

article, but with certain changes. The hospital and health centre construction section is omitted, presumably because the Committee on Education and Labor has just reported out favorably a separate measure to provide such grants, namely S. 191, the Hill-Burton bill. The new bill has a separate part dealing in full with grants to the States for medical care of needy persons, authorizing \$10,000,000 for the first year of operation of the program and whatever is necessary thereafter. The prepaid personal health services provisions remain essentially the same, except

that no mechanism is actually included for raising the necessary funds through an increase in the Social Security tax; it was by omitting this taxation feature that it was possible to have the bill referred to the Senate Education and Labor Committee, of which Senator Murray, a sponsor of the bill, is chairman. In addition, the cash disability indemnity section has also been omitted. It is understood that it will be included in the legislation which is expected to follow President Truman's coming social security message.

U. S. Commercial Policy

By ERNEST DALE

EDITORS NOTE:—

At present trade negotiations between Canada and the United States are going on aiming to facilitate exchange of goods between the two countries. The difficulties are many and the outcome is still uncertain. The author of the following article, a young American economist, formerly with the Economics Department of Yale University, now with the American Management Association, presents the views of the internationally minded section of American public opinion, pleading for a reduction of existing tariffs.

THE Canadian public has not yet taken cognizance of two recent events which may mark a turning point in United States international trade policies: the recent renewal of the Trade Agreements Act and the new power of the United States Administration to reduce tariffs to 25 per cent instead of 50 per cent of the 1934 level. Both measures provide an unique opportunity to add to the well-being of the United States as well as to that of the rest of the world by starting an all-round reduction of tariffs and thereby removing the world's chronic dollar shortage and increasing the volume of international trade. Next to the maintenance of peace and employment the liberalization of trade regulations is the most important post-war objective. If

we are not to fail again, we must act on the truth that the prosperity and happiness of one country promotes that of others.

One of the greatest obstacles to a flourishing international trade used to be the lack of dollars of much of the rest of the world. From 1922-1938 the average annual dollar shortage of countries other than the United States amounted to \$500 million. With the onset of the Great Depression American loans suddenly stopped and the world's dollar deficit was no longer covered. America worsened the situation by the imposition of the Hawley-Smoot tariff increases in 1930. In an effort to meet their growing dollar deficits, the other countries raised their tariffs and imposed exchange and import restrictions. The resulting reduction in world trade and employment was a major cause of World War II. Hence the nature of America's commercial policy and the reasons for liberalizing it are vital in any discussion of the means of promoting world prosperity.

The Tariff

America's commercial policy has four main features of which the first and most

important is the *tariff*. The United States Tariff is high and has been increasing continuously since the end of the last century up to 1934. A noble exception was the tariff reduction of 1913 under the leadership of President Wilson. But taking United States commercial policy as a whole it is not surprising to find that the per capita value of American imports in 1937 was only \$22.96. This is much less than the per capita imports of any country in Western Europe and the British Empire except India. Similarly, American exports per capita are little higher than in countries which are economically backward and have a low standard of living. This phenomenon is, of course, not solely due to American tariff policy. In part it may be ascribed to the distance of many foreign trading areas and the great wealth of America's resources.

Nevertheless a perusal of the nature of American imports shows that these are mainly confined to articles which cannot be produced domestically, such as coffee, tea, cocoa, bananas, raw silk, nickel, tin or articles produced in insufficient quantities or in danger of being exhausted, such as copper, zinc, lead and petroleum. Thus the majority of America's imports consists of primary products and to a lesser extent of semi-manufactured articles.

Export Trade

In the second place, the United States aims at a large and growing *export trade*. For the last seventy years commodity exports have almost always been greater than commodity imports. The emphasis on exports is traditional, based on the belief that exports create employment at home, while imports involve a loss of employment. This is true in the sense that an excess of exports over imports is equivalent to an increase in investment (if it is not used temporarily for overseas investment) and thereby leads to an increase in employment. However, exports by themselves represent only work, the fruits of which may be lost, if gold is

received in exchange or loans are made which cannot be repaid. Few people really want to export for the sake of exports, that is few want to work for work's sake. People work in order to get a return in the form of consumable goods and services. The real advantage of exports are imports which add to the sum of the national income. Exports are merely payments, while imports are receipts. How can we expect to better ourselves by diminishing our receipts through tariff barriers? If we want merely employment, "is there anything that a tariff could do, which an earthquake could not do better?"

Equality of Treatment

In the third place, American commercial policy insists on "non-discrimination" or "*equality of treatment*", that is, the freedom to buy and sell on equal terms with all other nations in every part of the world. Practically this has often meant here and elsewhere equal treatment behind high tariff walls with everybody being treated about equally badly. Historically, equality of treatment is of great importance to this country, since there has been perhaps more discrimination against America than against any other country. In this connection there has been considerable criticism of British Imperial and Colonial Preferences. Future reductions of the American tariff may result in a gradual removal of British preferences as *quid pro quo*.

Trade Agreements Program

The fourth and most recently added feature of American commercial policy is the *Trade Agreements Program* of Secretary Hull. The agreements have grown and flourished since 1934, reversing the common trend towards steeper tariff barriers. Mutual tariff concessions have been exchanged between the United States and most of the important democratic nations of the world. They have been negotiated by competent experts concerned with the welfare of the coun-

try as a whole. The results have been satisfactory, since foreign trade has considerably increased, and in part this may be ascribed to the effects of the Trade Agreements. However, American exports have increased more than imports. Between 1934-35 and 1938-39 United States exports to Trade Agreements countries increased by 63 per cent, while shipments to non-agreement countries rose by only 32 per cent. During the same period imports from Trade Agreements nations increased by 22 per cent as compared with only 12 per cent from non-agreement countries. Altogether these agreements have been of great significance for a more liberal trade policy in a world which largely pursued the opposite course.

If the Trade Agreements Act could now be used to make sizable tariff reductions all round, that would have great and real benefits. Increased American trade might relieve many countries of their chronic shortage of dollars and remove the most powerful excuse for foreign tariffs and restrictive trade policies against American goods. Such a step would spread much more widely the advantages of international trade which are the advantages of the division of labor. Were we and all other nations to concentrate on the production of those things in which we each have the greatest comparative advantage (or the least comparative disadvantage) we should each be a great deal better off. This is quite clear when we consider the utilization of our own individual abilities: we concentrate on those which we can do best. A simple example may serve to illustrate the truth of this proposition.

Mayor LaGuardia of New York is, we read, an excellent fireman, but he is a still better administrator. We are probably better off and definitely better entertained, when the Mayor makes all the speeches and an unknown fireman helps to extinguish the fires than if the Mayor and the fireman each put out half the fires and made half the speeches. This is not meant to be disparaging of Mayor LaGuardia's ability as a fireman.

The argument would be true, even if the Mayor was the best fireman in New York City, for the qualities of an administrator are more useful, rarer and better paid than those of a fireman. Furthermore, even if Mayor LaGuardia were more efficient at everything than anyone else he could not afford to be self-sufficient. The Mayor in trying to be self-sufficient, would be much less efficient than he would be by concentrating on his greatest specialties.

For this reason specialization and exchange between individuals are advantageous now in the same way in which individuals may benefit, the different parts of one country or a group of nations may gain from specialization. If we tried to grow coffee and tea in America and let the inhabitants of those countries which now grow them produce their own cars, radios and calculating machines, the world would be a much poorer place than it is to-day. Actually we import the former and export the latter in exchange. It is to our advantage to import the following kinds of goods: (1) those which we cannot make ourselves; (2) those which are produced more efficiently abroad; (3) those which foreigners make less efficiently than we do, but send them to us as their most efficient products and at a lower price than ours, in exchange for the things which they buy from us.

The very fact that there are tariffs on many of the goods falling into categories (2) and (3) is proof that the costs of American suppliers are higher than those of foreign producers. The gradual reduction of the tariff in our protected industries might lead them to increase their own efficiency by technical and managerial improvements so as to be able to compete with foreign suppliers.

In as far as the reduction of the tariff would cause unemployment in our protected industries, our increased purchases of these goods from foreign suppliers would give greater purchasing power to the other countries. This in turn might lead to larger purchases of our export goods either directly or indirectly through

third countries. Only in as far as American unemployment would not be removed in the manner described, would American costs and prices have to be reduced. But there is little doubt of the absorption of the unemployed under favorable economic conditions.

It is clear that the problem of unemployment in our protected industries is largely a problem of transferring labor. In the 'thirties this would have been a difficult and long-drawn-out process. But if the present state of full or nearly full employment and the labor shortage in many industries continues, it should not be difficult for the displaced workers to find other jobs.

There will be large shifts of industry from war to peace production in the next years. This is a most favourable opportunity for the transfer of workers from the less efficient to the more efficient industries. In this process the privileges and advantages of small groups must be balanced against the loss from protective tariffs, suffered by American consumers, American export industries and the economies of other countries. It would be a calamity, if the bitter words of Adam Smith should ever become true when "the sneaking arts of the underling tradesman are erected into political maxims for the conduct of a great empire."

The Outlook for India

By SIR FREDERICK PUCKLE

THERE are good reasons why Canadians should take an interest in what lies ahead in India. In the first place, peace and prosperity are, in this modern world, indivisible; war and depressions cannot be segregated, so the peace and welfare of one-fifth of the human race who live in India are the concern of everyone. In the second place, India will soon be eligible for equal partnership in the British Commonwealth. All of its members must be interested in knowing something about their new colleague.

The Past

India is not a new country, but a very old one, with a civilization as old as, if not older than, China's. India's past has never been merely barbaric like Africa's, never merely the story of nomads and hunters like the North American Indians, never superstitious and bloody like the Incas and Aztecs.

Long before Athens or Rome were heard of, there was a settled urban civilization in the Indus Valley; Hindu civilization was at its zenith when Europe was in the dark ages; as late as the sixteenth and seventeenth centuries the Mogul Emperors at Delhi were the equals of Elizabeth of England, Philip of Spain or Louis of France. Up to that time, India had often been ahead of Europe. Then two things happened. The first was the breaking up of the Mogul Empire, which was followed by nearly a century of such disorder and anarchy as India had scarcely known before. The second was the Industrial Revolution in England and the West. The first threw India back, the second pushed England forward; for the first time in history, Europe was well in advance of India. The 150 years since the British stepped into the shoes of the Mogul Emperors will be seen by the historian of the future as a period during which India was being nursed back to health and being gradually prepared to resume her old place in a new world. The process is now over and India's approaching self-government

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