for exports. Both of these will be examined in turn, after which their bearing on tariffs should be considered.

COMPARATIVE ADVANTAGES

Why Men Trade

Why do men trade? The answer is that men trade to gain the advantages of specialization. Every man has a variety of needs. He wants food, shelter, clothing and recreation. He could provide himself all of these by being a farmer, carpenter, tailor and actor in turn. But experience teaches that it pays each man to spend his time in doing that which he can do best. By specialization and exchange, with the farmer growing corn and feeding hogs and the carpenter building homes, both are enriched.

The simplest form of trade is the exchange of goods and services produced in the same locality.

Most trade, however, involves the exchange of goods between different localities. This is called regional specialization and it has economic advantages as clearly as individual specialization. Just as some persons are better fitted to do certain things, so some localities, because of soil, climate or nearness to power, raw material and markets are especially adapted to produce certain goods. No one questions whether or not farmers of Iowa are better situated to grow corn than those in North Dakota and Mississippi or that North Dakota excels in wheat and Mississippi in cotton.

Climate, topography and soil cause the farmers of New York, Wisconsin and Minnesota to specialize in dairying. Since New York is near to large cities it produces mostly fluid milk; Wisconsin and Minnesota, being more remote from large markets, find it advantageous to use much of their milk to make butter and cheese.

Our oranges, grapefruit and lemons come from California, Florida and Texas; our iron ore is taken mostly from upper Minnesota. We associate automobiles with Detroit, tires with Akron, steel with Pittsburgh and motion pictures with Hollywood.

Gain from International Trade

But regional specialization does not stop at national boundaries. Nor are the gains less when the exchange involves international trade.

Brazil is especially well suited to grow coffee. Cuba, with her rich soil and favorable climate, can produce cane sugar more cheaply than the United States. India and Java excel in tea, Japan and China in silk, and Malaya in rubber. But these countries are not favorably located to grow corn, cotton and wheat. Trading their coffee, sugar, tea and silk for our pork and lard, cotton textiles and flour is as clear a gain as the regional exchange of goods within a country.

It would be absurd for the United States to use her resources to grow, for example, bananas. Likewise, for Jamaica, Costa Rica, Honduras and Panama to shift from tropical fruits to wheat production would be equally foolhardy. Trade between the United States and these Central American countries makes it possible for each to continue to produce that for which it is best adapted, and as a result all enjoy a greater variety and abundance of goods.

With unrestricted trade among nations different parts of the earth's surface are put to those uses for which they are best suited.

The benefits of international trade are not limited to agriculture where climate, soil and topography are all important. Similar advantages are found in the exchange of manufactured goods.

The United States can make many mass-produced industrial products for the rest of the world more cheaply than they can produce them for themselves. The large scale production methods used in making automobiles, tires ,typewriters, sewing machines, safety razors and similar goods, give our manufacturers a distinct advantage in their production. On the other hand, Europe can produce handicraft articles much more cheaply than we can. The skill and time that are needed to make fine lace, fancy embroidery, toys, artistic pottery, silverware, hand decorated leather articles, optical instruments and numerous other specialties, are not ours.

In the aggregate the people of the United States are richer by trading agricultural staples and certain mass-produced manufactured goods for the handmade articles of Europe. We gain by getting a thousand and one specialties which, because of the amount of labor and skill they require, we cannot afford to make for ourselves. They in turn benefit by paying less for their bread and meat and automobiles than it costs to produce them in Europe.

It is important not to conclude from the preceding argument that trade between individuals, regions and countries is profitable only when a commodity can be made more cheaply by one than by the other. Trade involves many commodities and the gains of specialization and exchange depend not upon absolute, but upon relative advantages and disadvantages.

A good doctor may be able to operate a typewriter better than his typist. But it will nevertheless pay him to specialize in medicine and to hire the stenographic help he needs. Take another illustration. The same field in a farm may be best both for growing corn and for the site of farm buildings, but obviously it cannot be used for both. All things must be considered together. It is the relative, and not the absolute difference in advantages that is important. Even though the United States were superior in every field of production, trade between it and other countries still would be profitable. A country gains most when it speciializes in those things in which its comparative advantage is greatest.

The rise and expansion of foreign trade among western countries is closely related to their advance to higher standards of living. International specialization is the very foundation of the consuming habits to which we have become accustomed. Each day sees us draw upon the skill and resources of men and lands of many countries.

Tariffs Restrict Trade

Tariffs are the principal means by which specialization among nations is restricted. Tariffs not only stop regional division of labor but also limit the size of business enterprise, the use of machinery and the specialization of labor. Large plants require large markets. In this the producers, especially manufacturers, of the United States have had a distinct advantage over European producers. In spite of tariffs the United States is a large market. One can travel east and west four days and north and south two days without crossing a tariff barrier. In contrast, Europe with nearly the same area, is divided into 27 areas each isolated from the other by tariff walls. A General Motors or U. S. Steel corporation would be as great a misfit in any one of the 27 "walled in" areas of Europe as a 70-ton dinosaur in an Iowa cornfield.

Note, however, that the corn-hog farmer is an international specialist; he is even larger than U. S. Steel; the United States is too small a market for his lard; he is today dependent upon a world market. Can he continue to specialize in corn and hogs in view of the present international warfare in tariffs?)

IMPORTS PAY FOR EXPORTS

An Individual's Income and Outgo

The second basic principle that runs through all international trade is that over a period of years imports pay for exports. The international accounts of a nation must balance. Commodities and services bought from foreigners pay for those sold to them and vice versa. If one is stopped sooner or later the other also disappears.

The international cash book of a country is known as the balance of international payments. In it all the transactions with other countries appear, and credits equal debits. It is not unlike the balance sheet which an individual uses when he studies his income and outgo.

Nor are the essential principles underlying the international balance of payments different from those that apply to the transactions of an individual. When a farmer buys a plow he pays for it in one of three ways; with cash, with credit, or with commodities that he produces. But for him to use either cash or credit to pay for all purchases over a period of years is impossible. A farmer's cash and credit would soon be exhausted. In the end he must pay for the goods he buys with the goods he sells. His incoming payments must balance his outgoing. And it follows that the less he sells the less he can buy. This is all too drastically evident today with 10 cent corn and $2.50 hogs.

Likened to International Payments

In these particulars the international payments of a country are like those of an individual. The items that appear in the balance sheet of a nation are, of course, more complex and intricate and yet the important features are the same. For instance, when Germans buy cotton, wheat and lard they can pay with gold—since no other money is acceptable among nations—with funds borrowed from abroad, or with goods. But they too, in the end, must exchange goods for goods or stop buying.

The total available monetary gold in the world is only about 12 billion dollars and two-fifths of this has now been for years in the United States. The total gold holdings of all of the countries outside of the United States would have paid for a little over one-half of the gross payments due our citizens for goods and services sold abroad in the one year, 1928. Obviously international credit also is limited. The only way, then, in which exporters can receive pay for their wares over a period of years is through imports. It is important to keep in mind that in the last analysis international trade is essentially barter.

Our Trade Balances

The following section shows what is meant by the phrase "balance of payments." Since it is best illustrated by example, let us consider the relevant figures for this country for 1928. The year 1928 is taken because the payments are fairly typical of the post-war period.

The balances compiled by Ray Hall of the Department of Commerce are given in tables XXXVI and XXXVII. Although these estimates are admittedly subject to considerable error, they are the best available. All items in columns 3 and 4 in the following table are net—incoming payments in every case have been canceled against corresponding outgoing payments. Observe that therefore each item appears but once, either as a credit or as a debit.

Table XXXVI summarizes the financial transactions of all international activity in which Americans had part during 1928. The incoming and outgoing payments are the pans of the balance. The weights that tip it in favor of this country are called credit items and those that act in the opposite direction are debits. The total value of all the weights in the two pans measures the "international turnover" between the United States and all other countries.

The incoming and outgoing payments appearing in table XXXVI give the gigantic total of 20,994 million dollars. The tremendous role that international transactions have in the business activity of the United States is self-evident. By 1931, however, our international turnover had declined to 13,000 million dollars, and it is estimated that in 1932 it again was sharply lower.

Trade

The largest and most important items on the international cash books are exports and imports of commodities. Our prin-

TABLE XXXVI. ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES FOR CALENDAR YEAR 1928, GIVING ALL INCOMING PAYMENTS TO THE UNITED STATES AND ALL OUTGOING PAYMENTS FROM THE UNITED STATES TO OTHER COUNTRIES

(Millions of Dollars)

		Balance	
(1) Classes of International Transactions	(2) Total value	(3) Net incoming payments	(4) Net outgoing payments
Incoming Payments to the United States (Credits)			
Exports (all commodities)	5,333	865	
Capital imports (foreign investments here)	2,795		
Earnings on investments abroad	896	537	
Tourist expenditures of foreigners here	163		
War debt receipts (net)	207	207	
Miscellaneous invisible items	460		
Gold	629	272	
Error	14	14	
Total	10,497	1,895	
Outgoing Payments from the United States (Debits			
Imports (all commodities)	4,468		
Capital exports (new investments abroad, etc.)	3,513		718
Earning to foreigners on investments in America	359		
Tourist expenditures of Americans abroad	824		661
Immigrant remittances (net)	218		218
Miscellaneous invisible items	532		72
Short term credit to foreigners	226		226
Gold	357		
Total	10,497		1,895
Grand total (all items)	20,994		

Source: Based on the excellent work done by Ray Hall, formerly assistant chief of the Finance and Investment Division, United States Department of Commerce, as reported in Balance of International Payments of the United States in 1931. Trade Information Bulletin No. 803, pp. 76-77.

cipal exports include lard, cotton and tobacco; wheat, rye and barley; apples and oranges; salmon and sardines; automobile tires, cigarettes and hosiery; gasoline and kerosene; tin plates, copper, lumber, rosin and turpentine; locomotives, sewing machines, cash registers, typewriters and printing machinery; automobiles, motorcycles and pianos. These give rise to incoming payments.

The important commodities in our import list are raw silk, rubber, paper and wood pulp; cane sugar and coffee; wool, some chemicals, furs and hides; fertilizers, oilseeds and vegetable oils; burlap, diamonds, tin and tea. These represent outgoing payments.

Since the value of the goods that we sold to foreigners exceeded those that we bought from them, the "balance of trade" gave rise to net incoming payments. The difference, $865,000,000, is

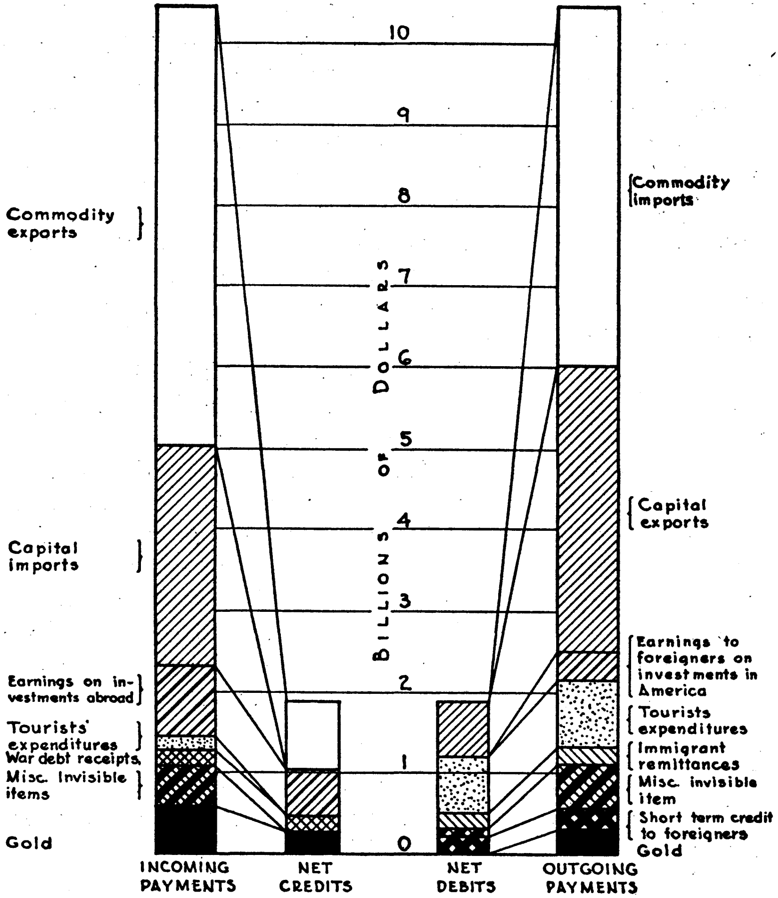

Fig. 18. Balance of international payments of the United States for 1928. (Based on table XXXVI.

therefore credited to the United States. How did foreign buyers in the aggregate pay us this trade balance? To answer this question it is necessary to consider the other items on the balance sheet. These will be taken up in the following order: Loans, interest, tourits expenditures, immigrant remittances, miscellaneous invisible items, and all others.

Loans

Two items in table XXXVI give capital movements. One of these covers investment transactions of Americans abroad and the other investments of foreigners in America. It is the difference between these two items that is of interest. In 1928 there was a net capital export of $718,000,000. This figure represents chiefly new investments of our citizens abroad. This made it possible for foreigners to buy more from us than they sold to us. A word of explanation, however, is necessary since the gross figures of which this is the difference are so extremely large. The reason is that most of the transactions appearing in these items represent trading in bonds and stocks. The buying and selling of these securities, not unlike the trading in the stock market, tend to cancel out.

The events of the World War changed the United States from a debtor to a creditor nation. Nor did the change in our financial position stop there. Since then foreigners have become more and more indebted to us. Americans have invested increasing amounts in foreign securities. The economic consequences of this capital movement of the past two decades are both far-reaching and profound. America is fast becoming a mature creditor country. It is the significance of this new role of the United States that so vitally affects the export farmer. It bears directly upon our tariff policy. Foreigners today must find dollars to pay interest to us before they can buy our commodities.

Interest

The item giving the net earnings that Americans receive on their foreign investments is very important. For 1928 interest and dividend payments to our citizens from abroad netted the United States $537,000,000. The item not only is large but is increasing in size. As interest and sinking fund payments are made each year upon old and new loans to foreigners this item increases. It is these payments that are of paramount significance to the American farmer.

Our earnings on investments abroad definitely compete with our exports of lard, wheat and cotton for dollar exchange. When dollars are virtually unobtainable abroad, as they are at present, interest and principal payments come first and the produce of the export farmer goes begging for a market.

Tourists and Immigrants

So great was the annual migration of Americans in 1928 that it is estimated that $824,000,000 was spent by them abroad. This

TABLE XXXVII. - BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES FOR CALENDAR YEARS 1922-1931

(Millions of Dollars)

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932 (b)
Commodities (a)											
Exports	4,121	4,368	4,834	5,177	5,044	5,091	5.333	5,447	4,095	2,424	1,612
Imports	3,419	4,162	3,952	4,544	4.766	4,508	4.468	4,799	3,294	2,090	1,323
Incoming Payments (net credits)											
Commodity trade balance	702	206	882	633	278	583	865	648	801	334	289
Return on foreign investments	411	414	443	460	472	519	537	565	616	754 (c)	610 (c)
Return on war debt	158	259	183	186	195	206	207	207	241	43	99
All other items (d)	434	91	151	0	413	0	0	62	0	0	0
Gold (exports)	0	0	0	0	0	154	272	0	0	176	0
	1,705	970	1,659	1,381	1,358	1,462	1,881	1,482	1,658	1,377	998
Outgoing Payments (net debits)											
Capital exports	753	0	733	560	540	695	718	319	295	0	0
Tourist expenditures	370	355	440	487	489	548	661	685	654	456	375
Immigrant remittances	247	218	219	227	210	198	218	223	166	163	132
Miscellaneous invisible items	101	102	51	58	47	0	72	135	125	49	109
All other items (d)	0	0	0	49	0	21	212	0	142	709	371
Gold (imports)	234	295	216	0	72	0	0	120	276	0	11
	1,705	970	1,659	1,381	1,358	1,462	1,881	1,482	1,658	1,377	998

(a) Adjusted for difference in year end lag.
(b) Preliminary.
(c) Includes for 1931 \$218,000,000 and for 1932 \$217,000,000 of net inflow of funds into the United States as a result of international security transactions.
(d) Largely changes in the inflow or outflow of short term credit.
Source: Based on the studies of Ray Hall, formerly assistant chief of the Finance and Investment Division, Department of Commerce, and of Amos E. Taylor, present assistant chief, as reported in The Balance of International Payments of the United States in 1932, Trade Information Bulletin No. 814, and in earlier publications.

includes the money spent by our citizens living abroad who derive their income from this country. After subtracting the expenditures of foreigners in America there remained $661,000,000. This item is an invisible import; it is principally a payment for services rather than for goods.

Immigrant remittance is also an outgoing payment made up largely of gifts and of debt payments from recently arrived immigrants to relatives and friends in the old country. Time, however, slowly loosens the tie that obligates the immigrant to his kin who remained behind; each year sees a smaller number of dollars sent back to them.

Miscellaneous Invisible Trade

Under the heading of miscellaneous invisible items are included numerous invisible exports and imports. Freight payments and receipts, ocean-borne passenger traffic, United States government receipts and disbursements abroad, foreign representations here, missionary and charitable contributions, motion picture royalties, Canadian electric power used in the United States, foreign subscriptions to American publications, patents, copyrights, royalties, legal fees, advertising, cablegrams, radiograms and international telephone calls—all of these contribute to this catch-all item. In the aggregate the services in this group tend to cancel each other. The net figure that remains is small and is in favor of foreigners, therefore, a debit.

Other Items

The returns on war debts are about as large as immigirant remittances. The annual payments are scheduled over the next 60 years. They gradually increase until 1984 when $423,000,000 is scheduled. This item, although comparativeyl small, also competes for the dollars that foreigners are able to get, hence it definitely tends to reduce our trade balance.

Of all commodities, gold has a special privilege in foreign trade. It is exported and imported without any tariff restriction. For instance, when the pressure of international payments is in our favor it is quickly and readily imported to balance the accounts. It usually is a small item in the total international turnover of a country. Yet from the beginning of the World War until about 1925, there was an extraordinary movement of gold into the United States. It was the one way, outside of borrowing, that foreigners had of paying for their purchases. This movement, of necessity, had to stop because the amount of gold in the world is after all limited.

Short term credits to foreigners are debts of foreigners to American banks. They are in the main temporary credit accounts—bills that have not been paid.

The post-war international accounts of Uncle Sam show three important classes of credit transactions, namely, (1) exports in excess of imports,* (2) earnings on investments abroad, and (3) returns on war debts. The cash book was balanced by three large items on the debt side; they were, (1) loans to foreigners, (2) tourist expenditures, and (3) immigrant remittances.

Observe that American tourists and our immigrants transferred about enough dollars out of the United States to cover interest due us on investments abroad and the scheduled payments on the war debt. From 1922 to 1930 these four items practically canceled each other.

An important characteristic of the interest and principal payments due American citizens is the fact that they are fixed by contract. Foreign individuals, corporations, municipalities and governments using American capital have contracted to pay each year a specified number of dollars to their bondholders. Except as there is default and repudiation the interest and amortization on the debts that foreigners owe us are fixed for years into the future regardless of how hard or how easy it is to obtain American dollars abroad. Observe also that the size of the net payments covering earnings on our investments abroad is gradually increasing. Nor is its trend likely to change in the immediate future.

Debtor-Creditor Position of the United States

In 1914 investments of foreigners in United States securities stood at about 3,000 million dollars greater than similar investments of Americans in foreign securities. We know that

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*In most of the literature when exports exceed imports a "favorable balance of trade" is said to exist. This is often misleading to the lay reader, who is likely to interpret the word "favorable" as implying a desirable state of affairs whereas the term has no such implication.

many of our early railroads were largely built by European capital. This net debt of the United States gave Europe an annual income of around 200 million dollars. The payment of this interest produced dollars abroad, hence a good market for our exports. In spite of restrictions upon imports into this country we enjoyed before the war a profitable foreign market.

But all this has changed. By 1931 we held long term investments abroad including the war debt and German obligations to the United States Government totaling 23,337 million dollars. On the other hand, foreign investments in the United States were estimated at 2,422 million dollars. Insead of being in a debtor position to the extent of 3,000 million dollars, the United States is today a creditor by around 20,915 million dollars or a net change of nearly 24,000 million dollars.

The Great War along with subsequent events changed the United States from a position of the world's greatest debtor to that of one of her two greatest creditors.

It was pointed out above that at the outbreak of hostility the net income from long term investments was around 200 million dollars in favor of foreigners holding American securities. In contrast, in 1930, Americans received a net balance of 616 million dollars on long term investments abroad.

The complete reversal of our country from a debtor to a creditor nation; the payment of more than a half billion dollars net, principally interest, annually to us as creditors; a payment that is largely fixed by contract and one that is increasing each year in size—these are facts of supreme significance to the American exporters, foremost among whom are the hog, wheat and cotton farmers.

It is clearly evident that for the next 10 years and longer, more and more of the limited supply of dollars available to the outside world will be needed to pay back interest and principal of capital now invested abroad. With property rights as they are, the obligations of the creditor come first. How, then, are foreign buyers to get dollars with which to purchase our farm produce, that surplus which in the past we sold to them at a satisfactory price? Obviously our invisible exports—tourist expenditures, immigrant remittances and other invisible items—cannot be expanded readily to make available to foreigners sufficient dollar exchange with which to pay us a large trade balance.

Overnight, as it were, the events of the World War changed this country from a debtor to a creditor nation. But our policies are as of old. We still expect to export without permitting equivalent imports.

How Uncle Sam Has Been Trading

Since the war Europe borrowed and we exported. They sent us long term bonds and we sent them bread and meat. Thus until recently we maintained our export trade in spite of the bald fact that foreigners were not able to earn enough dollars to pay for the commodities they bought from us. Up to 1930 net capital investments abroad practically covered our trade balance.

TABLE XXXVIII. CHANGE IN THE LONG-TERM DEBTOR-CREDITOR POSITION OF THE UNITED STATES FROM 1914 TO 1931

(Millions of Dollars)

	American investments abroad	Foreign investments in the United States	Net creditor position of the United States
1914	2,350(a)	5,350(b)	—3,000
1931	23,337(c)	2,422(d)	20,915
Net change in creditor position of the United States..	....	....	23,915

Source: a. Mid-point of estimate made by Ray Hall which appears in America Weighs Her Gold, by James Harvey Rogers, 1931. p. 46.
b. Adjusted to estimate of National Industrial Conference Board, The International Financial Position of the United States, 1929. p. 3.
c. Includes 3 items: (1) American investments in foreign countries at the end of 1931 ($15,635,000,000) given in The Balance of International Payments of the United States in 1931, Dept. of Commerce, Trade Inf. Bul. No. 803. Table 15, p. 44; (2) Value of War Debts, at 4¼ %, June 30, 1930 ($7,390,000,000). Rogers, op. cit. Table II, p. 47; and (3) Value of German Obligations to the United States Government, at 4¼ %, March 30, 1931 ($312,000,000). Rogers, op. cit. Table II, p. 47.
d. Includes 2 items: (1) American investments held by foreigners. The Balance of International Payments of the United States in 1931. $2,250,000,000) op. cit., p. 48; and (2) Obligations to foreigners from awards by Alien Property Custodian, Dec. 31, 1930, and War Claims Arbiter June 30, 1931. ($172,000,000). Rogers, op. cit. Table II, p. 47.

But this merely postpones the day of reckoning. Like rolling a snowball, next year's bill has always been greater by accumulated interest and amortization of the previous borrowings. But now loans to foreign nations have ceased and exports have declined to a third of the 1925-1929 level. Observe the figures in table XXXIX.

Let us translate this state of affairs into private transactions. Imagine a shoemaker heavily in debt who for over a decade is not permitted to sell his wares, but who is forced to pay his living expenses, the interest on his mortgage, and in addition certain scheduled payments on a debt that he inherited, in the following ways: (1) by borrowing more and more money from his creditors, (2) by turning his shop into a summer resort and (3) by using the few dollars his relatives in the country see fit to send him. What manner of business is this! Certainly it cannot go on indefinitely. Nor has it. Table XXXIX shows what drastic changes had occurred in our international balance of payments by 1932.

The depression has stopped the outward flow of new American capital; in fact, the capital movement has for the time being reversed itself. In 1932 some foreigners were buying back some of their bonds while others were liquidated, and as a result there was a net capital flow of $217,000,000 into the United States.

Exports and imports dropped precipitously. In 1932 they

TABLE XXXIX. COMPARISON OF THE BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES FOR 1931 WITH THE 1925-1929 AVERAGE

(Millions of Dollars)

	1925-1929 Average	1931	1932 (b)
Commodities (a)			
Exports	5,218	2,424	1,612
Imports	4,617	2,090	1,323
Incoming Payments (net credits)			
Commodity trade balance	601	334	289
Return on foreign investments	511	754 (c)	610 (c)
Return on war debts	200	113	99
All other credits	200	176	0
Outgoing Payments (net debits)			
Capital exports	566	0	0
Tourist expenditures	574	456	375
Immigrant remittances	215	163	132
All other debits	157	758 (d)	491 (d)

(a) Adjusted for difference in year end lag.
(b) Preliminary.
(c) Includes for 1931 $218,000,000 and for 1932 $217,000,000 of net inflow of funds into the United States during 1931 as result of international security transactions.
(d) Of these figures, $709,000,000 for 1931 and $371,000,000 for 1932 represent a net outflow of short term capital from the United States. It reflects especially the sharp drop in deposits carried in the American market by foreigners.

Source: Based on the studies of Ray Hall, formerly assistant chief of the Finance and Investment Division, Department of Commerce, and of Amos E. Taylor, present assistant chief, as reported in The Balance of International Payments of the United States in 1931. Trade Information Bulletin No. 814 and earlier studies.

were less than one-third of the 1925-1929 average. Fewer tourists went abroad; their expenditures were $200,000,000 less in 1932 than for the 5-year average. The remittances made by immigrants also declined sharply.

The important changes which the depression has brought to our balance of international payments are: (1) a cessation of new American investments abroad, (2) a drastic decline in our trade balance, (3) increased earnings and collections on investments made to foreigners and (4) a sharp increase in short time credit extended to foreigners. The other items all declined. The returns on the war debt reflect the effect of the Hoover moratorium dclared in June, 1931.

The international accounts do balance. But tourist expenditures, immigrant remittances and miscellaneous invisible imports are not enough to cover the returns due the United States on foreign investments and war debts and at the same time leave foreigners with sufficient balance of dollars with which to buy the usual quantity of American commodities. For some years this deficit has been covered by loans to foreigners and by the importation of gold. Neither of these offers promise for the immediate future.

If foreigners are to buy American produce they must find it possible to sell their specialties in this country. If they cannot sell in our market they may borrow dollars with which to buy from us. Because they were able to borrow, foreign trade did appear to go on satisfactorily from 1924 to 1929. Borrowing, however, has stopped. How now are foreign countries to buy lard, wheat and cotton? They must first pay annually, in dollars, interest and dividends due Americans. This, too, can in the long run be done only in imports, visible and invisible. In substance, they must sell to us before they are able to buy from us. Again, we are back to the second principle underlying all international trade, namely, *imports are the demand for our exports because imports pay for exports*. The two go hand in hand.

To see how tariffs work one has to stand above individual schedules and look at the picture as a whole. It is not easy for a farmer or businessman to do this. For one reason, he is likely to consider only those tariffs on the things he produces thus missing their national and international effects. Then, too, international trade, including the tariff problem, is always very complex. The interrelations of one group of farmers to another, of agriculture to industry, and of the United States to the rest of the world are intricate questions; yet, they all have to be taken into account.

Economic Consequences

The general picture of foreign trade has been stressed in this chapter. We have looked into the international records and accounts of Uncle Sam and we have analyzed the yearly statements of incoming and outgoing payments. The most important single fact that has come to our attention is our complete change from a debtor to a creditor country. Moreover, we found that our creditor position has expanded amazingly in the last decade.

The economic consequences of this change in the financial position of the United States are not generally understood. It is a new experience for America. As a nation we are still debtor-minded. We think and act like debtors; our policies are those that suited the pre-war period; we do not know what it means to be creditors. It has taken a crisis to awaken us.

The export farmer is, of course, vitally interested. His very existence is at stake. But he is not alone. The interdependence between hog and dairy farmers and between farm and city people is fairly evident today. They are all tied together. When one falls the others follow or absorb the shock and rescue the victim.

When foreign markets for cotton, wheat, lard and tobacco disappear it is only a matter of time until the prices of butter, beef, mutton and eggs are dragged down. American farming is still dominated by the export group. They set the tempo of our agricultural well-being. Nor is the city outside the pale of its influence. Witness the consequences of the lack of purchasing power among farm people; it has seriously affected the rest of our business community. The fact that farmers are unable to buy is being keenly felt in our industrial centers. Factories are forced to close and the ranks of the unemployed are increasing because of the inability of farmers to buy their products. *The loss of the foreign markets has destroyed the fundamental balance of our national economic life.*

The present crisis in international trade has brought widespread disaster to the export farmer. Figure 19 shows how much harder he is hit than the farmer not directly dependent upon foreign outlets. The export group is today receiving prices only about one-half as high as the non-export group, who, too, are definitely depressed. The weighted average farm price in December of the commodities on an export basis was 43 percent of pre-war; whereas, the non-export group stood at 80 percent of the 1910-1914 price level. This looks like an excellent argument for getting all of our agriculture on a domestic basis. Certainly, the home market is more certain and dependable in periods such as we are now in.

But the American farmers, especially those of the Mississippi Valley, are inescapably dependent upon foreign buying. The home market, in spite of the phenomenal growth of our cities, cannot absorb anywhere near all of the food and raw materials of our farms. Moreover, there is not even a remote probability that any possible increase in our industrial population will pro-

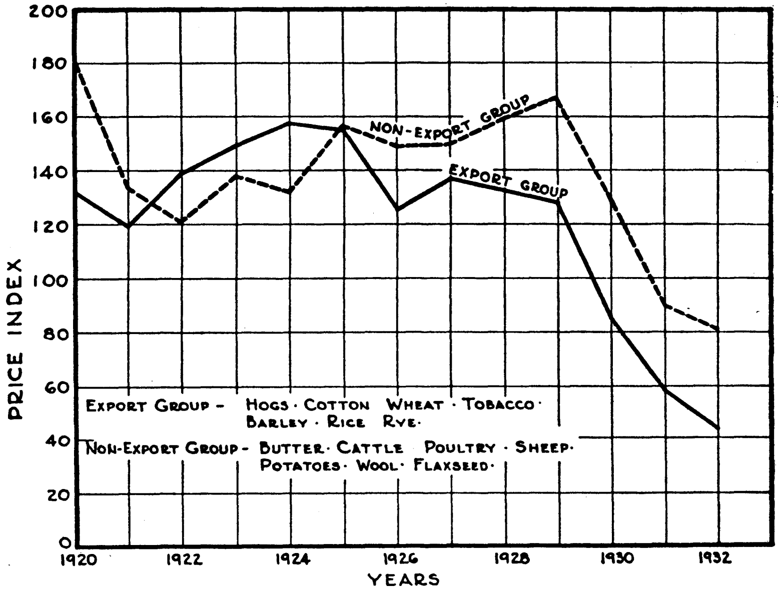

Fig. 19. A comparison of the general trend of farm prices of the export group and non-export group of agricultural commodities (index is a weighted average).

vide during the next decade or two a home market sufficiently large. Facts force us to accept the conclusion, whether we wish it or not, that farmers must continue to sell abroad or face wholesale liquidation. Temporarily, production may, of course, be checked and even reduced to something approaching a domestic

TABLE XL. CROP LAND REQUIRED TO PRODUCE AGRICULTURAL EXPORTS AND AGRICULTURAL IMPORTS THAT COULD BE PRODUCED IN THE UNITED STATES

Crop Land Required to Produce:	Acres	Percent of total
Agricultural exports (a)	65,000,000	18.6
Agricultural imports that could be produced in the United States (b)	15,000,000	4.3
Total crop land	350,000,000	100.

(a) This is the area used for the production of crop and animal products exported as estimated for 1922-1928 (55,000,000 acres) plus the area required to produce feed for the work stock used in producing our exported products.
(b) Obviously it is not advantaegous to undertake the commercial production of all the agricultural commodities imported, for instance, such tropical products as bananas, pineapples, coffee and rubber. This figure is the area of land that would be required to produce those commodities that are capable of being produced in this country at costs that are not excessive.
Source: L. C. Gray and O. E. Baker. Land Utilization and the Farm Problem. Misc. Publication No. 97, Department of Agriculture, 1930.

basis. But as a five or ten-year policy it is problematical whether or not this can be done. Observe the following figures. The crop and animal products of nearly one-fifth of our crop land were annually exported from 1922 to 1928. How low must prices fall and how long must they stay down before this 20 percent of our farm land is shifted or taken out of farm use?

ALTERNATIVE POLICIES

The foregoing analysis of our balance of international payments points to several alternative courses of action. In simplest terms they are:

1. Resume loaning capital funds to foreigners.

2. Decrease exports.

3. Increase imports.

Without attempting, at this point, to weigh the advantages and disadvantages of a tariff policy, these three possibilities, or a combination thereof, are open to us. At present, knowingly or otherwise, the United States is carrying out a policy the consequences of which can be none other than to decrease exports.

Throughout this study no mention has been made of the adverse effects of foreign tariffs, import quotas, milling restrictions, import monopolies and exchange control upon our foreign trade. All of these are bearing heavily on the export farmer, particularly since most of the trade restrictions enacted in the last three years have been on agricultural commodities. The removal of these severe restrictions would certainly ease the pressure against our wheat and lard and other farm products. But the fact remains, even though every foreign country were to remove all of its trade barriers, our export trade would still be doomed, unless foreign countries can sell in our market. Cotton, for example, has no tariffs against it abroad, and yet it, too, finds the foreign market without dollars with which to buy cotton.

For the next few years there is little likelihood that much money will be loaned to foreigners. The revival of our commodity exports by resuming our policy of loaning money is not very promising. Too many of our citizens, who hold foreign bonds, have taken unexpected losses. This is going to make it hard for some time to float foreign securities in America. In fact, as was indicated earlier, the capital movement, for the time being, has reversed itself. Some American investors are trying to return their capital to the United States. Instead of promoting our export trade, this action further stifles it.

The scaling down of foreign loans now in force, both private and public, would tend to relieve the pressure on dollars now required for incoming payments for interest and sinking funds. Such a creditor-debtor adjustment would help commodity sales abroad. It is not amiss to point out that the war debt is but a small part of our total creditor holdings. The outlook for relief to the export farmers from more loans to foreigners and from a scaling down of present investments of Americans abroad is certainly doubtful.

Another alternative is to decrease exports. This means adjusting production more nearly to a domestic basis. It involves shrinking the export industries to the point where imports, visible and invisible, will pay for our earnings on foreign investments, return on the war debt and, if a balance remains, for exports. Presumably, the shrinking process is automatic. Because foreign buyers are unable to get dollars to buy our commodities, the price of these commodities therefore falls to a point so low that a sufficient number of producers are forced out of these fields. Thus a new equilibrium would be created. It is needless to say that an adjustment of this kind in agriculture is extremely slow and socially very painful. Dislocations in agriculture require years to mend themselves.

The third alternative involves increasing imports. The important factor in such a policy would be the scaling down of our tariff wall. This does not necessarily mean free trade or an abandonment of protection. Such a policy calls for "enough of an increase in imports of diversified manufacturers to make it unnecessary for us to base our export trade on foreign loans." Lowering the tariff wall would force some tariff protected industries to shift to those business activities that can compete without prohibitive tariffs.

The choice is unmistakably between the second and third of these alternatives. As a nation we must either decrease our exports or increase our imports. One represents the demand for the other. The two must balance.

Thus far it has not been our expressed purpose to show which of these two alternatives is the better national policy. Our task has been to consider the consequences of our past policy. Their effects upon the export farmer have been pointed out. We have not, however, appraised the advantages of tariffs from a national viewpoint. That job remains.

Tariffs are intended to check imports. It is the protective aspect and not the revenue-raising feature of tariffs that is commonly stressed in Congress. What reasons are there for a nation to check, in fact, often prohibit, imports? There are many arguments advanced for tariffs. The more important of these will be examined in the following chapter.

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