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COOPERATION IN FOREIGN TRADE.

An address by Hon. Joseph E. Davies, Chairman of the Federal Trade Commission, before the National Foreign Trade Council, at New Orleans, La., Friday, January 28, 1916.

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Epochal opportunity confronts American business to-day in foreign trade. Conditions have never been so favorable to trade expansion on a permanent basis. It is probable that never again will so propitious an opportunity knock at the door of American enterprise.

Questions concerning the value of foreign trade, and problems of its development have recently, therefore, become emphasized in the public mind. The analysis of our own economic conditions which world events have precipitated, has brought to us the realization that the economic character of our national life has changed. We are no longer an agricultural country of undeveloped resources alone, but have become one of the great industrial and financial nations of the world, and have become subject to the trade and industrial fluctuations which such conditions breed. In addition to the contribution to national wealth which foreign trade brings, its substantial value has become recognized because of the stabilizing influence it has upon production as a back log for industrial energy. The desirability of foreign trade has become a large factor in national outlook.

General problems of foreign trade.

The problems connected with the development of foreign trade are manifest. The goods must be produced. They must be carried in ships to foreign countries. Banking and credit facilities must be provided. Markets must sometimes be created, and international competition must be met.

That portion of the problem which has to do with competitive conditions is

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particularly germane to the functions of the Federal Trade Commission; and it was because of its judgment that no more opportune time than the present could be had to exercise the power conferred upon it by Congress in respect thereto, that it has been engaged upon an investigation for the last several months of conditions in foreign trade, and the competitive conditions in international markets which will have to be met in the successful projection of American trade abroad. It was for this reason, I presume, that you have asked me to discuss upon this occasion, the question of "Cooperation in Foreign Trade."

Problems disclosed by analysis of conditions.

Any consideration of the problem of cooperation in foreign trade must be based upon an analysis and correct understanding of the conditions affecting our foreign exports; their character; the conditions of their marketing, and the character of foreign competition they are required to meet.

Our exports consist of two general classes. Two-thirds of the total is made up, approximately, of foodstuffs and materials to be used in manufacture abroad. The remaining one-third is made up of manufactured articles.

Conditions with reference to export of raw materials.

The first class of exports -- the raw materials, foodstuffs, and the like -- presents, so far as developing a market is concerned, little or no need for cooperative effort. The market is there. The goods sell themselves. If there were need, the foreigner would come and extract the goods from the earth; for his necessities require that he have them to live and to translate his labor into value. In this situation the problem is rather that of conserving our natural resources. Investigation discloses that American sellers of lumber in Australia and elsewhere; that in some instances American sellers of coal, minerals and metals in foreign markets, are forced into the severest competition with each other at the hands

of a combination of buyers who thus secure the lowest possible prices. There is reason to believe that, in consequence, our raw resources are frequently sold abroad at lower prices than at home, and not merely at no profit, but at a loss. This economic waste in raw resources accrues, under such conditions, not to the benefit and advantage of consumers in this country (wherein some possible justification might be alleged), but to the benefit and advantage of consumers abroad. The requirements of an intelligent and provident people would certainly seem to demand that some system should be devised to prevent this economic waste and preference of the foreign consumer, and at the same time a method that would protect the domestic market and the domestic consumer, consistently and fully, from any ill effects that might possibly arise as a result of such system.

Conditions affecting export of manufactures.

The remaining one-third of our exports are manufactured articles, and consist generally of two classes -- specialties and staples. These do not sell themselves. A demand must be created; and foreign competition must be met. In specialties, the demand is largely created and the competition met through the popular character of the product. In staples, which constitute the large bulk of international trade in manufactured goods, the condition differs. The development of the demand is difficult, and the competition to be met most severe. The demand for cooperation comes especially from the manufacturer of staples.

Analysis of the demand for cooperation.

Inquiries have been addressed to business concerns of all classes in the United States, and the replies indicate some interesting facts in connection with this subject. Relatively few of the larger organizations of

the country manifest a desire to enter into extensive cooperation in foreign trade. They do not seem to feel the need of cooperative effort, because of their ability and capacity to project their own enterprises. In that connection it may be said, with some reservation, that a very substantial part of our foreign trade has been developed through large organizations of this character. This development of our foreign trade is characterized by the fact that the ownership and management of plants reside in a single corporation, and is in distinct contrast in the manner in which the foreign trade of some European countries has been developed, where similar results have been obtained through the syndicated relations of smaller manufacturers who retain the individual ownership and individual control of their respective plants. This form of organization is peculiar to some of the selling cartels of Germany, as well as to some of the *comptoirs* of France.

The demand for cooperative action in foreign trade comes largely, our investigations disclose, from the smaller concerns engaged in the production of staple manufactured articles. They see through this agency a means of securing business which, otherwise, their size, or lack of size, prevents them from obtaining. Some reasons alleged are as follows:-

"The selling cost on our goods, if handled alone, would consume all the profit."

"We are too small to do it alone."

"It would be a better medium of presenting my product to a foreign market at less expense."

And these are fairly typical.

A résumé of the general reasons advanced would seem to be that in many lines of manufacture it is impossible for a small man to engage directly in foreign enterprise, that cost is prohibitive, that risk is

too great, that warehousing and credit facilities are individually impossible; that cooperative effort would enable such manufacturers to procure markets otherwise unavailable, and would enable other small producers to extend and increase foreign trade which they now have. Moreover, in some degree, concerted action would serve to protect them against combinations of foreign buyers.

The small manufacturer and stabilization in industry.

To the extent that foreign trade serves a tendency to equalize production and to sustain industrial organization during periods of local stress, it is obvious that its advantage accrues most advantageously to smaller manufacturers. Large aggregations of capital engaged in foreign markets, it is apparent, have relatively less need for such a factor in production, for they have both organizations to sustain and reserves to finance them during periods of depression. In periods of domestic stress, stabilization is most needed, both in the interest of the employer and the employee, in the zone of smaller manufacturers and producers. They are less able to withstand periods of lessened demand and the first to feel the stringency.

Extent of the Demand and the Protection of Public Interest.

Eighty-five per cent of the thousands of replies that we have received from the business men of the United States disclose a demand for permission to cooperate in foreign trade. It is of serious and great interest to note that a very substantial part of these who declare that such cooperation should not only be permitted, but should be encouraged, are equally emphatic that this situation should develop under Federal regulation, so as to assure not only that the domestic market and the domestic consumer shall not thereby be prejudiced, but also that all American

manufacturers shall have fair play and equal opportunity in foreign business.

Foreign competition in international markets.

Equally important with domestic considerations in connection with foreign trade -- perhaps even more important to its successful projection -- is the kind and character of competition that American trade will be required to meet in foreign fields. These conditions, which our investigations disclose existed in the world's markets prior to the War, will undoubtedly be intensified in the foreign trade of the future. Typical illustrations of the effectiveness and comprehensive character of foreign methods might be illuminating.

A combination of noncompeting manufacturing plants of Great Britain, for instance, are equipped to establish, and have established joint selling agencies, with branch offices and warehouses, and with such effective organizations that they are equipped to handle any kind of service within their lines, from the sale of a handsaw to the building of a railroad.

Much of the Oriental business of Germany is alleged to have been acquired through so-called "rings," which include representatives of every kind of industry whose goods or services might be required. The markets are scientifically studied and assiduously cultivated. In one of these rings, 48 different German manufacturers participated. Its organization with the local bank and home bank connections was complete. It had within its organization facilities for selling to a Chinaman a five-cent file, or for planning, financing, and completing the industrial development of an entire province, opening harbors, building railways

and telegraph lines, sinking mines, erecting factories, installing light and power plants, and even to clothing the people and marketing of their products.

But still more significant than these isolated instances are the suggestive activities which a survey of international commerce will disclose. Some of these facts are, briefly these --

Prior to the War, in Germany approximately 600 cartels or manufacturing and selling syndicates, of a high degree of integration in industry and capacity, were projecting their activities into foreign markets. It is generally recognized that at the same time there were approximately 130 international cartels of a similar character; and it may occasion surprise to know that the control of a smelting and refining plant in Colorado was owned by such a little known international organization.

At the University of Kiel there has existed, and does now exist, an institute for the study of world trade, subsidized by the Imperial Government of Germany, and organized with a corps of highly trained economists.

In Turkey, during the last several years, a German trade paper has been published daily in both French and German.

The Imperial Government of Japan has projected its enterprise into foreign countries, with its government monopolies of salt, camphor, and tobacco.

In Chosen, which is the new name for Korea, it is significant that there has been established an institute for the development of native Japanese chemical and industrial engineers. It is generally recognized that exporting and marketing Japanese firms threaten the complete domination of the Chinese trade.

These manifestations of activity in Europe and in the Orient are indicative of the kind and character of competition that will be met in foreign trade in the future.

Subsequent to the war these conditions will be emphasized and activities will be intensified by the spur of economic necessity in some of the nations of Europe.

Under conditions such as these, the embarkation of American enterprise into foreign trade and the maintenance of its rightful place there, will require the strongest initiative and the highest order of business intelligence.

#### Combination in Foreign Trade and the Law.

There is much misapprehension as to the application of the anti-trust laws to foreign commerce. Of course, as a matter of fact, there is no greater restriction upon American business in the foreign fields than the law imposes as to domestic. Nor does the law forbid cooperation in either domestic or foreign commerce except where it amounts to a restraint of trade or a monopoly or a tendency to create a monopoly. The census taken by the Federal Trade Commission, directed to a very large number of business men of all classes, discloses that the great body of opinion in such circles is that cooperative effort in export trade is prohibited by the law. Our investigation discloses that more than half of the men who answered our inquiry stated it as their understanding of the law that cooperative enterprise in export trade is prohibited even as to noncompeting articles -- a situation where ordinarily there would be no competition to be restrained. It is a fair statement



of the fact that our investigations disclose that doubt as to the legality of such enterprise in the foreign fields amounted in many instances to a prohibition of any action in the foreign market. This belief is undoubtedly one of the factors in the situation which hinder the development of foreign trade at this time.

It is the opinion of the Federal Trade Commission that enterprise in foreign trade should not be impeded by conditions of this kind. In the absence of injury to any American interest a greater degree of cooperation in export trade than is allowed in domestic trade may be beneficial to the country. If this is not now permitted by law, new legislation, to that end, properly safeguarding the public interest, should be enacted.

#### Basic Principles.

This position is in entire consonance with the public policy of this nation with reference to government's relation to industry. Competitive conditions in foreign markets are assured by the international conflict of interests. Opportunity is afforded, through cooperative effort in this field, to those who otherwise, by reason of their limitation in size, would be denied such opportunity.

The objection which is urged with greatest force against cooperation for foreign business is that the combinations effected for export trade may be used to oppress competitors here at home and to exploit consumers in the home market. There is plainly a serious danger here, and it must be met frankly and guarded against effectually. But abuses of this kind, and the possible abuse of an extension of a monopolistic condition into the foreign field to the disadvantage of the smaller manu-

factorer in such activity, can be prevented, we believe, by Federal regulation. Other nations having policies similar to ours have found it possible within the law; and it is equally possible for us. It is not consonant with the spirit of our people to fail to grasp a great opportunity because of possibilities of evil, which can be guarded against and prevented.

Danger to Foreign Trade not from Law but from Conditions within Business Itself.

The danger which is most imminent to the development of our foreign trade at this moment does not lie within any limitation of law. It comes from business itself and the imminence of unprecedented domestic prosperity. The conquest of the foreign market is a slow, laborious and painstaking project. The convenience of the home market, its greater demand, and the large profits of great domestic prosperity may seriously impede the development of the foreign field. The remedy for that condition lies solely with the good judgment, the farsightedness, and the longheadedness of American business, which will place the wisdom of building upon a strong, secure foundation before large profits and temporary prosperity.

Fundamental Principles of Foreign Trade.

The same considerations of fairness which we demand in domestic conditions should be preserved in foreign fields. Cooperation in foreign trade does not contemplate doing that abroad which we hold to be improper if done here to us. If the process of unfair dumping, or selling for the purpose of destroying competition, in this country, at a price substantially below the fair price in the country of production, is wrong,

and if it should be prohibited by law, the same principle applies when the shoe is on the other foot and trade is being projected by us into foreign fields.

The United States and Fair Principles of Trade.

At no time in our history has it been more incumbent upon us as a people to project into our relations with other nations, whether it be in trade or otherwise, those principles of fairness, justice and law upon which civilization is supposed to be based. Civilization is today withstanding the shock of internal assault, if civilization means the development of men and peoples to the highest point of efficiency through peaceful methods. There is a conflict between two concepts of civilization. The tendency of warring nations is to substitute force for the rule of justice. Victorious Germany demands that it shall be self-sufficient as an economic unit from Belgium to Bagdad. Runciman declares that victory to the Allies must mean destruction of Germany's economic efficiency and dominance in foreign trade. To the West, an oriental nationalism proclaims the same doctrine. Such attitudes are predicated upon the power of force, and are a denial of the application of those fundamental conceptions of natural development of trade controlled and directed by large conceptions of what constitutes equity and justice, upon which civilization has been founded. Economic self-sufficiency has been generally held to exist for people, when within the sphere of their dominion all the products of the zones, from the Arctic to the Torrid, are available for their uses, and "Southward -- not westward" has been proclaimed to be the course of empire.

In the Western Hemisphere alone there seems to be that combination of economic self-sufficiency which diversity of geographical position gives, with the coincidence of and belief in the principles of justice and law as a governing force between independent nations seeking to serve men under common ideals of government, and under a common belief that the rule of justice and law will obtain, as the ruling force of civilization, long after the warring nations have passed from memory.

The European War has accentuated the trade of the Americas. In contrast to the self-sufficient nationalism of the East and the West that seeks to impose its will by force, we have here an internationalism, economically self-sufficient, protected by two oceans, and consisting of nations who still hold that justice and rules of fair dealing enforced by law of their own making shall serve to sustain and proclaim a Christian civilization.

Herein may lie the Destiny of the Americas in the development of civilization.