Die Vorträge, die Schumpeter im Januar 1931 in Japan im Rahmen eines Themenzyklus gehalten hat, sind schwer zugänglich. Ich dokumentiere hier die drei Vorträge

JOSEPH ALOIS SCHUMPETER

The Theory of the Business Cycle

The Present State of Economics OR On Systems, Schools and Methods

The Present State of International Commercial Policy

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Joseph Alois Schumpeter

The Theory of the Business Cycle

Prefatory Note
The following article contains the substance of a lecture delivered by the author at the Imperial University of Tokyo on January 30th, 1931. The author begs to express the pleasure he feels in submitting his argument to the readers of Keizaigaku-Ronshu. The present world-depression is not dealt with here, except incidentally, the aim of the lecture having been the presentation of the general problem rather than of a particular case. It is scientific work on this problem, and not the practical aspects of it, what the author wished to emphasize. Hints to students and other matters not of interest to readers have been left out. The interest of the subject is not lessened thereby - it would at all events be only the fault of the author, if it were.

I.

Whenever we have a depression, business-men try to explain it by particular unfortunate events such as wars, political mistakes, social troubles and so on. They are quite right to do so. For every depression presents features which are peculiar to it and which often are important enough to justify exclusive attention to them. So for instance, the world-depression which we are witnessing to-day, is so obviously aggravated by such things as the agrarian situation, the deflation-policy of many countries, the inelastic level of wages and so on, that it is natural to think that these factors afford a full explanation of all the evils the world suffers from at present. Yet this is not so. Even if all those factors had been absent and if economic life had not been influenced by any such events, we should still have a depression although a much milder one, because economic life itself displays rhythmical recurrence of periods of prosperity and depression.

To prove this is the task of the Theory of crisis or, as we now prefer to say, of "cycles" or of "fluctuations". And we shall in this article confine our attention to this aspect and disregard, in order to do so, all those other circumstances, which influence business sometimes much more poorefully than the rhythm of economic life itself would do. But although we must, for the purposes of theory and in order to make the fundamental problem stand out clearly, assume the absence of extraneous disturbing causes, it is difficult to do so statistically. For it is obvious that statistical series, such as the annual or monthly series of prices, incomes, volume of production, bank clearings, loans and discounts, reserve-proportions, interest-rates, freight car loadings, building contracts and many others, will not only display the influence of the wave-like movement of cycles but the influence of those extraneous elements as well such as earthquakes, social unrest, changes in commercial policy gold discoveries, chance variations of harvests and so on. We have, in America, about 40 economic series of this kind, but most of them go back only to 1919, and only about one third of them to the beginning of the century, while a few go back to about 1875, and only one, the series of prices, goes back to 1790. The Harvard Economic Service, the most famous and the best of all the publications which aim at analyzing and forecasting business situations, tries to bring out the cycles, by eliminating seasonal variations and long-time change, the so-called "trend". But it has no satisfactory mean to eliminate also the influences of which we speak, and which the Harvard Service calls "irregularities". Of course, our knowledge of the history of business-situations and of single industries tell us when obvious irregularities are present and what they are. But as we are rarely, if ever, in a position to measure them, they will distort our statistical figures and make
both the "cycles" and the "trend" look different to what they really are. This difficulty which has not yet been overcome, must always be borne in mind when we make practical or theoretical use of the series of statistical figures which are at our command. This is the reason, why the figures of periods which have been subject to violent irregularities such as the War-and the Post-War-period cannot be used to draw inferences from for more normal times. But for purposes of theory, we may, and must, assume the absence of those irregularities. I wish to add, that also the elimination of seasonal fluctuations, such as seasonal variations of prices, sales, building construction, is not quite satisfactory. Yet this is comparatively as small matter, and I shall assume that we can eliminate them and not speak of them any further. One more word of caution: I have said that the statistical methods fail to eliminate the influence of irregular events and that this fact falsifies both trends and cycles. We derive trends from the statistical figures by what is called "fitting" curves - mostly straight lines - to them by the method of least squares. Then we subtract the "trend-values" from the figures and get the cyclical deviations from the trends, which of course must be wrong too, if the trends are. But even if all this were not so and if our methods were perfectly correct, it would still be impossible to say anything about the causal relations of our series. If for instance we see that low interest always precedes prosperity, we cannot conclude that low interest is the cause of prosperity. As a matter of fact it is not. Before prosperity there is depression and during depression the demand for loans is small. Hence interest falls, and as no depression lasts for ever, but always is sooner or later followed by prosperity, it is easy to explain that low interest will precede prosperity. But this means no more that low interest is the cause of prosperity than the fact that night precedes the day means that the night is the cause of the day. This teaches us that statistics can never explain things unless they are themselves explained by theoretical analysis. We ought to be, therefore, on our guard against the claim of many authors or institutes, who pretend that they can explain cycles by statistics or a "statistical theory" whilst what they really do is to interpret their statistics by some theory they hold without knowing it and which because of the fact that it is subconscious escapes critique and is likely to be a very primitive one.

II.

Very early in the development of economic science, in fact more than hundred years ago, people observed the phenomenon of "crises", that is of break-downs, characterized by bankruptcies, panics and suffering. These crises were first looked upon as misfortunes which happened because people had made mistakes or committed crimes but which need not necessarily have happened. But already at the end of the 18th and beginning of the 19th century, when these crises occurred again and again, it began to dawn upon economists that there was some regularity in the phenomenon, not to be explained by particular misfortunes and that there was something in the economic system itself that would produce breakdowns from time to time. In those days the most simple theories were evolved, such as the theory of over-production or the Marxian theory of underconsumption. The most important scientific achievement of that time was the proof due to the French economist Jean B. Say that there is no such thing as general over-production. Even today some people would do well to try to understand this theorem, which is particularly useful in refuting the more primitive explanations. Let us take the theory of over production. When a crisis has already happened then business men find it difficult to sell their commodities, and they say too
much has been produced. The theory of over production is nothing but the putting into so many words of the impression everyone has when looking at a crisis, but we need no more than a grasp of Say's theorem in order to be rid of it for ever. It is truly sad to consider that this old error should even now be held by many eminent authors.

But in the 19th century the second step in the analysis of our phenomenon was taken, also by a Frenchman whose name must always be honourably mentioned in any history of the study of the business cycle - Clément Juglar. He made the discovery that what the former generations had called "crises" were no disconnected events, but merely elements in a more deep seated wave-like movement. The Crises are nothing but a turning points from prosperity into depression, and it is the alternation between prosperity and depression which is the really interesting phenomenon.

The former generations asked: Why do we have a breakdown from time to time? The next ones asked: Why does not economic progress go on smoothly like the growth of a tree, but "wave-like" in the form of phases of recurring prosperity and depression? The problem of the crisis fell into the back ground and the problem of the cycle emerged.

This discovery was really the starting point of all further work. When I, 25 years ago, started to think about the phenomenon, I simply wished to explain this alternating prosperity and depression, assuming that it was just one phenomenon. But later on another fact emerged from more complete analysis of history and I, like many people, came to doubt whether it is true that economic life is subject to one fluctuation. Some eminent authors, among them Prof. Spiethoff and Prof. Kondratieff found that at some times it is the phases of prosperity and at other times the phases of depression which are more marked and display greater intensity and duration. In other words another wave-like movement was discovered of much greater span, going on along, as it seemed, together with the first one.

Whilst the first cycle which we may call the Juglar-cycle, lasts about from 8 to 11 years, the other which we call "long waves" is much longer. The first of these waves rose about 1785, reached a culmination in 1814, came down in 1842 or 1849. Then rises the second "big wave" reaches culmination in 1873 and goes down till 1894. The third wave starts in 1895 and reaches a culmination somewhere after 1914 and is now on its down-grade. What does this mean? Economic life is subject not to one kind of fluctuation but at least to two different kinds. Assume you have a quiet pond, and throw a big stone into it thereby creating a wave. Then while this wave is going on, throw in a smaller stone creating another wave within the big one, and you have an analogy with what happens in economic life.

But in 1923 Mr. Kitchin, in an article in the Harvard Review of Economic Statistics proved, or made it highly probable; that there is a third wave which lasts about 40 months, and still later we found that there is, in the series of prices at least, a cycle of about 22 years, which is now sometimes called the "major cycle".

Economic progress, then, goes on in waves, and, further more, it is not one wave but at least four kinds of waves which go on concurrently. And there may be more. To apply this to America, we have had 40 month cycles as follows: There was depression in 1893, 1896, 1900, 1904, 1907, 1911, 1914, then comes the World-War. From 1921 this little cycle seems to start again, 1921, 1924, 1927 and 1930, being the years of depression. We see in the same material the Juglar-cycle also, 1873, 1884, 1893, 1900, 1907, being depression years, and 1914 would perhaps have been another date, but of course the World War disturbed the figures. 1930 was as we know a exceptionally severe depression. Why? Because all kinds of cycles which we can
so far distinguish are on the downgrade, and so mutually intensify each other, while if at any
time one cycle alone displays the depression-phase, the others being on the up-grade, effects
will tend to neutralize each other. When all the waves go down we have a big trough, and when
all of them go up a big peak. So I come now to the latest and most important of the formulation
of our problem. The first was: Why do breakdowns happen? The second was: Why does not
progress go on steadily? And now the real problem is different again: How can we describe and
explain the interference between the different waves which we observe in economic life?

III.

I felt it incumbent upon me to present this newest aspect. Now I return to the older question,
and I shall confine myself for the rest of the time merely to the explanation of the Juglar-cycle.
This explanation has been much facilitated by Juglar himself, when he wrote the pithy and
important sentence: The only cause of the depression is prosperity. There is a lot in this
sentence and I want to comment upon it. Of late we have been always looking at the period of
prosperity as a happy period of social welfare, and the period of depression as an unhappy
period of misery. This impression is due, first, to the fact that in depression the business man is
worried because his transactions are likely to turn out badly, because there are many
bankruptcies and so on. The masses are unhappy because there is unemployment. The
Ministers of Finance are unhappy because the revenue shrinks. But if we look more closely, we
find that total volume of business does not shrink so much as we think, that the shrinkage is
moreover mainly confined to constructional industries and that the drop of prices benefits large
classes of the community.
What happens in the period of prosperity, whatever else it may be, certainly is a disturbance
of equilibrium. The depression is that period by which economic life adapts itself to the changes
brought about by the preceding prosperity, it is, as Juglar was the first to point out, the reaction
of the economic organism to what happened in the period of prosperity, or, to put it in still
another way, it is the attempt of economic life to reach a new state of equilibrium embodying
the new conditions created by prosperity. Therefore we shall have explained depressions, if we
succeed in explaining prosperities, that is if we succeed in discovering the cause, why economic
change should not go on evenly and smoothly, but by fits and starts.
That cause is not far to seek, it lies in economic progress itself. Economic life changes for three
different reasons. It changes, first, by irregular influences acting from without the economic
sphere. These we must discard, as I said before, when our question is whether there would be
cycles without them. Secondly, there are forces, which produce change, but a slow and
continuous one. The increase of population for instance is indeed also a disturbance of
equilibrium, but as it happens continuously, and as the number of workmen who at any point of
time enter economic life, is relatively small, this increase is capable of being absorbed without
any violent disturbance. It is the same with savings. They are a continuous stream, and are
absorbed continuously.
The third force of economic change, however, does create disturbances. It is what is more
specifically called "progress" and consists mainly in the change in method of production. This it
is what changes most powerfully the surface and structure of economic life. An example is the
introduction of the mechanical spinning machine in the 18th century, a later one is the
introduction of the motor car: An example of the change of commercial habits is the
replacement of the Brazilian rubber by rubber from the plantations of Java and the Malay States. It is this doing things in different and more economical ways, what makes all nations of this world grow richer and richer.

You will ask now, why these innovations are not also introduced continuously, and why they are causes of violent disturbance of the equilibrium? I will reply by one example. Before 1904 nobody thought that the motor car could ever be an article of mass consumption. Nobody knew there was the possibility of selling millions of cars every year. But one man, Mr. Ford, knew it. And he built a gigantic plant in order to produce a cheap motor car. He could sell them at first without any competition, and became the richest man in the world. But when once Mr. Ford had started his factories, and other people saw this could be done, it was easy to copy it. Competitors arose in America, and in Italy, Germany, France and England new companies began to turn out cheap cars. All these people rushed into this business, to follow in the way of the big success. And so a great new industry grew up, on the products of which the American people spend directly and indirectly more than 15% of their income. This meant a great disturbance of economic life and here you have the explanation both of booms and depressions. New things are difficult to do, they entail quite a different kind of risk, the risk of carrying out processes which have not been tried by experience. As a matter of fact 9 out of 10 of those who attempt it fail, but if one succeeds people rush in after him. This is the explanation why progress comes in rushes. As with motor cars, so with electrical appliances, so with the new chemical inventions, or, in former times, railroads, and so on. Studying economic history, we find that the upgrades of a cycle are all dominated by some new industry, which is developing its plant. So progress creating new industries or new concerns, creates prosperity and after prosperity depression. But in order to explain the mechanism I will ask you to go one further step with me. This further step which we have now to take refers to credit.

IV.

The financing of a new industry means expansion of bank credit. Naturally, an entrepreneur who is building and equipping his factory, has not yet at his command the receipts from sales, which in the case of a factory already in existence help to finance current production. He will generally have to resort to credit, and all new industries have been helped into existence in this way. This credit can be supplied out of savings of other people but this source will as a rule be insufficient precisely because it is never one new factory or a few of them which has to be financed, but a great number of them or whole industries owing to the fact above mentioned, that the success of one man draws hosts of others after him who want to do the same. Demand for credit moves in sympathy with business activity and as the latter moves as we said in "rushes" the former must equally do so. Banks meet this demand by which is called credit-creation, that is to say they expand credit by granting new loans and placing their amounts to the credit of the current accounts of borrowers without any increase in their resources. And borrowers draw cheques against these credits just as if they themselves, or somebody else for them, had deposited the same sum in specie. If banks do this, they not merely transfer, but create purchasing power. As a consequence, we shall expect the price-level to rise in prosperity, because there are now more means of payment in circulation, while the quantity of commodities is as yet the same as before. Entrepreneurs are building and equipping their factories, buying raw materials, machinery and so on, paying wages and salaries, but they are not producing
anything yet. Hence a rise in the prices first of the materials necessary for construction and equipment, and then, through the influence of greater expenditure by wage-earners and others, a rise in prices of articles of consumption. This is the explanation of the rise of the price-level which we invariably observe in periods of prosperity: Of course, when this rise of prices is once under way, all business-men, even those who have nothing to do with the new industries which are being created, will wish to profit by it and try to expand their business, place bigger orders with wholesalers and manufacturers, demand more credit from their banks and so on. Hence "prosperity" spreads till it covers the whole of the economic organism and till many observers lose sight of its original source. It is therefore useful to distinguish these phenomena by a special name from the fundamental process, of which they are merely the consequence. I have called them the "secondary wave". Although secondary, these phenomena are often very important factors in concrete situations. Nevertheless, the fundamental characteristic of the period of prosperity is really not general expansion in all directions, but the expansion of productive capacity for new purposes. Hence the increased demand for building materials, machinery, pig-iron, steel, copper and so on, which we always see in prosperity and which stands out so clearly in our statistical series.

Now, industrial change consisting in the introduction of new methods of production and new commercial combinations, will after a time produce its results in the form of articles of consumption which will stream out of the new factories. And this; strange although it seems, also produces the depression. This sounds strange because one would think that the appearance of the new products, being an addition to the flow of means to satisfy our wants, would mean increased social welfare and be welcome to all classes of the community. It seems paradox to call the period in which this added wealth poures forth, by the dark name of "depression." So it is. The new products really do increase welfare, and it is therefore not correct to associate the period of their appearance with the idea of a misfortune. Yet this appearance creates phenomena which will sufficiently explain both why we call this period "depression" and why people fear and dislike it. For, first, the new products mean disturbance. If the new methods of production turn out a commodity at lower cost, the new factories working at the lower cost will undersell the older ones, and cause them to loose money or even to go bankrupt. This is a slow and painful process which may mean suffering to many people. If the progress accomplished consists in the introduction of a new commodity, things will be similar, as this new commodity will compete for the money of consumers with some other commodities. Unemployment and irregular price fluctuations will characterize such a period, the meaning of which is the struggle for a new equilibrium. As long as it lasts no further innovations can be introduced as nobody know what the final results and therefore costs of production will be. This is what is meant by the statement, that progress is essentially disturbance of equilibrium and depression essentially the period, in which a new equilibrium is established by eliminating methods of business, factories, firms which have become antiquated.

But this is not all. Obviously errors, panics and so on must play a considerable role in such situation when all ordinary rules of experience break down, prices fluctuate violently, older investments become valueless because newer investments working with better technique compete with them. Hence it is abundantly clear that although industrial progress may be a blessing in the long run, it also may, and usually does, come about in such a way as to mean disaster to all the people whose economic existence is tied to older methods. We cannot show in detail how this explanation of depressions applies to particular cases and
how it helps us to understand the very different costs, at which firms produce in the same
country and at the same time, how those who feel themselves unequal to the struggle cry out
for government help, and if the progress has been accomplished in another country, for tariffs.
But we must insist on one other point.
When entrepreneurs have finished their new plants, equipped them with machinery and raw
materials, when they start producing, and the stream of new commodities pours forth, then, if
their calculations have been correct and if they meet with success,
they will be selling at a profit until competition, attracted by this profit, annihilates it. Their
receipts will therefore be greater than their current costs and as they deposit them in their
banks, their debts will be extinguished. This is the ideal case, that they enjoy surplus-gains so
long as it is necessary in order to pay back to creditors or to themselves what they had
invested. But observe what this means for the credit system. Extinguishing debts means
extinguishing means of payment if they were created for the purpose of the loan: The banks, in
granting loans, have in so far given borrowers nothing but the right to draw on them, and it was
with this right to draw on them that, partly at least, entrepreneurs have paid for equipment,
raw materials and so on. Now, by the repayment of these loans these rights have disappeared,
or, to put it in another way, as far as demand-deposits have been created by the loans of
banks, to business-man, these demand deposits cease to exist when the business men pay
back. So at the same time, at which as we have seen the flow of consumers goods increases,
the total amount of means of payment decreases. If in prosperity means of payment are
created without a corresponding increase in commodities, in depression commodities are
created not only without increase of means of payments but with a decrease of them. Hence the
fall of prices in depression; which we should expect and which, as prices do actually fall in every
depression, verifies this theory. There is some analogy between what happens in a period of
prosperity and inflation by government paper money. And what happens in depression may be
compared to deflation. But this deflation, unlike the deflation of a currency which had been
inflated by paper money issued for non-productive purposes, comes about by itself without
anyone wanting it. It may therefore be called "automatic deflation" or "self-deflation".
Now this process undoubtedly makes depressions much worse than they otherwise would be.
Hence we shall understand it, if some authors have emphasized it to the point of calling the
cycle a purely monetary phenomenon. But if we understand this view, we shall yet not agree
with it. For first we have seen that the credit system is no very active factor in the mechanism
of cycles. It adapts itself to the demand which comes from entrepreneurs and submits to
contraction by their repayments of loans. In both cases its role is rather a passive one.
Secondary we have seen, that while the self-deflation of credit makes matters worse, there
would be depressions, although milder ones, without it. This point is rather important in view of
the wide-spread tendency to remedy depressions by means of credit policy.
These are the fundamental features of the theory of the business cycle which I wished to
submit. In concluding I want to emphasize, that I am very far from believing that it accounts
perfectly for every detail in the history of cycles, which is much too much subject to irregular
influences to be amenable to full explanation by theoretical argument. But nevertheless our
statistical series fit it quite well. Prices, incomes, physical volume of production, unemployment,
building contracts, bank clearings, loans outstanding, more very much as they should according
to this theory. So we may have, I think, some confidence in its results, the most important of
which is that the alternation of prosperity and the depression is the method by which industrial
progress or, as I prefer to call it, innovation comes about in a capitalistic society. I may perhaps be permitted to add, that although I have spoken of the Juglar-cycle only, the same principle of explanation also applies to the other waves which we have statistically discovered so far. There is, however, a vast amount of scientific work to be done before we can speak of this with confidence. It is such work which it is the task of the scientist to do. Inferences as to remedies and policies are much less important. For the results of research will, if clearly established, speak for themselves.

[Quelle: Keizaigaku-Ronshu (The Journal of economics) 4. (1931), S. 1-18]

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Joseph Alois Schumpeter

The Present State of Economics OR On Systems, Schools and Methods

Prefatory Note

The following pages present a summary of a lecture delivered by the author at the Commercial University of Kobe on the 9th of February of the current year. Much matter has been left out, which while necessary or useful in a spoken address, would be out of place in a written essay. Instead, some points have been inserted which it was not possible to touch in the lecture. The author hopes that in its new form, this paper may be of some interest to japanese colleagues and students, to whom he great pleasure to submit it. Of course they cannot expect much that is new in a survey of this But they may like to have before them the view of one economist, who even in the present chaos of conflicting standpoints believes that there are not many systems of economics, but that there is only one economic science, which is based on experience, and deals with the data of this experience just as any other science does.

I.

It sounds like a paradox when I say, that Scientific Thought in its infancy is more comprehensive than in its manhood. Yet it is so. When men begin to think about the phenomena around them, they at first aim at explaining everything, at penetrating the nature and essence of things, and at building up an organon of truth spreading from philosophical bases and metaphysical beliefs to definite doctrines about practical action. Such an organon of truth is called a System. It is both philosophy and science, and claims to give to its disciples the absolute light of truth while all other Systems, which may exist, must logically appear as absolute darkness. But when successive generations, in the lapse of centuries laboriously
heaping thought upon thought, come to look critically at those imposing systems, they discover sooner or later that their edifices are not so homogeneous as they thought. They discover two things: First, that Truth is of two kinds, one of which consists of Belief, Vision, Revelation, which may be ardently held by, and be very evident to the disciple, but which is yet unreprovable by logical proceeding, while the other kind consists in statements about the empirical relations of the things which we observe. Secondly, the human mind discovers, that it is faced with different problems when discussing how things are and when discussing how things ought to be. If you know enough about your phenomena, you can prove and verify certain statements about their relations to each other. But no amount of knowledge of empirical data, will be itself enable you to prove or verify anything about Ideals, Ends-in-themselves and so on; except in the sense, that Sociology may help you to understand why certain Ideals are, at certain times and places, held sacred by certain people.

When these two discoveries are once made, Science emerges. And Philosophy, which at first is all-comprehensive, becomes a distinct Empire of Thought; essentially different from Science, but still wedded to the teaching of what ought to be, to the teaching of Ideals and Ends. Science itself, after having parted company with Philosophy, develops on its own lines: Its scope is much reduced, its splendour dimmed, it is, for ever after, nothing else but a storehouse of methods to describe, measure and connect facts, as given by experience and as amenable to empirical verification. It becomes infinitely more efficient for the exploration of the world of experience. But it loses all those fascinating implications about the innermost Nature of Things, the speculation about which is so dear to the human heart. Having no such implications, it becomes, on the one hand, independent of Philosophy and, on the other hand, compatible with every Philosophy. It is important to grasp this point. Whilst philosophers often fail to recognise it, scientists not less often draw a wrong conclusion from it. Having fought hard for the autonomy of Science, they often think that they have achieved more than autonomy, namely that they have annihilated speculative philosophy. Nothing, could be more erroneous. Science cannot be guided by the Philosopher, and such things as the law of gravitation are entirely independent of the philosophical views of the physicist who teaches it. But no more can philosophical thought be guided by empirical science, or be either proved to be wrong or proved to be right by its methods. Both lie on different banks of a river, over which these is no bridge. And neither ought, in its labours, allow itself to be fettered by views useful or true for the one, but in their logical nature inapplicable to the other.

In my own country, my teaching is associated with the tendency to sever the bonds between economics and either general, or social, philosophy. And I accept this. I do believe this tendency to aim at the beneficial separation of an unhappy marriage. But the critical implication is, that my tendency towards "Entphilosophierung der Okonomie" proceeds [not] from any hostility against Philosophy. And this I do not accept, and I am anxious that Japanese colleagues should not fall into the same error about the true meaning of that tendency. I wish to see philosophy cultivated and developed. I should consider an age uncivilized which would not take interest in philosophical problems. All I want is that we should cease to mix up what is kept distinct in all other fields of human knowledge. And in view of some recent tendencies, especially in Germany, I must add, though with much regret: I do not wish scientific incapacity to shield itself behind philosophical phrases.
To return to my argument: It is when those discoveries are made that "Systems" crumble into pieces like Temples may crumble in an earthquake. The founder of a System claims to teach, at the same time and as a harmonious whole; Philosophy, Science and Action (or Ideal). Much as we may regret it, we must face the fact; that no such claim is warranted any more. And to me it seems more dignified and manful to face this fact than to try to revive bygone states of the human mind; just as it is more dignified and manful to face the facts of the present social and economic conditions, although we may not like them; than to cry for the conditions of, say, Feudal Times.

Plato's teaching was a "System" in this sense. It attempted to teach metaphysics, science, action, all by the same logical processes. And all through the middle ages and right up to the end of the 18 century it was the same mental attitude which prevailed. Even the founders, and early masters, of modern science, while preparing the ground for the edifice of modern thought, still adhered to the old one. Descartes for example, troubled himself about the Nature of the Universe, about metaphysics first of all, and probably looked upon his experiments and, discoveries in physics and mathematics as parts of, and as subservient to, a comprehensive whole of homogeneous knowledge, of a philosophy. The same is true of Leibniz or Newton, and even much later generations display this tendency. But the important point is that they do not let their scientific work be influenced by it. And philosophers, on their part, have largely ceased to dogmatize on matters of physical science, and probably do not wish to repeat such things as Hegel's "proof" that there could be no more than seven planets.

But it is not so with economics. Here the belief in some close connection between philosophy and science still prevails in the minds of many eminent men. And discussion of our problems still suffers from the fact that some economists try to defend by philosophic argument what they cannot defend by scientific proof. Lest anyone should reply, that this is quite right because economics deals with human action and human action presents of necessity philosophic aspects, I want to submit that the distinction between philosophy and science which I tried to draw above, is quite independent of the subject we have to do with. That distinction rests on logical grounds, which hold good whatever the nature of the facts of a science may be. There are plenty of differences, no doubt, between "natural" and "social" sciences. But this is not one of them. We deal with facts of economic experience such as that rice gets cheaper when there is more of it; and there is no more philosophical connotation to this; than there is to the equation expressing the way in which a pendulum moves. We try to connect and to explain our economic facts by an apparatus of concepts and theorems constructed for the purpose and; although very different from the apparatus of physical sciences, quite as "unphilosophical," as it.

This apparatus of concepts and theorems is what we call "theoretical economics". It has often been mistaken to be a set of doctrines, while it is, as Marshall stated as early as 1885, an engine of analysis or a set of tools to grip our facts with. It has often been - and sometimes still is - mistaken to be "speculative", while it really rests on observation of common economic facts, facts which are so common as not to require any conscious effort of collecting them. It has, finally, often been mistaken to imply materialistic, naturalistic, mechanistic analogies or prejudices, because its concepts are in their nature quantitative and because its theorems have some share of the exactness of the theorems of physics. And this last misunderstanding I believe to be the most unjustifiable of all. But unjustifiable: as it is, it has a strong appeal to all who prefer foggy ideas to clear ones and who feel unable to live in the rugged mountains of scientific truth.
III.

It follows that "Systems" are a thing of the past, and that any attempt at system-building in our own day must be looked upon as an attempt to revive the ways of thinking of bygone ages. The word "system" will lose its meaning for us as it has lost it for other sciences and it will acquire that other meaning which it has in such connections as "a systematic treatise", "a system of equations" and so on. But this means, at the same time, that there is no more room for different "schools". Of course, there, is one meaning to the word "school", which is incident to the very life of science groups of disciples gather round some teacher or some institution. By being interested in similar problems, by being taught similar ways of handling them, by exchanging and assimilating their views and results, they acquire a sort of mental family likeness. And, let me add, they all have a stake in the fortunes of their group, with which individual success is bound up for every member. The history of Science is a fascinating study which unveils to us the ways of the human mind. And it has a neighbouring field of research, which is developing slowly and is perhaps more fascinating still. It may be called the Sociology of Science, and consists of the study of Science as a social phenomenon, for example of how the scientific profession developed, from what social groups its members come, how their social origin and position influences upon their work and so on. In this study, the phenomenon of grouping, which we call scientific schools, is of primary importance. How such schools arise and decay, how and why they fight each other and how their success or defeat determines the directions in which scientific endeavour moves, all this explains to a considerable degree why we have just the sort of science which we do actually have and why it is that not other lines of thought, just as promising in themselves, have been followed. Schools in this sense will probably always exist, for they are intimately linked up with the fundamental sociological phenomenon of Leadership.

But now I mean a different phenomenon. Schools such as the ones just mentioned, always stand on common ground. They differ in details of results, in the values they attach to different lines of advance, in the way they use one concept or theorem more, than another. Yet their scientific word are the same. In economics, to mention only a few; there are to-day schools in this sense which everyone knows: The Marshall-School, the school of Lausanne, which: of course includes most Italian economists, the school of Vienna, the schools of Clark, Taussig, Mitchell, Moore in America, groups which gathered round Cassel or Wicksell in Sweden, the Pierson-School in Holland, the schools of Schmoller, Brentano; Knapp and others in Germany. We shall have presently something to say about their relations to each other. But just now we mean schools of a different kind, namely schools, which do not stand on the common ground of scientific thinking but expressly refuse to step on this common ground, and profess to differ radically from every other group in existence as to fundamentals: for example, as to the meaning of science, or even of knowledge in general. As a rule this is only possible by falling back on extra-scientific standpoints, such as philosophical or political ones. That is, why I have linked up the discussion of "schools" in this sense with the discussion of "systems" in a similar sense. The "Universalistic" school of Professor Spann may serve as an example. After the War, the wounded pride of the nation, smarting under defeat and a humiliating peace, very naturally produced, among other consequences, also a violent outburst of nationalistic feelings among a minority of Germans, both in Germany itself and in Austria. This feeling allied itself with a current of half religious conservatism, which arose after this world was just as it did after the
Napoleonic worlds war one hundred years ago. This has nothing to do with science. But it will rally young men around the flag of a teacher, who espouses both these causes. And this is what happened. Universalism itself is neither new nor fruitful. It goes back to a scholastic controversy in the middle ages, as, shown by Professor Pribram of Frankfurt who is really the man who revived it, but who is far as possible removed from either Nationalism or Religious Conservatism. And it hardly embodies more than a common-place; from which no single new contribution to scientific knowledge has come so far. But as it fights Individualism and Rationalism, or seems to do so, it is applauded while those states of feeling last. I am sometimes credited with the saying, that there are no schools in economics. By this I mean, that there are now no differences as to fundamental standpoints among serious economists. I do not deny the existence of schools in the sense which we have first defined. And I do not deny the existence of schools in the sense, for which Universalism is an example. Only, in the first case, I hold that the differences are much less important than fervent disciples like to mate out. And in the second case I deny, that the phenomenon comes within the realm of science.

IV.

But are there not scientific schools differing fundamentally from all the rest of economists? Professor von Gottl and his followers may be quoted as an example. He certainly does not response any humours of the moment and yet he separates himself all along the line from almost all economists who ever existed. Yes, but the importance of his doing so will depend on the success, with which the general views, which he has so far developed, will produce concrete solutions of concrete problems. This is the criterion: Science is nothing but an engine for discovering a certain kind of truth. And any general view or standpoint is valueless as a contribution to science, if it does not help us to do so, however interesting or beautiful it may be in other respects. Take as an example to illustrate my meaning Professor von Gottl's "Allzusammenhang". This is, if I understand him, the view that in economic, and generally in social life everything is so connected with everything else that it means killing the soul of things, if we isolate any group of phenomena. Very true. Everyone admits it. It is just as true for the physical world around us. That is why scientific truth is never the whole truth. And this is also the reason why we have, and want, philosophy, religion and art. Of course the cock painted by an artist is something very different from, and superior to, the analysis of the same cock by a zoologist. But the zoologist can do nothing with the artists vision. Science exists because it is useful for some purposes to decompose phenomena. It is to this device that we owe scientific achievement, and there is no sense in looking down on it with contempt because it decompose the richness of reality and deals with miserales fragments at a time. And indeed, if we try to make the "Allzusammenhang" work, we quickly see, that what is really fruitful in it, has long ago been expressed by the system of interdependent quantities due to Leon Walras. I want to urge the economists of Japan to stand firmly on the ground of empirical science and not to be led astray from the only path which ever led to scientific achievement, by antiscientific attitudes however brilliant they may be. As soon as we make up our minds to judge the performances of our time by scientific standards, and by scientific standards alone, it will be easier for us to distinguish between good and bad work. To-day, many of us look upon the works of an economist as they would look upon the works of a philosopher. We have an immense respect for "standpoints" and are quite ready to grant to any writer the right of
holding any views whatever. This is the right way of feeling towards a philosopher. For in every philosophy there must necessarily be unprovable points, and in this sense every philosophy is a personal message from the author, which carries its own standards in itself. It may appeal to us or not, but we cannot simply call it "right" or "claims to be scientific, can in a definite sense be proved to be right or wrong. Our half philosophical way of thinking sometimes makes us forget this. So for example, many people in England and elsewhere admire the works of Mr. Hobson. Now, as far as his opposition to Marshallian economics is concerned, his whole critique of marginal analysis turns on a misunderstanding of its nature and meaning. It is impossible to say, that he is within his rights in denying its validity and that here we have simply another standpoint, just as good as any others and just as much entitled to respect as any other. For we can prove his mistake, which consists in his failure to grasp the meaning of theorems about infinitesimal increments and as soon as we recognize this, there is an end of it, and there is no use to register the existence of a "new school" and to philosophize about it.

I could go on indefinitely in giving similar examples. I will add one more. An eminent man, whose great personal force has done very much to revive the interest in economic theory in Germany, Prof. Oppenheimer, has tried to base a whole "system " on the Monopoly of Land, which he took to be a fundamental fact of our social organisation explaining well-nigh all the essential features of it. Now there is no such thing as a Monopoly of Land (Bodenmonopol). This has been proved many times, and as soon as it is recognized, naturally the system collapses and there is no sense any more in speaking of a school of economic thought, which differs fundamentally from others by holding that there is such a monopoly. It is this habit we have of coordinating, on an equal footing, truth and error, which accounts for the impression in the public mind, that there is any number of economic "systems" and "schools", all differing fundamentally but all having equal claims to attention, and that economics is therefore in a chaotic state. People, then, speak of a "crisis in economics", and very naturally suspect, that the whole of the present teaching will have to be cast aside if we are to get a really valuable science of economic life. If I am not mistaken, we are ourselves to blame for this impression, which so much impairs the authority of our science.

V.

Of course; it is quite wrong to make the division of economists into schools turn on the difference in their views as to politics and social ideals. This abuse is quite frequent. Many historians of Economic Thought divide economists up in Liberals, Reformers, Socialists and so on. It should be obvious to anyone who is at all interested in knowledge for its own sake and possessed of a scientific attitude of mind, that this principle of division is entirely un-scientific. Adam Smith may be entitled to a place in the history of Free-Trade, but his scientific place is no more linked up with that than with, say, his personal taste in art: His scientific contribution would be just as important as it is, if he had lived in a protectionist age and had expounded arguments for protection in his chapters on practical political questions. Marx as a scientist has much more affinity to Ricardo; than to any socialist writer. Leon Walras was personally a socialist. And so I would go on giving examples for the fact that there is no necessary connection between a man's theoretic views and his social ideals or political preferences. If we divide up economic writers according to these, we are sure to combine people into groups, who have scientifically nothing to do with each other, and to separate people, who are close relations
in the realm of science.

But what is the reason for this? We shall have the answer, if we remember again, that there is, logically, an impassable gulf between our knowledge and our wishes, likings or ideals. What we want is one thing, what we know is another thing. I may wish to live eternally, yet I know I am going to die, and there is no contradiction between this knowledge and this wish. One can be a socialist without being a Marxist. It sounds paradoxical that one could also be a Marxist without being a Socialist. Yet it is true: In order to convince us of it, it is only necessary to point to any one of the salient features of the Marxist teaching: Marx taught the economic or materialistic interpretation of history. A Marxist must believe in it and also in that element of it which consists in the prediction, that the economic process will necessarily bring about socialism. But if a man believes this, he yet not like it. We may be with his whole soul averse to socialism while believing that socialism is inevitable. Or, take another instance, Marx taught the exploitation-theory of interest. A Marxist must accept it; or he is no Marxist. But he need not therefore disapprove of interest. He may very well think it essential to culture. The other day, I have been deeply impressed, when visiting Kyoto by the artistic wonders of the ancient palace of the Shoguns. It is pretty clear, that the means which paid for this palace and for all the splendid works of art which adorn it, was raised by methods which any Marxist would have to call "exploitation". If so, I can personally only say, that I heartily approve of so much of exploitation as was necessary to call into existence that dream of beauty.

In logic, therefore, the scientific standing ground ought to be the same for men of all parties, for adherents of all ideals. They will, of course, draw different practical conclusions from the same scientific results. That does not matter. But there is no truth which is only true, say, for the socialist, there is no error which is only error for, say, the anti-socialist, and there is no scientific method which would belong to one party and be unscientific for any other party. Now, one of the most hopeful signs of our time is, that this is coming to be recognised more and more. True that there are still those, who will in any discussion take flight into those philosophic or other "fundamental" standpoints, where scientific argument cannot follow them. True also, that there exists an orthodox Marxist sect, in Germany and in Russia, which still holds aloof from the common ground of science, and which is really a school in the full sense of the word, similar to a medieval school of theologians. This school, the Neo-marxist, commands adherents of great eminence; especially in its Vienna section, such as O. Bauer, R. Hilferding, M. Adler. R. Luxemburg and F. Sternberg are other notable exponents. But it is pathetic to see how they squander valuable force on bolstering up positions, which have naturally become obsolete and would not now be defended by Marx himself; how they shut their eyes to whatever is being done outside the Sacred Creed; how they sterilize their talents by turning over and over again old doctrines and shibboleths while the world around them presents fresh outlooks and problems every day. But this is not the way any more of the modern socialist, who has been trained in economics. His arguments are forged in the same workshop as the arguments of anyone else. To give an instance, we have had in recent years a controversy in Germany about the level of wages and the consequences of unemployment benefit. The leader on the one side was Professor Cassel, the leader on the other side Professor Lederer. Of course this conclusions differed. But their arguments were of the same scientific material. And it is this what matters. The modern socialist will of course pay respect to the great shadow of Marx. It is right and decent that he should do so. But he will no longer condemn his cause to be defended by obsolete weapons. He will learn from Marx, but he will not copy him, nor confine himself to
interpreting him. Professor Lederer may serve as an example. One of the greatest of his merits consists precisely in that he is leading German Socialists gently away from the deserts of a half-religions cult of Marx, and on to more promising fields, without hurting their feelings and without any shock to the tradition, which it is of course difficult for a social party to break of suddenly.

VI.

I therefore believe it to be quite unreasonable to make the distinction of "schools" turn on political aims of economics. But it is of course much less unreasonable to make it turn on "methods". This distinction presented itself with full force to our scientific world at the time of the famous controversy on method between Schmoller and Menger, historians and theorists ("Methodenstreit"), and it was quite justified then. For, although the theorists took from the first the line that history had its place in social science and that it was excesses only what they wanted to fight, historians either expressly or by implication claimed that historical research was the only admissible method, a position which was held partly on positivistic and partly on Dilthey's principles. So for time, a "historical school" came into existence, definitely at war with what they considered as a revival of classic economics. But comparatively soon this changed, and what looked like alternatives, subsided into cooperation. The "Methodenstreit" has produced quite a literature on questions of method. In spite of many valuable contributions I regret that so much time and strength has been, and still is being, expended on this subject. In Germany, from one fourth to one third of all the articles appearing in scientific magazines, is "methodological" in character. Now, of course we must discuss methods. But methods in another sense. Fruitful and necessary is discussion on, say, the Pearsonian method of correlation-measurement, or on the methods of trend-elimination or on measuring inequality of incomes and so on. But this is not what our "methodologists" do. They "discuss" such questions as whether economics is a historical science, on what the relative merits of induction or deduction are, in short generalities which are well-nigh valueless for the practical work before us and which might safely be left to logicians and philosophers, whose fields we have been invading instead of giving our energy to our own problems. Yet we must understand why we fell into this deviation. The historical school has the merit of having partly done partly inspired, a vast amount of historical work of detail, which has lighted up things for us and which we should not like to miss, but on the contrary we must keep on to cultivate. But it so entirely mistook the meaning of theoretical work as to cease to teach and even to understand it. So the theoretical tradition broke off, and when later German economists, having discovered their error, wished to get back to theory, they did not knew how to do. it. They thought it was a sort of philosophy or methodology they started to philosophize and to discuss scientific "methods." And it is only recently, that real theoretic work is taken up again on serious and promising lines. This, by the way, also explains, how during the time, when serious critique was in abeyance, all those "schools" like Universalism and so on, have been able to. make so considerable an impression, which would have been impossible in England. But much as we may regret the loss of time and force entailed by all, this, the result was nevertheless a respectable one. The place and the limits of historical research in our science have finally been defined with such clearness; that all quarrel has ceased about it. Henceforth historians and theorists will be able to cooperate peacefully, and it will seem just as absurd to think of them as antagonists, as it would, seem
absurd to every same person to speak of a fundamental antagonism between a professor of experimental physics and his theoretical colleague. There is no experimentalist "school" in physics. All physics is experimental in one sense. And in another sense all physics is theoretical, and there is no "school" of theoretic physics which would wish to replace experiment by theory. Of course, some people feel more inclined, and are better fitted by nature or acquirement, to do theoretical, and others to do experimental work. It is human that each of these should rate higher what they do themselves. But this is all. And it is all that remains in economics of what has seemed to an order generation to be an antagonism of principle.

This settlement of an old controversy is indeed a great step forward. It has not yet produced its full results. It is not enough that historians and theorists should recognize the rights of each others pursuits, but they should cooperate just as theorists and experimentalists do in physics. The theorist should shape his theories so as to be of use in the analysis of historical facts, and the economic historian should understand, and make use of, the tools of theory. We are as yet far from this ideal but we are beginning to realize it. Again, I think I may call it one of the hopeful signs of our time, that there is, as I know from experience, an increasing tendency among economic historians to consult the theorists about the questions which they are to investigate and the ways in which to connect cause and effect in their narratives, and among theorists, to consult historians about facts and developments.

In calling that controversy settled; I have left out of account a very regrettable revival of it in America. There, the old errors of the Historical School, have been served up again, but without being linked to positive work like those errors were in Germany, by the "Institutionalists". Institutionalism has caused a great commotion on the surface, but it has not produced any new results as the Historical School did. It is still being discussed, and in the recent discussion of it at the meeting of the American Economic Association in Cleveland in 1930. I have been referred to as the "arch-enemy" of Institutionalism. I plead guilty to the charge, but I want to make it quite clear what it is I object to. If Institutionalism went quietly to work on the programme which seems to be implied in its name, that is to say if institutionalists produced studies about social institutions, such as the family, private property and so on, I should not only not object, but welcome. But they do nothing of the sort. Instead, they criticize without understanding, what has been done and is being done, and they replace positive achievement by ambitious programmes. Whatever of value has been written by any member of that group, could have been written by any other economist and does not imply any fundamental change in method and outlook. I reproach to the most famous of institutionalists, to Th. Veblen, bad workmanship and insufficient scientific equipment, which made him take old err for new truth. But this whole movement is passing away. And that eminent economist, who for some time showed some favour to it, Wesley C. Mitchell; has by his most recent work proved that he is willing to lead towards reconciliation.

Of course, all this applies equally to the relation of theorists and statisticians. As soon as the great development of economic statistics had led to some statisticians specializing in it, these statisticians at once displayed a tendency to set themselves up as economists and, as it is usual in our field, founders of a new economic science, which alone was founded on exact fact and compared with which everything else was antiquated speculation and so on. And they proceeded to chart frequency-curves, to calculate standard deviations and coefficients of correlation, to fit trends, and they called that scientific results. This tendency is by no means overcome by now. But I believe it will be overcome soon for the simple reason that the
application of formal statistics without reference to the theory of the subject-matter so quickly leads to obviously absurd consequences that its devotees are likely to lose the taste for it soon. Already cooperation is beginning to work. And I want to express my belief that it will indeed bring about a new era of our science. Theory will have to be remodelled so as to be better equipped to the requirements of statistical analysis, and new statistical methods will have to be created, the results of which will carry economic meaning. By the work of H. L. Moore and his followers we are already well advanced on this road. And one only needs to look up the works of modern theorists, of Professor Pigou for example, in order to see how much they keep before their minds the goal of welding into one statistics and economics. Wide vistas open up here. Economics, always and of necessity a quantitative science, is on the verge of becoming a numerical science. What a pity if, instead of working together in the fresh atmosphere of scientific sun-rise, we should employ ourselves in fighting out method-logical or philosophical questions!

VII.

If, then, there is no Historical School any more, if there is no room for a Statistical School, if it is futile to set up Schools according to political aims or ideals of economists or according to the philosophical views they may happen to have; and if, finally, there is very little scientific meaning to all those Schools which are constantly advertising for a new era in economics - I conclude, that it is time to put an end to all the talk about schools in the sense of bodies of doctrine repudiating on principle the common basis of scientific work. It is time to recognize this common basis, to leave philosophy to the philosopher, and to go to work on the wide possibilities which are opening up before us. Much phraseology, dear to many of us; will have to be relinquished, for science has no symbols for confused ideas. But we shall enjoy instead all the pleasure incident to scientific conquest, and all the beauty incident to the forms of rigorous thought.

However, it is now necessary to ask the question, whether differences within scientific opinion itself are not too great to allow us to consider economics as one homogeneous field, where people work towards common ends and from common starting points. In other words: Even if we discard all those "schools" which we hold to have no title to attention within the realm of empirical science, have we not ourselves been forced to admit, that there are schools within our empirical science which disagree fundamentally? Do so not constantly hear of "marginalism" and "neo-classicism" and so on, and are these not "schools" in the sense of claiming possession of truth denied to all other similar schools? I admit that it looks like it, because human vanity makes us inclined to stress points of difference, and adverse to recognize points of agreement. But I hold that it looks like it only, and that below the surface there is as much fundamental agreement between economists as there is among scientists in any other field.

To show this would take a volume. We will confine ourselves to one point, taking it from the fundamentals of general economic theory. What is the position of the theory of Marginal Utility to-day? Is it the badge of one "school", or of several schools which thereby disagree fundamentally with others? Of course it is not. The discovery of Jevons, Menger and Walras was substantially the same. Most people will admit so much, and they will also admit, that what difference there is between those three at all, consists only in differences in technique and in details. And the work of the Great Swedish economist Wicksell shows, that it is possible to build
on the foundations of both the so-called Vienna-school and the Lausanne-school, at the same time. It is only the uninitiated who, seeing the mathematics of the one, and the unmathematical exposition of the other, concludes that what looks so different, must differ in substance too. But it is less universally recognised, that the teaching of the Austrian and of the Lausanne theory, fundamentally identical as it is, also fundamentally the same as Marshalls. Marshall himself would not have admitted it, as shown by the ungenerous review he wrote when Jevons' work appeared. He stressed so much the continuity of science as to make his teaching appear much more Ricardian than it was. However, if you divert it of its language and put it into the pitiless light of equations, you find that its fundamental structural idea is marginal utility and marginal productivity, and nothing else. You could leave out of Marshalls great work all the concepts which taste of Ricardo, without missing anything which is essential. And as a matter of fact, disciples of Marshall and disciples of the great Austrian leaders, have no longer the feeling of crossing a frontier when they discuss with each other. In America, Walras' message was first received and developed by Irving Fisher. And Clarks theory is, though less satisfactory, essentially the same, as everyone can see who will take the trouble of reading what Walras says on marginal productivity. How much less important differences are than we think, is also shown by the example of that great teacher, whom History will rank as one of the greatest of economists, Professor Taussig. He is no "marginalist ", it seems. But he defines wages as the "discounted marginal product of labour". And whoever so defines them, is a "marginalist," however we may call him. If should be noted too, that the work of H. L. Moore and his followers proceeds on Walrasian lines. And there is a tendency now among authors, who were no friends to theory some years ago, to connect the results of their work with the fundamental principle of the great Frenchman: I may mention for instance Professors Mitchell and Mills. Yet it has become the habit of many people to contrast Walras sharply with Pareto and Cassel. Are not they at least leaders of a new "school"? To answer the question as to Pareto, it is sufficient to remind us that the concept of equilibrium is just as much due to Walras as the concept of marginal utility is itself. And that concept is the basis of Paretos work. Undoubtedly Pareto has much improved and generalised the teaching of Walras, as every capable discipal naturally improves the store of scientific truth which is handed to him. But he has committed the wrong of making appear as fundamental innovation what was progress on the same lines only. And the public has been told that we are now blessed with a new school. This is not true, and still less it is true in the case of Cassel. Cassel, too, is a pupil of Walras. He simplified Walras' theory so as to make it accessible to many who would be lost with Walras himself. This was a great service to the progress of our science. But he tried to vest with a pretence of originality what was due to Walras. He did so, for example, by pretending to eliminate marginal utility, while he only gave it another name. This name in fact, was used by Walras already, who instead of "utilité marginale" sometimes speaks of "raréte". Well, "raréte" is the French word for Cassel[s] concept of "Knappheit" or scarcity. But if we tear off the veil of differing technique and phraseology from the essence of the theoretical thought of our time, an unexpected harmony appears.

Of course, there are plenty of differences on single problems. Very important ones, such as the problem of interest, are among them. We also differ in our ways of handling things, some of us stressing the distinction between statics and dynamics, while some of us think much less of its useful. ness. Differences of this kind must always exist. They are the very life of science, and without them progress would disappear. Now ideas have to be fought for, and our whole
teaching must be in a constant process of revolution and evolution for ever. But this is another thing, and perfectly compatible with the statement that at any given time both starting points and goals of all competent workers are substantially the same. And I repeat: There are no "schools" among serious economist to-day, except in the sense of personal preferences for certain problems or methods. We have one science of economics just as we have one science of electricity.

What has been said about the fundamentals of general theory could be proved to be true also of everyone of the branches of applied economics, such as money, banking, international trade, labour economics ("Sozialpolitik" in German), public finance and so on. The general theorist of to-day usually keeps less in touch with all those branches than the classical writers did, and a vast amount of facts and arguments has been allowed to grow up which has little or no contact with theory. It is perhaps the foremost task of the next generation to enrich theory by these facts and problems and, on the other hand, to bring the principles of theory to bear on them. Yet, wherever the task has been taken in hand already, that common ground and substantial agreement shows up at once. The literature on money has just been enriched by Mr. Keynes' important work. And reading it, one is struck by the fact that there is hardly anything in it with which most competent theorists could not be expected to agree heartily. Or take the work on International Trade by the great economist of Harvard: It is a standard work which focusses the attention of all competent workers in that field, and it will serve as a common starting point for quite a time to come. Or take Professor Pigous Economics of Welfare which is theoretical Code for Labor economics "Sozialpolitik". It is an arsenal of theoretic tools, and there is little disposition to quarrel with any of its fundamental features. So everywhere economists are drawing together and trying to unite their efforts in the building of the science of the future. Let us not lag behind. Let us take up the tools we have and attack real problems instead of sitting down and musing over philosophical or political connotations of our terms - this we better leave to those who cannot keep the pace.


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Joseph Alois Schumpeter

The Present State of International Commercial Policy

I.
While government's talk about commercial cooperation, tariff unions and tariff truces, they practice protectionism. While international commissions discuss the abolishing of barriers, these barriers become higher every day. While nations profess to act on the most-favored-nation clause, they try their best to evade it by such devices as for instance that over-refining of tariff-schedules, which permits to differentiate between countries while seeming to differentiate
between qualities of commodities. And the same politician who likes to make a speech of international good will at the dinner of some chamber of commerce, will be exerting himself at the same time to secure from his government additional protection for some industry on other. This situation is paradoxical and it almost looks insincere. It seems to be very similar to the attitude of politicians with respect to limitations of armaments and other related questions: always talking peace and at the same time preparing war.

And there is, in fact, much insincerity about the present situation. Nevertheless, it would be unjust not to admit that what looks insincerity, is often nothing else but perplexity in a situation of unprecedented difficulty. Nor would it be just to define title situation, as some economists seem inclined to do, as a struggle between economic reason and political prejudice. For although there is a lot of political, and especially nationalistic, prejudice in the commercial policy of almost all nations, yet it is also true that economic conditions themselves do not admit of clear-cut action either in the direction of Free Trade or in any other.

In order to understand this, we must realize two things: First, that commercial policy is not, and cannot be, a mere matter of economic reason. Secondly, that Free Trade and Protection are neither of them eternal truths, which could be established by general economic arguments and which would then hold good for all times, places and conditions.

Politicians are as a rule very bad economists and very ignorant of the teachings of science. But even if every politician were a most competent economist; he would still be faced by the fact, that in commercial as in other matters, the will of nations is not merely influenced by considerations of economic advantage. Nations take pride in their independence and greatness. Hence it may flatters them to have as many as possible of their articles of consumption produced at home, especially those which like ships, war [im Original: was] material, machines and others; are rightly or wrongly supposed to be of special national importance. They are prepared to pay for the gratification of this pride, for their “autarky”, and as far as this is the case it will be of no avail for the economist to point out that a policy conductive to such independence may be harmful economically. Moreover, there are other non-economic considerations. So for instance, many people think that a numerous and healthy peasantry is a national asset. It may be true that the peasants method of production is a backward one and that, economically speaking, it would be advantageous if it disappeared. But if the fate of the peasantry is bound up with that method of production - it not always is - and if you want to keep your peasantry, you will have to act in defiance of some of the economic rules of commercial policy. Besides, there is the pressure of the groups immediately interested in Protection. Whatever we may think of the soundness of protective policy if looked at from the standpoint of the economic advantage of all classes of society, it is certain that every single industry, taken by itself, profits by a protective duty on the commodity which it produces. This is not so evident as it seems to be. For on the one hand, the advantage to the workmen and to the capitalists of the protected industry is doubtful as protection is likely to reduce real wages and the real income of the capitalist, but the manufacturer or entrepreneur himself certainly profits. Even to him there may be compensating disadvantages. But he sees his advantage, which is obvious, and overlooks his disadvantage, which is less obvious, and so he urges the politician on to protection, a pressure the politician is not as a rule in a position to withstand, even if he wanted to.

Finally, there is another consideration. Tariffs produce a shift in the purchasing power of the incomes of different classes: No duty falls with equal weigh on everybody but every duty hits
some people more than others. At the same time, this consequence of tariffs is hardly ever clearly grasped by the public. Hence a tariff may be the means to effect a shift in purchasing power to the advantage, or disadvantage of some class without encountering such resistance as would another measure towards the same end, a tax for instance. Now this may be an important motive for politicians to declare themselves in favour of protection. Take the instance of England. English wages are probably too high at present in the sense, that they produce unemployment. At the same time; workmen and their trade-unions resist any cut in wages. If protective tariff's were introduced, then the object of lowering wages would be attained, for real wages would undoubtedly be lowered by import duties on articles of mass-consumption. And this could be achieved without that dangerous struggle incident to a process of directly lowering wages; there would even be some support from the workmen themselves for a protective policy, because some workmen would believe it to be a remedy for unemployment.

Also, politicians may sometimes have no very decided opinion in favour of protection and yet be forced, by considerations of political tactics to adopt it. The American Tariff act of 1930 may perhaps serve as an example: Hardly any competent economist was in favour of it, and it is difficult to see what advantage America can reap from it. But protection was an old point in the programme of the Republican Party. That party always styled itself as the "party of prosperity" and claimed that their protective policy was the right way to assure prosperity. In the minds of American people, high tariffs are, vaguely and irruptionally, associated with prosperity. So it would be very difficult for the Republican Party to drop protection. Having stood for it so long and having told the electorate for such a time what a good thing protection was, the party would feel it was giving up the very essence of its policy and of its political soul, if they gave up protection. They are already in troubles with the other main item oft their programme-prohibition. They may have to drop it. If they drop protection too, they may well ask themselves anxiously what will remain for them.

All these things must be taken into consideration if we are to understand what actually happens. But it is not even true, that the economic argument itself points in one direction only. For the greater part of the 19. Century almost all competent economists thought that Free Trade was the only right thing and that Protection was nothing but either error or the selfishness of small groups of producers. Now, it is very important to see clearly that there was some justification for this view: Many protectionist arguments are really nothing else but primitive economic errors due to ignorance of both the facts and the laws of economic life. Indeed, a whole list of fallacies in economic reasoning could easily be drawn up, for the benefit of elementary discussion in classes of beginners, from the usual protectionist arguments. In this respect, the Free-Trade-arguments were really much superior and in this sense they were indeed, what they claimed to be, a lasting contribution to economic science. And it is precisely some of the most erroneous protectionist catch-words which have survived and which have gained new authority during and after the War, when so many old errors were served up as new truths. I need only quote the wide-spread belief, that every export means a gain and every import means a loss to the nation; or that it is always an advantage to produce at home, instead of importing, a commodity which a nation is all able to produce, and that we ought to rejoice in every national industry created by a protective duty; or that tariffs remedy unemployment; or safeguard the national currency; or that they are necessary to keep up a high standard of wages; or that it is their function to equalize cost of production at home and abroad and to enable the home industry to compete with foreign products on what has been
called "fair" terms.

All this is wrong. The last argument for instance, which is so popular in the United States runs directly against the very meaning of international trade. What other reason can there be for importing a commodity from abroad, and why is international trade advantageous if not for the reason that a nation may, importing, get a commodity with less effort that is to say, at less cost, than if it produced it at home? Hence, equalizing costs at home and abroad would, if carried out to its logical consequences, put a stop to importation and exportation and amount to prohibition of international trade. And if we want this, it is much more logical and much simpler to say so and to prohibit imports entirely, instead of creating in the public mind a vague impression that equalizing costs of production at home and abroad only eliminates some "unfairness" from international trade but is not really meant to present imports.

Yet, although protectionist arguments can often be proved to be nothing else but errors, it does not follow that protection itself is always wrong. Indeed, few modern economists will hold the free-trade argument so absolutely as the classics did. They will hold rather that every case has to be dealt with individually and that it is impossible to recommend Free-Trade on general grounds, and for all times and places. In order to understand this, a distinction suggests itself, which is in many economic problems essential to clearness of thought: In economic analysis, we have always to deal with a given situation. We may either accept it as it is and investigate the consequences of small changes in any single element of it, all the rest of the conditions remaining constant, or we can investigate the possibility and consequences of fundamental change in the situation. This distinction is not the same as the distinction between what may be expected to happen in short and in long periods, which is due to Alfred Marshall. For short periods do not give time for any change, great or small to produce its full and ultimate effects, while long periods, which would give time enough for this, invariably also include other changes which must always come about in any longer stretch of time and blot out what we really want to observe. Therefore, it seems better to draw the distinction simply between economic phenomena looked at from the standpoint of given conditions which are expected to last and phenomena which may be produced by revolutionising those given conditions or data. For shortness' sake, let us call the first class "static" and the second one "dynamic" and let us look at "static" consequences of protection and "dynamic" consequences of protection separately.

Now, it has been shown by Edgeworth in his famous paper on International Values, and by many later authors, that it is not true that the "static" argument is all in favour of Free Trade. Indeed, Free-Traders themselves have not always gone as far as this. What they have really held was that Free Trade leads to greatest advantage for all nations taken together. And it can easily be shown that the advantage of any single nation, taken by itself, may be increased by protective duties and other interferences with the channels of international trade. If for instance a nation demands for some foreign commodity is very elastic and the supply of this commodity is inelastic, an import duty may benefit this nation as is readily seen by reference to the well-known curves which Marshall has made familiar. It is even possible that protection benefits both countries although such cases will be rare. We cannot enter into this subject, but we may state, that the static argument while not wholly for Free-Trade, is yet substantially so and that cases in which lasting advantage can be reaped from protection, the fundamental conditions being assumed to remain constant, are no more than exceptions.

It is different from the point of view of "dynamics". Everyone knows the argument for protection to infant industries (Erziehungszzoll). It is often abused by interested parties, who
claim protection which they really mean to be lasting. It involves the danger that industries may
be built up which will never be able to stand without artificial support and which, while they look
like national assets, are really a source of economic loss to the nation as a whole: Finally, this
argument is, even where not wrong, apt to be exaggerated; It is absurd to believe that
Germany or the United States would not have been able to build up their industries if they had
not had Protection. Yet, with all these qualifications, the infant-industry argument has some
validity. And it is only a special case of a much larger truth: That Protection and other
interference with international trade may help to create new things and make it easier for
progress in methods of production and industrial organisation to come about. To be sure, Free-
Trade has also its "dynamic side". The whip of international competition may so shake up the
energy of home industries as to make them conspicuously efficient in some lines, while others
would be with advantage left to other countries. Yet it may fairly be considered an open
question which of the two policies is more likely to benefit a given country. Personally I must
confess to a belief that the cases of Germany and of the United States prove no more than that
strong countries can stand protection without obvious suffering. The United States with their
vast territory containing practically all opportunities in an ideal combination, I have always
looked upon as an example for the benefits of Free Trade rather than of Protection.
But there is yet one element in commercial policy which must be borne in mind and which I
should like to call: The Tyranny of the Temporary Situation. By thus I mean the fact that
whatever we may think of Free Trade as a policy in the long run, we are faced with an industrial
organism shaped by Protection, Government Subsidies, Railway Rebates, Tax-Privileges, and
which therefore is different from what it would have been if it had been allowed to grow by
itself. We may be convinced that we have industries which work at costs so high that we should
be better off without them. But we have them. And if we leave them to their fate; there will be
losses, failures, unemployment, and all this will affect the whole of the industrial life of nations.
Germany for example has an overgrown 'beet-sugar-industry which is overgrown because it had
been artificially fostered, and which could not compete now with cane-sugar. The shipping and
ship-building trade of all countries, which is one of the worst in the present world-depression,
would be much better of, if it had not been the object of so much benevolence from
governments.
The textile industry of Czechoslovakia is so great, because it used to supply the 54 millions of
inhabitants of what was the old Austro-Hungarian Monarchy. It finds itself now fettered by the
tariffs of the new states into which that Monarchy has been split and is left with a home-market
of about a dozen. millions. Italy has built up, during and after the War; steel and iron industry
which could not compete with that of other countries. But all these things are now in existence.
Dropping them and reorganising economic organisms on the lines of Free Trade would mean
disasters and revolutions even if it were certain that all nations would benefit in the end.
Business-men and Politicians equally fear these disasters and revolutions. And so the errors of
the past become the tyrants of the present. To remedy the evils of Protection we are driven on
to more Protection.

II.
All this applies not only to the present state of things but also to international commercial policy before the war. There were, however, two hopeful elements, one of which has vanished now, while the other may vanish any day: By the Underwood-Tariff-Act of 1913, the United States reduced import duties considerably, and England's public opinion was as yet adverse to any protectionist policy. The War brought a revival of nationalist passion and that well-known War-organisation of industry, both of which have prevented normal commercial intercourse between nations for a time. But these are things of the past by now. Yet the War had other consequences, which still subsist and some of which must be expected to last indefinitely.

There is, first the creation by the peace-treaties of a number of small new states. The effect upon commerce turns less on the thousands of miles of new frontiers created thereby, than on the new nationalism which naturally developed in these states. Their citizens or their politicians are proud of their independence. They insist on doing what they see the great states do. They want to have economic independence too, and so they practice a mercantilism which may be just bearable in big territories but the absurdity of which stands out grotesquely in small ones. Of course this policy has much to do with the world depression, as all these territories used to be supplied from industrial centres, which now suffer from being shut out from them while the citizens of the new states suffer from having to pay dearly for inferior goods.

Secondly, the monetary disorders of the war have for a time disorganised foreign trade. Inflation stimulated exports which drove some countries to measures of protection for their industry, and deflation stimulated imports against which the deflating countries tried to protect themselves by tariffs. Everyone knows how inflation stimulates exports. In order to see how deflation stimulates imports, it is only necessary to consider that if a country deflates, the effect on foreign trade must be obviously the same as if the other countries inflated.

If we have two countries, say Japan and America, and if Japan deflates and America keeps her Dollar constant at the same time, trade will be affected by this exactly as it would be if Japan kept her Yen constant and America inflated her Dollar.

International payments such as reparations or interallied debts are a third disturbing factor. Paying countries will have to export more and import less than they otherwise would. As far they do the former, they became more eager competitors, as far as they do the latter, they become worse clients of the receiving countries. This means that periods of prosperity will be less, and periods of depression more, marked in the receiving countries than they otherwise would, and their industries, finding it more difficult to compete, will insist on increased protection. But protection will also commend itself to paying countries because. import duties will contribute towards that restriction of imports necessary to produce that surplus of exports over imports which in turn is necessary in order to put at the disposal of the paying governments sufficient amount of foreign exchange. Hence reparations will lead to protection all round. But observe the difference between the two arguments for protection in paying and in receiving countries: The argument for protection in paying countries is correct. It is indeed one of those candid mercantilist errors, which classic doctrine has successfully refuted, to believe that a "favourable Balance of Trade" is an advantage to a country and that it must be enforced by tariff policy. But if a country has to make annual payments, for which it does not receive any economic compensation; the case is different. As long as such one-sided payments last, there must be a favourable balance of Trade, or else it will be impossible to effect reparations. And mercantilistic policy, which may be an error in every other case, is correctly advocated in this particular one.
On the other hand, there is no justification for increased protection in receiving countries. For as reparations necessarily mean increased exports and as the economic meaning of these payments consists furnishing commodities to the receiving country it is obviously absurd to insist on the payments and yet to refuse to admit the commodities, by which alone these payments can be effected. However, the United States have not only tried to "protect" themselves by increased import duties against imports which they create themselves by their policy, but they also have enacted the so-called "flexible clause" according to which tariffs can further be raised by presidential proclamation, if the Tariff-Commission finds, that foreign costs of production are too low for American manufacturers to compete with. Now consider what this means. As a consequence of reparation payments and in order to make them possible, Germany has to produce cheaply. Therefore, cases must arise, to which the flexible clause will apply. Tariff-duties would be raised. And in order to continue the necessary exports, Germany will have to produce still cheaper. Hence, new cases of application of the flexible clause must present themselves. And so on, until the absurdity of the situation becomes clear or, the more probable case, until further reparations become impossible.

Capital-migrations do not act as reparation-payments do because they develop the countries which become debtors. Yet the great shift in the financial relations of nations and continents brought about by the War; is another, the fourth, disturbing factor, which by the displacement of demand consequent upon it, created difficulties, which also lead to increased protection, just as, all disturbances is, to which nations try to make adaptation easier and less violent by import duties. Before the War, the net balance in favour of Europe was about 24 billions of $. To-day, Europe is a debtor to the amount of about of billions. And the United States have changed, within ten years, a position of debtor to the amount of about 16 billions into a position of a creditor to the amount of about 60 billions as against Europe, while increasing their investments in the rest of the world by about 30 billions more. This must affect all channels of trade. And transition to conditions so different will for obvious reasons create demands for protection in the areas affected by it.

There are other disturbing factors, such as the fall of silver which stimulates Chinese exports, especially of silk, but there is besides, fifth, a great historical process, not brought about, but quickened, by the war, a process which can in importance be compared only with such events as the decay of the ancient Egyptian or Persian Monarchies or the fall of the Roman Empire. Industrial Supremacy is being lost to Europe. That position of the Industrial Centres of Western and Central Europe, which every European has been taking for granted for centuries, is obviously going to pieces. While, on the one hand, the production of raw material and food stuffs is carried on in America, Australia, Asia with such advantage as to make European agriculture well-nigh hopeless, there are, on the other hand, native industries growing up everywhere and even in tropical countries. So Indian textiles are displacing the cheap grades of the products of Lancashire, Indian foundries are competing successfully with English one. And there is no doubt that South America will go through a quick and successful industrialisation such, as Japan has already embarked upon. For the industries of Europe and the 250 millions of people, which live in the industrialised parts of Europe, this means an entire change of the conditions of life. Agriculture can only survive by artificial support, which means that there is a deficit which has to be borne in one form or another by the industrial classes. European industry feels instinctively, although it naturally does not like to confess it, that its home-market will be all that is left to them. The industrial states of Europe used to have a net. import surplus of
foodstuffs and raw materials of nearly eight billions, which they paid for by nearly the same amount of industrial exports and services such as shipping, banking receipts and so on. There was, to fortify this business, the vast amount of foreign investments bringing in its interest and assuring the control of the oversea-industries. All this has partly vanished already, and is partly in the process of vanishing. Hence the struggle to keep home-markets and, as one mean towards this end, protection.

III.

This explains both the present situation of commercial policy and the plans which. have been proposed in order to remedy it. Immediately, after the War, and when animosities began to subside, there was both among politicians and among specialists of commercial policy a distinct tendency towards freer, if not free, trade. My impression is that many people really thought that a period of comparatively free trade was at hand, and that it was in this spirit that they entered upon a policy of the most-favoured-nation-clause. Besides, in some countries, where tariffs are drawn up in terms of duties per piece, the lowered purchasing power of gold carried automatically with it a lowering of import duties. If this situation had been clinched at the right moment, it might have been possible to. arrive at agreements such as that which has been recently proposed by a French committee: That a convention should be agreed upon to the effect that certain moderate duties should apply to the exports. of the member-states; while higher duties should apply to the exports of states who refuse to join. This would have been a great steps towards freer trade and a great bar in the way of extremely protectionist countries. But I am it is too late now. The right moment was somewhere about 1925, and it has been lost. Meanwhile; almost all countries, with such exceptions as the Netherlands or Sweden; have gone so far on the way of protection as to have created a vested interest in it, and what hope there was for some understanding at least among European States, has passed away. To be sure, people do realize, that some such convention could better the European situation by bringing about a better division of labour, and thereby a rationalization, of European industries. But politics stands in the way of so desirable an end. Commercial policy is, as I have said at the outset, a part of general policy, and no understanding is possible on commercial matters among states, who will not or cannot agree politically: In this sense it is true that political federation would have to precede economic federation. But if this is true, then the League of Nations is carrying on a hopeless campaign for the "tariff truce ".  

The situation differs of course in different countries. France has, since 1926, returned to that thorough protectionism which always was congenial to her. Italy is strongly mercantilist as it is natural for her to be under a nationalist and militarist government. Germany, after having in 1925 regained her liberty to shape her commercial policy, was not very protectionist at first. But she has drifted since into both agrarian and industrial protectionism, which as said above, is in her case explained by the reparations - although her policy would probably not be much different even without them.

England still keeps to Free Trade. Deviations indeed there are or were, such as the McKenna duties imposed already during the war, the protection granted to key industries (optical instruments, certain chemicals), the safeguarding duties of 1925 or the dye-stuff regulation act
of 1920, but all this does not amount to much. Although Germany’s exports to England are just of the kind which is likely to be hit by these duties it is yet only about 10% of German exports which suffer by it. These measures have been so moderate, because they had to be carried against free-trade opinion, which still predominated in the public mind and among politicians and business-men especially among bankers. Being conceived as measures of relief of a temporary character and in an abnormal situation, they are not really deviations from free-trade policy. Probably John St. Mill himself would admit, that there may be circumstances; in which industries are temporarily threatened, which it would not be wise to leave to their fate; because they are perfectly fit to survive under normal conditions and would have to be built up again if they were destroyed by abnormal events.

But now public opinion is changing; and the question of really abandoning free-trade presents itself. Even this is no new phenomenon. Both the sources of the current in favour of Protection are, on the contrary; quite old. The one is the prolonged depression, the other the wish to consolidate the British Empire. As to the first, it was already in the long depression of the eighties of the 19. century that some manufacturers and even workmen came to believe that free-trade was partly responsible for it, and that protection would be a remedy. And ever since there has been some favour shown to the battle-cry: "Tariff reform means work for all". This movement allied itself later on to nationalistic ideas about the Empire, and both were carried near to success by the powerful personality of Joseph Chamberlain. Both were defeated in 1906, but both are before the country again today. It is interesting to see, that the nature of both problems has not changed. It is just as true to-day as it was in the eighties of the 19. century, that depression is not due to free trade and that not much relief can be expected from protection: Unemployment is worst in some industries, where is hardly any foreign competition, as for instance in the coal trade, or in industries, like shipping, where no safeguarding by tariffs is possible. Protection would not alter the fact; that coal is being replaced by oil or water power, and the demand for coal reduced by a better technique which economizes it. Nor could protection prevent the industrialisation of India and the Dominions: And already the Balfour committee found, that the foreign tariffs most injurious to British Trade are really those imposed by other parts of the Empire. The Safeguarding-of industries-act was no success. Neither would systematic protection be, especially if extended to half finished products, the cheapness of which in England is the basis of some of her industries.

The economic value of the Empire-idea is not much greater. It would amount to "Preference". But England already enjoys preferential treatment, and it does not help her. So for instance, Australia grants preference to English goods of from 35-40% of the ordinary duties and yet England’s share of the Australian trade has gone back ever since pre-war times. The colonies in the proper sense of the word, with a population of about 50 millions, might be more rigorously reserved for English products than they are. But although this may be of importance in the future, the immediate effect could not be great, owing to the poverty of those countries.

England’s Trade develops more favourably, and seems to have more chances, in the rest of the world than in the Empire itself. And of course there is moreover the difficulty that England would have in order to reciprocate further concessions by Dominions, to introduce duties on food-stuffs and raw materials.

Nevertheless I believe that England is nearer to embarking upon a protectionist policy she ever was in the last hundred years. The fact which makes me think so is, that not only some trade-unions, and many individual workers are becoming protectionist but that there are even signs of
a change of opinion among Liberals who so far have been uncompromising advocates of free-trade. If the liberal party, small though it is, comes round to protection, there will be an end of free-trade. Therefore, all nations interested in England as an export market for their goods; would act wisely if they tried to conciliate England by timely concessions. This would strengthen free-trade opinion in England, and perhaps prevent England from taking up protection. Soon it may be too late, and then concessions to England will have to made for a small part of what it would now be possible to retain. It is obvious that any change in the commercial policy of England will powerfully influence the attitude of Belgium; the Netherlands, Danmark, Sweden and other smaller states, so that the whole of Europe may be riding on a wave of mercantilism before long, a mercantilism which by hampering international division of labour and keeping alive backward methods of production, must be injurious to all.

Hence it does not seem that there is much hope of cooperation. But there is one force which tends towards cooperation among European, and other states; and that is the policy of the United States, which is universally resented as strongly as debtors dare to resent anything which their creditor does. We have already repeatedly touched upon the subject, and can confine ourselves to a few remarks. The American tariff-policy embodied in the Underwood-Act of 1913 was short-lived. Very soon America returned to her traditional policy. The Fordney-McCumber Act raised duties to an average of 35%. And by the Hawley-Smoot-Act of 1930 they were raised again and now average 41%. Some items were new, especially those on leather, boots, cement and timber. Some were raised considerably, as those on agricultural products, pig-iron, woollen goods, rayon-silk and sugar. Others were raised moderately, such as those on cotton goods, glass, porcelain. I have said already, that in order to understand this measure, we must look to the political situation, especially to the position of the Republican party. But it is also a good example for the truth that protection invariably leads to more protection. If one industry obtains a protective duty; this is obviously an advantage for the firms of which this industry consists, and a damage to those, who consume its products. If the protected commodity is itself a producers' good, a raw material, a machine on a half-finished product, then the protective duty is a damage to the industries which buy it. Of course, both advantage and damage arise from the fact that the import duty changes the relative value of the protected commodity as against other commodities. Every single act of protection, while it seems to be directed against the foreigner, is in reality directed just as much or more against the rest of home-industries. Now if these other home-industries also obtain protection, then relative values will be changed again, and the advantage reaped by the industry which got protection first, is, according to circumstances lessened, annihilated or even turned into disadvantage. Hence the paradoxical result, that a tariff which would be so constructed as: to "protect" all industries equally, would really "protect" none of them. This truth [businessmen] do not understand, but they feel it. And so they want not so much protection simply, but more protection than other home-industries get. Every rise in any duty is therefore sufficient motives for other industries to ask for a rise of their duties in turn. Hence that race of industries for as much protection as they can get, which we observe always when a new tariff-bill is in the making, and hence that tendency of protectionism to run to extremes.

This tariff has intensified depression in the world at large, and it has injured the people in America more than appear on the surface. Americans usually comfort themselves by pointing to the fact, that foreign trade form only a very small part of the total volume of their business. This is true, white in Italy imports equal 20% of the National Income, in France 23.7%, in
Germany 25 %, in England 31%, in Switzerland 46%, they are just under 5% in the United States. But this is, because there is this exorbitant tariff, which prevents the American workman from consumption of cheaper foreign goods, which could benefit him much more than high money-wages.

IV.

Summing up, we may say that partly for good and partly for bad reasons, practically the whole world has taken to protectionism, and that this tendency will be intensified rather than softened in the immediate future. I have often been asked, whether international cartels or understandings in some other form from industry to industry may not be expected to improve this state of things. To some extent they certainly have that tendency. But first we must not overrate the importance of what has been achieved. Understandings such as have been arrived at in the steel industry or, of late, about oil, or such organisations as the international export-cartel in copper, or, different again, the explosives-trust, or the European union of producers of bottle-glass, or the concern for the exploitation of the Owen-process, or the swedish match combine - they are all of them either exceptions due to very peculiar conditions or temporary devices brought about by severe depression. Secondly, we must not forget that even if international cartels became the rule, free interchange of commodities would gain but little. If, say, the steel-industry of all countries of Europe or even of the world came to an understanding about dividing up markets, this would kill competition just as effectively as prohibitive tariffs do. The objection to tariffs is precisely that they hamper competition, and that continuous readjustment of industry; which we call industrial progress. And this is just what international cartels do too. If industries of different countries agree not to compete with each other and to respect each others hunting grounds, this implies just as much the danger that they will go to sleep and enjoy their safe profits as protection does. Besides, this policy will not even do away with protection. For as the industry of every country knows that the understanding has to be renewed after a certain time and as it also know that negotiations may fail, it is to their interest to have a protective duty to fall back upon.

Under these circumstances we shall understand, if all the endeavours of Geneva have been nearly unavailing so far: Inspired by the best intentions and relying on the most authoritative scientific opinions, these endeavours are thwarted partly by the necessities of an unhappy situation and partly by the tricks of politicians. Three years ago the World-Economic-Conference expressed unanimously the ardent wish of all those who took part in it, to inaugurate a new era during which the fetters of international Commerce should be untied. Statesmen applauded; but did the contrary. Not discouraged by this, those men persevered and a modest success was achieved by the agreement of March 24, 1930, which indeed failed to condemn increases in duties but at least tried to make them more difficult. Even this much has not been carried out, and one has the impression that politicians are laughing at the idealists who think it worth their while to work for so unpractical objects. Such successes as have been achieved, as the international treaty abolishing export-prohibitions and the one reducing export duties on hides and bones, are of no practical importance. It is true that sometimes a more hopeful note is sounded. At a conference of representatives of Bulgaria, Estonia, Hungary, Lithuania, Poland,
Romania; Czechoslovakia and Yugoslavia, held in Warsaw at the beginning of last year, it was agreed, that an effort should be made to secure from those European states which import agricultural products a preferential treatment for such products of European origin. This of course implies, although nothing was said about it, that these states would agree in their turn to preferential treatment of industrial products of European origin. But nothing has come, or is likely to come, from this.

Yet, although little or nothing is to be expected from the wisdom of politicians, something may be expected in some more distant future from the force of facts. And these facts are likely to be brought home to America first of all. The United States are increasingly developing an export-interest. In some industries, their gigantic productive apparatus already now cannot be fully utilised without access to the worlds market. This is conspicuously the case in the motor car industry, but other industries will follow. And then manufacturers and politicians will discover that it is impossible to export without importing correspondingly. Moreover, the United States are a creditor country now, and will increasingly become so in future. A creditor country’s policy is free trade. And this too they will discover sooner or later. No change in public opinion shows itself as yet. But public opinion in the United States is a very peculiar thing, and quite different in its ways from the public opinion of other countries. Americans are very slow to change their views. They stick to old views much more than other nations. But when they do change, they do so with a rush, and they trample on what they have held sacred for long years. This, I predict, will happen on the subjects of commercial policy. And then a tremendous weight will be thrown in the call of free-trade.

Besides, not only the worlds depression will pass, but also those special depressions in agriculture, coal mining, textiles and so on. What is overproduction one day, is underproduction the other day, and then, if not all, at least some of the most powerful motives for protection will be weakened. Empire-preference in England may come about, but it will probably take a mild form and even be useful in creating a new power to fight the worst excesses of protection. An understanding between France and Germany, which is at least not impossible, would be a great help. The small eastern of Europe may see the absurdity of their mercantilism. - And therefore we may have some hope of seeing achieved an end, which would mean a great blessing to humanity in general. The pity is, that such ends are never realized as soon as thy become possible economically, but, that they have to be forced on nations by needlessly hard struggles and by bitter experience.


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