SUMMARY

THE ESSENCE OF INTERNATIONAL ECONOMIC RELATIONS

CHAPTER I. Introduction; the heterogeneity of world economy.

The aim of this book is to increase the insight into and the interest in international economic relations with a public that is interested in economics. After an explanation of the essence of international economic relations there follows a discussion of the question whether a 'regulation' of these relations is desirable, and of some suggestions which have been made in this connection.

The world's economic system consists of a great number of national economic systems, which in some respects are independent of each other, in other respects interdependent. The latter show great differences in population and in wealth. The wealth may be in natural resources and in capital goods; figures. In each of these national economic systems there is production: goods are produced with the aid of the three so-called factors of production: nature or land, labour and capital. The quantity of product per head is greatly dependent on the amount of land and capital per head of the population. Hence great differences in prosperity; figures. China and India the principal 'development areas' of the world. The total product is divided among the factors labour, land and capital in proportions which, curiously enough, do not greatly vary for different countries; broadly speaking they are 70, 20 and 10%.

In accordance with what has been observed, the following possibilities of economic intercourse between nations present themselves:

1. Exchange of products against products: current commercial intercourse;
2. Transfer of production factors:
   a. of persons: migration;
   b. of land: change of territory;
   c. of capital: i.e. import and export of capital.

In the economic sphere, 2b is practically without importance; it does play a part in the political sphere, as a result of war. Then 2a and 2b may occur at the same time. In the economic sphere 2c takes the form of import and export of capital. The importance of 2a in the economic sphere has become very slight these last 20 years.
CHAPTER II. Current commercial transactions.

The exchange of goods and services between two nations has sense, because relatively speaking one nation can make one product more easily, another the other product: consequences of differences in natural resources, natural ability, technical accomplishments; examples. World-commodities are those goods which are easily transportable in proportion to their value. Every commodity has a certain distance beyond which it can hardly compete. Also for this reason big countries have, relatively speaking, less commercial traffic. There is imperfect international competition.

In case of a free exchange of goods every producer would make the article with which he would obtain the highest remuneration for this trouble. This does not mean to say that all articles are produced there, where the trouble would be smallest. For in that case some nations would have to produce nearly everything, others nothing at all. They are produced there, where the difficulty of producing them is relatively smallest: as compared with the trouble to be bestowed on other products: theory of comparative cost. Countries which along the whole line have a small (great) difficulty of production, enjoy a high (low) standard of living: wages, expressed in goods, are high (low) there. It is a misunderstanding to think that countries with high wages should be unable to compete with countries with low wages; it is not so much real wages per hour that count, it is the wages in money per unit of product. Perfect commercial equilibrium is possible with great differences in wages.

However, a free international exchange also exposes a country to disturbances: the rise of new competitors. This has given birth to the conception of limiting free exchange by import duties, quota systems or prohibitions.

Hence, current commercial intercourse can take place according to three methods: it can be left free, it can be hampered arbitrarily by protective measures, or it can be controlled. On closer inspection this last method can be subdivided into 1. control where the guiding principle is that which would take place in the case of free trade, only preventing excesses (too great variations, dumping) and 2. control where there is free trade within specified areas and these areas are shut off from the outer world by systematic tariff-walls. From an economic point of view there is fundamentally only the contrast between free and limited commercial intercourse.

If the taking up of all productive units (full employment) is a certainty from the outset, unhampered exchange yields the highest
total production: each unit produces that for which, relatively speaking, it is best suited. Every deviation from this means, for every country, a smaller prosperity; it can only be an advantage for some groups within certain countries, at the expense of other groups in the same country, because the total value of production of the country is smaller. If full employment is not certain beforehand, then, within the borders of one country, protection can contribute towards an increase of employment and therefore raise prosperity. It may, for a specified area, mean the breaking of the vicious circle of a depression. It may also mean the *gradual* completion of a change of structure that has become necessary; adapting oneself to another production — now the relatively most profitable —, in consequence of new foreign competition. The danger of protection, however, is the *continuation* of less productive work and hence the 'growing crooked' of the development. Last of all, as a temporary measure, protection can raise the suitability of certain productive units ('education') and therefore contribute towards an ultimate increase of prosperity also of other countries.

Even in the absence of artificial hindrances, competition in the world market is not so perfect as theorists sometimes believe. There is imperfect competition; the elasticity of the share of any one country in world trade with regard to the price-relation between that country and world trade is about 2. Actual data concerning international trade and its development.

**Chapter III. Transfer of factors: territory, population and capital.**

Transfer of *territory* is far less a matter of peaceful exchange than transfer of the other factors: for, when such an area is also inhabited, it also means a transfer of that population to another nation, with a different civilization or language or both. It nearly always means war. In proportion as the quantities of free territory decrease, it becomes more difficult accordingly to supply the needs of it; this holds good especially for countries with limited territory (Netherlands, Japan).

Transfer of *population*, on the other hand, does occur in a peaceful form, i.e. in the form of migration. The population of the United States has entirely arisen from migration. After 1918, however, emigration has no longer played any part of importance; the international movement of population has largely come to a standstill, also because there is hardly any territory left that is politically free. Although the importance of emigration for over-populated areas should not be over-es-
timated, it presents a serious problem, which cannot be settled by
declaring the status quo as sacred or maintaining it for military
considerations only.

Viewed economically, by far the most important form of
peaceful transfer of production factors is that of capital. It takes
the form of loans or participation, and can be given for long or
short periods. The granting of long-term credit, in its real aspect,
i.e. apart from the financial form under which it appears, comes
down to this, that means of production or commercial stocks are
placed at the disposal of a little developed area by one of the
highly developed countries, and that the former, by way of
interest and redemption, annually gives up part of its production.
In this way the means of production concerned generally become
more remunerative than they could have been at home. More-
over, this transaction raises the prosperity of the little developed
areas, by which a certain levelling is brought about. For that
matter, the net amount of levelling has not been very great so
far: the proportion of prosperity between the rich and the poor
countries has changed very little indeed these last fifty years.
For great hindrances to capital-export are to be found in the
uncertain political conditions in the less developed areas (China),
in the small technical capacities of many of these nations, and in
the numerous difficulties of exchange and other financial matters
(South America).

Granting capital on short term has a much smaller direct
significance for the great lines of actual development, but is of
eminent importance for the stability of finance, and is conse-
quently of indirect importance. (See chapter IV).

Chapter IV. The technique of financial transactions.

Only gold is legal tender everywhere; payment in gold in-
volving great cost, the fact has to be faced that every country has
other, its own, means of payment. Payment to foreign countries
therefore requires a 'transfer' of home into foreign means of
payment ('foreign exchange', often 'bills of exchange'). This
is effected by means of an exchange at a certain price (rate of
exchange). All payments made in a certain period between a
country and foreign countries, are together called the balance of
payments. This is subdivided into current items (balance of trade,
or imports and exports of goods; invisible imports and exports,
or payments for services in shipping, capital and otherwise) and
capital items (import and export of capital for long and short
periods, and the balancing item of gold shipments). It is also
possible for the balance of payments to show reparation payments. Sometimes the 'balance of payments' is understood to comprise all these items without gold; in the former case there is always equilibrium, in the latter not necessarily so. But even then there must be equilibrium in the long run; otherwise there would be a permanent accumulation of gold. In comparatively small quantities, however, this is possible for long periods consecutively: the U.S.A. 1929-1939. Such an equilibrium in the long run must also exist, however, and for analogous reasons, for no matter what part of a country, whether it has money of its own or not. The difference is that in the former case, by altering the rate of exchange, equilibrium can be attained even at short notice. Stability of the rates of exchange is an advantage for the certainty of calculations of trade and investment. Sometimes, however, the rates of exchange can, by the side of more or less fixed prices at home, also be used to regulate home activity. Accordingly there are two systems: I. that of fixed rates of exchange a. with gold cover or b. with other cover, and II. floating currency. I. is usually preferred.

With the gold standard there is, at the Central Bank, a fixed relation between money and gold; the rate of exchange corresponding with it is called parity. The gold points indicate the limits, within which gold shipments in one direction are unremunerative. Only in case of a rigorous equilibrium in the balance of payments does the rate of exchange remain within them. If either of the gold points is reached, a movement of gold will follow. This will then see to the balancing and accordingly to a maintenance of the rate of exchange at the gold point in question. If it should last long, an exhaustion of the gold stock on one of the sides will be imminent. This can be prevented by a. indirect and b. direct action. Indirect action can be 1. automatic, resulting from the altered quantities of means of payment: a decrease of the gold stock leads to a diminution of the circulation of money; this leads to a reduction of incomes and consequently to reduced imports and lower prices, by which exports will even increase again. This automatism, however, works faultily and very slowly. Indirect action can also be 2. deliberate interference, namely a raising of the rate of discount in the country where the gold stock threatens to become exhausted, owing to which partly the same results are attained (though also very slowly), but especially short-term credits flow in from abroad (provided there are no other counteracting factors, such as lack of confidence). This process, however, can only be for a time; then an exhaustion also of these credits will arise. A good instance of this form of
action is provided by the defence of the Dutch guilder in 1932/36. The direct action referred to above consists in the stoppage of the issue of gold; then, however, the gold standard is abandoned; or in a regulation of international financial transactions.

For the rest, the danger of exhausting the gold stock is smallest, of course, when a country has a large gold reserve at its disposal.

Besides gold, a country can also base its currency on 1. other monetary units (gold exchange standard) or 2. by the side of gold on other goods (raw materials, silver). Also in that case the importance of an ample reserve is evident (equalization fund). The difference with the gold standard is often exaggerated.

In principle, even the floating standard does not differ very much from it. The limits between which the rate of exchange is allowed to fluctuate can be chosen more or less narrow or wide. In case of a floating exchange, the rate also helps in arranging the equilibrium; it will be endeavoured to avoid the small fluctuations in the balance of payments by operations of the equalization fund; but the level of the rate of exchange can be altered gradually in order to affect imports and exports. With slight movements the speculative influences can be avoided which occur in the case of rapid movements, and which sometimes promote a state of equilibrium, sometimes quite violate it (Germany 1923).

Chapter V. Equilibrium in the balance of payments.

We will now, on a somewhat broader basis, consider the problem of how to maintain this equilibrium in the long run. If all economic magnitudes should immediately and completely adapt themselves to altered data (in this case the rates of exchange), the rate of exchange would be indifferent to the actual course of events, i.e. to the height of production and employment as well as to the equilibrium in the balance of payments; if it were halved, all prices would immediately become twice as high, and nothing would have changed in remunerativeness, real wages, etc. Nor would anything be changed, under this condition, if the parities of all countries were to undergo a proportionate shifting and the regulations for cover should be altered in the opposite direction: e.g. if all parities were to be raised by 25 % and all cover reduced by 20 %. The same thing would hold good if only very gradual changes were to be brought about in the data. In other words, very slow changes in the rates of exchange are of no consequence for the equilibrium in the balance of payments; hence they can simply be fixed without any harm to that equilibrium; this is
even desirable in order to give a greater degree of certainty to all calculations.

In reality, however, there are also immobile or little mobile economic magnitudes: they react only after a certain delay and often also insufficiently to restore the static equilibrium. Instances are prices, wages, interest and other payments which do not vary directly with the economic situation. Then it is possible that the rate of exchange affects both the size of production and the equilibrium in the balance of payments. If the rate of exchange is also immobile, no equilibrium is possible. Either the rate of exchange or prices should be mobile. For both to be mobile is less desirable again: it may cause too much uncertainty, as we already saw. If prices are completely immobile, the purities of buying power are under certain circumstances the correct rates of exchange. Regulating production by means of rates of exchange and, for example, of wages are not identical in their consequences. In case of an adaptation of wages the worker bears the whole burden, to the advantage of the unemployed and the non-workers. In case of an adaptation of the rate of exchange the worker and the non-worker bear the burden together. Moreover, the speculative results are quite different: adaptation of the rate of exchange causes a rise of prices at home as well as animation to buy; adaptation of wages causes a fall and a waiting attitude.

Also in the case of slighter mobility it is possible, however, that the rate of exchange is not a good regulator of the equilibrium of the balance of payments. It is quite possible, for example, that in the event of a fall in the rate of exchange imports and exports rise to the same extent. Exports will rise in any case; imports would even fall if the incomes should remain the same. They rise, however, and it depends upon a number of elasticity-coefficients what will happen. Graphical illustration. In that case both the rate of exchange and wages are generally bad regulators, while also the influence of imported economic fluctuations does not affect the equilibrium of the balance of payments. For employment, however, they are good regulators, though taking some more time. If the country concerned has to pay interest or reparations, these will have a much greater effect on the equilibrium of the balance of payments. Should these payments themselves be the cause of a disturbance of that equilibrium, a very great adaptation of the rate of exchange would be required or no adaptation of the rate of exchange whatever would be of any avail.

The connection between internal monetary equilibrium and
equilibrium in the balance of payments. If for some time at a stretch a country spends more than its income — in consequence of dishoarding or the creation of money —, it will as a rule also import more than it exports, and equilibrium is only possible when the dishoarding or the creation of money is stopped. The rate of exchange may be of use in this case when it affects the latter, but not when it has no influence on it. It can have this influence because it affects the level of activity and consequently the income.

Through these considerations one gets to know at the same time the conditions which, in the case of impotence of the rate of exchange, are of importance for the equilibrium in the balance of payments. All the factors which determine the hoarding or dishoarding are also of importance in this connection, such as for example the organization of the state finances and the monetary system (Germany 1923) or the presence of reparation payments; also factors of political uncertainty or reluctance against government measures (U.S.A. 1933-38).

So far we spoke of slow movements, or movements occurring once, in rates of exchange and wages. In practice it is attainable that a rate of exchange, after adaptation, remains fairly stable, though floating (equalization fund). If the rate of exchange is not thus kept in hand, further consequences, ‘speculative’ ones, will occur, which may result in a further disturbance of the equilibrium (Germany 1923), but also in its being found more quickly (Norway and Denmark 1926). Speculation of a twofold kind: based on the position of the rates of exchange (sound) and based on the movement (unhealthy).

Summary: in case of a partial rigidity of economic life the rate of exchange can have an influence on the equilibrium of the balance of payments; it is also possible, however, that it has no sufficient influence. An investigation of the facts is needed in any case that occurs. The factors affecting monetary equilibrium at home will be of importance in any case.

REGULATION OF INTERNATIONAL ECONOMIC RELATIONS

Chapter VI. Aims of a regulation.

The chaotic situation of after 1918 and especially after 1930 cannot be put up with again. If patchwork is to be avoided, then there ought to be a programme and consequently a purpose. This purpose should be the ‘general interest’; but in trying to
define this further, we meet with great difficulties. The principal are:

1. The idea of general interest is vague, as long as no method has been found to weigh a decline in the satisfaction of one person against an advance in that of another.

2. The satisfaction of anybody's wants is dependent on widely diverging aspects of human life: material goods, health, liberty, employment, a certain measure of certainty. The furtherance of one aspect often brings about opposition from another.

3. People often do not know their own happiness: their ideas about it are frequently incorrect or too limited.

4. People often differ in natural ability, accomplishments and desires: tastes and needs differ.

Viewed internationally this becomes even more difficult in consequence of the great differences in the views of life, the capacities, wealth and history of the nations, which, for instance, find expression in aspirations and regime (Germany, Russia, Japan) and in consequence of the sovereignty of nations accepted hitherto.

The complete solution of this problem of the organization of the international community is not the task of the economist. Like the politician he has only a modest place to occupy by the side of the expert in matters of government and other organizers, the psychologist and the pedagogue, the sociologist and many technical experts. It is to be hoped that at the Peace Conference this will also be realized with respect to the politicians.

Only the economic aspect will come up for consideration here. We think we may formulate the aims as follows:

(a) a production as large as possible;
(b) a production as stable as possible;
(c) a distribution as just as possible among 1. persons and classes, and 2. nations;
(d) as few conflicts as possible, both at home and abroad, and
(e) as much freedom as possible for the parts.

Even then the question remains, how these aims, so far as they are contrasting, have to be weighed one against the other. As long as measurements are not possible, this must be left in many respects to the subjective views of the economic politician. The points (d) and (e) then have a more passive meaning; especially in the case of (e) it should be ascertained first, in how far the other aims leave the possibility to comply with it. Partly the attainment of one object will further that of the other; thus the number

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of conflicts will be diminished already, when the demands (a), (b) and (c) have been met to a greater extent than before.

Most of these aims have an internal aspect for every country as well as an international aspect; in this book only the latter will be dealt with. This means that for some points, especially (a), even the main points will not find treatment here.

The principal measures through which these aims can be attained are, as far as points (a) and (b) are concerned, a good trade cycle policy in the widest sense of the term; such an economic policy is possible when on the part of industry there is sufficient understanding for the rôle which the authorities will have to play, in a supplementary way. In Great Britain there is a strong tendency in that direction; with regard to the United States there is reason for doubt (Myrdal’s latest book). Point (c), as far as the distribution within one and the same country is concerned, is mainly a question of taxation and social legislation. All these measures largely take place within the separate countries, and it is especially of importance here what the big countries will do. International relations only play a minor part. Nevertheless they should meet certain requirements. The aims mentioned under (c2), (d) and (e) are, according to their nature, to a greater extent questions of international relations. A diminution of the differences in the standards of living should be effected in the first place by export of capital from wealthy to poor countries; a reduction of the number of international conflicts, in so far as they are economic matters, will have to be attained by banning arbitrary procedures in commercial policy and technique of payment, apart yet from the field mentioned just now.

The demands which points (a) and (b) — mainly concerning the internal employment policy of the big countries — make upon international relations, find their origin in the disturbing influences emanating from international financial and commercial intercourse, both as to absolute height and stability. Besides endangering the stability of production of the big countries, they far more imperilled that of the smaller ones. Therefore points (a) and (b) are chiefly international questions for these small countries. For one part the disturbing influences mentioned found their origin in the sovereign power of nations in the field of commercial policy and technique of payment. Hence a curtailment of this sovereign power in behalf of international settlements is absolutely necessary; the commercial and financial systems will have to comply with certain standards. It must be impossible suddenly to close frontiers entirely or partially for products from other countries; further the monetary
management must be up to certain requirements as to stability: great fluctuations in the rates of exchange or even the threat thereof, by unsatisfactory management, must in future be impossible. In this connection it will be unavoidable to find a correct settlement of the problems of war debts and reparation payments.

For another part those disturbing influences, starting abroad, found their origin in depressions, with the accompanying tendency to hoard, in other countries. By international cooperation it should also be attained that all countries — in so far as they are of sufficient importance — undertake the obligation to carry on a correct economic policy.

Last of all, a certain regulation and guarantee of capital exports will also be able to contribute towards a greater stability of production.

CHAPTER VII. Problems of territory and population.

If one tries for a moment to disengage oneself from the military and political situation of the present moment and only puts the economic problem — in broad outline and for a more remote future — of how to supply to the world’s population a prosperity as high as possible and spread over the nations more equally, one encounters two primary facts: 1. this prosperity could increase more quickly, if the population in a number of countries increased less rapidly (illustrated, for instance, with figures about Chinese agriculture); 2. it would be spread more evenly, if the property in natural resources were distributed more evenly. Particularly the Anglosaxons have a very large share at their disposal. Both problems are international in character: it cannot be a matter of indifference to the outer world, if Japan, Italy and later perhaps China and India, in consequence of surplus populations, come with certain demands. Therefore the problem of how to regulate population presents itself nationally as well as internationally, and sooner or later we shall have to come to an international policy in this connection. As a matter of fact the demand put to Japan to withdraw within her borders of 1897 will come down to a demand of population policy in the name of the United Nations. Unfortunately the discussions about these questions are rather charged with dogmatic notions connected with the moral aspect of birth control; those who object to this should realize, however, what the demand put to Japan involves, and also what consequences their standpoint will bring along for the world at large.
Also the question of the more even distribution of natural resources is a problem: free possibility of purchasing raw materials is not a complete solution. The production of raw materials itself is a source of income, to which every nation has a certain right.

The solution of these questions is inappropriate at the moment. They do not come up for treatment until the political organization has become more stabilized. But they should be observed already.

CHAPTER VIII. Prospects and regulation of international trade.

Although in the first few years after the war there will be an urgent demand for goods for reconstruction purposes, great anxiety is felt for the period after that with reference to the new race for export markets, while in various countries plans are being made already for a curtailment of imports (Great Britain). This threatens to become a repetition of after 1930. It is a typical result of a ‘slump-mentality’, in which every competitor is dreaded for his supply, but it is forgotten that, if he sells more, he can also buy more. It is the reverse of what was to be seen and will be seen in the periods of war and reconstruction. It is the other side of the tendency, present indeed in a time of depression, but on no account necessary for any period, not to spend part of one’s income.

Closer investigation of the Japanese competition which occurred in the past — and moreover in a time of depression and therefore causing particular anxiety — shows nevertheless that even then it was overlooked by many commentators that Japan at that time also bought much more than before. It is indeed true that Indonesia did not immediately and sufficiently benefit by it; but it may profit by it indirectly; it is also possible that in future more raw materials can be supplied to Japan. For the rest, Japanese competition was partly a competition of inflation, which it cannot keep up.

Another mentality than the slump mentality is necessary, if ruin is to be avoided; if free trade and industry, aided by supplementary state expenditure, cannot bring this about, it will have to be replaced by socialisation. Because of the loss in initiative and freedom which this signifies it is to be hoped that free trade and industry will have sufficient energy to tackle enough new projects, be it with somewhat slighter chances of profit, but more certainty instead of it, and also that sufficient appreciation will be shown for governmental initiatives for an extension of production.
If one allows oneself to be guided by the views developed in
the preceding pages that:

1st, full employment is necessary and possible within reasonable
limits, owing to which a slump mentality is unnecessary;

2nd, commercial equilibrium is possible between nations with a
high and those with a low standard of living;

3rd, there are limits to the capacity to pay interest and redep-
mion on war debts and reparation payments,

then a proper arrangement of international commercial relations
is also possible and prospects are not even unfavourable. The
latter statement is illustrated by the calculations of Colin Clark,
who shows what extent trade might attain in 1960, if the tenden-
cies of growth in production and population which we have
observed since 1900 should continue and full employment as well
as free trade be realized. It appears that the world's commercial
intercourse is capable of considerable development, provided
there is equilibrium between rich and poor countries, and that,
moreover, the price level of agricultural products gets almost
twice as high as compared with that of industrial products.

From the preceding arguments, especially those of chapter 2,
it appears that the best kind of planning is that in which free trade
is taken as a model. This does not imply that individual traders
should be entirely free; on the contrary, organization in order
to prevent abuses, divide work and too great variability
and also to absorb shocks, is to be recommended. But no system-
atic closing of markets by tariff walls or quota systems must
take place. International consultations about the application of
new products will, of course, benefit stability; but foreign
competition should not be permanently locked out.

Particularly the fear of the competition of countries with a low
standard of living is unfounded, resulting as it does from group-
egotism and the slump mentality already mentioned. In order to
view this problem in its right proportions, it is necessary to
remind oneself that:

1. the poor countries form an investment market for the
surplus formation of capital in the wealthy countries;
2. they become better purchasers of the products of the
wealthy countries, and
3. they, moreover, contribute towards the prosperity of the
latter by reducing the cost of living.

A defence against low-wage competition should only be based
on economically correct means; these consist of:
(a) raising one's own economic achievements — which, for the rest, takes place regularly; this will generally be sufficient. If not, then

(b) a proper economic policy, eliminating the temporary unemployment which else arises, and

(c) a proper policy of wages or exchange rates, eliminating permanent unemployment by opening up new possibilities of production. By a 10% fall in the rate of exchange, for example, a 7 1/2% rise in the volume of employment is possible, i.e., in the case of Holland, for 100,000 labourers.

Also the inclination to turn one's back on free trade in order to fulfill one's obligations to pay war debts is only comprehensible from a slump mentality. There is no reason why, if full employment can be approached, paying war debts should be easier in case of protection than with free trade; on the contrary, in the latter case production is greater, so that it is easier to pay. The opinion about this in the United Kingdom is not quite clear.

On the other hand it is not necessary nor desirable to let the transition from protection to free trade take place too suddenly. Also here shocks must be avoided; e.g. by spreading it over 5 or 10 years.

Chapter IX. International movements of capital.

This chapter deals with (i) the provision proper of capital and (ii) the arrangement of war debts and reparation payments, which in many respects is analogous with it.

The significance of the provision proper of capital by countries with a surplus formation of capital to countries with a shortage is seen by us to lie in the levelling tendency which it makes possible with regard to the standards of living. As explained before, we see the reduction of the differences in standard of living as an important item in the programme for a consolidation of the world's economic system. Levelling by decree, by 'prescribing' that in poor countries higher wages are to be paid, can only have a very limited effect. The production of these countries does not allow of much higher wages without leading to unemployment. Consequently, unless the rich countries should be willing to present the poor countries in a large measure with an annual stream of goods — a social policy, for which the world does not seem to be ripe as yet — a raising of production is necessary. This may be done by (a) raising the skill of the population, (b) improving the methods of production,
(c) increasing the capitals taking part in production. On all of these three points international cooperation is desirable. In a country like China a key position is taken by the internal political order; as long as this is not more stable, much will remain impossible. In countries such as the South American ones the financial stability used to cause many difficulties. Once this has been remedied, if necessary with help from abroad, international granting of capital, the principal factor for raising production, can take place and be promoted by international guarantees and control.

This means at the same time that formation of capital in the rich countries must not be looked upon as undesirable and superfluous. Internal economic equilibrium in these countries is imaginable both when a larger and when a smaller share of the national income is spent. With a view to international consolidation a high quota of saving is still desirable — provided these savings are not hoarded. The calculations of Colin Clark show that, if the rise in efficiency is maintained, large capitals will be required, even more than will be formed in case the present relation between income and savings continues. Reproduction of his figures.

The war has led to great destruction of capital in a number of countries and further to very great debts, which are partly of an international kind; particularly the lend-lease debts to the United States. In connection with its great wealth and its safe geographical situation this country itself has suffered no great losses of capital, and is better able to help than any other country. Thanks to this a great many disastrous results of the war can be reduced to smaller dimensions. The interest and redemption on these debts will be very considerable, however, and it is questionable whether 1. the different countries will be able to bear them, and 2. whether it is in the interest of a stable and prosperous social system to maintain them. Some figures. Therefore it would be an act of wise statesmanship to strike part of these debts. After all it is also in the interest of the U.S.A., and in itself there is nothing meritorious in this country having a safer geographical position than the other allied nations.

With regard to reparation payments similar arguments hold good. The actual limit put to a country's capacity is to be found by reducing the maximum production by what is necessary (a) for the subsistence of the population (which, on the other hand, has an influence on production) and (b) for reconstruction purposes, in so far as this is necessary to continue or resume production. For Germany, we estimate this limit at approximately 40 milliard
Reichsmarks a year. They will only be able to pay this by supplies in kind — or some such arrangement —; payment in the usual way, with commercial intercourse left free, can only take place to a very small extent. The receiving countries ought to consider carefully whether or not they wish such payment in kind.

Chapter X. Regulation of financial transactions.

As a demand to be made on financial intercourse we formulated in chapter VI the banishment of national arbitrariness and the largest possible stability in the rates of exchange with the greatest possible freedom.

The simplest theoretical solution would be the introduction of a world currency, but political unity has not got far enough for this. A system of floating currencies leaves a fairly considerable margin for national arbitrariness; it was all right for a time when everybody had to look after his own interests. But, when nations can make up their minds to a sufficient measure of cooperation, the preference should be given to a system having in common with that of the gold standard fixed prices with regard to gold, and in which a minimum of autonomous changes can be brought about. Besides gold, the cover could also exist of government securities and warehouse bonds for raw materials. Changes, whether or not autonomous, may have to be made now and then in a world with pretty fixed prices and wages.

The rates of exchange can only be maintained, both for long and for short periods, when the balances of payments are in equilibrium. This is attainable by a complete regulation of financial transactions which strongly curtails freedom and is only desirable as a preventive measure. A country like Russia, owing to the state being trade monopolist, will of itself possess such an arrangement. For countries with a freer economic system the equilibrium in the balance of payments can be maintained for short terms, if only sufficient reserves in gold or foreign exchange are at their disposal, which can be applied as balancing items. These reserves can partly be centralized in an International Equalization Fund, making coordinated action possible.

The maintenance of the equilibrium in the long run can be attained by a correct choice of parity in the case that the rate of exchange affects the inclination to hoard, which it can have via the size of incomes. It is not always, however, that the rate of exchange is a good regulator of the equilibrium, as we saw in chapter V; it is, however, for the volume of employment. The real condition for equilibrium in the balance of payments is
closely connected with the monetary equilibrium at home. (Cf. Germany 1923). The demand for a correct trade cycle policy is thereby repeated, just as the international demands connected with it, viz. no autonomous changes in commercial policy and a correct settlement of debts and reparation payments. Payments must not be greater than the extra export surplus that can be obtained by a reasonable reduction of the standard of living. This amount can be estimated. Greater payments, with a maximum of what can be performed physically (see chapter IX), can only be made in kind, or, what comes down to the same thing, if in case of payment in foreign currency the stipulation is made that this must be spent in the paying country.

In the event of a proper trade cycle policy in the principal countries, a curtailment of the autonomous changes in commercial policy and financial intercourse, as well as a good arrangement of international debts and reparation payments, it may be assumed that speculative and refugee capital movements (compare 1929 and after) will decrease to a considerable extent.

Restoration of the gold standard or a similar system is not a return to ‘laisser faire’. Now that the states no longer leave economic life free of their own accord, it requires active supervision.

Ought the 1939 rates of exchange to be restored? The experiences gained in this respect after the previous war, are unfavourable: Great Britain, Norway, Denmark. In 1939 there was no economic equilibrium. The price movements since 1939 have been different, although not widely diverging for the financially important countries. The development of selling possibilities is greatly different, however; Holland is threatened by a reduced buying capacity of the German market, for which the restoration of world free trade might bring some compensation.

Chapter XI. The necessity of an international centre.

In the preceding chapters we saw that in several ways a curtailment of national sovereignty is necessary on behalf of an international arrangement, viz. in the field of commercial policy in order to prevent arbitrary limitations of import, in the field of financial technique in order to prevent arbitrary limitation of financial intercourse and changes of the rates of exchange. It appeared, moreover, that international cooperation is desirable with respect to a proper trade cycle policy, the reduction of the risks connected with capital export, the management of an international currency reserve and the control of international
cartels. In the long run the great problems of ‘peaceful change’, of a well-considered and undogmatic upbuilding of a world order, will also have to be tackled. In other words, we have put up a plea for a certain regulation of international economic life. We do not advocate complete regulation in details. Within certain countries regulation has perhaps gone too far already; some restraint will be welcome here, so that attention may first of all be paid to some points of international regulation, which are essential and which have sense, because:

1. some kinds of regulation only have sense, if they take place internationally (e.g. regulation of the market for raw materials);
2. arbitrariness in the international field is usually greater, in consequence of national sovereignty (commercial policy, financial intercourse);
3. the international field is less surveyable (capital market) and
4. in some international markets the price is a bad regulator (exchange market, wheat).

The nature of the proposed regulation is suggested to a greater extent by the ‘liberal’ theory than is sometimes suspected. For the rest, it stands or falls with the assumption that a reasonable approach to full employment will be attained and that political international cooperation shall become a fact.

The alternative to this regulation becomes clear when the history of 1919-1939 is read again.

All these arguments show the necessity of an international centre — with various organs — that will be an instrument of observation, of study and of management, vested with the proper power; this last point is all the more necessary, because national interests are looked after in a more organized way than in 1919. Thanks to discussions among the United Nations a number of these organs are already in a state of preparation, and it may be hoped that these plans will also be carried out further. Then it should also be hoped that the staff of the Secretariat of the League of Nations will be included, which in the past 5 years performed and published such important studies.

The organs ought not to be loose from each other; their decisions must not be incompatible. An instrument that vaults them over and can become the seat of real international economic and financial policy and that will teach the promotion of the general interest, is indispensable. It is very much to be hoped that no half work will be done, as in 1919.
Chapter XII. The Netherlands and international economic cooperation.

The position of the Netherlands among the other countries is characterized by a rather high standard of living (between England and the continent), a less agrarian character than is generally supposed and a wealth that is invested for a relatively large part in Indonesia and in foreign countries. Imports form 30% of home production. The balance of payments shows an import surplus, backed by receipts from shipping, interest and dividends.

Accordingly free trade was always in the interest of the Netherlands, likewise a well-functioning financial intercourse and good international cooperation. Also in the non-economic field; though this was not always realised. Only hesitatingly were protective measures introduced and in 1936, properly speaking too late, the guilder was depreciated.

The prospects for Dutch exports are certainly unfavourable at a short date and doubtful for the further future, if compared with those of other countries. At short notice will be felt as factors on the side of supply the destruction of our production plant (industrial as well as agrarian), while increased competition is feared from e.g. Great Britain with its heavy war debts to the United States. On the side of demand the smaller demand for luxury articles makes itself felt (bulbs, chocolate), which may be offset by the increased demand for means of production (engines, dock plant) and durable consumption goods (wireless sets). As for outlets, a smaller demand from Germany will have to be reckoned with, which was our greatest purchaser, while also conditions in the Far East are uncertain. For the future we may reckon with some more favourable factors, especially appearing from the computations of Colin Clark. These justify the expectation of a greatly increased demand for refined agricultural produce, in consequence of the further industrial development of Russia, the United States and China; moreover, the prices of these goods would develop relatively very favourably. Of course, the question remains whether the possibilities as calculated by Clark will not be thwarted by a wrong mentality in business circles or incorrect government measures.

Although it would be too much to say that the Netherlands cannot do without free trade, it is evident that it would greatly benefit by a possible continuation of the tendency to free trade, which is found, for example, in the United States. By it many markets would become accessible again, to which it has a claim by virtue of its achievements. On the other hand, if things get thus far, the Netherlands ought loyal to cooperate and not to
oppose possible competition from the Far East. It must reply to
this by raising its own achievements, both in the foreign and in
the home markets; if this should not succeed, an adaptation of
the rate of exchange or of wages is necessary. On no account
should unemployment be put up with; a correct trade cycle
policy is necessary.

As for capital export, after the period of reconstruction in
which we shall presumably have to import capital, it will be
possible and necessary for this to take place to a very large extent
in our own kingdom. What was said in chapter IX about pro-
moting the granting of capital to less developed territories, may
be repeated here. May the political evolution be followed by a
stronger feeling of responsibility in Holland itself for the Indo-
nesian population. It is possible for the further industrialization of
Indonesia to be systematically connected with the extension of
that production in the Netherlands, for which there will be a
demand, in proportion as the Indonesian population increases in
prosperity.

As for financial intercourse, there is not the slightest doubt
that the Netherlands will heartily participate in an international
cooperation.