
Economics and War: A Presidential Address

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ECONOMICS AND WAR

Presidential address delivered at the Thirty-eighth Annual Meeting of the American Economic Association, held in New York, December 28-31, 1925.

“Peace is the natural effect of trade,” said Montesquieu.¹ Not is, but should be, said Adam Smith. “Commerce, which ought naturally to be among nations as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity.”² More than a century later one of the wisest of historians reaffirmed the Scotch economist’s verdict. “It is not true that the development of material interests promotes peace. Commerce, as the messenger of peace, is a mythological character. In its origin it was brigandage; in ancient, mediaeval, and modern times it occasioned wars. Men fought on the Baltic for herring, and on all the seas for spices. In our day the growth of industry creates the question of foreign markets, which, in turn, brings the interests of the states into conflict. Commercial rivalry and rancor thus strengthen national hatred.”³

In what measure is this a true finding? In what measure must it remain true? These are the questions I propose to discuss. They are difficult questions, and the literature of economics throws surprisingly little light upon them. There appear to be two general classes or types of opinions, and little else beside.

One view—which may be called the popular or naive view, and which has had, I believe, few adherents among economists of standing—sees in war one of the normal, or even one of the rational, economic activities of men. National groups are pictured as behaving like the economic man of our methodological mythologies, each consistently and relentlessly seeking its own interests. The interests of different groups clash, conflicts arise, and conflicts grow into war.

In one way or another this view is persistently thrust before us. We encounter it in our newspapers, where it serves as one of the useful stock scenarios into which even the ordinary humdrum incidents of economic and political intercourse among nations are fitted, and

¹*Esprit des Lois*, Book XX, ch. 2.

²*Wealth of Nations*, Book IV, ch. 3.

³E. Lavisse, *General View of the Political History of Europe* (transl. C. Gross), p. 163.

which give to such incidents a meaning, an element of dramatic interest, an easily recognizable place in the general course of events. We meet it in some of our books on international politics and in some of our histories—particularly in those that have been written during the last thirty or forty years. We find it in the reports by which a country's representatives in other lands keep their own government informed of matters which may be presumed to affect its interests. It even has a special literature of its own—a literature which had a mushroom growth during the war.

Such interpretations of the economic relations of nations utilize a set of familiar concepts and phrases: commercial warfare, the struggle for markets, the control of raw materials, surplus products, surplus population, economic imperialism, economic penetration, and the like. Phrases such as the struggle for (national) existence and the survival of the fittest are also pressed into service, carrying with them the suggestion that international economic rivalries have an appointed place in the processes of nature.

There are two different ways of handling this apparatus of ideas. The distinguishing characteristic of one of these methods is that national groups are depicted as alert and intelligent personalities, conscious of their purposes and deliberately choosing the means of achieving those purposes. Their foreign policies are conceived in terms of strategy, of calculated economic advantage. They are, in short, rational, or Machiavelian, states.

The other way of dealing with this common stock of notions employs the apparatus of historical determinism. Causes, not purposes, rule. National policies and national destinies are shaped by the cumulative pressure of antecedent forces. The fruits of this particular method are a variety of pseudo-scientific dogmas respecting the "ultimate" causes of war. I call them pseudo-scientific because, although they borrow the mask of science, they are and must be arbitrary and unverifiable.

Of these various dogmas the one which has had the most pervasive influence is the Marxian. This doctrine is to the effect that changes in industrial technique, coupled with the private ownership of those instruments of production through which alone the fruits of technical progress can be realized, bring about a disparity between a country's power to produce and its power to consume. The surplus product accumulates in the market, where it leads periodically to crises. Endeavors to find an outlet for it lead to economic rivalries among nations, to the exploiting of undeveloped or backward countries, to colonial expansion, to economic imperialism, and to wars.

The rational state does not appear in this picture. Instead there

is the capitalistic or class state, itself only an historical incident, marking a certain stage in the development of economic and political institutions. The abiding thing is the conflict of the interests of different economic classes. Modern wars are undertaken to secure the advantage, not of a nation, but of a class. The real lines of cleavage are to be found, not at national frontiers, but in the horizontal stratification of society.

One element in this Marxian doctrine, namely the notion of surplus products pressing outward across national boundaries under military convoy, has an especially wide vogue. Writers who do not count themselves followers of Marx, as well as those who do, employ it as a routine formula.

The second general class or type of opinions to which I have referred is distinguished, not by a special emphasis upon some particular view of the nature and purposes of the aggressive activities of states, but by a very definite thesis with respect to the wisdom and the consequences of such activities. If wars are waged for economic advantage, it is held, they defeat their own purposes. So too, in general, with all national policies designed to advance the economic interests of one state at the expense of other states. The truth is, it is alleged, that a nation gains by the prosperity of other nations, not by their poverty.

This general thesis, if stated with some necessary qualifications, would be subscribed to, I think, by most economists. It was brilliantly expounded in Mr. Norman Angell's book, *The Great Illusion*. If, in the days of its first vogue, that book seemed to be given little attention by the economists, it was not, I imagine, because they disagreed with its conclusions, but rather because most of those conclusions seemed to them to be fairly commonplace economic doctrines. Doubtless Mr. Angell weakened a good case by pushing it a little too far. He gave too little weight to the special interests (not necessarily or even generally class interests) that may be served by a belligerent or imperialistic policy, even when other interests, larger but more diffused, are injured. He did not adequately distinguish between immediate and ultimate gains and losses. But taking his argument in the large, and leaving details aside, it would command, I believe, the general assent of economists. Some of the policies he finds unwise are, in fact, policies we are accustomed to disparage by lumping them together and calling them neo-mercantilism.

Assuming that Mr. Angell and the economists are right, is there ground for hope that, as the result of a slow process of education, the world would become convinced that aggressive economic nationalism is profitless? Is there reason to believe that in this event the so-called economic causes of war would be done away with? Such hopes, we

may be fairly sure, would be vain. For one thing, we have learned in other fields that progress which has to wait upon men's becoming more reasonable is likely to be delayed indefinitely. For another thing—and here I am done with preliminaries and pass to one of the central themes of this paper—there is ground for challenging the common views of the nature of international economic competition and of its relation to war. The facts are too complex and too much tangled to be fitted into the concepts and formulas which we customarily employ.

We get those concepts and formulas, for the most part, from the market place. We use them in describing and analyzing the mechanism of money-making, of business competition. Here we find uniformities, rational rules of conduct, out of which we build the framework of economic science. That reliable mechanism, the "economic man," is merely the average man, taken in his business relations,—taken, that is, as buyer and seller. Now, save under very exceptional conditions the economic relations of national groups are not like those of buyer and seller. Not since the days of the crudest types of mercantilism have they been so regarded by economists.

We concern ourselves with what nations *should* do in order to secure their maximum economic advantage, we take account of some of the things they actually do, and we even venture to explain or find reasons for certain of these activities. But unless we are the bigoted devotees of some dogmatic philosophy of history, we do not expect that the behavior of national groups will conform to some definite rational rule, that it will be stable and predictable.

The values of the world of international rivalry are more like the irrational values of the world of consumers' choices than they are like the money profits and the other money incomes for which men contend in the world of commerce. Consider such phrases as economic dominance, empire, economic independence, a place in the sun, territorial expansion, control of markets, freedom of the seas. These phrases denote some of the things for which men are supposed to fight. Each has an economic significance. And yet, what discernible relation is there between their potency for war and their economic significance? Their real meaning appears only when they are projected against an historical background; but there they lose any peculiarly economic quality, and become merged in the general picture of national prejudices and passions.

What I am trying to say has been put more skilfully by Walter Lippman: "How does it happen that the people not concerned in a special interest are so ready to defend it against the world? . . . The most obvious reason is that the private citizens are in the main

abysmally ignorant of what the real stakes of diplomacy are. They do not think in terms of railroad concessions, mines, banking, and trade. . . . Each contest for economic privileges appears to the public as a kind of sporting event with loaded weapons. The people wish their team, that is, their country, to win. . . . Business is the chief form which competition between nations can assume. To be worsted in that competition means more than to lose money; it means a loss of social importance as well. . . . The way to increase national prestige is to win economic victories by diplomatic methods. . . . Armament is added as an 'insurance' for diplomacy, and of course military preparation always calls forth military preparation. Every international incident is seen then, not on its 'merits', but in its relation to the whole vast complicated game, forever teetering on the edge of war."⁴

It may be that some of the interests which arouse these belligerent emotions and around which they cluster are the immediate or lasting rational economic interests of different national groups. It is plain that some of them are the real interests of particular men or particular classes within different national groups. But, as I have said, there is no correlation between the economic importance of these interests and their power to rally a people to their defense. They may be wholly factitious, and yet be potent.

There is instruction to be had from recent developments in the field of sports. I mean, of course, intercollegiate and other inter-group sports, in which small teams of selected competitors carry with them into their contests the rivalries of the groups they represent. Members of these rival groups like to absorb themselves in these conflicts by reading about them. The purveyors of sporting news have found that this is an appetite which can be stimulated, that the interests of persons outside the rival groups may be engaged, and even that the number of partisans may be increased.

They have found also that the number of *competitions* may be fruitfully multiplied by bringing existing contests into new relations. An intricate system of mythical regional and class "championships" has been invented. Teams are ranked by the percentage of victories, by the total scores they have made, and in various other ways. Ingenious methods of rating the achievements of individual players have been devised.

These artifices succeed in entrapping the interests of readers. And they accomplish more than that. Some of these make-believe competitions become real. The spirit of rivalry reaches out and takes hold of them. They supply new criteria of superiority, new symbols of prestige. Some of them may come to be regarded as expressions of

⁴*The Stakes of Diplomacy*, pp. 76-83.

inevitable "natural rivalries." The facts, however, suggest that though there may be a vaguely circumscribed field of potential rivalries, within that field competitive alignments are free to arrange themselves in various patterns, while one thing or another may come to be adopted as an emblem of success.

In the larger field of international economic rivalries group psychology retains its characteristics. The world in which national groups strive to realize their opposed interests is in large part a world of man-made patterns and symbols. It is a new world, for nations as we know them are only a few hundred years old—no older than the new world-commerce which helped to bring them into being and which remains one of the fields in which their oppositions and rivalries feed and grow.

Among the architects of this world have been the historians. They have played a role not unlike that of the contemporary newspaper annalist of competitive sports. Most histories have been histories of nations. By abstracting the nation from the other forms which human relations take, by emphasizing the peculiar and differentiating elements in a nation's institutional heritage, they inevitably deepen the cleavages between national groups. Many histories have put disproportionate emphasis upon wars. And in explaining wars they have often put more reliance upon "economic motives" than either economics or psychology would warrant.

"It is possible to study a multitude of histories," says John Dewey, "and yet permit history, the record of the transitions and transformations of human activities, to escape us. Taking history in separate doses of this country and that, . . . we miss the fact of history and also its lesson; the diversity of institutional forms and customs which the same human nature may produce and employ. An infantile logic, now happily expelled from physical science, taught that opium put men to sleep because of its dormitive potency. We follow the same logic in social matters when we believe that a war exists because of bellicose instincts; or that a particular economic regime is necessary because of acquisitive and competitive impulses which must find expression. . . . We have constructed an elaborate political zoölogy as mythological and not nearly as poetic as that other zoölogy of phoenixes, griffins, and unicorns. Native racial spirit, the spirit of the people, or of the time, national destiny are familiar figures in this social zoo. As names for effects, for existing customs, they are sometimes useful. As names for explanatory forces they work havoc with intelligence."⁵ And so, we may add, do such names as economic motives and the economic causes of war.

⁵*Human Nature and Conduct*, pp. 110-112.

William James wrote a famous essay on the "The Moral Equivalents of War." Conceivably we might speak of equivalents or substitutes for economic antagonisms. But what we need most are substitutes for the habitual patterns which elicit and direct those antagonisms.

Something may be accomplished, undoubtedly, by continued emphasis upon the wasteful stupidity of most of the efforts national governments make to secure economic advantages outside of their own territories, although this something is not very much. But there is reason to hope that with the increase in the number and variety of contacts between the peoples of different countries, national antagonisms will diminish. Not, however, that the growth of concreter forms of knowledge, born of such contacts, can be counted upon to dissipate our abstract notions of alien types of men and of rational but malevolent states. The real ground for hope is rather that with the growth of communication and of economic interpenetration, new forms of organization will have to be devised.

Organization generally provides a mechanism by means of which some measure of external control can be exercised over men's activities. But that is only a small part of its significance. Organization *directs* activities as well as controls them.

The world's political organization has not kept pace with its economic organization. Increasing interdependence asserts itself in economic life. Raw materials, markets, borrowing and lending, trade routes, prices, monetary and banking policies are things in which the different peoples of the world have a joint as well as a separate interest.

National states, each acting only for itself, are inefficient guardians of these joint interests. Within a nation's own boundaries it manages to bring the conflicting interests of different sections and groups into some sort of balance and to enforce general standards and rules governing the conduct of business enterprise. Just because there are these rules of the game, because political organization is nation-wide, the game itself takes on a different character, the nature and the meaning of sectional conflict is changed. An American scholar who has thrown a new and transforming light on our national history has said: "We must frankly face the fact that in this vast and heterogeneous nation, this sister of all Europe, regional geography is a fundamental fact; that the American peace has been achieved by restraining sectional selfishness and assertiveness and by coming to agreements rather than to reciprocal denunciations or to blows. . . . Statesmanship in this nation consists not only in representing the special interests of the leader's own section, but in finding a formula

that will bring the different regions together in a common policy.”

But the nation, in its larger relations, is itself a section. Outside of its own borders its interests, real or supposed, conflict with the interests of other nations. Here statesmanship becomes sectional leadership. The role which the statesman finds easiest to play is often one which is assigned to him in the popular dramatization of the facts of international economic intercourse. His task would be harder, however, if his countrymen insisted or expected that the foreign policy of their own government should have the same degree of design and purpose, the same elements of plot and strategy, that they see in the foreign policies of other states.

There is a modern animism which imputes malign intent, not to the forces of nature, but to personified “nations.” The preposterous myth that Pan-Germanism was a definite national policy could not have found lodgment except in minds patterned to receive it. In a newspaper which lies before me as I write, there is a short dispatch telling that a new German company has been organized which proposes to operate in Russia. The headline reads: “Germany Getting Grip on Russia.” Not long ago another dispatch told of a rather notable increase of some relatively unimportant German exports to Sweden. The headline and an introductory paragraph interpreted this ordinary incident of trade as meaning that Germany was getting “control” of Swedish markets. And when it is not Germany it is England or Japan or some other country. A clipping bureau, I suppose, could supply hundreds of such items each year. No one country has a monopoly of these childish absurdities. Running through the pre-war files of an important German commercial journal I found an astonishing number of references to the “conquest” (*Eroberung*) of Latin America by the United States; and that interpretation of our plans (not of our achievements) is common in Latin American countries.

A good deal of what passes for information respecting the purposes and activities of other nations is no better than malicious gossip. Such is the character of some of the information which governments receive through diplomatic channels. Bismarck said, “I have often not shown dispatches from our representatives in German Courts in the highest quarters, because they had a tendency to be piquant, or to relate and give importance to annoying expressions or occurrences, rather than to foster and improve the relations between the two courts, so long as the latter, as in Germany is always the case, was the task of our policy.” But even when a government’s policy is “to foster and improve relations,” no such censorship is possible over the open channels of

*F. J. Turner, “The Significance of the Section in American History,” *Wisconsin Magazine of History*, vol. XIII, pp. 275, 279 (March, 1925).

¹*Reflections and Reminiscences* (Eng. transl.), vol. II, p. 248.

communication through which the people of a democracy gain their impressions of the purposes of other states.

However slight their foundation, these impressions, like our general views of the nature of international economic competition, help to determine our attitudes and to shape our conduct. Fear of the power and the purposes of American trusts was one of the reasons Germans gave for the organization of cartels in some of their export industries. The German cartels, in turn, figured largely in the discussions which led to the Webb-Pomerene act of 1918,—a particularly invidious piece of legislation, which permits in our export trade combinations of a type that is illegal in our domestic trade, with the proviso that such combinations shall not “restrain” the trade of or compete unfairly with *American* competitors.

In a hundred other incidents where retaliation leads to retaliation, anyone who cares to look may see part of the actual process by which a world of gossip and of myths becomes the world of national policies. Nothing else is possible so long as each separate state is not only the guardian of its own interests but is also the interpreter of the interests and purposes of other states. There is no more ground for hoping that these types of economic friction will be done away with by changes in the policies of separate states than there is for expecting that armaments can be reduced effectively in any other way than by common agreement among nations.

In certain limited fields of economic activity, common agreements have already been reached and organs of international administration have been established. This is notably true in respect of communications and transport, where elementary considerations of convenience and economy, as well as the common interest in uniform and non-discriminatory rules, make agreements imperative. The advantages of conformity are plainly visible, while there is little in nonconformity to which even a fictitious “national interest” can be attached.

There is more significance in what has been accomplished in freeing transit trade from duties and from unreasonable transport charges and in creating international easements in important rivers and canals. Here the interest of a particular state may sometimes be opposed to the interests of other states. Taking advantage of a favorable geographical position, it might take tribute from the commerce which crosses its territory (as states often have in the past). There has been an element of compulsion—sometimes the compulsion of stronger states and sometimes the compulsion of circumstances—in the progress that has been made in these matters. To take only one example, the provisions relating to freedom of transit in the treaties concluded at the end of the World War, one-sided though those provisions were, helped

to prepare the way for the general European agreement embodied in the Barcelona Convention of March, 1921.

Agreements for the suppression of the use of unfair methods of competition in international trade have been limited, for the most part, to the protection of patents, copyrights, trademarks, trade names, and the like. In these matters the interests of different states are not so much joint as they are reciprocal, and they are unevenly reciprocal. Substantial inequalities remain, particularly in the effectiveness with which the provisions agreed to are enforced.

International agreements with respect to labor legislation may possibly be regarded as tending toward fairer standards of international industrial competition. But that is not their chief significance; and I can do no more than mention them here. Nor can I discuss the important preparatory work done under the auspices of the Economic Committee of the League of Nations on commercial arbitration, export and import prohibitions, double taxation, and other matters.

It will be observed that few of the operative agreements which I have discussed thus far cut deeply into what are generally deemed to be important national interests or have come to be symbols of national prestige. None of them, to put it concretely, has much news value. The history of the international agreements that have sought really to limit the scope of international commercial "strategy" has been a record of halting achievement. Like price agreements and pooling arrangements among business concerns, such covenants appear to remain effective only so long as that situation serves the interests of the more important signatories. Such was the history of the Berlin act of 1885, of the Brussels Sugar Convention of 1902, and of the Act of Algeciras of 1906.

In the absence of general agreements, the international economic relations of a large part of the world have been governed by a complex network of bilateral commercial treaties, held together and made at all consistent and tolerable only by most-favored-nation clauses. The system thus set up, especially in continental Europe, was unstable; for a single important new treaty would upset things until, by the revision of other treaties, a condition of temporary equilibrium could again be reached. The system was uneven; for the strong states were able to bargain more effectively than the weaker ones. In particular, industrial states had a more advantageous position than agricultural states. Questions of commercial policy were recurrently projected into the field of international politics, so that they were quite commonly discussed in terms of *Machtpolitik*. Commercial treaties were regarded

as instruments by which a state's power could be projected across its own boundaries.

Such a system must often have undesirable economic effects. The present tariffs of some of the new states of eastern Europe afford an illustration. These tariffs are much higher than the real economic interests of those states demand. Artificial barriers set up at new boundary lines, these new tariffs block long-established channels of trade and hinder the economic recovery of that part of the world. Not all the blame can be put upon the newly stimulated spirit of nationalism. For these are bargaining tariffs. Some of the highest duties are imposed, not upon goods which the tariff-making country particularly desires to keep out, but upon goods which another country desires to get in. Aimed largely at one another, these new tariffs are an example of the wasteful futility of this method of procedure. Commercial treaties, coupled with most-favored-nation provisions, will gradually reduce them, but in the meanwhile the costs are heavy. And experience has shown, I think, that tariffs made in this way generally have an upward trend. New vantage points are sought from time to time; special industrial interests look upon the reductions made in treaties as ground regrettably lost; national sentiment, also, learns to look upon concessions as retreat, so that there is a cumulative pressure upward.

The United States has stood aloof from this system. We have held, though not with complete consistency, to the policy of the equal treatment of the commerce of all other nations. But the Tariff act of 1922 empowers the President to impose retaliatory duties upon imports from any country which discriminates against our commerce; and the same general principle was embodied in the Tariff act of 1909. We determine the other country's guilt; and we impose what we consider an appropriate penalty—surely an unsatisfactory way of handling the matter.

Students of these problems have become pretty well convinced, I think, that the most important single step toward their solution lies in the adoption of multilateral conventions defining the conditions of economic intercourse among the nations of the world. The first principle, the irreducible minimum, in such agreements is the doing away with a nation's power to discriminate against the trade of any other nation. This was the meaning of the third of President Wilson's Fourteen Points: "The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions." This, beyond doubt, is part of the meaning of the clause in the Covenant of the League of Nations which binds the signers of that covenant to "make provision to secure and maintain freedom of communications

and of transit and equitable treatment for the commerce of all Members of the League.”

The League’s word “equitable” is better in some ways than President Wilson’s word “equality.” It does not carry with it so clear and definite a commitment; but for that very reason it does not suggest precise limits to the scope of international economic agreements.

In fact, the phrase, “equitable treatment for commerce,” suggests different things to men in different countries. To some it means equal, that is, general most-favored-nation treatment. Some would add national treatment in respect of certain matters, such, for example, as the rights of foreign vessels in national ports, the taxes imposed upon foreigners, or the protection given them against unfair competition. To others it includes anti-dumping arrangements, the removal of restrictions on exports, unrestricted access to raw materials, or the open door in undeveloped parts of the world. I do not intend to weary you further by discussing these various possibilities. Just now the content of international economic agreements is not so important as it is that agreements should be reached.

I have already said that the more important agreements of this general sort made before the war were unsuccessful. The difficulty with them was that they were *exceptional* arrangements. Belgium in the Congo and France in Morocco were hampered by restrictions that had the character of special disabilities, such as had not been attached to the colonial expansion of other countries. The Brussels Sugar Convention was an anomaly in a world in which nations were generally left free to determine their commercial policies as they pleased. To be really effective, such agreements must establish a general rule, not an exception to a rule. They must in some way create a new standard pattern of thought and conduct.

The resolution by which a few months ago the Assembly of the League of Nations invited the Council of the League to institute preparations for an international economic conference referred to the “economic difficulties which stand in the way of the restoration of general prosperity,” and expressed the conviction that “economic peace will contribute largely to ensuring the security of peoples.” As matters now stand in Europe, these two objects, economic restoration and economic peace, are closely connected. But of the two, economic peace is the more important, for it is the condition of the other.

Consider what has already been accomplished toward financial reconstruction. The real significance of the plans for the financial

*I have given an account of the history of this clause in *A History of the Peace Conference of Paris*, edited by H. W. V. Temperley, vol. V, ch. 1, part 3.

rehabilitation of Austria, Hungary and Germany is that they embody international agreements. The securing of these international agreements was both a more difficult and a more important achievement than the formulating of the particular economic remedies that were to be administered. It is easier to determine what economic procedure is wise than it is to change national attitudes.

In these instances the changing of national attitudes was achieved by organizing and giving expression to the common interests of nations. The hopelessness of other methods had to be shown before this could be accomplished, but once done, it is not easily undone. The new attitude creates a new interest. Even if some of its economic provisions should break down, as is altogether likely, the Dawes plan probably will have solved the reparation problem.

The significance of these achievements for the general problem which I have undertaken to discuss is obvious. The attitudes and activities which we have in mind when we speak of "the economic causes of war" are not inevitable and unyielding expressions of permanent traits of human nature. They are forms or patterns of conduct and are correlated with particular modes of organization. Other forms and patterns, associated with other modes of organization, are within the bounds of practicable achievement. This does not mean that the task is simple, or that it can be accomplished merely by finding a magic formula. Nor does any sensible person expect that sectional interests or international economic antagonisms will disappear. But it is not unreasonable to hope that some day they may be subordinated to new and larger interests which will grow out of new forms of organization. At any rate, the only way to secure economic peace is to turn our eyes toward it.

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