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The Trend in World Economics

By ADOLPH LOWE

PUBLIC DISCUSSION of the economic future of the world is in full swing. After a period of gestation devoted to sweeping generalities and utopian blueprints for a world economy in the literal sense, we have now entered the realistic phase of planning for the immediate post-war period. Projects for currency stabilization, for relief and rehabilitation, for the development of backward areas, for reform of the commercial regimes follow one another in rapid succession. And it is no longer the exclusive privilege of private observers free from political responsibility to vent their opinions. The governments themselves of the leading United Nations have not only issued concrete plans of their own but are already negotiating about their application.

All these projects and blueprints have one essential feature in common. Whether they outline a whole framework for the future economic world order or refer to the technicalities of a particular field, they concentrate on forms of organization and means of policy. The ends of international economic reconstruction are taken for granted. Or, to put it differently, the current discussion assumes that mankind's road to welfare and peace will follow in the future the same direction that was envisaged by the progressive thinkers of the past.

The following observations are provoked by certain doubts as to whether these traditional assumptions are still a reliable guide to the understanding of the main trends in contemporary world economics. Should these doubts be justified, not only the means but also the ends of international reconstruction would have to be reconsidered. The importance

of international economic relations for the future order of the world might appear in an altogether different light.

Challenges to the Traditional View

FOR ALMOST TWO CENTURIES the leading schools in social thought have taught us that there is only one road to world unity and permanent peace. They have pointed to a process of evolution the driving forces of which are said to be economic interests and technological progress. With the cogency of a natural law, these basic material factors have led mankind from the social cell of the family and clan order to the tribe, the feudal region, up to the national State. During the last century, we have been told, this process has gathered irresistible momentum, propelled by the growth of international trade, the migration of men and capital, the assimilation of the forms of production and the standards of consumption, the conquest of space and time by the modern means of communications and the equalization even of political forms and social ideals.

This whole miraculous development is attributed to the simple principle of specialization. Since physical resources, human skills and capital reserves are unequally distributed over the earth, the material progress of mankind as a whole as well as of every region is conditional upon increasing division of labor and exchange. And we have now reached the point, the social evolutionists claim, where only world-wide specialization and corresponding integration into a true world community can guarantee the continuous rise and the regional equalization of the standard of welfare.

Now it would be absurd to deny the historical importance of this evolutionary process. Nor can we doubt, for the past and the present, the underlying cause, namely the inequality of resources among the different regions of the world, which indeed makes specialization the prime condition for

each one's sharing in the advantages of all the others. But this must not divert our attention from more recent yet no less powerful tendencies which, by gradually levelling out the varieties inherited from nature and history, are turning social evolution in another direction.

World-wide industrialization and the second industrial revolution are the watch-words under which a new economic era can be envisaged. The rapid expansion of international trade and migration has carried across the seas and lands the productive instruments for a new kind of regional self-sufficiency. To the detached judgment of a contemporary observer, the economic history of the nineteenth and early twentieth centuries appears primarily as a fantastic investment boom, during which the superior industrial nations have raised one backward region after the other to their own level of productivity. The increasing share of capital goods in the export of manufactured products—climbing to over 40 per cent in the period between the two world wars—reveals the magnitude of this development. Obviously this process cannot go on indefinitely, and its self-effacing effect has become noticeable even while it continues. It is reflected, for example, in the absolute volume of the world export in consumer goods, which shows, if anything, a decline over the last thirty years. Predictions about a “natural” upward trend in the world trade of industrial products have thus become somewhat dubious.

At the same time, recent electro-technical and chemical progress tends in the long run to reduce distant trade also in raw materials and even foodstuffs. Even before the first World War, electricity had helped to locate industries in regions without local power supply. Since then, synthetic chemistry has been progressively replacing the slow work of nature in building up the raw materials required in industrial production. By substituting the ubiquitous and un-

limited elements of the chemical world for the localized and scarce products of geological and biological evolution, the new technology seems to hold out, for every well-populated region, a situation of "productive autarchy."

To be sure, we are still a long way from a state of affairs in which the conditions of production are truly equalized all over the world. Man has not yet completed his struggle for emancipation from the fetters of nature and history to the point where international exchange would not give him material benefit. But the facts alluded to demonstrate, at the very least, that the modern economic and technological process is ambivalent. Its centripetal energies are still in operation, particularly in the realm of communication, which, paradoxically, is also the realm of potential destruction. But strong centrifugal tendencies are spreading in all fields of production proper, opposing the trend toward an integrated world economy.

A New International Division of Labor

IT IS A RISKY ENDEAVOR to make concrete predictions on the basis of ambiguous trends. I shall therefore confine myself to drawing only a few conclusions, all of which can be traced back to the actual experience of the last decades.

The further spreading out of industrialization and of synthetic production is bound to reduce the demand for imports of staple goods, both manufactures and raw materials, not excluding the staple products of capital goods industries, especially in the field of iron and steel. Conversely, it is specialties, industrial and agricultural, which promise to dominate international exchange in the future. Their production will be based on regional advantages of a climatic, geological or cultural nature, which are strong enough to resist the impact of modern technology. Some new privileged positions may even be created by scientific advances, particu-

larly where technological processes require specific basic materials like mineral ores or oil.

In stating this general pattern of future world trade I am only extrapolating the tendencies which have prevailed for a long time in the exchange relations among the leading industrial nations. There, trade in specialties has gradually replaced the former exports of staple goods. But have not Britain and Germany nevertheless remained each other's best customers? Is not what we have to expect a change in the composition rather than in the aggregate size of world trade?

A correct reading of the available statistical data lends little support to such a simple solution. First of all, in recent decades no more than one-third of world trade in manufactured goods has been exchanged between predominantly industrial countries, that is, between the principal regions that trade in specialties. Moreover, the absolute volume of these transactions has continually decreased over the last thirty years. But even if this tendency were to change, and if, in addition the future volume of trade in specialties were to equal or even exceed the former exchange of industrial staple goods, this would not tell us much about the trend in world trade as a whole. More than 60 per cent of total world trade has always consisted of raw materials and foodstuffs. These basic commodities have traditionally played an important part even in the trade relations between the most highly industrialized countries. Accounting for 50 per cent of British exports to Germany, and for 25 per cent of German exports to Britain, they have been instrumental in maintaining exchange between these two countries on its high level. For this reason the future volume of world trade will be primarily determined by the effect of modern technology on the international exchange of foodstuffs and raw materials.

During the quarter of a century preceding the first world war, world production and international trade grew at more

or less the same proportion. During the following twenty-five years production increased three times as much as trade, and progressive industrialization and the second industrial revolution are strengthening this tendency. Therefore all symptoms speak for a slowing down of the development of international trade, if not even for an absolute shrinkage in the long run. Physical volumes will probably be affected more drastically than value, so that the repercussions will, first of all, be felt in the fields of transportation, primarily in shipping.

But even if all we had to prepare for were only a change in the composition of exports, the consequences, above all, for the industrial countries would still be grave. For decades the less developed regions of the world have acted as stabilizers for the economies of the leading nations. By exporting staple products temporarily unmarketable at home, the latter alleviated their periodic depressions and thus spared themselves the economic losses and social upheavals of industrial reorganization. It is hardly an overstatement to say that the absorptive capacity of the world market for these recurring surpluses was a basic condition for both the economic progress and the regime of free enterprise prevailing during the epoch of high capitalism.

The progressive industrialization of the world, itself largely the result of such emergency expansions on the part of the leading countries, is bound to close this safety valve. Not only will domestic output more and more replace imports of staple consumers goods, but the national awakening of the backward countries, which accompanies the self-destruction of Western supremacy in two world wars, is also reducing the security and profitability of foreign investments. The space for peaceful expansion is shrinking, and stabilization of the industrial economies becomes a task for a domestic policy of planning.

Alternatives of a Long Term Policy

IF WE KEEP to the broad outlines of the problem, in the long run the industrial nations will have only two alternatives left for adjusting themselves to the trend in international economic relations. Either they can try to maintain their present industrial structure by gradually withdrawing from the world market and catering instead to a rising home demand for the bulk of their former exports. Or they can reorganize part of their domestic production in the direction of specialties, thus preparing for a new international division of labor.

The former alternative is, under present conditions, open only to two countries: the United States and Russia. Russia practically pursued such a policy for twenty years and is likely to continue it after a brief interval of reconstruction. Being master over the tastes and incomes of consumers no less than over the means of production, the Bolshevik regime can, and for political reasons probably will, aspire to the highest possible degree of autarchy.

Her natural resources and technological potentialities allow the United States to follow a similar course. It is true, one-sixth of international trade goes from or to the shores of the United States, and American exports during the later thirties exceeded even those of Britain. But in recent decades these exports have never represented more than 6 per cent of domestic production, and a successful policy of full employment is likely to absorb at home an even larger part of the national output. Moreover, technological progress during the war has made this country practically independent of essential imports, at least of imports from outside the Western Hemisphere. Again, it is true that with a prospective national income of 130 billion dollars immense sums will be available for capital export and development of backward countries. But a planned policy of home investment may find sufficient outlets for this capital flow.

I shall set out below a number of reasons why a policy of economic isolation on the part of the United States is contrary to her political interests and certainly to the welfare of the world as a whole. But this must not prevent us from realizing that, without any fundamental change in her industrial structure, the United States can pursue such a policy provided she successfully plans for a rising level of mass consumption. No such opportunity exists for Great Britain or the industrial countries on the European Continent. For this, lasting import demands are no less responsible than are the excess capacities of their export industries. It is unlikely that even revolutionary innovations in agriculture will ever make Britain independent of imports of cereals for human and animal consumption. With regard to this whole region the same is true of essential raw materials, notably those for textiles. Even an economic unification of the area between Eire and the future borders of Russia would not dispense with such basic import demands.

Nor would Paneuropa create substitute markets of a sufficient size for the industries of this area, if the export outlets into non-European regions should ever be definitely closed. In 1929, when international trade was at the highest peak ever reached, half the exports in manufacture originating from industrial Europe found their markets in non-European countries. The fate of the British coal and cotton industries between the two wars is symptomatic of what every European staple industry would have to undergo once these markets were definitely lost to it. No more encouraging are the means that the continental steel industries applied in order to manipulate their excess capacities.

The conclusion is obvious. Stimulation of home demand will not suffice to maintain the prevailing structure of industrial Europe. Rather, the success of any policy of full employment in these countries will depend, in the long run,

on the reorganization of industrial production by substituting modern finishing industries for traditional staple production. The famous "South-migration" of British industries during the twenties has shown the direction of such reconstruction. What it really implied was not so much a change in the geographical location as a gradual shift of the center of gravity, from coal, textiles and shipbuilding to the chemical and electrotechnical industries, automobiles, paper, glass and similar specialties. Impressive as this transformation was, particularly since it grew from private initiative only, it was no more than a start. Though the new industries raised their share in British exports considerably, the latter never exceeded 75 per cent of their pre-world war volume. Moreover, the exigencies of production in the second world war have now largely annulled these beginnings.

A similar problem of reorganization confronts the agricultural regions of the earth. One of the probable consequences of the present war in Europe will be the expansion of small-scale farming in Britain and Central Europe, and therefore an increase in the domestic supply of livestock and dairy products. The repercussions of this development will be primarily felt in the smaller agricultural countries of Europe itself. For the non-European exporters, world demand for cereals and tropical products is more important. This demand is likely to persist but, in view of the population trends in the West, it is unlikely to grow, before the large latent demand of Asia becomes effective, which in itself depends on the tempo of industrialization in these regions.

In order to do justice to the significance of these trends in world economics we require a much more careful and detailed analysis than is possible in the present context. But even this very rough sketch indicates a pattern of the future international division of labor which is in marked contrast with the pattern developed during the nineteenth century. Then it

was regarded as "natural," and the same notion still persists in representative European minds, that one-sixth of mankind, clustered along the shores of the Atlantic, owned the world's workshop and exchanged, on highly favorable terms, part of its output with the rest in return for the products of the earth, claiming on this economic basis political and cultural leadership. In fact this state of affairs was the product of history and had grown out of the advance of Western Europe in science and technique as well as in political organization. What is more important, it was a passing phase in an evolutionary process which, by promoting world-wide migration of men and capital, was bound to transform this unstable economic balance of power.

In the crises of two world wars, the distortions of economic nationalism and the struggles of the non-Western civilizations for political and cultural emancipation, the outlines of a new pattern have become visible. By gradually conquering the industrial supremacy of the West, by mobilizing the latent resources of nature and human skill all over the earth, the economic activities of the different regions begin to converge more and more, and the "gaps in comparative advantage" (Robertson), on which the profitability of international trade depends, grow narrower and narrower. A continuous rise and a more equal distribution of material welfare appears compatible with a much smaller degree of international division of labor, which only indicates that the volume of world trade measures man's failure rather than his success in mastering his environment.

Only in passing should it be added that such an economic development may well become a better promoter of peaceful political and cultural relations between the peoples of the earth than was the world trade regime of the nineteenth and early twentieth century. We must not forget that the prevailing system of international trade has been shaped as

much by aggressive expansion, thriving on dumping, monopolization of markets, colonial exploitation and other forms of political pressure, as by legitimate division of labor between voluntary parties to exchange. We may well have had too much of the former sort of economic relationship to further true international understanding.

In sketching this line of development, I may seem to side with Alexander Hamilton and Friedrich List rather than with Franz Oppenheimer, to whose memory these observations are dedicated. There is no doubt that Oppenheimer deduced, from the unequal distribution of resources which he regarded as a social and technical invariant, and from the progress in transportation, the early advent of a fully integrated world economy.¹ Nevertheless the present divergent hypothesis fulfils equally well his basic criterion for the optimum of social integration: that it should not go beyond what is necessary for the optimum utilization of resources.² Above all, that passionate champion of federalistic organization in all fields of social life would have been the first to denounce as dubious psychology the expectation that perfect concord is best assured by a maximum of dependence.

Agenda for Post-War Reconstruction

THE EVOLUTIONARY TENDENCIES recognizable in the present interplay of economic and technological forces are a fascinating problem for the study of world affairs. But even greater is their practical importance since they form the frame of reference for any successful policy of international post-war reconstruction. This is not the place to follow up the ramifications of such a policy. The new trends will have to be investigated in much greater detail before a comprehensive picture can be drawn. Therefore we had better confine ourselves to some obvious conclusions:

¹ *System der Soziologie*, Vol. III, pp. 275-7.

² *System der Soziologie*, Vol. I, pp. 1102-3.

1. The long period tendency of a falling ratio of international trade in the aggregate of world production is bound to enhance everywhere the importance of the domestic market relative to exports. The implications of this development are twofold. On the one hand, the stability of the national economies will depend more and more on the level of consumption and the rate of investment at home. In view of the shrinking range of expansion this is especially true of the highly industrialized countries. In them, domestic policies aiming at a high level of employment will gain precedence over any measures of foreign economic policy.

On the other hand, an orderly state of international economic relations will itself depend on the stability of the home markets rather than on commercial regimes and other technicalities of international economics. So long as the national markets are constricted by a low standard of living, and are abandoned to the vagaries of the business cycle, neither free trade nor the ingenious tricks of modern protectionism will establish harmonious relations. The temptation to dump unsaleable surpluses on the world market and to shut off the home market from superior competition would prove irresistible. The vicious circle can be broken only from within by providing, in the leading countries, first of all, for a high and steady level of domestic consumption.

2. Still, it must be admitted that in such important areas as Britain and the European Continent west of Russia, import demands for essential foodstuffs and raw materials will, for a long time to come, make domestic employment itself dependent on international exchange. For this reason the industrial structure of those regions will have to be reorganized in such a way as to allow for a new international division of labor. This implies a reduction of staple industries in favor of finishing industries and of the production of specialties requiring a high degree of skill or technical organization.

Rehabilitation of the devastated areas will have to proceed with these long period trends in mind. The tragic disaster of the air war over Europe is removing one of the major problems of industrial Europe: the overinvestment in heavy industries and their excessive local concentration. At the same time, by spreading out her industries into Central and South Eastern Europe, Nazi Germany has unwittingly contributed to the equalization of the conditions of production on the Continent. This does not mean that each single plant recently established in this area will prove a permanent asset. On the contrary, international assistance in maintaining and expanding these emergency investments will have to be apportioned according to their contribution to a new inter-regional division of labor.

The physical destruction of the war is befalling the very areas which are in need of industrial reorganization. This, together with the fact that reconstruction can be achieved only with foreign help, creates a unique opportunity for large-scale and long-period investment planning. Neither economic nationalism nor feelings of revenge nor short-term interests of investors must interfere with the supreme goal of reintegrating industrial Europe within itself and with the wider world.

3. The rehabilitation of Europe and Asia is certain to swell the export figures in all categories—foodsuffs, raw materials, consumers and producers goods—during the first few years after the war. There is great danger that this transitory boom in international trade will be misinterpreted in the exporting countries, and will lead to malinvestments as was the case with agriculture after the first world war. If, however, this mistake can be avoided, these emergency demands and even more the development of the productive resources in backward countries will have a very beneficial effect on the old established industries, especially of Britain and also of the

U. S. A. A breathing space will thus be provided during which the conversion not only of the war industries but also of other overexpanded staple industries to long-period peacetime production can be completed.

During the early stages of industrialization import demands for mass consumption goods and staple equipment are usually high. Therefore curtailment of the corresponding industries in the exporting countries can be gradual, sparing the former investors excessive losses. Extended over a period of one or even two decades, the whole process of reorganization in the old industrial countries should not prove difficult, provided that its inevitability and direction can be made as evident to investors and guardians of economic policy as was the trend of expansion during the nineteenth century.

4. If the foregoing conclusions are valid the position of the United States in the post-war world economy will be rather complex. As was stated above, she is technically in a position to withdraw progressively from the world market in favor of an economic regime of thoroughgoing autarchy. Her unique status of combining the largest share in world exports with the smallest export ratio of all industrial countries even makes it possible for her to couple a policy of self-sufficiency with economic imperialism: by exchanging her export surplus for property titles in the importing countries. There being no other source of large capital exports, no economic power will exist in the post-war world which could break so despotic a rule by the United States over the world market.

The picture looks different if political considerations are taken into account. Even post-war America will not be strong enough to stand alone. A new isolationism would have to include not only the whole Western Hemisphere, but also West Africa and the Western Pacific. Colonial problems of a novel kind and, above all, an economic settlement with Latin America, could not be evaded. Much wider will

be the international economic commitments if a permanent alliance is concluded with Britain. If, moreover, the Moscow and Teheran Declarations are to be translated into reality, the United States will have to take the lead in reconstructing as well as in developing the distressed areas of the world. This implies not only capital exports of gigantic dimensions but the opening of the domestic market to industrial imports and a fair arrangement on the division of export markets with her strongest competitor: Great Britain.

A policy of international co-operation promises also economic returns to the United States, since it will certainly facilitate her return to peace-time conditions. From the point of view, however, of the successful reconstruction of the Old World and the political stabilization of the globe, such a policy is not only desirable but indispensable. Being the only world power which is not committed by her economic structure either to autarchy or to high pressure internationalism, the United States will be free to lead the new trend in world economics.