

# INTERNATIONAL ECONOMIC RELATIONS

*A Treatise on  
World Economy and World Politics*

BY

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*This book is dedicated to my family: to my father, Charles S. Donaldson, in recognition of his distinguished public service and pioneer studies of modern world commerce; to my mother, Mary Bygate Donaldson, with gratefulness for her wise and gentle guidance and her companionship in the realm of philosophy and the liberal arts; to my wife, Frances Flaacke Donaldson, in tribute to her untiring co-operation in this and other tasks and her intellectual and moral comradeship; to all three in appreciation of their unfailing devotion and inspiration throughout the years.*

## NOTE TO SECOND PRINTING

SINCE this volume first went to press there have naturally been a number of happenings in respect to the phenomena dealt with, as would be expected in any field where the principles and tendencies frequently express themselves in current events and, often, in progressive developments. Most if not all of these events, however, have been of a detailed nature and have not constituted sweeping changes. No general revision of the work, therefore, seems necessary at this time. The main tendencies have continued largely as they appeared two years ago; the principles, and the system of thought set forth here in interpreting the organic structure of international economic relations, remain unchanged. Perhaps one alteration of trend in policy may be discovered. In the further national and international conferences on international multiple taxation, along with further refinement and the treating of different types of taxation in different ways, there has been a tendency to veer away from the concept of primary right of taxation at "source" of income and toward that of taxation at "residence." One other branch of the field may be mentioned. The movement toward international affiliation of industry has continued as a cartelization movement, but has tended to a noteworthy extent to take the form of combination and other closer types of integration. In one form or another this whole development has progressed markedly and has taken on increasing significance in its indirect effects upon other international thought and action. It has probably been influenced by high tariffs and at the same time has perhaps in some cases made tariffs seem less necessary. It has had its impact upon political relations and has not been without influence upon the movement toward a so-called unification of Europe. More important in principle, its continued progress serves to emphasize increasingly the fundamental nature of the concepts here developed, namely, the basic character of the international industrial structure as underlying other phases (international commerce, shipping, finance, and their policies) of international economic relations.

*Washington, D. C., October, 1930*

## PREFACE

**A**T A TIME when international relations in general, and their economic aspects in particular, are increasingly recognized as of growing complexity and significance, it is important to undertake their study, not simply on the one hand as a series of isolated political, diplomatic, and historical incidents nor on the other hand solely as matters of international trade, shipping, and finance, but rather by analysis of the fundamental politico-economic structure which so largely creates their commercial processes and so frequently determines, directly or indirectly, their public policies.

This general object of the present volume, together with its particular purposes, viewpoint, scope, and methods, may be more fully explained in the following paragraphs.

### THE PLAN

The work deals with basic factors and with a primary national and international order, together with the principles, processes, problems, and policies of that order. It was originally undertaken as a treatment of the entire field of international economic relations, especially because, in spite of many works on certain aspects of those relations and some fragmentary literature on other phases, there appears to exist no such complete treatment coördinating the field. As the plan developed it became apparent, not only that this would require more than one volume, but that there would be defi-

nite advantages in presenting a study of the more basic phases of the field as a distinct work. That is, although there are various volumes on the theory of international trade (in addition, of course, to manuals of export and import procedure), and some dealing with international shipping and finance, there seems to be no present, systematic treatment of the general, and particularly the industrial, structure underlying such processes.

The plan of this study, therefore, is one of first dealing somewhat briefly with what are here classified as the "basic and related factors in international economic relations," namely the basic geographic and social, and the related political, legal, and territorial factors as they bear on the economic situation in world affairs. This makes up the background or "setting of world economy." Part II then deals with the structural and industrial basis of international relations, touching upon a number of special problems which are involved and many of which are of current, outstanding importance, but, of even more significance, attempting to view this structure from a perspective and thus to arrive at a systematic view of the whole order. Consequently, consideration is given in some detail and with considerable comprehensiveness to such topics as "domestic enterprise and foreign activity," "foreign and international enterprise—international industrial control," "foreign enterprise in special areas—systems of economic penetration," "resources and national position—the interdependence of nations for essential materials," "public foreign and international control of raw materials—the question of world monopoly of essential supplies," "special resource problems" (as illustrated in the case of "petroleum and diplomacy"), and "private foreign and international exploitation of raw materials—the international character of the bases of indus-

try." But in addition such considerations are posited upon certain systematic concepts of "national economies," *i.e.*, of the total economic structure of nations, and of the "world economy" or world structure of an organic nature which results from the definite relationship of the national economies as parts of a whole. It is hoped that the gathering together of current problems may prove useful and fill a need, but it is in this coördination, in this delineation of structure of national and world economy (upon the basis of analysis of existing conditions rather than by means of some purely deductive process), that it is hoped there may be some contributory element of distinct and permanent value.

In addition to the Outline and Table of Contents of this book, a continuation of the outline, covering the other departments of international economic relations, is given in the Appendix. Together these will afford a comprehensive and organized view, not only of the plan of this volume, but also of the other phases of the entire field. The latter, that is, international trade, shipping, and finance, or what may be broadly classified as the international exchange processes, will be covered in a succeeding volume, which the author is now writing and which will round out the total plan. Meanwhile the complete outline may prove useful, for example, to those undertaking to develop an advanced university course on the whole subject. These latter processes, though more familiar and more accessible to study in existing works, can be fully understood only in the light of the fundamental structure from which they currently flow. In short, such things as international trade and shipping, and the policies relating to them, are highly important, but industry is basic, and the whole system is properly explained only in terms of the constitution of the economic and politico-economic order.

## SCOPE AND VIEWPOINT

*The Economic and the Political.* As indicated in the title this study is one primarily of the economic aspects, or rather of the economic basis, of international relations. A great many if not most of the phenomena and problems of those relations involve this element. However, government policies are considered, and the political aspect is almost constantly taken into account. One or the other of the two elements may be stressed, but attempts at isolation of either is largely futile. Such attempts, like endeavors to separate any two branches of knowledge or of human activity into water-tight compartments, or to subordinate one to another, involve unprofitable controversies in terminology. From a narrow viewpoint, at times unfortunately adopted both in the conduct of foreign affairs and in local public policy, political becomes synonymous with legalistic and a political problem becomes a matter of interpretation of phrases in laws and treaties without regard for the real questions concerned. If "political" be given a connotation of "governmental," it might be said that international relations are frequently political in form but economic in content. Indeed, international relations are often thought of as relations between governments, whereas there is also the large and steadily flowing volume of intercourse which proceeds with little or no reference to governments, and which involves not only tangible economic, but also cultural, religious, and other less tangible elements. That is, there is really some distinction between public international relations, as expressed in such things as diplomacy and legislation, and private international relations in the form, notably, of economic intercourse. The present study is one of both private (economic) and public relations, but it takes the former as a starting point and

utilizes it as a basis for considering related phases of the latter. The primary and extensive importance of the former is worthy of emphasis. But the two can seldom be dissociated; and if the term political is used in its broadest sense, it may doubtless be taken to include all the elements in national affairs, whether psychological, cultural, racial, legal, or economic. Specifically, the present study of international relations is economic and is political; it may be termed politico-economic. The study also involves some treatment of certain phases of several different, but related, fields. It touches upon geography, sociology, and law, as well as upon economics and general politics. Such an extension, at points, is necessitated by the complexity of the factors and problems involved in international relations, and affords the advantage of single treatment from a central viewpoint, and of a resulting coördination of thought.

*The National and the International.* Just as the study embraces both the economic and the political, similarly it involves both the national and the international. Although nominally falling in the latter field, it takes the former into account. Too often foreign affairs are viewed as isolated phenomena, whereas they are the product of the interplay of domestic affairs, and the world order is logically comprehended as a composition of interacting national orders.

If considerable emphasis is given to a certain underlying international economic unity, this does not necessarily constitute "internationalism" in the extreme sense of that term. The economic interdependence of nations does not necessarily suggest a world economy so complete as to be translated through world polity into a world state or a condition of world peace. Commercial competition, struggles for resources, and other forms of economic rivalry at times produce conflict, abroad as at home. But the contention some-



times heard, that such rivalry is the cause of all war and the creator of all international difficulty, is clearly unfounded, and the occasional charge that there is a kind of world conspiracy on the part of capitalism to thrust nations into debt and wars in order to perpetrate international usury or to reap profits on such things as the manufacture of munitions scarcely warrants consideration. It is impossible to calculate quantitatively the extent to which economic activities either stir strife or conduce to concord. One principle, however, should be borne in mind. Throughout all the international economic processes there appear (1) a mutuality of interests analogous to that which leads to much coöperative economic endeavor within a nation, and (2) a compensatory character of unlike interests which, though often obscured by surface friction, is so fundamental as to be in a sense the very *raison d'être* of those processes, as illustrated in the fact that international trade results primarily from regional specialization in production, or territorial division of labor. Indeed one might paraphrase Adam Smith's basic concept that in the natural interaction of private self-interest lies the best adjustment of the economic relations of individuals, and apply it to nations. On the larger scale it is primarily the diversity of national economies which creates a world economy. Consequently, to use the latter term does not imply an argument for any particular scheme for world government. Coöperation there must be, but it is equally important at the same time to preserve the benefits of the natural development of national genius and self-interest and of distinctive national destiny, as the true basis of the world order.

It may be observed in this connection that although the scope and viewpoint of this study are world-wide, somewhat fuller attention and even emphasis is occasionally given to

America's part in the whole scheme. This involves no attempt to magnify America's rôle in world affairs, but is justified by its important and in some senses pivotal place among the leading powers in the world's business of the present day, by the peculiar interest in this country and elsewhere in the American position, as well as by the convenience of such treatment in illustrating the points developed. It is, however, a world study rather than a primarily national study, as will be seen in the chapters themselves.

*The Natural and Practical Character of the Existing Order and Ways of Viewing It Scientifically.* Again, the study is an attempt at analysis of things as they are, as it is believed any scientific treatment should be. To the extent that solutions of problems are considered no radical proposals are made. This is not the result of any preconceived conservatism, but rather of a conclusion that the economic order of things is largely a product of an evolution along lines of inherent forces. This order is in a sense as natural as others, such as the biological one, and though problems and difficulties arise they are to be solved by conformity to and utilization of natural forces and motives and not by futile attempts at revolutionary destruction of the order itself.

Such a view results especially from an objective observation of the phenomena of the field. Thus this study, while not intended as a manual of routine, is of a practical nature, in that it deals with actually existing conditions and problems. Its principal method is not a line of abstract reasoning involving purely theoretical suppositions concerning imaginary situations. Such an approach, considerably employed in earlier economic thought, as in writings of the mercantilists as well as of the classical school and of certain still later writers, although of much interest in the whole attempt

to arrive at ultimate doctrines, finds limited usefulness in the light of later methods and sources of information. True, it would be a mistake to suppose that the inductive method could or should ever completely supersede the deductive method in all the branches of knowledge; these are, in fact, not necessarily mutually exclusive in all cases, and each has its value. Furthermore, it must be recognized that the "social sciences" do not lend themselves so well as do the "natural sciences," such as physics and chemistry (if these are really any more "natural" than the social ones), to the inductive method. Certainly there are great, and in some cases nearly insuperable, obstacles to the adoption of the quantitative method, as distinguished from the qualitative method, in the social sciences. Where reagents cannot be isolated, where the "laboratory" is often as large as a nation or the world and accordingly as difficult to reduce to beaker or scales, and above all, where the so-called "human element" constantly enters in, as illustrated in whims of consumption and market "higgling" and scores of other influences of intangibles, there exact measurement is often extremely difficult. Even with the advent of the newer ways of "commerce analysis" it is open to question whether things economic, like also things political, may ever be reduced to a purely quantitative manipulation. However, the constant growth, not only of devices of measurement and analysis, but also of machinery for recording and compiling the data of business processes, makes for progress in that direction. In any event, there is much to be gained in this field from careful attempts to draw together facts regarding actual conditions, even though they are not always quantitative, and as far as possible to use these in an inductive way in conceiving principles.

Moreover, while many current problems of outstanding

interest, some of them of rather acute character, are here dealt with, the primary purpose is not to stress these problems as such, with the possible international conflicts involved, but rather to emphasize the normal processes which occur in large but quiet and generally unobserved volume. It is ordinarily much less the spectacular incidents and much more the unheralded normal transactions which mold the existing world order.

It is to be observed, further, that this flow of transactions obviously is not static. Despite the prevalence of so-called institutions, which are of much stability and unquestionable value, things economic, like things political, are essentially dynamic, and in such matters fundamental systems are to be discovered largely in an examination of their current phenomena. Nevertheless, systems do exist, even though they be of an organic, metabolic nature, and ascertainment of them is highly important.

Such a consideration raises the illustrative question of the permanent or temporary character of the international events of the present period. The World War and its aftermath affected economic conditions practically everywhere and disorganized and possibly to some extent reorganized economic structures. This lends a new interest to the present subject at this time. But it also makes it somewhat more difficult, even yet, to distinguish temporary changes and conditions from permanent trends and principles. Whether the War and its results marked the beginning of a new era in economic history, as many supposed during the war and immediate post-war period, is still the subject of some differences of opinion. Such a view may be seriously questioned, for as time has elapsed there have been many indications, not of the final elimination of difficulties due to those disturbances, but of a settling back, as far as fundamentals

are concerned, to the old economic order which after all was a natural product of economic evolution and therefore was not likely to be remade even by a world war. Many recent changes must necessarily be noted in a study of this sort, and this has been done, but always with the basic conditions in mind. Furthermore, it will be seen that many economic effects of the struggle of 1914-18 represent mainly a precipitation of events already in the making, a hastening of the process of a given evolution; for example an explanation of America's change from debtor to creditor position as simply a war result would be superficial and fail to take into account the trend in its national economy which had been leading in that direction or at least preparing the basis without which the change could not have occurred. Still other present-day problems which seem both acute and novel, when analyzed appear to be fundamentally due only to a lack of readjustment to the pre-war system; this is probably true of the major current difficulty of American agriculture, which was artificially stimulated by the war and has not even yet become readjusted to the pre-war trend. It would more and more appear that the basic economic and politico-economic structure, though not a static one, and though shaken by the World War, has not been recast.

*Past and Present Approaches and Concepts.* The foregoing comments on the nature of the present analysis suggest the matter of the past and present approaches to this field. These have been various, but doubtless the most familiar idea of international economic relations is one couched largely if not exclusively in terms of international trade (and related shipping and finance) and of its values. This has been, perhaps, particularly true of the literature on the subject in the English language. From the very beginning English economic thought naturally placed much emphasis upon

international commerce, if indeed it did not find birth, in considerable measure, in such considerations of external affairs. Apparently it has continued to stress trade (and shipping), and to concern itself a good deal, internationally as nationally, with value and price and related matters, and consequently, in the international field, with such things as trade balances. American discussion in this international field (though not so greatly in the domestic realm), where it has gone beyond mere description has shown somewhat similar tendencies.

As for discussions of international trade as such, their importance is not to be minimized. That process is the most obvious one in international economic relations. Indeed, it is the process which largely gives expression to the conditions which create it, and which therefore is, in a sense, the automatic gauge of such conditions, as well as an index, to some extent, of other exchange processes. Consequently a method in the study of international economic affairs which stresses industry and other background factors, and which arrives at concepts of national and international economy, does not necessarily conflict with a given theory of international trade. It is a matter, not of opposite conclusion, but of different approach and different emphasis, of different choice of that which is to be first considered.

However, whatever approaches may have prevailed, the underlying purpose of the present work is to develop, as far as possible by means of inductive analysis, not only a fundamental industrial but also a total structural, *organic* concept of the national and international economic and politico-economic order, and to do this along distinctive lines. The constitution of this order primarily determines the processes, problems, and policies of international economic relations.

## SOURCES AND REFERENCES

Effort has been made to "document" the present study carefully.

The wide scope and the current nature of many of the problems dealt with involve certain difficulties of treatment. As for the scope, in some segments of so wide a field the sources of information are either very inaccessible or are almost non-existent. This is particularly true of industrial relations. For example, while imports and exports of the leading nations are largely recorded in reasonably accurate and detailed statistics, such things as the granting of foreign concessions and the formation of international affiliations of industrial enterprise are not only not always matters of public record but not infrequently are kept secret by the business interests involved. Such data, if obtainable at all, unlike statistics of foreign trade, can seldom be drawn simply from one or two official government compilations; scattered, and in a few instances unofficial, sources must be utilized. There are also a few places, chiefly in the introductory chapters, where secondary sources are necessarily given considerable weight; for example this is true of works on international law cited in Chapter Four. However, throughout the study in general, and particularly in the main body of the work, the attempt has been made constantly to turn to official documents and other primary and original sources, wherever such are available, for the materials upon which the analysis is based and with which its principles are illustrated. This will be seen from the full citation of such sources throughout the chapters. At the same time extensive lists of the chief secondary works have also been added at the appropriate points in the footnotes of each chapter, even though materials are not drawn from them, so that these

may comprise a select bibliography for purposes of comparative reference and collateral reading. These lists of references are not segregated at the ends of the chapters; such a plan might be slightly more convenient for superficial use, but for thorough treatment there is a distinct advantage, if not necessity, in placing them at exactly those points where they are pertinent.

The time element naturally presents some further difficulties. Where so many current events enter into the subject it is not always possible to present the very latest changes in the details of these numerous matters, such as shifts in the proportions of foreign ownership of mineral resources or in the membership of international syndicates. There are three points at which the problem of chronology of data should be chiefly noted. (*a*) Certain statistics concerning colonial area and colonial trade used for illustrative purposes in Chapter Five are, in part, those of the pre-war period; these are obtained from a compilation of the Tariff Commission issued in 1921. In spite of the inevitable lag in availability of official trade statistics of many countries, familiar to all those who deal with such statistics, many later figures are now available. However, these are in widely scattered form, and so far as known they are *not* available in the composite and comparative form there given and adaptable to the particular purposes of this chapter. The former, therefore, are cited, with an indication of their chronological limitations. Nevertheless, properly interpreted they illustrate the principal points concerned. (*b*) Data concerning foreign ownership of resources and foreign production operations throughout the world are usually extremely scattered, fragmentary, and inaccessible; they are often unofficial and not well authenticated. Where such matters are treated in this study several official and semi-official sources are drawn upon



which are fairly comprehensive and up-to-date, and these are supplemented with other miscellaneous data. The study does not purport to embrace every detailed development in these matters in every country, but rather seeks to treat these phenomena as illustrating a system; however, every effort has been made to present as complete a picture as possible. (c) In dealing with international combines, a number of pre-war and war-time cases are described (with indication that they belong to that period), since some of these combines still exist, and since the post-war developments cannot be understood except in the light of their antecedents. However, very recent cases are also described and analyzed, and the post-war trend, up to the time of this writing, is fully discussed, and its significance indicated. It should also be remarked in this connection that the present manuscript was largely completed during 1927, and that, in general, it does not trace illustrative developments beyond that time; but certain later changes of outstanding interest in early 1928 have been included, in the chapters and in an Appendix.

#### USES

Considering the object of the present work, the shifts in details of phenomena touched upon are less important than the total pattern. Nevertheless, although not intended as a current handbook of encyclopedic nature, it is believed that the volume will present a reasonably complete and up-to-date account of the problems falling within its scope, and accordingly that it should be useful as a reference work, in addition to its primary purpose of delineating a fundamental system which manifests itself in different forms from time to time.

A further word may be said concerning the possible uses of the volume. While it is written primarily as a treatise,