PROBLEMS OF REGIONAL AND INTERNATIONAL TRADE

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DR. KRESS: Admiral Hague, General Greeley, and gentlemen: We come this morning to our final lecture in our refresher course. Our lecturer has been in this line of work, having to do with international trade, most of his working life which is coming to be a span of something more than 20 years. He has been a colleague of mine, in a way, in that he taught at American University and I taught at Georgetown University. During those 20 years we have met many times.

He has been very much more active in his publishing, though. His latest book, "Aid, Trade, and the Tariff," is just out. You will undoubtedly become acquainted with it in the Economic Potential course in the spring since you had excerpts from it last spring.

He has been chief, Economics Division, United States Tariff Commission; executive secretary, United Nations Interim Commission on Food and Agriculture; during World War II he was with the Office of War Mobilization and Reconversion; and since the war he has been Senior Specialist in International Economics of the Legislative Reference Service, Library of Congress.

This is his fifth formal lecture here and he has taken part in many seminars. That in itself is a good test of what you are about to receive. It is a pleasure to introduce to you Dr. Howard S. Piquet.

DR. PIQUET: After that introduction I think I should apply for a commission.

Admiral Hague and gentlemen: It is always a pleasure to be here.

Our subject this morning is one of the most important that we can discuss. When I read accounts of the H-bomb, civilian defense, and some of the narrower approaches to the problem of national security, I cannot help but feel that if the American people were better informed, had a better insight into the nature of world problems we would be giving far more attention to the basic preventatives of war. Fundamentally, this means human understanding--psychological, or spiritual understanding, if you will. And this spiritual understanding has a substantial admixture of economic considerations.

If we expect to prevent war, we had better help people in other lands to help themselves.

If I thought that this problem of national and international trade were solely economic, I wouldn't waste your time or mine coming here to talk about it. It is essentially a political problem, and if we concentrate on the economic side alone, we shall be wasting much of our time. We should concentrate on applied economics, that is, political economics in the best meaning of that term.

Now this was not the case until relatively recently. Prior to the outbreak of the Second World War, or certainly until the end of the First World War, our international trade problems were entirely economic, and the historic argument between the protectionists and the free traders was mostly academic. It is true that if the United States had adhered more closely to the free-trade doctrine, ignoring the political reality of war and many other realities, we would have a somewhat higher standard of living than we now have. This much is pure logic.

But this is not the problem today. The problem today is whether the superabundance that we would have if we had lower trade barriers would be worth the political effort involved compared with the abundance that we do have even with tariffs. As far as I am concerned, I am not much interested in that problem, although it is interesting to the pure economist. The problem today is how to maintain a strong free world which means, in final analysis, our own survival as a free nation.

If Western Europe were to succumb to communism, the balance of industrial power in the world would be shifted in favor of the Soviet Union. We cannot, from the point of view of our own self-interest, afford to lose the industrial potential of western Europe. That is my major premise. If I am wrong in that, the rest of what I am about to say is largely irrelevant.

But I know I am not wrong. If steel alone is considered, and the steel capacity of western Europe is added to that of the East instead of the West, that capacity would be just about equal between ourselves and the Soviet Union. What we are now discussing is the degree to which our trade policy is important in protecting that potential.

All you have to do is pick up the newspaper and read some of the complaints that are made by our European friends, and Canadian friends as well, to realize the way they feel about us. Whether justified or not, the fact is there. The British are sore at us because they can't sell us their woolens. The Italians are particularly nervous because we are keeping out their cheese, their fur felt hats, and their garlic. Those are anti-input cases that have been decided in the last few months as you probably are well aware. Instead of allowing more of these goods to come in, we are threatening to exclude them. We have tightened some of our trade restrictions within the last year.

Japan is in desperate need of foreign markets and when we pull out of Korea--if we ever do--what is going to happen to Japan if we insist that the Japanese not trade with the Soviet bloc and at the same time insist they not trade with us? What can we expect them to do?

In this complex of military, economic, and psychological factors, I would say that the most important is the psychological. That is not to belittle the importance of military power or defense, and I would be the last to say that we should have a weaker Air Force, a weaker Navy, or a weaker Army. They should be stronger. But we must not forget that military action represents the last resort; that the first line of defense is the psychological. A spiritual understanding between ourselves and other free peoples depends in large part upon the ability of those people to earn their own way and to keep their heads up with pride in their own cultural roots.

So much for the general assumptions. We want a strong free world--as strong a free world as possible. The economic aspects are vital and, trade is important to essential psychological understanding. Now as far as the purely economic aspects are concerned, I can't get too excited about the many fears that are expressed about the danger of increased imports. A large part of the talk you hear about this country being damaged by imports is just unadulterated bunk. The Nation has very little to lose by expanding its foreign trade. On the contrary it has much to gain.

Let us take a simple illustration to enable us to see through to the economic background of much of this political talking. It is the same illustration I gave last year. I hope the Admiral will forgive me if I repeat it.

Let us suppose that I can give a public lecture and make 1,000 dollars out of it, or write a book and make another thousand. Let us say, also, that I am a good typist, that I can type better than anybody around. I am also a handy man around the house, can fix plumbing, the wiring, and all the rest of the mechanical jobs that go with being the head of a household. Now, which would pay me better, to do my own plumbing and repairing, as well as my own typing or to concentrate upon that which I do to superior advantage, 'namely, writing, and get the next best typist to do my typing, the next best handy man, and plumber, and electrician to do my plumbing and electrical work? Obviously, it will pay me to concentrate upon that in which I have the comparatively greatest advantage. That is all there is to the basic philosophy of international or interregional trade. Countries, like individuals, will be better off in terms of physical goods if they concentrate on producing the things that they can produce best. A rich man does not lose when he trades with a poor man. If you get somebody to repair the roof of your house who lives on a starvation wage, you will gain rather than lose. That is fairly obvious. When you apply this reasoning to countries, you can conclude that a rich country does not lose when it trades with a poor country.

If low-paid labor can always undersell high-priced labor, how is it that the United States, a high-wage country, regularly exports billions of dollars worth of goods every year, much of it to countries where wages are notoriously low? Clearly the high wages must be offset by greater productivity, resulting in low cost per unit of product.

Look for a moment at the opposite side of the scale. In the automobile industry, which is one of our most successful export industries, wages are considerably higher than in the British automobile industry. The unit labor cost of automobiles in the United States is low compared with the comparable unit labor cost in the United Kingdom. If the United Kingdom were also to follow the principle of equalizing unit labor costs at home and abroad, it would impose a duty upon United States automobiles equal to the difference between labor costs there and in the United States. Effort on its part would then be concentrated on restricting the imports of American automobiles just as we would be endeavoring to exclude Swiss watches. The net result would be that each country would impose penalties against those products in which the supplying countries have superior productive advantages.

If this reasoning were to be followed to its logical conclusion, each country would find its exports shut off and international trade would dwindle to a mere trickle. Differences in costs, indeed, supply the rationale for all trade, both domestic and foreign. The very logic of cost equalization, if ever it were to be achieved, would be the elimination of trade.

The idea of cost equalization, whether it be overall monetary cost equalization or whether it be unit labor cost equalization, rests upon an economic concept that is fallacious and inimical to the existence of trade.

The Fallacy Involved

Expressed as simply as possible, this approach to the tariff problem is based upon the popular fallacy that high wages cause high prices in the economy as a whole. One of the characteristics of economic thinking is its attempt to get beneath the seen into the unseen, to delve beneath price phenomena into the real factors of relative scarcities and supplies. One who is not trained in economic thinking often finds it difficult to think in these terms. Because he can see with his own eyes that the cost of production in an individual industry in the United States is higher than the cost in a competing industry abroad, and because he also knows that wage rates generally in the United States are considerably higher than in most foreign countries, he jumps to the conclusion that United States industry as a whole cannot compete with foreign industry.

The real truth lies in the opposite direction. Wages, like profits, rents, and other shares in the distribution of the total national product are high or low in one country or community, relative to another, because that country or community produces a larger aggregate of goods than does the other country or community.

A Simple Analogy

Let us look at ourselves from the outside, as a scientist would examine his laboratory specimens, and let us take our illustration from outside the human sphere. Assume two beehives, the one near a lush garden containing many varieties of flowers and the other located on a plateau near the top of a mountain where there are only the daisies of the field and a few other wind-swept wildflowers from which to obtain nectar. Assume further that the bees (as is the wont of bees) do not migrate between the two hives.

The bees in the valley, in return for relatively little effort, obtain a large quantity of excellent honey. They are fat and prosperous. Their real cost of producing the honey (effort) is low and their income in terms of honey (gross product) is high.

The bees near the mountain top, in contrast, must work very hard for their nectar. They work long hours to produce a small quantity of honey. Their real cost of production (again effort) is high and their product is low.

Assume further that these particular bees are organized on a capital-profit labor-wage basis. In the hive in the valley the gross national product (honey) is high, the employer receives a lot of honey (profits) and can afford to pay the worker bees a lot of honey (wages) for their services. Considered together, the wages and the profits are high in the hive in the valley. Considered together, the wages and the profits in the hive near the mountain top are low.

Notice that in both cases wages and profits are considered together. They are both in the same plane of thought. They are both rewards for bee effort exerted and they should not be confused with that effort itself. The high wages paid to the worker bees in the more productive hive are a part of the expense of production only from the point of view of the employing bees. Strictly speaking, it would be just as logical for the worker bees to view the profits received by the employer bees as a high cost of production. Economically speaking, however, neither view is correct. From the point of view of the hive as a whole, both wages and profits are rewards for effort expended.

How ridiculous it would be for the more productive hive to cut off trade with the poorer hive on the ground that such action is necessary to avoid being driven out of business by them! The notion of the poorer hive driving the richer hive out of business is just as farfetched as the notion of a poor country, such as Japan or Italy, driving the United States economy to the wall.

It should never be overlooked that in real terms wages, like profits, are high when production is high and low when production is low. The poorer bees have all that they can do to keep themselves alive, let alone produce enough to satisfy the demands of the richer bees for honey. Labor should not be confused with the products of labor. Labor competes with labor and the products of labor compete with the products of labor. Were it otherwise, a prosperous surgeon would lose whenever he employed the services of a gardener or other worker whose wages are lower than his own.

As it is with the bees, so is it also with human economies. The United States is a rich country because of its high productivity, which in turn is explained not merely by its abundant physical resources but also, and in large measure, by the temperament and adaptiveness of its people. Labor-saving devices, large-scale operations, mass production and standardization, and selling skills all contribute to this effectiveness. Because it is so productive and so large the United States, as a whole, has little to fear from foreign competition.

Recent studies of labor productivity in manufacturing industries in various countries demonstrate clearly the wide differences between such productivity in the United States and in other countries. In the year 1950, taking the United States as 100, the index of productivity of labor in manufacturing in Canada was 80 and in western Europe it averaged 35. In Sweden it was 49 and in the United Kingdom 45. In Italy it was 20 and in Spain 15.

Differential Productivity Within a Country

If the gross national product of a country were as simple a concept as is honey to a hive of bees, the analysis would stop here. In the United States, as in other countries, the national product consists of a large assortment of goods produced at widely different costs. Indeed, even within a given industry the expenses of production of individual firms vary widely. Even within a given corporate structure, different plants frequently produce at widely different costs.

Within any country the various goods produced can be arranged in descending scale in order of their unit labor costs, relative to the unit labor costs of the rest of the world. Thus in the United States such a list would be headed by our principal export lines, including automobiles, business machines, various other lines of machinery, and the great agricultural export commodities such as cotton and lard. Down the scale a bit would be those industries which encounter some foreign competition such as certain kinds of paper, watches, and bicycles. At the lower end of the scale would be the industries which employ a large proportion of labor relative to capital and which find themselves in stiff competition with imports. In this group would be such lines as handblown glassware and leather gloves.

In other countries similar lists could be made. In countries in which wages are on the low side, the order would tend to be the reverse of that for the United States. In Italy, for example, the goods produced with a high proportion of hand labor would tend to be at the top. If such countries were to attempt to produce, by hand, those goods which in the United States are produced by large quantities of machinery with little labor, the cost would be prohibitive.

In each country the goods heading the respective lists would be those produced at the lowest unit labor costs. The generalization can be made that, in the absence of restrictive trade barriers, countries tend to specialize in those lines of production in which their unit labor costs are lowest. The unit labor cost of producing automobiles in the United States is low but in Italy it is high. Conversely, in Italy the unit labor cost of producing automobiles is high whereas the unit labor cost of producing what we usually think of as typically Italian products, such as olive oil and hand-tooled leather goods, the unit labor cost is low.

Thus is trade made possible with each country exchanging those products in which its unit cost is low in exchange for those in which its unit cost is high.

We hear a lot today about balance of international payments and the "dollar shortage." Sometimes I feel the more one reads about it, the more confused one becomes. Newspaper editorials don't help too much. However, it is not a very complicated thing and I shall try to explain it in a few minutes.

Let us go back for a moment to the old days where everything was automatic, or at least in retrospect seems to have been automatic. Under the free gold standard, prior to the First World War, the so-called "golden age" the world was at peace--as far as major world wars were concerned--and the gold standard mechanism worked smoothly. I, for one, don't believe that the restoration of the automatic gold standard is (1) possible and (2) that if it should come to pass, that it would have much to do with the present situation.

But in those days, it worked. It worked, according to the textbooks, because of the automatic flows of gold. There was no free trade in those days except on the part of Britain from 1846 until 1901, but is seemed truly automatic in spite of tariffs for the simple reason that countries freely converted their currencies into gold. Anybody could take gold and get currency for it, or take a pound sterling, melt it up and get gold for it. The pound sterling was so many ounces of gold, not merely equal to so many ounces of gold. The same applied to the United States dollar. In those days the dollar was 23.22 grains of fine gold. If any one country exported more goods than it imported, fluctuations in the exchange rate would automatically redistribute gold supplies.

For instance, the pound sterling and the dollar--the pound sterling was roughly $4.86--if the exchange moved against the dollar, that meant that gold would move in such a way as to bring about equality in the weight of gold in the coin. As you know, an exchange rate is simply an expression of one currency in terms of another currency. As long as this mechanism prevailed, gold moved freely from country to country. Currency could not get out of line with the value of gold. That meant exchange rates were very stable. In fact, they were even more stable than my comment would indicate, because short-term capital movements often made the actual shipment of gold unnecessary.

For instance, as soon as the trade flows or the movements went against one currency in favor of another, capital would move from one country to another for short-term investment and bring about stability of exchange rates.

World Wars I and II shattered this mechanism pretty thoroughly. Much effort in the past few years has been devoted toward hoping somehow that we can restore the gold standard, as though a blackboard demonstration showing that it should work were all that is needed. I am convinced that the reason why the gold standard worked so well throughout the 19th century--and the 19th century constitutes a small fraction of human history--was not because it worked in pure logic but because the Bank of England and the British Government wanted it to work and stood back of it with effective leadership. The Bank of England and the British Government were always ready to do whatever was necessary to bring about the convertibility of the pound sterling into gold and other currencies. We in the United States should not expect, if we want to restore the gold standard, or dollar standard, or any other standard, that it can be done without leadership of some one country.

There was no such thing as a "pound sterling shortage" in the 19th century but it was not because of superior intelligence on the part of the British. I don't think they are necessarily less intelligent than we are, but they certainly are no more intelligent. It was because the situation in and around the middle of the 19th century was such that Britain, because of political self-interest went on a free-trade basis and repealed the Corn Laws. Britain had been imposing tariffs on foodstuffs for many years, but in 1846 it went on a completely free trade basis.

It is true that there was a lot of agitation at that time, as the economists of that time tell us, but it was relatively minor. The writings and the propaganda was for the most part an expression of underlying economic reality, the reality that England, the first country to undergo industrial revolution, had become the "workshop" of the world, the industrial center of the world, shipping manufactured goods throughout the world, and being dependent upon outlying countries for raw materials.

That indeed was a part of, if not the basic key to, the imperialistic system of Great Britain that we rebelled against in 1776. We rebelled because we didn't want to be treated as colonies, but that colonial idea made sense to the British and it still does. They, being a small island, fanned out and became a maritime empire. Not being able to raise their own foodstuffs, they realized that if they didn't allow imports to enter the country, they just wouldn't eat very much. Britain has long been dependent upon foreign sources for its foodstuffs and other supplies of raw materials.

So every Britisher was conscious of the fact that he is dependent on imports. In consequence, foreign trade has always borne a high ratio to Britain's gross national product.

Our problem is much different from this. When people say, as many do, that all we have to do in the middle of the 20th century is to copy what England did in the middle of the 19th--go on a freer trade basis--they are oversimplifying. As I mentioned before, our foreign trade is small compared with our total national product. Americans are not conscious of the fact that they need many imports. Neither do they seem to be conscious of the fact that they need exports, not only for our own gain, but for the sake of a strong free world.

If the United States is going to play its role as the economic leader of the free world, with a trading system analogous to that of the 19th century, it unfortunately will have to do so as the result of an intellectual process, not merely by feeling hungry, because the American people will not starve to death if they don't have foreign trade--of that I am sure.

It means reasoning, which is a difficult thing for a nation to do. They are going to have to understand that the national interest involves many sacrifices.

Britain never had to face this problem. Britain just did it on the basis of pressure from the people. Without imports there was not enough food and people were hungry. It was just that simple. But, even in Britain's case, it took 20 years for it to change over from the old pattern of behavior to the new. Such a thing cannot be done quickly. If it took 20 years on the basis of obvious self-interest, I wonder how much longer it is going to take us to do it when it requires intellectual decisions that are out of line with what appears to be the self-interest of the man in the street.

In fact, even though some things I say may sound a bit pessimistic, I can't help but admire the American people. We did a fine job of getting interested quickly in world affairs. A country that can come to the assistance of the rest of the world, with over 80 billion dollars of direct foreign aid as well as military assistance, deserves a lot of credit. Winston Churchill called it "the most unsordid act in human history." Let us not belittle what we have done in America. We should be proud of it, but we still have a long way to go in terms of doing the things that are necessary to meet the challenge of leadership in the 20th century.

Even as early as 1853, a hundred years ago, the "London Economist" said, "We must watch the Americans and see how they are developing industrially. If we are not careful, they will surpass us." We have done that. Two world wars have accelerated the process. I have no doubt that if it hadn't been for the wars, our surpassing the British industrially would have come anyway, but it would have been delayed long enough probably so we could have adjusted ourselves mentally to the change. The trouble is, technology has changed so fast that we haven't been able to keep pace with it in our own thinking and in our political and economic engineering. That is where we are lagging badly and where we need bolstering up.

So when the gold standard no longer worked, countries went on the paper standard, ran the printing presses, and operated on the basis of credit. I would hate to be called upon to define what a dollar is. It is a piece of paper with writing printed on it, that says on its face that it is legal tender. A dollar is a psychological entity, something that maintains itself by virtue of the fact that we all have confidence in it. We don't know why; we just do. It is this confidence that maintains it.

I will never forget when I lived in New Jersey, at the time of the bank holiday in 1933. It seems like a long time ago now. When the banks closed, I think I had 16 dollars in my pocket. But we did not go out and riot and shoot up each other in the streets. It was a great holiday, as I remember. The joke was, "How is the A and P going to get paid for the groceries?" As a matter of fact, we adapted ourselves, you may remember, very quickly. We changed our economic thinking, and, before we knew it, confidence was restored. It was a great tribute to the American people. In some other countries it might have resulted in bloodshed. In fact, historically, we have a great sense of humor. I hope that we can maintain it.

Now before the gold standard was abandoned the balance of payments was not an important concept. Nobody heard of the balance of payments before 1919. It was all automatic, because currencies adjusted themselves.

Today this is no longer true. All the world is worried about the imbalances of international payments. We have a chronic surplus; Britain has a chronic deficit; as do many other countries of western Europe. True, in the last few years, the deficits of western Europe have not been of such concern to them because they have cut down on their imports. As a result certain producing countries have the largest wheat surplus in history, due primarily to the tightening of belts in western Europe.

A nation's international payments, like yours--your personal balance of external payments--will always be in balance in an accounting sense. It can't get out of balance because you will go to jail if you have gotten out of balance too far. You have to meet your bills. You can do it by way of additional income or you can get funds cashing in on your assets, by borrowing on your credit. But you must always be in an "accounting" balance of payments. So are nations. Europe is in an accounting balance of payments by virtue of the fact that the United States has been giving Europe about 5 billion dollars a year since 1945.

But that is not the kind of balance we are usually talking about when we speak of the balance of international payments. We are referring, not to an accounting balance, but to a "program" balance. There is little question, it seems to me--and I think most economists and international financiers would agree--that if we were to cut off foreign aid right now and do nothing else in the way of stimulating trade, the balance of international payments would snap into balance. But at what cost? Could we afford politically to allow Italy--and I pick Italy as one of the sore spots of Europe; France would do just as well--to arrive at the balance it would have to reach at the cost of a much lower standard of living? Because they would have to cut imports; they would have to tighten their belts, which would mean lower wages, lower profits, lower incomes for all the people. Can they afford that? Can we afford it?

One main reason for the dollar shortage--the "dollar gap"--is the fact that we have been granting foreign aid every year. We have been preventing balance from coming by virtue of the fact that we have been giving money instead of letting the Europeans earn it and letting them adjust to it. I, for one, feel that this is not the solution.

Much of the talk about the "dollar gap" is misleading. The important thing is the living standards of the people in the free world. There are only two ways that their planes of living can be raised--by their producing more and selling more. And where are they going to sell if they don't sell here? Why don't they sell to the rest of the world? One of the main reasons why there are so many trade barriers in the countries of Europe is because of the dollar shortage. Sometimes, to listen to some of the students of the trade question talk, you would think these people of Europe are a bunch of bad men who are against our trade, who like to put a lot of barriers against our goods.

Now, it is true that sometimes those barriers are imposed for the sake of stimulating industry, but more fequently they are imposed to protect their currency because they don't have the dollar earning capacity that they need. The only way they can do that is to use the dollars that they have, and are able to earn, to buy the goods that they really need--essential materials--and by imposing barriers against imports from the United States of things in the luxury category. We can't sell automobiles in Europe because the Europeans need the exchange for wheat. It is a vicious circle. They impose barriers. We impose barriers against them. The thing goes round and round. Somewhere that circle has to be broken.

Now, it is true, we can curtail foreign aid. One of the surest ways to lose a friend is to give him some money and keep giving it to him. That is true among nations as well as among individuals. The best way to lend a helping hand is to help sell goods; to be a good neighbor, be a good customer. The sooner we can substitute trade for aid, the better we will be.

The question is, Can it be done? That is more difficult. The ideal solution is obvious. They would far rather earn their own way, and so would we. The difficulty arises when we realize that it means selling goods to us. The question is whether, if we curtail aid, trade can be substituted.

It is interesting to speculate what it would mean if we were to suspend our tariffs for something like two or three years. I say "temporary" because politically, it seems to me, it is almost unbelievable that the United States could go on a permanent free-trade basis. We can do it temporarily and then re-evaluate it as best we can. That is about the best we can expect. If we were to do this our imports might increase by as much as 800 million to 1.8 billion dollars. If we were to suspend quotas on agricultural products also, there might be as much as a 2.5 billion-dollar increase in imports.

But the important thing is not the mathematical measurement. In fact, I am sometimes sorry that I put the figures in my recent book--"Aid, Trade, and the Tariff"--because they have been so misinterpreted by the press. The important thing is that if we allow some goods to come in, it will start the wheels moving. It is like the engineers' and forecasters' estimates when they are going to make public improvements. Take the New Jersey turnpike, for instance. Already the traffic on it is two or three times what they anticipated at the time they built it. That is very often true of public improvements. The engineers analyze traffic and build a bridge or a road to take care of that traffic. They can't estimate how many more cars will drive on it, simply because of the fact that a road is there that was not there before.

We don't know what would happen. Nobody can possibly forecast what would happen if the United States actually were to do an about-face as far as our economic policy is concerned toward Western Europe. For one thing, we don't know how fixed, or how elastic, foreign supplies are. We don't know which country can produce how much more of what. I don't know how anybody can find out without actually performing the experiment. The British had difficulty in expanding woolen textile capacity. I wonder to what extent their ability to produce would be stimulated in the face of a good market.

If you were a foreign manufacturer today, producing some sort of gadget, would you spend lots of money in developing this market? Not if you know much about Customs and the United States tariff law. Often you don't know whether you can get your goods into the market, or at what rate, until after the transaction has been adjudicated by the United States Customs Court, in which case you may have to wait as much as a whole year, or more, for a final decision, or before you even know what the duty rate is. I am talking about some new product that has not been imported before. Of course, such standbys as Scotch whisky and woolen textiles come in regularly and there is no question about their passing through Customs quickly.

There was a case not long ago that you may have heard about in which a foreign manufacturer tried to import into this country a woman's shoe that had some wool on it, a little fur, and other materials, for the Christmas holiday trade. Long after the Christmas season, he was told how much duty he would have to pay on that shoe, and it was the woolen duty, rather than the shoe duty, that he had to pay. If a thing has any bit of embroidery on it, even on the label, it must pay the embroidery duty, which is high.

So if you were a European manufacturer, you hardly would be inclined to spend a lot of money cultivating the American market. You would know that if you were successful in selling here, the chances are that there would be an appeal to the Tariff Commission to keep the goods out under the so-called "escape clause." If that didn't work, there would be a bill introduced in Congress to keep the goods out.

We must face the problem head on and realize that other countries need markets. Is there not some formula that would permit them entry into the market at least up to a certain point. I think that there is such a formula. I think that it is a very simple formula. I am not sure administratively how difficult it would be, but technically it should be no more difficult than lots of other things we have done.

Take the products that come primarily from Italy. Let us take cheese, fur felt hats, garlic--things which in this country are produced at a relatively high cost, relative to Italy. Why do we produce them only at a high cost? Because if we don't pay labor going rates of wages, we can't stay in business. The reason why the fur felt hat in Danbury, Connecticut, can't stand up against Italy is precisely because of the high wages paid in this country. But the wage rates are high in these industries because wage rates are high in those industries that are better suited to our environment and institutions, like automobiles. Labor competes against labor, and if industries that are at the inefficient end of the scale don't pay going wages, they can't stay in business. The reason why the fur felt hat industry and the handblown glassware industry in West Virginia are at the lower end of the efficiency scale is because they find it difficult to compete with the automobile industry and the steel industry and other highly efficient industries. That is where their real competition lies.

If we say we are not going to keep these goods out simply because they compete with ours, but we are going to allow them to come in up to a certain point (I am not setting the figure)--say for 90 percent of the market for the American producers--that is pretty fair, isn't it? If we should loosen up our markets to the extent of 10 percent of our domestic consumption, do you realize what that would mean to Italy? If we were to tell the Italians that henceforth they could send into this country automobiles, gloves, shoes, hats, and so on, up to 10 percent of this market, that would be practically free trade from their point of view. They are so little; we are such a big country. If any domestic manufacturer maintains that 90 percent of the home market is not enough for him, the burden of proof should be upon him.

It is true that in some cases some industries might be hurt. I made an estimate in my book that on the basis of my study of 80 percent of all dutiable imports in 1951, the total increase in imported goods, in the event of temporary tariff suspension, would be less than one percent of the total value of manufactures in this country or to less than one percent.

So, then, the injury that would result to such industries as fur felt hats and glass would, in terms of the total, be infinitesimal. It was estimated in the Bell Committee Report that not over 60,000 to 75,000 workers would be affected. That is far less than are affected by regular technological changes.

If we wish, the injury could be spread among the people of this country generally. Up to now our policy has been, and now is, to "avoid" injury to any domestic producer. If any domestic producer feels that he is being damaged by increased import competition, he is allowed to appear before the United States Tariff Commission, and if it appears that the domestic producer is being injured or is about to be injured, the Commission may recommend an increased duty or a quota.

Now as long as we are going to try to avoid injury to any domestic producer, we cannot expect to increase imports to any appreciable degree. Ever since 1934 we have been lowering tariffs on some imports under the Reciprocal Trade Agreements Program. But this program has been so emasculated, so riddled with amendments, that instead of its being a reciprocal tariff-lowering device, it has become, for all practical purposes, a device for raising tariffs. The only part of the act which is now being actively used is the "escape clause" mechanism, under which rates are being restored to their former levels.

Now much of the talk about the renewal of trade agreements last year was double talk. The United States has been moving for the last year toward higher protection while talking about lowering trade barriers. One thing that is doing us damage today throughout the nations of the free world is our saying one thing while doing another. Talking about freer trade, and at the same time keeping out imports does not make friends for us or aid in building a strong free world.

The real question is not whether this is an injury to Joe Brown over here or John Doaks over there, but whether in terms of the picture as a whole these imports are injurious. That means business as a whole. Our tariff policy should avoid injury to the economy as a whole. That means somebody has to pass judgment, and that can only be the Administration and the Congress, the people--in other words, their representatives.

Now is it going to injure the country as a whole to damage an industry in many places to the tune of a few thousand workers when it may set the free world in balance. Is not the cohesiveness of the free world more important than the profit situation in say, Danbury, Connecticut? As a matter of fact, the people in Danbury, Connecticut, seem to have seen the handwriting on the wall. They have begun to get out of the hat industry and to diversify their industry.

Very often the problem of diversification in a community can be solved by setting up subsidiaries. Why not some mechanism like a clearing house, where industrialists can be informed when labor displacements is likely to occur? Maybe planning is not such a foolish idea after all--planning for your own self defense, or helping other people to assist themselves. We don't want a planned economy, in the sense of a planned totalitarian state. But, we should plan far enough ahead to keep from getting soaked when it rains.

When it rains, you carry a raincoat. That is the kind of planning we need. When people who work in a certain line find themselves hard pressed, why not retrain them? The total displacement resulting from tariff suspension would be less than the cost of foreign aid.

We have to get the thing in balance, get the picture into focus or in perspective. We are stumbling over anthills while trying to avoid climbing a mountain. That is why I feel that the sort of thing we are doing isn't a "give away" program.

Fortunately, there are hopeful signs on the horizon. The Administration has an excuse for not doing anything, and that is that a new commission has been set up under the sponsorship of Congress, the Commission on Foreign Economic Policy, headed by the Chairman of the board of the Inland Steel Corporation (Mr. Randall) with members of Congress of both Houses on it together with several public members. They will come up at the end of February with a report and recommendations on a foreign economic policy for the United States.

Also a study is being conducted by the Senate Banking and Currency Committee under Senator Capehart's chairmanship which is concerned primarily with the Export-Import Bank and the stimulation of foreign investment. Of course, the more foreign investment is stimulated, the easier will the adjustments be for Europe. On the other hand, do not forget that as long as the rates of earning in this country are the highest in the world, it is difficult to see why much capital should leave the United States for investment abroad.

Thirdly, there is another committee that has been established, or is about to be established, under the chairmanship of Mr. Coleman, of the Burroughs Adding Machine Company, to expand the program of education of the people toward freer trade. That committee is an outgrowth of the Detroit Chamber of Commerce manifests of last Spring.

There is no substitute for thinking, gentlemen. There is no substitute for an appreciation of the nature of the world about us, and these economic problems, even though they sound forbidding, are really at the very basis, it seems to me, of the strong free world idea and the avoidance of military conflict.

QUESTION: I wonder if you would discuss the question of trade between the East and the West in Europe. There has been quite a bit of talk that we won't let Western Europe trade with the East and we won't let it trade with us.

DR. PIQUET: It is very interesting that up in Congress where I am an adviser, as much as other things we get questions on East-West trade, and that those who are most insistent upon preventing trade with the East tend to concentrate almost exclusively upon trade with China. In fact, I have several times had the experience of calling attention to the European aspect, with some surprise on their part.

There are two sides to this thing. Of course, we can see that it is to our advantage to curtail trade in essential war materials with the Soviet Union. That is obvious. We want to curtail that trade. But just what constitutes munitions or essential war materials is not easy to decide. There is no question about motives. We don't want to strengthen the Soviet bloc. But, by the same token, we must not forget that the trade between Eastern and Western Europe has been historically of great importance. Western Europe has in the past, as you know, received a large proportion of its supplies of timber, coal, and grain from eastern Europe.

Now this trade would have been curtailed even if there were not the present unpleasantness between ourselves and Russia, at least to a certain extent, because of the fact that Russia has been growing so rapidly industrially that it has itself been demanding more and more of these raw materials. It has been estimated that perhaps one-half of the curtailment of East-West trade has been due to this; the other half to the pressure being exerted by us, and by the pressure on the part of western European countries themselves.

If western Europe doesn't trade with eastern Europe and does not get timber, coal, and grain (particularly grain) from the East, where will it get them? The only remaining source is from the dollar areas of South America and Canada.

We can afford to curtail trade with the East. But to England and to western Europe generally, such curtailment means the difference between availability and unavailability, of raw materials. We are thus in a dilemma. We want to curtail that trade and at the same time we don't want to curtail it. At the same time, we don't want to force the countries of western Europe, particularly England, into the hands of Russia. So it seems the better part of wisdom to take this trade question head on and to force them to curtail trade with eastern Europe, but somehow or other, to see if we can't, when we induce them to curtail, make available to them markets where they can buy the things they hitherto have obtained from eastern Europe.

As far as Japan is concerned, it has to have outlets if it is going to buy raw materials. Japan is a deficit area with regard to raw materials. Its natural market geographically is China and Southeast Asia. If Japan isn't allowed to trade with those areas, it has to turn to the West.

Trade, often all, is a two-way proposition. If we curtail imports, we also have to curtail exports.

QUESTION: Dr. Piquet, I agree 100 percent with the philosophy which you have expressed here, but I want to ask you a question to get the problem into focus. I have been stationed in Europe for the last two and a half years, and during that time the slogan has cropped up "Trade not Aid," and they all think, and I got the impression, that if America lowered its tariffs, it would solve a major part of this problem and yet, just by living there and reading the newspapers and talking to people, you get the impression that their own restrictions are much higher than ours. When traveling among countries, you find that a bottle of wine in Belgium costs three times what a bottle of wine costs in Paris. Would you just tell us, as they stand now, how do all of our tariffs across the board compare with the average of all the tariffs in the countries in western Europe in which we are primarily interested?

DR. PIQUET: There are two questions in one there. Part one, How do you measure tariff restrictions, the mathematical measurement of the tariff? That is a very difficult thing to do. An outstanding tariff lobbyist recently has been preaching on the tariff over the radio, and he has said that the American tariff has been lowered to an average of 12.5 percent. Mathematically this is true if you take all the tariffs collected and divide them by the value of the dutiable imports. But look what would happen if we should raise duties still more. Trade would get smaller and smaller. We finally would have no trade in dutiable goods at all and the average ad valorem equivalent would approach zero as a limit! Average ad valorem equivalents mean nothing and are often more deceptive than informative.

The restrictiveness of a duty depends upon how much it prevents imports from entering the country. Often an arithmetically low duty can keep out imports where the industries, in this country and abroad, are purely competitive. In some industries, here and abroad, competition is very sensitive. So if you lower that duty or remove it, it means that lots of people who were not able to get to the market can now get in. On the other hand, in an industry like petroleum, where there is tight control by a few large companies, tariff duties don't make much difference because their operations are international. They are not operating under conditions where marginal unit costs of production equal selling price.

What I would like to do is to have a crew of people--economists, technicians, a few teams--in Europe making some studies just like I made for the United States, by talking to those people over there, getting the best judgment of people in trade, as to what would happen if duties were to be suspended. Mathematical measurement can be a snare and a delusion. The only thing you can do is dig in and talk with people in the trade and ask them what would happen. The difficulty would be one, as I have said before, that we don't know the elasticity of foreign supplies.

The other question you asked, relative to the height of the duties, I can't answer unless I know the answer to the first question. You can't measure it. All these countries do have restrictive devices, not only against our goods, but against goods from other European countries. They take the form not so much of tariffs as of import quotas and licenses. Actually, they are restrictive devices, bilateral balances of one kind or another.

As I said before, as far as we are concerned in the dollar area, those goods are kept out primarily to conserve foreign dollar exchange. They don't have enough dollars and, therefore, they have to keep out American goods. They keep out each other's goods for the same reason--when they have to conserve their exchange. They can readily import things they want. There are practically no restrictions in Europe today on raw materials, so far as I know, except in the countries that produce them.

So it is a vicious circle. They can't get the goods they must have so they impose higher restrictions. Other countries do the same thing. Then they can't get the raw materials, and so on.

I have just come from a meeting attended by some brilliant economists, some of them from across the sea, including Mr. White

Secretary of the GATT organization and Mr. Marjolin, of the OEEC in Paris. I tried out on them the idea of sort of melting the American market a little bit at the edges by allowing 10 percent of the United States consumption to come in from those countries, that is selected goods. I watched for their reaction. Their reaction was, particularly on the part of the continentals, that if the United States were to do that, and gave assurances that it would respond to action on their part, they thought it might go a long way toward inducing Europeans to lower barriers among themselves. Again, we come to the concept that I was talking about before--the United States being big and they being so small.

Trade restrictions tend to be contagious. If we were to show leadership and assure other countries that if they were to make across-the-board reductions and if they were to modify their quotas, we would allow imports into the United States to increase, no one knows what would happen. My own feeling, after talking to these Europeans, is that if the United States were to do something like this, they would respond nicely.

QUESTION: Dr. Piquet, I think you mentioned that the cost of adjustments to these industries that would suffer because of moving closer toward free trade would be somewhat less than cost of foreign aid?

DR. PIQUET: The total annual output of the whole industry would be less than foreign aid.

QUESTION: I thought your comment was that the cost to the Government to assist people suffering would be something less than the cost of foreign aid.

DR. PIQUET: It would, by far.

QUESTION: Are you thinking in terms of 6 billion dollars or in terms of grants?

DR. PIQUET: I would like to play with a billion. You see it is so easy for the watch people, the cheese people, or any other people who think they are going to be damaged by imports to give the impression that if you allow imports to come in, the whole industry is going to go under. That is not the way industry is organized. I have some experience with costs of production at the Tariff Commission. The outstanding fact, when you study costs in industry, is the wide variation in cost. Much depends upon how the accountants operate. Companies change position. There is no such thing as a fixed cost of production. Within industries we have a percentage range between the high-cost producer and the low-cost producer, so that if anybody is injured, it is those at the high-cost end. In most cases I think it would be a relatively small proportion of the total industry.

That wouldn't be true of some industries, those skeletons in the tariff closet that are perpetuated by high tariffs.

QUESTION: Doctor, I am interested in economics as an instrument of power. It would seem that most of the nations of the world relate the tremendous power of the United States to its industrial economy. If we adopted even a temporary suspension program in world trade, would we have any assurance that these periphery economies wouldn't concentrate rather on building industry, an industry to give them a strategic strength, an industry which would in itself attract capital from the United States to foreign investments and having a net effect of weakening our own economy industrially?

DR. PIQUET: That goes back to the fundamental premise, does it not, that a strong free world economically is desirable. You can question that premise; it is questionable, I'll admit. You have a legitimate point. If it weren't for this split between the free world and the Soviet world, I think there would be lots of force in what you are saying regarding certain industries. But isn't it the lesser of two evils?

It is true that the development of the "point 4" idea for developing foreign countries, particularly industrially, might result in increasing competition here. Of course, the traditional answer of the economists is that the result would be greater production all around and higher living standards in those countries, which would mean increased markets, with plenty for everybody. That is the normal answer, I will admit, but in certain lines, it might cause some trouble. If we emphasize the security aspects simple common sense would indicate that we must not allow certain strategic industries to be taken away from our orbit of control. I am thinking of such things as synthetic rubber. We should make sure we have adequate capacity of synthetic rubber at all times. That is just common sense.

As to industry as a whole, I can't conceive really that in the long run or basically we would be any worse off if we had steel industries developing in South American countries, because the preseumption is that if they were to develop their industries and their standard of living, their overall consumption would increase.

The major problem is a strong free world working together, and the pains of adjustment would seem to be much less of a hazard than to take the chance of the free world flying apart.

QUESTION: Doctor, regarding your premise of a strong free world and particularly a strong Western Europe, I wonder if you would care to comment on our political attitude toward European colonies. I am particularly thinking of Holland with the NEI which we indorsed the giving of their independence, versus Belgium who has colonies in the Congo. They have not given up that particular hot spot which has resulted in a weak Dutch economy and a very healthy Belgian economy.

DR. PIQUET: Would you add France and Indo-China to that in order to make it a little more pleasant? You put your finger on the 64-dollar question. There is no doubt about it and, as some of the colonists said in the dropping of NEI, we are playing footsies under the table with the Dutch with that independence, trying to have our cake and eat it too. I don't know the answer to it. Which is worse, to antagonize the Europeans or their colonials? My own instinctive feeling is we have more to gain by living up to the spirit of the Declaration of Independence than by playing the politics of Europe.

Even though we may not have a high regard for Henry Wallace's political judgment when he said, "The common man is on the march," he put his finger on something very important. I sometimes wonder whether we haven't forgotten what the Declaration of Independence means. There is no substitute for human dignity and the dignity of the common man in these backward areas is more important than the perpetuation of colonies. Certainly the United States must make up its mind because if we try to do both, we do neither, and that is when we fail.

QUESTION: Doctor, you indicated early in your remarks that a private committee was being formed for re-educating the American people. I wonder if you might care to comment a little further upon the possibility of accomplishing anything along those lines? I would assume, going back to your example of the Danbury, Connecticut, hat manufacturers, that any recommendations to permit Italy to export high quantities of hats to the United States would immediately produce a reaction from the Congressman from Connecticut who would line up some people that might be affected in other areas and would precipitate the usual lineup of protests against free traders.

DR. PIQUET: If I were in charge of the research for this committee, I would avoid Danbury, Connecticut, and the hand glass blowers of West Virginia, as well as other highly sensitive areas. I would concentrate upon other areas. I am thinking in terms of education. The committee is not set up for the purpose of stimulating debate per se, but for stimulating debate to arrive at a conclusion.

My assistant and I made a study of the Eighth Foreign Trade and Congressional District of Indiana for the Congressman from that district. We found that, although there were some industries in the district that might be injured by imports--largely manufacturing and farming--in the refrigeration industries and the others that are dependent upon exports, the number of people engaged in that portion of the industry which exports was considerably in excess of the people employed in the petroleum industry, the coal miners, and the furniture and plywood people. In other words, the balance was predominantly on the export side.

That is just one Congressman's district, but there are many such areas in the United States. I have a feeling that if you made such studies for strategic locations, you would find that the number of people who have more to lose by curtailing exports in a country like ours is far greater than the number of people who are affected by increases in imports.

QUESTION: Some writers have asserted that the red tape of our Customs system is more important in many lines than the actual duties that we impose. I wonder if you would discuss the truth of that statement?

DR. PIQUET: I don't know which is worse--hanging by the heels or sticking with a pin. They are both pretty bad. There is no doubt that Customs formalities are a serious impediment in certain lines where some try to invade the market with something they haven't sent over here before. I don't think it is correct to say that either is the more troublesome. They are both troublesome. There are lots of complexities.

There is a little book--rather old but still informative--by Ben Lovett, entitled "Through the Customs Maze." It is interesting because it gives some human interest type of obstacles that have been placed on imports. A man tries to import a rug with some embroidery on it. The embroidery rate was imposed on the whole rug. He tries to give the rug to the Government, but he can't do that. He has to pay indemnity or go to jail.

Meanwhile, a little more on the factual side. Consider for a moment the Bell Committee report, turned in by the Bell Committee last February. The committee consists of the following members: Daniel W. Bell, Acting Chairman, who is President of the American Security and Trust Company; Sarah Gibson Blanding, President of Vassar College; James B. Carey, of the CIO; Jonathan W. Daniels, Editor, Raleigh, N. C., News and Observer; Robert H. Hinckley, Vice President, American Broadcasting Company; Eric Johnston, President, Motion Picture Association of America; Allan B. Kline, President, American Farm Bureau Federation; Orin Lehman; A. E. Lyon, Executive Secretary, Railway Labor Executives Association; George H. Mead, Chairman of the Board, The Mead Corporation Dayton, Ohio; George Meany, President, AF of L; Herschel D. Newsom, Master, National Grange; James G. Patton, President, National Farmers Union--all a very representative group, but they happened to be appointed by President Truman.

They came up with a unanimous report. They said emphatically that we must have more imports and therefore a more liberal trade policy. It was agreed upon by the three farm organizations, plus the CIO, the AF of L, export industries, labor unions--and it was agreed to unanimously. But, the report has been quietly shelved. In fact, it is probably the most unread report in Washington.

COLONEL BARNES: Dr. Piquet is going to cruise around and visit some of the seminar rooms. If you wish to continue the discussion, with the conference leader's approval, at that time, I am sure he would be glad to participate.

Howard, we always look forward to your return visits here. There's never a dull moment with you on the platform.

DR. PIQUET: I feel like an alumnus.

COLONEL BARNES: We scheduled you for this last period to close off this orientation. You have closed it off with your usual high standards. I will let the applause meter show how you came out on that.

(4 Oct 1954--250)S/sgh