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A Permanent Foreign
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and Its Problems

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Vice-President

The National City Bank
of New York

ADDRESS

BEFORE

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A Permanent Foreign Trade and Its Problems

The year which ended on August 1st, 1915, has been the most momentous period in the world's history. We are too near to the events which are happening to obtain a proper perspective for measuring their real effect upon this country.

Our trade balance has assumed colossal proportions. Gold is flowing into this country from every side. We are to-day the world's greatest free gold market. Almost over night New York has become, temporarily at least, an international money center, and our bankers, untrained in international finance, have been obliged to face new and perplexing problems. The pound sterling, the common denominator of values in international markets, has given way to the dollar, and dollar exchange has been at a premium in practically all the money markets of the world.

The great trade balance in our favor may be expected to continue during the war, and possibly for some period after, but it is inevitable that when the stricken nations of Europe shall again be devoting their energies to production the volume of exports from this country must decrease, and imports largely increase. Our present trade balance must be considered, therefore, as entirely abnormal, and as giving us a valuable temporary advantage, which should be used in preparation for the future.

The subject of foreign trade has been prominently before the people of this country for the last eighteen

months. Chambers of commerce have given over meetings to a discussion of foreign trade, and newspapers and magazines have devoted columns to discussions of its possibilities and problems. It might be well to pause and take stock to determine what progress has been made and the extent to which our efforts have resulted in the laying of a solid foundation upon which to build the permanent structure of the future.

Prior to the outbreak of the war, as you will all recall, we had been suffering from a period of industrial depression extending over a period of years. The causes were partly economic and partly political. Railroad earnings had for years been declining, and the three years preceding the beginning of the European war had seen more railroad receiverships instituted than at any period in our previous history. Our manufacturing plants in all lines were running far from capacity, and in the last fiscal year preceding the war (the year ending June 30, 1914) our exports were declining, our imports increasing, and the favorable balance of trade fell off 182 millions compared with the preceding year. In the early months following the declaration of war, the situation was accentuated, and the great steel industry declined until production was going on at even less than 40 per cent. of capacity. The breaking down of the mechanism of international exchange, the feeling of uncertainty prevailing, and the general declaration of moratoria in all the important countries of the world served to paralyze business activity. Business paused to see what would happen, suspicious of the present and dreadful of the future.

The war found South America in the midst of a panic, brought about by over-speculation and over-extension of credits. There had been keen rivalry between Germany and England for the trade of South

America, with the result that the terms of settlement upon which goods had been sold had been increased from three months to, in some instances, eighteen months, and every merchant found himself overstocked. The governments of these South American countries had carried their credit balances in Europe and these were suddenly unavailable. Brazil saw the sudden ending of its negotiations for a loan which was expected to put its finances on a sound basis. The Argentine, for the first time in its history, was obliged to turn to this country for money to enable it to meet its pressing obligations. Chile saw its nitrate industry paralyzed, its currency depreciate, and experienced serious difficulties due to the shutting off of its revenue received from the export duties on nitrate. Peru, Ecuador and Bolivia suffered even more acutely. Their revenue from export duties decreased, and exchange went so heavily against them as to materially cripple the doing of business. The markets in South America, toward which we had been looking for years, and which were closed entirely to one of our competitors, were for these reasons slow of development.

With the progress of the war, however, a great demand arose in Europe for munitions and war supplies. This war is being fought on a gigantic scale never before approached in history. It is in a large measure a contest between munition factories. The nation which can supply the implements of destruction in largest quantities and can mobilize its supplies of them in quickest time at a given point wins battles. This means that in addition to the millions of men who have been taken out of industry to fight in the trenches, other millions have been diverted from their usual employments into the work of supplying war materials.

But these great efforts at home have not been sufficient, and the warring nations were obliged to place huge orders for war supplies in this country. Factories in this country which had been running at half time, and which could be used for the purpose of making munitions, suddenly found themselves running at capacity and confronted by an actual shortage of labor. The activities spread to other lines, and, in the short period of a year, we find this country enjoying an industrial prosperity never before reached in its history.

Freed from the competition of Europe, our domestic business has taken great strides forward, and factories which are completing munition contracts show little concern over their renewal, because of the demands of the home markets. The shelves in South America, in China, and in other of the neutral countries, are beginning to become bare, and the demands from these markets have made themselves felt. Our proportionate share in the trade of South America has largely increased during 1915.

While our actual exports to South America in 1915 do not show an increase over 1913, a year of large imports by the South American countries, yet, compared with the total imports into the South American Republics in 1915, our relative proportion has shown a very large gain. For example, Argentina's total imports in 1913 were 407 million dollars and our exports to Argentina in that year, \$54,980,000, equaled 13½% of her imports. In 1915 her imports were but 262 million dollars, and our exports of \$52,883,000 to Argentina in that year equaled 20% of her total imports. In the case of the other South American countries similar conditions prevailed. Brazil's imports in the ten months ending with October, 1915, were but 122 mil-

lion dollars against 277 millions in the corresponding months of 1913, while the value of our exports to Brazil in the corresponding ten months equaled 13% of her imports of 1913 and 23% of her imports of the corresponding period of 1915. In the case of Chile, for which we have figures for six months of 1915, the imports are less than half those of 1913, yet our exports to Chile in 1915 are practically equal to those of 1913, indicating that the share which we are supplying of her imports must be nearly twice as great as in 1913.

Our entire foreign trade during the calendar year ended December 31, 1915, showed a balance in our favor of \$1,772,309,538. At the present rate, the balance in our favor for the current fiscal year should reach a similar total. These figures measure our present prosperity.

A year and a half ago, there was hardly a manufacturer in the United States who had not directed his own thought and that of his subordinates toward the possibility of export business. The Foreign Trade Department of the National City Bank was flooded with inquiries as to the possibilities for marketing goods in South America. Representatives were sent to that country, and every effort was made to obtain business. To-day many manufacturers are refusing to consider South American orders which come to them without solicitation, on the ground that their domestic demands are too great to consider foreign orders. A frequent response to letters from the Foreign Trade Department pointing out market possibilities in foreign countries is to the effect that the manufacturer at present has more domestic orders than he can fill; that he expects to increase his capacity, and that later on, per-

haps in a year, he will be in a position to take up the development of his export business.

Have we forgotten that only a few years ago there was hardly a manufacturing plant in any line in this country which was producing at the capacity for which it was designed, and that the question of finding markets for our surplus products was foremost in our minds as of vital importance to the future commercial welfare of the country?

Are our manufacturers and our people as a whole taking proper precautions to insure the future of this country? Are we doing enough clear thinking and planning at this time? Let us disabuse ourselves of a number of foolish notions. In the first place, this country is not going to supplant England as the financial centre of the world. Our opportunities will be enlarged and our responsibilities proportionately increased. Our national horizon will be broadened and our financial activities will become international in their scope, but London has been the money market of the world for centuries, and the pound sterling has been the common denominator of values during the period of modern history. We must not deceive ourselves with the idea that the dollar is henceforth to be the medium of international exchange. London, prior to the war, was the world's general market for raw materials and elementary products. In her market could be found buyers for any products the nations of the world had to sell. With the exception of attempts to create fur markets in St. Louis and New York, no steps have been taken to build up such commodity markets in this country. London, when the war is over, will continue to be the world's market, and in it will be fixed the prices of commodities.

England has been the carrier nation of the world, and when the war is over she will continue to be so. We talk of building up our merchant marine in this country, but let us not be deceived. What has been accomplished and what will be accomplished in the near future will help much toward meeting the present acute situation in regard to ocean carriage, but we can not hope for permanent results and the building up of a large merchant marine so long as there exist upon our statute books laws unduly burdening ships sailing under the American flag, and so long as our higher labor standards place the American ship owner at a substantial disadvantage.

Another idea which has become quite firmly fixed in many minds is that our chief competitors in Europe will be so badly crippled by the war that their competition hereafter will not need longer to be feared. But let us remember this one thing—factories and workshops may be destroyed; industrial organizations may be disrupted, and the ranks of skilled workmen may be depleted, but there still remains the knowledge and ability to produce. You may destroy every vestige of a manufacturing plant, but the man who designed it and built it can create another, and the man who developed the industrial machine which outfitted it has the ability to assemble a new one. More than this, the lessons of the war will have added to that knowledge, and we may reasonably expect better organization, better discipline and greater efficiency in the arts of peace as the result of the teachings of war.

We have seen developed in Europe a spirit of intensest patriotism and a willingness to give in the fullest measure for country. The success of the tremendous war loans in Germany, France and England, over-subscribed in every instance, is indicative of the

spirit of the people. The women of those nations have given to the world an example of sublime devotion. Who shall say that men and women who have unflinchingly suffered the tortures of war will not cheerfully bear the burdens of peace? We may reasonably anticipate that with a willing spirit they will bend to the task of building up again the fortunes of their native lands, denying themselves comforts, luxuries and even necessities in order that their national honor and credit be restored, and their country regain its industrial prosperity and commercial power. Where individual manufacturers need credit and financing in order to restore a shattered industry, it may be assumed that the government will help. Where it is necessary, we may expect to see the government actually operating various industries in order to give employment. Everything that can possibly be exported will be exported, and only those machines, tools, and supplies which are necessary for rebuilding industry, and those necessities which can not be produced, will be imported. Goods produced under these conditions, and as a result of this spirit, will be sold in the markets of the world in competition with our goods. These goods will be sold at a price that will make them sell, because their sale will be a national necessity.

That the statesmanship of Europe is anticipating the future, and is already planning for the trade struggle bound to take place, is proved by the formation of an organization in England, under Government auspices, for a study of trade and commerce, and particularly for the purpose of investigating the possibilities of foreign markets now held by Germany and being entered by the United States.

An industrial commission has been appointed in France for the study of plans for the rehabilitation of

its industries affected by the war. In Germany an organization, headed by Dr. Dernberg, has been formed for the development of plans for a trade conquest of South America after the war shall have ended.

Competition is of two kinds—in quality and in price. No one has excelled the American manufacturer in quality of goods produced, but no matter how good the quality of goods produced, if the price is out of line, the goods can not be sold. The price at which an article can be sold depends upon the cost at which it can be placed in a particular market. Entering into the cost of an article are the cost of raw material; capital charges, which include equipment and plant; labor costs and the cost of distribution. In most instances, by far the largest cost is the labor cost, and, next, the cost of distribution. It needs no demonstration to prove that if labor costs are inordinately high here as compared with Europe the American product can not be sold in a competitive market except at a loss.

Wage scales are becoming more and more inflexible and arbitrary. Wages can usually be moved in one direction only, and that is upwards. It is, therefore, of the utmost importance for the future of our manufacturing industries that the best minds in this country center their attention upon the solution of our labor problem. Unless it is solved, or unless some means is found of offsetting our great handicap in labor costs, we shall, when the nations of Europe again become active competitors, lose not only the foreign markets now opened to us by force of circumstances, but our domestic markets as well.

But the reduction of labor costs and the working out of a partnership between capital and labor in an effort to keep down production costs is not of itself sufficient to meet the needs of the situation. Industry

in this country is not organized on sound economic lines. There is altogether too much waste, duplication of effort and inefficiency in organization.

To place us in a position where we may be able to compete successfully in foreign markets, there is needed intensive organization of our industries for the elimination of waste and the development of greater efficiency. To keep down sales costs in foreign markets, our manufacturers must have the undisputed right of combination in the foreign field.

The expense of distribution in foreign countries is large. To be successful, regular sales campaigns must be conducted, organized publicity undertaken, and costly advertising schemes carried out. It is just as necessary to map out a regular sales campaign in a foreign market as it is in a domestic one. Here at home we spend millions of dollars in advertising to create a demand, and nowhere has the genius of American salesmanship better shown itself than in the ability to create markets through advertising.

In a discussion of the subject of the possibilities of our foreign commerce, and our ability to produce and distribute on a basis that will enable us to compete with the rest of the world, we must clearly understand the conditions under which we are working. This country is young, and its handling of economic problems has been far from satisfactory. In these matters, the nation has behaved as might be expected of a youth. We have been intemperate, impetuous, wanting in foresight, acting often without deliberation and without an appreciation of the consequences. We have gone from one extreme to the other. Business and economic problems have invariably been handled as political questions.

The tariff, which is fundamentally an economic and business problem, is either high or low in spots, depending upon what section of the country has the preponderating influence in the majority party. Every tariff we have had in the past twenty-five years has been a protective tariff. There is no actual principle of free trade or protection involved. It is simply a question of the degree of protection, fixed without any regard to the real purpose of the protection principles—namely, the difference in the cost of production here and abroad. The worst of it is that the job of tariff-making is never completed; there is always something to be undone, changed or added to. The result is that no manufacturer in the United States, making an article which must meet foreign competition, can safely plan for the development of his business over a period longer than the life of one administration.

The railroads of the country have suffered seriously because of the manner of handling economic questions. At first they were encouraged, in some instances by subsidies, to build railroads in undeveloped parts of the country. For many years, these roads did not pay. They were allowed to charge whatever rates they wanted to, with no attempt whatever at regulation. Along the lines of these roads, hundreds of thousands of acres of valuable farming lands have been developed and prosperous cities have grown up. The roads themselves have been obliged to rebuild their lines and re-equip two or three times, on account of the introduction of heavier rails and better equipment. By reason of the lack of regulation, abuses crept in—then suddenly a popular clamor developed against the railroads and forty-eight States and the National Government commenced to pass restrictive laws against the railroads, ill-considered in many instances, and all result-

ing in hampering their usefulness and bringing their development to an absolute standstill. Railroad construction in the last few years has practically ceased. The list of railroads being obliged to pass dividends, default on interest payments, and appeal to the courts for the appointment of receivers, is anything but a credit to this country.

In the development of the resources of this country, capital was given a free hand. When our first great combinations or trusts were organized, they were not only favorably received, but we pointed to them with pride, as evidence of the bigness of our prosperity. In many instances, these large aggregations of capital built up monopolies in their lines, unfair practices were common, and abuses of many kinds crept in. The politician and the demagogue suddenly found a new subject for oratorical denunciation, and again we went to the other extreme. It was decreed that combinations of formerly competing industries should no longer exist, and we proceeded to break up in many cases efficient organizations for the purpose of compelling an artificial competition between the constituent parts of the organization. In our handling of the trust problem, we refused to recognize the value of organization in industry, and to save that which was economically sound.

Germany, on the other hand, has made organization the cornerstone of the most efficient industrial and economic structure ever created by any nation. Her economists and statesmen have had the ability to think clearly and to plan with foresightedness. Contrast our lack of economic leadership, our adoption of economic policies as the result of popular demand inspired by the muddled thinking of ambitious agitators, and our inability to plan over a period of years any definite, con-

scious economic policy. What is needed perhaps more than anything else is clear thinking along economic lines, and real constructive leadership. There has been too much of the "you shall not" in our legislative policy and too little of the "you may".

The contest between nationalized effort across the water and individual effort here, handicapped by governmental restrictions, may seem to be unequal, but we must place our faith in the efficiency of the American salesman and the untiring energy of our industrial leaders. But perhaps the greatest handicap under which we are laboring is the lack of trained men available for foreign service, and, in fact, the general lack of knowledge on the part of our commercial men of the habits, characteristics, manners and customs of the people whose markets we seek to cultivate. Our educational system has been at fault.

From early youth, we have been taught that this is a country of opportunity, that here alone could a young man's abilities find full scope for development. Our school histories have magnified our national progress and have justified all of our national acts—all our battles were glorious victories, and in every international dispute, we were always in the right. This may have been a proper method to teach patriotism, but it results in the development of a narrow viewpoint, and in a species of international snobbery. Our young men have had practically no preparation for a real international commercial career. They know little of the history of South American countries, or of the peoples with whom we would enjoy commercial relations. The ideals and national ambitions of nations like Japan and Russia have received little sympathetic consideration, and toward countries whose civilization extends over a

period of centuries, we have adopted too frequently an air of tolerant condescension.

While our own ambitions and ideals are of the very highest, and we pride ourselves to-day on our stand for civilization and justice, nevertheless the fact remains that we are misunderstood and unpopular, and even disliked, throughout the world. In both of the hostile camps of Europe, the genuineness of our neutrality is questioned. We are accused of placing the dollar above justice and right, and of enriching ourselves as the result of the misfortunes of others.

As a nation, too, we have been self-sufficient in our business methods. We believe we manufacture the best goods in the world, and, in the past, we have too often said to the foreigner, "You may take them as they are or leave them". We have paid little attention to the demands of foreign markets, and have sought to impress our ideas upon the foreign purchaser. We have given the impression that we know more about what they ought to have than they themselves. We have ignored their demands and have failed to follow directions given with orders. We have been unwilling to extend reasonable credit terms. In Latin-America, in spite of our attempts to impress upon these peoples our genuine desire for closer relations, our motives are questioned and we meet with sharp criticism. In an editorial, *La Nacion*, one of the leading papers in the Argentine, on the subject of North American Commercial Policy, says:

"As long as the abnormal conditions in Europe continue, Americans will go on occupying the position which fate has forced the countries at war to abandon. This fortunate situation of North American commerce will be, however, only transitory if the Americans do not strive to strengthen their position by procedure that will enable them to confront the attack that is sure to

come. North Americans find themselves in the unusual position of determining conditions arbitrarily without competition, and these abnormal circumstances should lead them to adopt commercial measures tending to give them permanent possession of the position acquired through the favoring circumstances of the European war. The situation will not be tenable unless they modify their methods. They must model them after those of European countries, offering the same advantages and facilities, and adapting themselves to the demands and peculiarities of the market which they supply.

"This is the moment to introduce methods which will perpetuate markets occupied by force of circumstance, for by failure to do so these will be irretrievably lost, and the American business will be reduced to a point that is scarcely perceptible."

Our national ignorance concerning South American countries in particular is to be criticized. How many people in this audience, for example, know the total annual commerce of Argentina is about equal to that of Canada and larger than that of China, of Australia, and of Japan; that the *per capita* commerce is nearly two and one-half times that of the United States, and that the *per capita* commerce of little Uruguay is about double that of this country? That Buenos Aires is the fourth largest city in the western hemisphere, as modern and up-to-date as any city in the United States, and has the finest equipped newspaper office in the world? As evidence of its up-to-dateness, it might be mentioned that Buenos Aires receives the latest creations from Paris even before they reach New York. Those who have thought of Argentina as a trackless prairie may be surprised to know that the country has over 25,000 miles of well equipped and well operated railway, a greater railway mileage *per capita* than any European

country. Uruguay, with a population of a million and a quarter, has eight head of cattle and over twenty head of sheep for every man, woman and child. How many people realize that Argentina alone supplied, in 1912-1913, more than one-half the corn entering the international trade of the world; that her exports of corn in 1913 were greater than the exports of all the other corn-exporting countries combined; that the number of cattle in South America is greater than in the United States, Canada, Mexico and Central America combined, and that Argentina's beef exportations have, in the last few years, exceeded in value those of any other country in the world?

Few people have any appreciation of the tremendous undeveloped resources of South America, and the richness of her agricultural lands, the variety of products which can be produced, the vastness of her forests, the wealth of her unexploited mineral deposits, her unlimited acres capable of pasturing countless herds of cattle, and the great undeveloped water power sites.

South America is a veritable storehouse of wealth, the keys to which are immigration and capital. As the resources of the countries are developed, their importance as world markets will increase more than proportionately. The United States, by force of circumstance, has now the opportunity to bind these South American countries to it by financial and commercial ties which will insure us a permanent and satisfactory position in their markets, but to do so will require careful, scientific study, intensive effort and constructive leadership. Not only in South America, but in China and the Orient are present opportunities for large foreign markets. Russia, after the war is over, will be a fertile field for our efforts.

Successful development of a permanent foreign trade will, in its last analysis, depend upon the growth of a broader spirit of nationalism in our commerce. In the building up of a foreign market, any American enterprise that aims to develop facilities and service should receive unqualified support. American shipping lines, wherever established, should be used in preference to those of other countries, even at a monetary sacrifice. No English merchant would think of sending his collections through a bank which did not use the branches of an English bank wherever possible. The predominant idea at all times should be that anything which will encourage or help American enterprise in a foreign market should be done, because American success in any line helps to build up the prestige of all Americans in a particular market. The good name of American manufacturers must be protected. Our efforts to build up permanent markets may often be seriously handicapped. If certain exporters are guilty of unfair practices and trickery in their dealings with foreign customers, their acts will seriously hamper the efforts to extend American trade.

No other nation was ever favored with opportunities so great and a future so promising with possibility of achievement. Whether history shall record this country as rising to the occasion and taking the fullest advantage of these opportunities, will depend upon whether our national character is strong enough to make present sacrifices for future permanent good; upon the education of our people to an understanding and an appreciation of the great value of a permanent foreign commerce to this country; upon the development of a public opinion that will compel the inauguration and maintenance of a comprehensive, progressive

and permanent national export policy; and, perhaps of most importance, upon the growth of a nation-wide co-operative spirit that shall respond generously and unselfishly to the call for united action in this great moment of our country's history.

