

Cartels and the Future of World Trade

By WENDELL BERGE

Japan has now joined Germany in unconditional surrender. This climax of a war which has absorbed so completely the lives and energies of millions of people marks the beginning of a new phase in modern history.

In this new era we will encounter many perplexing issues. Both in domestic and foreign affairs difficult choices will have to be made. We shall be required to make decisions critical to the welfare of our people and vitally important in determining the future direction of international relations.

We in America have a singular responsibility in the organization of peace. To achieve full employment for our own people it is imperative that we participate in the rebuilding of world trade. Given the political framework of cooperation with other countries which has been set up at San Francisco, it should become possible to strive for economic conditions upon which enduring peace primarily depends. In this task, the economic policies of the United States will possess a major, even a decisive influence.

America's role in the world economy is therefore inescapable. If the world economy is to expand, if standards of living are to be raised here and abroad, the volume and variety of world output must increase. If we are to maintain full production, our industries must have access to world markets. If we expect to export, we must be prepared to import. If we would promote peace we must stimulate the exchange of goods, of services, and thereby of good-will and mutual understanding.

The achievement of these aims is a challenge to our ability, and a test of our belief in the processes of democracy. And it represents an opportunity to insure that the hopes and efforts expended in the war will result in the creation of a world in which such sacrifices

are no longer imposed. In concrete terms this means among other things that the United States, together with the other United Nations, must strive to eliminate one of the root causes of world upheaval by removing economic restrictions which produce continuous economic warfare.

The striking degree to which the mutual interests of this country and its Allies coincide with respect to the need for greater freedom of trade is obvious when we consider the immediate post war years. The vast areas which have been scorched and devastated by war must be reconstructed. Nations which have suffered grievous impairment of industry will desire to buy large quantities of capital goods, industrial equipment, and new products. Our manufacturers will find world markets clamoring for commodities and willing to accept them on favorable terms.

It is fundamental to remind ourselves that much as other nations need and want American products we cannot continue indefinitely to export unless we also import. In the long run the goods which we sell to the world can be paid for only by the goods which we are willing to take in return. It is unfortunately easy to forget that international trade is precisely that—an exchange of one group of products for another group. That is how trading begins, and that is ultimately the only basis on which it can continue.

From the same standpoint, it is possible to see the cause and effect relationship between domestic production and trade. The amount of imports which we take is directly governed by the rate of our own output. In short, full production, increased exports and increased imports form a triangle of trade, in which the dimensions of each activity complement and determine the others.

Errors of the Past

To go beyond this limited perspective, the paramount importance of establish-

EDITOR'S NOTE. Wendell Berge is Assistant Attorney General of the United States and Head of the Anti-Trust Division of the Department of Justice in Washington.

ing a sound basis for a renaissance of the world economy is indicated by past experience as much as by the prospects of lasting gain to all nations. In the mirror of recent history we can perceive clearly the sequence of errors which frustrated victory in 1918, making the Armistice an interim and in the end destroying peace once more.

By failing to come to grips with the fundamental maladjustments in the world economy at that time, or to displace an economic philosophy of restriction by progressive collaboration toward equity and freedom in trade, the Allies of 1918 forfeited their chance to revamp and to liberate the world market. By substituting political formulas for economic solutions, they sought to evade the problems of an industrial society in flux.

What consequences ensued? Goaded by narrow economic nationalism, the major powers reverted to a system reminiscent of the Middle Ages, with economic moats and walls in the form of prohibitive tariffs and quotas blocking the channels of exchange. At the same time, because public governments omitted to do anything about them, private governments moved into the wasteland of international trade and set up the fantastic structure of international cartels.

When the violent cycles following the war spun us from a precarious boom into the great depression, international trade slid rapidly into eclipse. The crisis in trade not only reflected and magnified the desperate domestic situations of countries linked to world markets, but became the central factor in the deterioration of world peace. An economic setting dominated by privilege, by monopoly, by discriminations and restraints offered an invitation to aggression. Consequently, when tyranny appeared on the scene the stage was set for war. War followed.

It is valuable to revisit the past only because we can acquire some insight into what might happen in the future. We learn from studying the past that economic policies which promote world trade are vital to the health of the world

economy and essential to the perpetuation of peace. We see that advantages gained by restrictive economic practices are fleeting and costly. Moreover, what may begin as a point-counterpoint of economic strategy in the calculated use of restraints easily assumes the grim aspects of a struggle for existence. The economic aftermath of 1918 which disrupted world markets and permitted cartels to dominate industry and trade was the direct outgrowth of failure to establish the conditions of security or the effective means of economic collaboration.

We are confronted by parallels, as well as by contrasts at the present time.

Our determination to provide the machinery of cooperation is now acquiring formal expression. Our desire to approach arrangements which will give all countries access to markets and materials is a matter of record. We should seek to promote realization of the principle that good bargains benefit all parties to the transaction. This is the object of exchange.

Removal of Trade Barriers

If we consider the specific elements which enter into our economic relations with the rest of the world, it is clear that the removal of artificial barriers to trade has first place on any agenda for progress. In the pursuit of this end, we shall not be instituting a novel or untried method. Our reciprocal trade policy began before the war, and although it could not by itself stem the tide of international restrictions, its success affords ample ground for the belief that governmental restraints on exchange can be substantially reduced. It is particularly necessary that if our opportunity to abate official limitations on commerce is to be grasped at the end of this war, reciprocal agreements must be promoted.

It is not sufficient to seek to increase exports unless we also assess those parts of our tariff system which unwisely obstruct a beneficial volume of imports. Tariffs which leave no routes for the circulation of goods into our economy from

other sources choke off the arteries of exchange for our own products.

In proposing that we subject our tariff policy to a thorough critique, there is no intention to engage in hasty or ill-advised abandonment of necessary safeguards. Even in academic quarters the theoretical proponents of complete free trade recognize that tariffs are a legal prerogative and often a useful tool of government in coping with the complexities of modern industry. National interest in its largest sense of security and welfare may counsel the careful application of tariffs to particular situations. But tariff policy as a whole must be flexible, capable of adaptation to a changing economic environment, and directed toward the promotion of a balanced internal productive system within the broader scale of a well-adjusted world economy. From the most liberal point of view there are few tariff issues which cannot be successfully resolved if the various governments act in concert and in mutual good faith.

The Role of Cartels

The best intentions and the most sincere cooperation of governments will be thwarted, however, if great areas of world industry and strategic positions in world trade are left to the ministrations of cartels. The chronicle of the last twenty-five years is replete with case studies of the pervasive and ruthless influence of cartels upon the growth of industry and the character of international economic life. During the present war, we have uncovered the dark pages of cartel activity. We are familiar with the cartel attitude that where public policy runs counter to the desires of international monopoly, public policy must give way or be circumvented by collusion. We know that the economic theory on which cartels operate is the doctrine of scarcity for the many and privilege for the few. Cartels believe in unlimited authority for themselves, but oppose opportunity for new enterprise. They fear competition and they fear change. They employ every re-

course to destroy freedom of the market and they exert all possible means to control or to suppress technological development.

No amount of earnest desire on the part of publicly-constituted authority to foster international cooperation and to raise standards of living through trade can be successful if cartels are permitted to divide and rule basic world industries. Scientific progress and the continued development of dynamic sectors of production cannot accrue to the benefit of the underlying population if cartels are in a position to dominate research, to check new enterprise, or to exact unconscionable prices.

In the field of foreign economic policy the conduct of cartels is not simply unhealthy; it is dangerous. The sinister manipulation of cartel arrangements by German interests and the unwitting or misguided acquiescence of cartel partners in democratic countries in the schemes of Axis members must not be forgotten. In Germany, cartel groups were among the earliest and the strongest supporters of the Hitler regime. When Nazism gained ascendancy, German cartel groups became willing agents in the industrial offensive which preceded the military phase of aggression.

Cartels During the War

The uneasy and ambiguous status of concerns entangled in monopolistic alliance with German cartel groups became public knowledge at the outbreak of the war. One shortage after another was traceable to the combined effects of monopolistic restrictions on output and deliberate efforts by hostile cartel interests to hamper our industrial preparedness.

Even more important, the annals of cartel dealings have impressed on public consciousness the lesson that where international arrangements regulating trade are necessary, they should be worked out on the level of sovereign governments. Where cartels rise to power in economic affairs and are able to enter private agreements affecting the industrial welfare of nations, they become

prime movers in the course of political events. Representative governments cannot function successfully in the political sphere if fundamental economic decisions are being arrived at by secret, private accords among groups of international monopolists concerned only with their own privileged positions.

The cartelization of industry is thus a simultaneous threat to the survival of free enterprise, the reconstruction of world trade, and the ultimate prospects of peace. An economic world dominated by cartels is fertile ground for the seeds of international suspicion, distrust, and intrigue. The aggravation of international differences which might otherwise be overcome tends to increase when public policy of government is annulled by the conduct of powerful industrial groups acting secretly.

Can Cartels be Controlled

There are today some voices advocating the rationalization of our economic relations with the rest of the world, either according to some system of cartels controlled by government, or according to some plan for complete governmental direction of all foreign trade. Under either design for monopoly free enterprise could not survive. The assertion that we must either tolerate participation by American firms in cartel agreements and cloak them with the dignity of public acceptance or find American products driven from the market will not withstand analysis. In none of the major industries which have been subject to cartel rule, such as chemicals, metals, electrical equipment, or drugs, and in no branch of production where our industries are vigorously represented, could cartels function effectively without American membership.

In addition, there is increasing evidence that in those countries whose economic fortunes and political security have been seriously jeopardized by cartel activities the people have become alert to their significance. By carrying out the principals of free enterprise here we shall hearten and support cartel-ridden

countries as they work toward economic democracy and growing freedom of opportunity.

When it is argued, with deceptive persuasiveness, that international trade must be "rationalized," it is well to recall that rationalization was the excuse offered by cartels for restrictions otherwise indefensible on economic grounds. Rationalization under the guidance of cartels is a favorite mask of monopoly. Not many people will be convinced by such transparent stratagems of the wisdom of sanctioning cartel arrangements by regulation. The scope of regulation involved in such proposals would lead inexorably to the complete supervision of production and distribution not only in foreign trade, but necessarily in our domestic economy.

With respect to those who bluntly espouse outright governmental control of trade, it is sufficient to state that whatever name we might give to such a policy, it would not be democratic in conception or execution. On the contrary, the degree of regimentation entailed in such circumstances would signalize the disappearance of free enterprise and therewith the economic foundation of our political liberties.

No matter how impressive its facade, or how elaborate its organization, no apparatus of control which has as its basic purpose the restriction and contraction of the free market can serve to increase the total volume of trade. Systems of barter, whether they are used as pawns in power politics or whether they are employed for ostensibly high ends of economic stability, are fundamentally uneconomic and impracticable in the long run. They engender much more profound dislocations of production than they can possibly correct. It may be added that discrimination in foreign trade, like discrimination in domestic markets, is no more palatable when enacted by public authority than when it is imposed by private monopoly. In either case, another burden of restraint is carried by business, by labor, and by the consumer.

Economic Nationalism

The belief that greater freedom of trade would mean international anarchy and chaos is untenable in theory and unrealistic in fact. Freedom of trade among forty-eight states does not produce anarchy. It produces effective cooperation among different economic regions of the country. In world markets, it is cartels and prohibitive tariffs which are the occasion and the means of economic warfare. Not free competition, but quotas and controls of every type reduce international trade to the level of a struggle for survival. Consequently, the appeal to the instincts of narrow economic nationalism and the invocation of defensive and offensive tactics are responsible for the continuation of strife.

Economic nationalism of this order is the outgrowth of political insecurity. When nations live in constant fear of aggression or danger of attack by others, they seek economic autarchy. They join in economic blocs. They spend their substance in preparation for war to a point that puts them far out of economic balance. It is for this reason that the political organization of peace is so crucial. Only when international security is firmly established will the network of tariffs and subsidies for artificially maintained industries begin to disappear, to be supplanted by sensibly limited protection for those enterprises essential to national defense.

Because the ultimate aims of world trade cannot be promoted either by private cartels or by closed markets, policies which conflict with fuller production and freer distribution involve grave risks. The economic burden under which world population lives and works can be lightened only by raising the level of output, by making more goods available at lower prices, and by providing for a maximum of distribution and exchange. If trade policies distort these aims by permitting unwarranted restrictions to accumulate, the danger of war cannot be long forestalled.

On the same basis it must be realized

that the industrially backward nations, containing the majority of the world's population, cannot be expected to sit idly by or meekly to accept an inferior economic status and low subsistence standards of living.

Financial Reconstruction

As the war subsides and we begin to build anew the working machinery of collaboration, monetary measures must be devised to expedite the flow of trade. It must be kept in mind that business leaders, trade experts, and governments alike regard the reconstruction of international financial conditions as a primary step in making possible a revival of trade. The problems of international finance appear highly technical and mysterious but in essence they are readily understandable.

The various media of exchange must be operated so as to perform the functions for which they are intended. This means that they must be made to facilitate international transactions, and must not be allowed to impede the movement of goods in world markets. After the last war, the international monetary system underwent spasmodic deterioration. The progressive depreciation of currencies, periods of exhausting inflation and paralyzing deflation all contributed to the financial collapse which brought trade to the vanishing point. In all countries, the repercussions of these events intensified the ensuing depression. It is almost unnecessary to point out that when international finance becomes a whirligig, its impact is felt by the man who is thrown out of employment even more keenly than it is by investment capital.

In order to prevent if possible the recurrence of financial catastrophe, it is proposed by The Bretton Woods plan to attempt the achievement of sound financial conditions. An international fund for the stabilization of currencies and a bank for reconstruction and development would be established. As cooperative international agencies these two institutions would endeavor to clear

unnecessary financial obstacles from the avenues of trade. International investment and the uninterrupted passage of goods would be accelerated. Efforts to provide such facilities for trade are fundamental to a healthy resumption of exchange.

Fabric of World Trade

As we survey the panorama of international economics which has been sketched in this broad outline, it is evident that there is no single panacea for future world trade. Our political and economic relationships with the other countries of the world and theirs with us compose a closely-woven tapestry in which the issues of tariffs, cartels, finance and investment, new industries, military security, the general welfare and opportunity for the individual are tied to each other in a common destiny.

Frictions and disturbances at any one point quickly unravel the entire fabric of interdependence. In effect, this means that our policies must be drawn from many different perspectives and applied to particular situations with regard for the whole pattern of which they form a part.

It is in this light that we must examine the argument that if we work for the increasing freedom of international trade from artificial restrictions we shall injure our standards of living and bring into existence industries which compete with our own producers. This attitude is contrary to our own vital traditions and to our experience. It is based on the fallacy that a world impoverished by war—a world which has not yet begun to provide a universal level of living consistent with the needs and wants of mankind—produces too many goods and services. Only as we lift the volume of production and exchange can living standards be raised here or abroad. Only as markets grow can American industry prosper.

As trade acquires greater freedom from restraints, the tendency toward regional specialization would undoubtedly shift some types of production and redistribute

or decentralize some industries. As the development of our own national economy illustrates, these are long-run trends and they result in beneficial adjustments.

If alternative policies stemming from special privilege or perpetuating monopoly restrictions are allowed to dominate our conduct or that of other countries, the prospects are scant indeed that we shall attain the kind of world economy which modern technology makes possible, or a political climate in which there are no clouds of war.

If the solidarity and good-will among the United Nations which has enabled us to defeat Germany and besiege Japan can be preserved and carried over into post-war affairs, no barriers to trade will prove insuperable. With creative imagination and mutual understanding international trade and exchange can give a tremendous impetus to human progress. The more nearly we approach greater freedom of trade the more directly will America's own welfare be served, for it is still our historic objective to be a free country in a free world.

Labor's Interest

The stake of labor in preserving a free competitive economy is especially great. An expanding economy means more jobs. A restrictive economy means less jobs. Cartels and artificial trade barriers create restrictions which curtail production and raise prices, thus cutting down the purchasing power of the consumer's dollar and lowering the standard of living. The living standard of the laboring classes, as well as of all the people except the privileged few, can best be raised and secured through policies that promote the fullest production and widest distribution of goods. Some misguided people have in the past thought that labor's interest lay in the furtherance of restrictive policies. But I think there no longer can be any doubt, in view of the exposures of cartel and monopoly activity in this country with consequent effect upon the standard of living that those people who advocated re-

striction as being in the best interest of labor were dead wrong.

Private pressures for restoration of monopoly controls are at work now, and no doubt they will increase their activity as the demobilization and reconversion program progresses. The surplus plants and property which will shortly become available for peacetime uses furnish a unique challenge and opportunity to free enterprise and to American labor and consumers. But these plants and property also furnish a tremendous temptation to monopolists and cartelists who are bent on preserving and strengthening

their positions of control. These monopoly and cartel forces will campaign actively, sometimes through avenues not readily recognizable, to sabotage enforcement of the antitrust laws and to influence governmental policies affecting the future control and operation of America's great industrial resources. Whether these forces succeed depends upon the alertness of the American people and upon the strength of their determination to use the great opportunity that lies ahead to further the economic interests of ALL the people, rather than just a few.

The Future of Labour

By M. H. HEDGES

THE second violin holds an honorable place in the modern orchestra. It is true that the second violin does not receive as much pay as the first. Moreover, the second violin never achieves the esteemed place of concert master. But no one speaks in derogation of the performance of the second violin; and the composer writes in the lovely alto just as he lavishes care upon the soprano lead. All this is changed, however, when the phrase "second violin" is debased to the vernacular of "second fiddle." To play second fiddle is not to play second violin. The second fiddle has come to mean, with the people, a low, secondary position, of mean rank, not at all comparable to the first violin. To play second fiddle is to be inferior.

To borrow the metaphor, labor has played "second fiddle" in industry, in history, in government, and in the community since the dawn of time. The interior history of labor, from the beginning, has been the story of how a class has endeavored to quit playing "second fiddle." How an entire economic group,

upon a large scale, could pass from a position of inferiority to a position of superiority is labor's glorious tradition. What progress labor has made in this direction is not inconsiderable, but that progress has been enormously slow, tortuous, and discouraging.

It has led to violence and wars, and viewed from the vantage point of the human spirit, it has not paid dividends. The modern state of Russia is the end-product of one kind of logic in the long struggle of labor to transform itself. But one-half of the industrial world looks upon Russia with repugnance and a portion of the other half does not recognize the modern state of Russia as labor freed, but as labor transformed into bureaucracy. Certainly the influence of Stalin—of Russia—upon Mussolini and Hitler was not salutary; certainly no country in the world to-day would wish to emulate the Russian state in all things.

In another direction, labor to-day is not in an enviable position. Take the United States of America, an advanced industrial society, with a high literacy level. Despite the fact that the labor movement in the United States has advanced from a membership of four

EDITOR'S NOTE: Marion H. Hedges is Director of Research for the International Brotherhood of Electrical Workers with headquarters in Washington.