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INTERNATIONAL ECONOMICS

Dr. Howard S. Piquet

NOTICE

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Reviewed by: Colonel Tom W. Sills, USA

Date: 3 December 1959

INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.

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INTERNATIONAL ECONOMICS

18 September 1959

CONTENTS

Page

INTRODUCTION--Mr. Durward V. Sandifer, State Department and Foreign Affairs Adviser, Industrial College of the Armed Forces..... 1

SPEAKER--Dr. Howard S. Piquet, Senior Specialist in International Economics, Legislative Reference Service, Library of Congress..... 2

GENERAL DISCUSSION..... 29

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Reporter: Ralph W. Bennett

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

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INTERNATIONAL ECONOMICS

18 September 1959

MR. SANDIFER: General Mundy, General Houseman, Admiral Patrick: We have inaugurated the Economics Section of our Foundations Unit with four lectures, devoted mostly to the international scene--the free market system, the monetary system, and the banking system. So we now confront Dr. Piquet with the simple task of covering the field of international economics in one lecture.

I imagine he may feel a little bit like the college student in a survey history course who was faced with this question: "Discuss the decline and fall of the Roman Empire, analyze its influence on the rise of the nation-state and empire system in the 17th to the 19th centuries, and the break-up of these empires in the 20th century."

I think Dr. Piquet's task is further complicated by the fact that most of us, if we are not born with a set of convictions and prejudices on such matters as international trade and tariff, at least acquire them from our home environment at a very early age. As Gilbert and Sullivan once put it: "Every little English boy or girl born into this world alive is either a little liberale or a little conservatized." But I think that whatever the breadth or difficulty of the subject may be, Dr. Piquet is more than equal to dealing with it.

After recounting his professional career with Princeton, New York, Rutgers, and California University, the tariff Commission, the Interim Commission of the Food and Agriculture Organization, the Office

of War Mobilization, and the Legislative Reference Service, his biographical sketch says he was detailed to work with various congressional committees on economic and foreign policy problems. I'm sure anybody who has been through that baptism of fire can confront with equanimity the task of explaining to us what the international economic situation is in the world today.

It gives me great pleasure to present that veteran of ten appearances at this College, Dr. Howard S. Piquet, Chief of the Economics Section of the Legislative Reference Service of the Library of Congress.

DR. PIQUET: I'm going to confine myself to the policy aspects of international economics. I take it that you people can all read, and it would be a waste of your time and mine and an impossible proposition to detail to you the refinements of international economics in all of its ramifications. So I'm going to concentrate on policies.

I'm going to group my remarks under three main headings: First, what do we mean by "policy"? Secondly, the economic foreign policy of the United States in theory and in practice. Thirdly, the changed international position of the United States economically in the last few months. Then I'll lead up into the fourth question, which is, What is the challenge that confronts us? What should we be deciding?

First, when we say "policy" what do we mean? You hear it said very often that we don't have a foreign policy. We don't have an economic foreign policy. We do have an attitude. I take it that the concept "policy" means an attitude, a habit of behavior, a line of action

in the national interest of the country that is pursuing it. I think that's a fairly logical definition of the concept.

I don't think many people would disagree that the national interest of the United States is primarily national security. I think we all agree on the generality. The question is, What do you mean by "security"? What do you mean by "the national interest"? And that's where we wouldn't agree. And nowhere is that more evident than in that part of economic foreign policy that takes the form of our trade policy.

We have been pursuing an economic foreign policy in a sense, in a passive sort of way, for a long time. Ever since this country was established as a nation we have pursued in the international economics sphere the policy of equal treatment, that is, that there will be no discrimination among other countries.

That has been based upon what we might call the classical theory or classical system of a world economy. The theory is fairly simple. In fact, it's sometimes, I think, painfully simple. The theory is that if countries are left alone, if industries are left alone, automatically the forces of the marketplace, evidenced by supply and demand and market price, will bring about a proper distribution of labor and capital, meaning by "proper" that which gives the maximum return. So that if there is too much of one good produced, capital and labor will desert that line of activity for something else, and vice versa. It's an automatic equilibrium system.

The theory is very much in terms of analogy like a chemical

experiment or demonstration on a big table with a lot of beakers, connected with glass tubing. You pour water in at one end, and automatically the water finds its own level quickly. That's what the economic forces are supposed to do under this system. It's a system primarily with the emphasis upon laissez faire--an absence of government interference.

Specifically, with regard to the operations among nations, that system takes the form of equal treatment, no tariffs, no quotas, no discrimination, no interferences with the flow of goods and gold or whatever the money medium happens to be. I haven't time to develop, of course, the mechanism of exchange rates; but the idea is that the currencies will be quoted in terms of each other on the foreign exchange market in such a way as to bring about the proper distribution of the world's gold.

This system, which I call the neoclassical or the classical system, ~~has~~ underlies and has in the past been the underpinning of our attitude toward foreign trade. However, in the course of the years there have been interferences because of interests of particular producing groups; and that interference has taken the form of ~~tariffs imposed~~ tariff imposts; that is, putting on duties on imports, for many different reasons officially, but always primarily for the real reason that the producers don't want to face foreign competition.

In the early days of the Republic these imposts took the form of tariffs for the protection of infant industries, to enable them to grow.

After the infants have grown up, the tariffs have a way of remaining, and they become vested interests.

Generally speaking, until 1934 our tariff history was one of increasing protection, although there were periods in which we moved in the other direction. I'm coming back to that in a few minutes. But if I could just get the idea across, that the idea to which we pay lip service, or which we announce that we are following, is primarily dominated by that philosophy of equal treatment--a multilateral trading system.

There is competing, however, for attention another approach, and that is the planned development approach. I won't identify these by names of people, but the planned development approach would say that this system that I have just mentioned doesn't really work that way, the way that I described. Going back to my analogy, instead of pouring water into the vessels, we would, let us say, pour hot tar or some other viscid fluid. And then we would keep wiggling the table, so that even though the force toward equilibrium was there, it would never be attained, because there are too many variables.

The planned development people would stress the fact that this automatic adjustment of the forces does not really work, at least not promptly. As Lord Keynes himself said many years ago, in the long run we are all dead, and the problems that confront us, that have to be solved in the field of foreign policy and economic foreign policy for the most part are not long-run problems, but they are intermediate-

run problems.

Evidence of the fact that these forces do work out eventually is the fact that we no longer have a dollar shortage. We now have a dollar surplus, within the last two years or the last year. The whole international position economically has been changed. Why? Because the aid programs that we have been pursuing are finally working. The world is getting back into equilibrium again. I'm coming back to that again in a few minutes also.

But I do want to bring to your attention that both this classical system of automaticity and the planned development system might properly be called universal systems rather than policies, because each of them, both of them, stress the ideal that a human being anywhere is equal to a human being anywhere else.

Some people might say it's the "do good" approach. I don't like to use that, because it's a word of feeling. But the emphasis of both systems is that the people throughout the world, or at least now the free world, should all have opportunity, if not equal, at least adequate opportunity, to enable them to develop in the underdeveloped regions.

Now I raise a question and I'm not going to answer it. Does that attitude on the economic side really evidence a positive national policy? Is it in the self-interest of the United States that we should help all countries to develop, or is it not? And if it is not, when do we draw the line? When should we stop aiding India? When should we start aiding Poland, or Yugoslavia, or even the Soviet Union?

Now, there is a distinction to be made between our trade policy and our aid policy. Aid policies, by the very nature of the case, have to be discriminatory. We can't treat every country alike with respect to foreign aid. If for no other reason, there's no yardstick to use to know when to stop yielding aid.

Certainly, from the point of view of the desire of the underdeveloped countries to absorb our capital, there is no limit, particularly in a country like Brazil. There is no limit. So you can't follow the principle of equal treatment when the aspect of policy which you are considering is the giving away of the economic wherewithal of our own country. In foreign trade policy, however, it can be discriminatory. It doesn't have to be discriminatory.

Now, I say, I raised this question. I'm not going to answer it. But I am raising the question fundamentally of whether, by keeping our economic foreign policy, and our trade policy in particular, separate from our foreign policy in general we are really being realistic; or whether we should bring the two together and recognize that foreign policy has its economic aspects, and not be afraid upon occasion of discriminating among countries. I raise the question.

Now, in theory and in practice, under this theory of the classical system, to which we have long said that we adhere, and particularly since 1934, with the enactment of the Reciprocal Trade Agreements Act, which reversed the high-tariff philosophy, at least on paper, of the Smoot-Hawley Act of 1930, the rationale of this system is that if

each country, like each person, concentrates his productive activities on that line of work for which he has the greatest comparative advantage, he and everybody else will be better off in terms of the economic good.

I'll give the same illustration I've given ten times before, but they are all new people each year; so it sounds new. If I can write an article for a magazine and get a thousand dollars for it--I don't get that much, but if I could--and if I could also do my own typing faster than any typist I can get hold of; and if I can also do the work around the house better than any handy man that I might hire, in the way of mowing my lawn, fixing the furnace, or doing all the other little jobs that you have to do in keeping a modern household running, which would it pay me to do? Divide my time so that I spent part of my time composing the article for the magazine at a thousand dollars a throw, and also do my own typing and also put some time aside on week ends to do the furnace and the lawn? Or would it pay for me to concentrate on the thing that's most remunerative and get the next best stenographer to do the typing and the next best handy man to do the handy man work? Obviously the answer is, as far as the economics is concerned--I'm not counting such things as variety of occupation or desire to enjoy myself in the yard--but as far as economics is concerned, it would pay for me to concentrate on that which gives me the greatest relative advantage, and get somebody else to do the other things. And the same among nations, according to this theory, that each country

should concentrate on that in which it has the relative advantages, such as Great Britain on woolens, France on wines, and ourselves on heavy industry.

That is known as the theory of comparative advantage. Theoretically we could list for any country the commodities, in the order of comparative advantage at any moment. In the United States those industries in which we have the comparative advantage would be those in which we do in fact export--agricultural machinery, earth-moving equipment, industrial equipment, heavy office machinery, and so on; whereas a country like Italy, being at, you might say, the opposite end of the scale, would have a different list of commodities. A country like Japan would have still a different list. In a country like Japan you would have high emphasis upon textile, pottery, plywood, electronic equipment, and so on. Then if each country concentrates upon that which it can do best and trades with each other, the theory says that people would have more of the good things of life, economically.

In theory also you would have full employment everywhere, on the principle that human wants are insatiable; and that as rapidly as one want is satisfied, two more come to take its place. The supply of goods, then, constitutes the demand for goods, and you have activity at a high level.

In our country the goods at the lower end of the scale of comparative advantage, those in which we have the disadvantage, would be our well-known tariff problems--our hand-blown glassware, our

chinaware and pottery, the cotton textiles with which Japan competes.

This problem is rendered difficult by the fact that countries have different standards of living.

Now, from the point of view of pure economics, that is, very pure economics, so pure that it's up in the rarified atmosphere, there's no reason why we shouldn't have trade with Japan on a free basis too, because the absolute scale of living does not affect the relative advantages. On an absolute basis, Japan can produce almost anything more cheaply than we can produce it. But on a completely free basis it would pay for Japan to concentrate on the things at the low end of our scale, such as the cotton textiles and the pottery, which we shouldn't be producing. And there you get down out of the high atmosphere, the rarified atmosphere, and get a little closer into reality.

The fact is that countries don't want to give up producing anything. At least the areas that produce these products don't want to give up the production. I'll name a few in this country. And I'm not doing this in a critical way. I'm doing this simply as an observer.

On the border line between Ohio and West Virginia we produce a lot of pottery and chinaware. Some of the most efficient companies in the world are located there, such as the Harkerware Company. I have visited that company. In Japan I have visited plants on the outskirts of Tokio that produce pottery of the same kind. They produce it a little differently. There's a little more labor. But even in our country the labor cost is about 80 percent of the total. In Japan it's probably

95 percent of the total. You can take two dishes, one Japanese and one American, and without turning them over to see which one has the Japanese label on it, you can't tell the difference qualitywise. If anything, the Japanese design, I think, very often is superior. And yet the Japanese sells for about one-third of the price of the American.

The same is true with respect to certain kinds of cotton textiles, particularly women's gloves, cotton velveteen, and gingham. They come in at vastly lower prices than we can produce them. For one reason or another they have even more modern machinery in some of their plants than we have, largely as a result of the postwar phenomenon of assisting them.

The same with hardwood plywood. They import mahogany from the Philippines and process it into plywood, send it to this country, and it competes on the eastern seaboard even of our country in competition with the hardwood plywood produced in the upper peninsula of Michigan and in Wisconsin at lower than we can sell it. That's because of the phenomenon of the low standard of living in Japan.

Now, if I were a Congressman from the 18th District of Ohio, I would behave, I think, exactly the way the Congressman from that district behaves. He's a broadly trained liberal, an M.A. in political science from Ohio State University. Sometime you ought to have him come here and talk about the tariff problem. He's a member of the Foreign Affairs Committee, and he's really very much interested

in international organizations and all that goes with it. And yet he has voted consistently against the trade agreements program, because because he could not get the assurance of President Truman that there would not be any reduction of duty on that particular product. He's behaving as a Congressman should. He is doing that which his constituents want him to do. You must never criticize a Congressman for doing that.

The criticism should be leveled at us, if we don't have the concept of the national interest to a sufficient degree that we could influence our representatives in Congress. The fact is that most Americans do not have a highly developed concept of national interest. Now, don't get me wrong on this. I'm not saying that we don't have a highly developed national interest consciousness because we're not in favor of free trade. Not at all. I'm not saying that. What I'm saying is that most Americans don't face the question of what does constitute the national interest, and particularly not in the economic field.

Now, if there's any divergence in any area of activity between theory and practice, it's with respect to our trade policy. We are so far removed in actual behavior from following what the multilateral trade approach would require that it just isn't funny. The remarkable thing is how a nation of 174 million people can delude itself into believing it's doing something that it's not doing. That's the remarkable observation.

The Reciprocal Trade Agreements Act was passed in 1934,

under the leadership of Cordell Hull, the objective being at that time--this was a depression period--to break the log jam of foreign trade everywhere. We would do it by tearing down our tariffs, within limits, to 50 percent, in exchange for other countries tearing their tariffs and trade controls down, by bilaterally negotiated trade agreements, done by the President under the powers that were bestowed upon him by Congress to make executive agreements for this purpose without congressional approval.

From 1934 until 1944 we did in fact make a lot of trade agreements and we tore the duties down. Yes, we slashed them, gentlemen. We slashed some of those duties from 200 percent to 100, and we slashed them from 100 to 50. We slashed some from 50 to 25. In a few cases it began to hurt a little bit. That's rather a sarcastic way of putting it, but I think I got the point across.

By 1930 our tariff rates were so high, about the highest in the world, that they could stand a lot of tearing down without hurting anybody. There was an awful lot of excess protection, more than was needed to keep out imports even. So we were able under the Roosevelt and Truman Administrations to do an awful lot in the way of lowering duties.

It had precious little to do with increasing foreign trade. I've made some statistical studies of this, and we can show that imports of certain goods did increase. But there are so many variables that I think the conclusion is pretty well warranted that there is no direct

statistical correlation between the increased imports and the cutting of duties, for the most part.

Then came World War II; and after World War II we find a very interesting set of phenomena developing. The Administration, and primarily the Department of State--and I'm not criticizing anybody here--became so impressed with the success of the program in 1930 that after the war was over, in a desire to return to a normal situation, they thought, "Well, if two aspirins are good, let's take six." It's a very dangerous thing. And they got going on the multilateral approach.

The idea itself was good in theory, but they were stepping on the accelerator a little too fast. In Geneva they formed an organization known as the General Agreement on Tariff and Trade, the GATT, which is still in existence, and which Congress thoroughly hates the thought of. In fact, the word "GATT" seems to irritate them.

They tried to establish an international trade organization, through treaties. And the late Senator Milliken, who was certainly a reactionary conservative in this field, but who understood the tariff problem, I think, better than anybody in Congress, virtually said, "You'll do it over my dead body." Well, he's long since dead, and we still don't have the ITO. The State Department and the Administration have been trying to get an organization for trade cooperation, which is sort of a little ITO, but that died in the borning also.

The fact is that Congress, representing the people, is not

interested in this sort of thing. That's putting it very bluntly. We have been moving since 1947 in quite the opposite direction. In fact, in 1942, in the Mexican Trade Agreement, Will Clayton, then Assistant Secretary of State, was forced by Congress to promise that in all trade agreements henceforth made there would be included a clause to the effect that if, as a result of any concession made in a trade agreement, there is an increase in imports which threatens to hurt somebody, that concession will be removed. That is the escape clause, put in administratively because of the pressure from Congress.

In 1947, with the 80th Congress convening, which was a Republican Congress, as you remember, one of the very first things they did in the fall of that year was to bring out the trade problem question. They called in Dean Acheson. They called in Will Clayton; and Senator Millikin and Senator Taft forced the Administration to make what we call the Millikin Compromise, where the President issued an executive order saying that there shall be an escape clause written into all trade agreements henceforth.

That wasn't enough to satisfy them. In 1948 Congress wrote in what they call the Peril Point Provision, which says that before the President will dare lower any duties, he must first get from the Tariff Commission a certificate showing the point beyond which he ~~will not be allowed~~ would not dare go without hurting somebody.

In 1948 the Democratic Congress repealed that provision. In 1951, under Democratic control--I'm saying these party names to show

that they are alike; there's no difference between the parties on this issue--Congress wrote into the statute itself a provision for both the escape clause and the peril point.

And that wasn't enough. I'm not even mentioning national defense, because I think I might get into some fights with you people on that--but that has been abused too, notably with respect to watches. But in 1955 the protectionist forces were able to get an amendment put into the act to the effect that for purposes of the escape clause an industry will be defined as that portion which produces a particular product, making by that fact the definition of industry practically coterminous with commodity--narrower and narrower and narrower.

And the high point was reached in 1958--and the press has practically ignored this point in its great desire to point out that we have a fine, liberal program-- Congress for the first time was able to recapture the final word, because it has now put in the law a provision that if at any time the Tariff Commission finds that somebody is being injured or is in danger of being injured, and the President does not act in accordance with that finding--and up till now it's been up to the President to decide the national interest--if the President doesn't go along with the protectionist finding, then he can be overruled by a two-thirds vote of Congress. That's the most significant thing that has happened in the trade agreement history in the 25 years of its existence, and, as I say, it's been practically ignored.

Now, what does this all add up to? I could give you more illus-

trations, but I think that's enough for the purpose.

But I do want to point out this. We have induced the Japanese, because we haven't had the guts to do it ourselves, to put export quotas on their commodities shipped to us, as in cotton textiles and hardwood plywood.

In petroleum we did have the courage to put on an import quota in response to the independent oil companies, Russell Brown's outfit. We did do that. What happened? Within ten days Canada kicked. And Mike Pierson, than whom there's no better friend that we have anywhere, the liberal leader of Canada, said: "It's all right if the United States wants to put a quota on petroleum imports, but to do it in the name of national defense is adding insult to injury." You gentlemen know full well that Canada and we have the same defense program, and here we were discriminating against Canada in the name of national security. Needless to say, the Administration pulled in its horns; and, as usual, after the horse was stolen, it locked the doors. We removed the quota as far as pipeline petroleum is concerned. We were saying in effect that we hadn't thought the thing through first. We first act and then we think. That's not the way to run a railroad, gentlemen.

So this all summarizes in this observation: that we are not living up to our professed policy. I am not saying that the policy is correct. It may be wrong--this multilateral policy. Maybe we shouldn't try to treat all people alike. That was the note I started out on. But for God's sake let's make up our minds what we're going to do. If we

are going to continue to pursue that which we say we want--an equal treatment policy, with a multilateral trading system, with a low tariff system--then we have to repeal the escape clause. We have to get away from this local approach of avoidance of injury.

Now, this is not something that just happened recently. Cordell Hull himself said many times to Members of Congress and to the public: "Under the trade agreements program in lowering duties we are not going to allow any domestic producing industry to be injured." Hull himself said that. Of course, in those early years, as I pointed out, they were able to do this. They were able to lower duties without hurting anybody, because they weren't doing any good either except lowering duties. But as far as increasing trade is concerned, I submit that we are negating our own policy. We are not in fact doing much to stimulate foreign trade.

Maybe that's not important. And here as an economist I find myself almost disloyal to myself, because I have the feeling, a very profound feeling, after working with this thing a long time and writing in the field, that the difference between a no tariff system and a high tariff system, as far as the United States economy is concerned, is not awfully great. I made estimates some years ago in a book in which I talked to all the experts in the Tariff Commission and got their best judgment as to what would happen if we went on a free trade basis. And, working in conjunction with the Bureau of Labor Statistics, I found that probably not over ~~200,000 or 300~~ 200,000 or 300,000 man-years

work are involved--jobs. It's a little bit like driving a car and you hit a little bump. You just feel it and that's all.

Our country is big. We don't realize the power of our economy. In the recent recession in 1957 and '58 the curtailment of demand for some of the raw materials in the raw material producing countries in Asia particularly meant a loss to those countries of 5 billion dollars. Our gross national product is so big that 5 billion dollars is not noticeable. Every time we sneeze they get pneumonia. That's true. We must recognize we're big.

To us, in spite of the propaganda, foreign trade, outside of the raw materials that we have to have, the strategic materials--and they're vital--tungsten and nickel and so on--but in dollar volume they're not great. Foreign trade to us is something not of vital importance. There is no burning desire on the part of the man in the street to see imports come into this country. That is unlike the Japanese people or the British. Historically the British have been in this position for a long time. But foreign trade constitutes a large proportion of their total product--30 percent, approximately. Ours is less than 10 percent.

We are a continental mass, largely self-sufficient, where these countries, Japan and Great Britain are heads of maritime empires. They look outward. The average Britisher realizes that if he doesn't import food, meat, he's not going to eat meat. The Japanese realize that if they don't import raw materials and food, they're not going to be able to export and their standard of living will go down.

Therefore, the importance of our economic foreign policy is not oriented here in the United States. It is oriented in the free world as a whole.

Why do you suppose Khrushchev spoke as he did at the Press Club on Wednesday? When the trade question was thrown at him, he didn't answer it. They put the question to him, What is the trade potential with the Soviet Union? Any economist who has studied trade knows that it's practically zero. Even under the most favorable situation there would be very small trade with the Soviet Union. But the fact is, we are discriminating against Soviet trade. We're behind the eight ball politically, psychologically, propagandawise.

He made it appear to that television audience that foreign trade with Russia would be something that would make for great friendship between the two countries and make for an increase of our standard of living as well as theirs. That's just nonsense.

But the fact is, he's using it. The problem of foreign trade policy is very largely a matter of the battle of wits between ourselves and the Communist bloc.

And that's where we are weak. In fact, I wonder whether big democracies can engage in a battle of wits. I just wonder. You take a simple bill like the Foreign Aid Bill in this Congress that just quit. Before you know it, the whole thing is mixed up with the housing question and Presidential vetos and "If you don't do this for us, we won't do that for you." I don't know of a single hearing that I've attended

or read about on foreign trade in the United States Congres in which the main issues have been faced. The main issue isn't how much you're going to appropriate. The poor Draper Committee got itself all tied in a knot--"We should increase our appropriation from 1.4 billion to 2 billion." What difference does it make? We can afford it, whatever it is. The important thing is, What are we trying to do?

What is our objective in Korea? I know the military objective. So do you. But what are we trying to do with the Korean people? And what is our objective in India? What is our objective in the Philippines? These are all different problems, different problem areas; and no two of them are alike.

And what kind of people do we send out for our foreign aid? Do we send people who understand cultural anthropology, who understand the history of the country, who understand the languages and the aspirations and the religions of those countries? Once in a while, yes. But we can't do it. We haven't got the people. May be we've got some that we could find if we looked for them. But by and large we stress at home the financial side of foreign aid--how much. And in the field we stress administration--taking papers from the incoming basket and put them in the outgoing basket, and doing it efficiently.

And when we say "audit" we usually mean a bookkeeping audit. That's one thing that the Draper Committee did stress. I hope you people have read the Draper report. If not, you should. The Draper Report says, among other things, that it should be evaluation teams,

and that these evaluation teams should not concentrate on the accounting aspects, the auditing aspects, but they should concentrate on the objectives of the program. It's one of the few parts of the reports that really makes sense of any of these reports. But that's the part that the press didn't even play up. Pat Emerson should have noticed it, because the report was so poorly written it was tucked way in the bottom.

Now, in practice we are not doing what we say we're doing in theory. In theory we say we're treating everybody alike; that we want to be nice people to everybody. In fact we have negated that in the trade field. In the foreign aid field, where we have to discriminate, we don't know how to discriminate. I visited some of the countries that were given foreign aid. I examined the programs. I did it for the Senate Committee in 1956. And I must say, I'm very sympathetic with the personnel in the field. They have terrific odds that they're working against, because they've got Congress looking over their shoulder every time they spend a nickel--"What did you spend that for? Don't do it again." If we could get our materiel to our forces in the field in something less than six months after the money is appropriated, it'll be a miracle. You know what I'm talking about. It has taken eight months to get that materiel after the appropriation has been made.

Now, the third point is the international economic position of the United States. Right after the war we had the dollar shortage. Many economists, in fact even myself upon occasion, I am sorry to say, assumed that the dollar shortage was something permanent; that

the world was going to be short of dollars forever because American goods were so wanted in the world and they did not have the productive facilities; it was just in the nature of things that the dollar would be short.

In 1947, when the Marshall Plan was established, the purpose was to restore the viability to the economies of Western Europe. It looked like a hopeless job for a while. In 1950 the Korean episode had broken out, and foreign aid took a military complexion, which it has had ever since. And finally we wake up some morning in 1958 and we find out that there's no more dollar shortage. Oh horrors! I'm out of business. The dollar shortage has been converted to a dollar surplus.

Our exports are diminishing relative to our imports, although they're still considerably larger in absolute terms. Compared with 1955, the situation is not too bad, because in 1956 and '57, because of the Suez crisis, our exports were abnormally high.

But we are losing gold. Three billion dollars of it we've lost. We should praise God and thank him that we are finally losing the gold, because one of the problems has been that we've had all of the gold of the world--not all of it, but most of it--buried at Fort Knox and not knowing what to do with it. Now we are beginning to distribute it. The European economies are building up their reserves. I haven't even mentioned the European Common Market--I haven't had time to--but Europe is looking upward, gentlemen.

Europe is finally on the verge of liberalizing the trade among itself. It looks as though the gross national product of Western Europe, which at the present time of the six countries I'm talking about is one-half that of ours, less than that, will double in the next ten years--I think that's very possible, very probable, unless something happens politically, another war or something like that--it looks to me as though the pendulum is moving.

The trouble is, when the pendulum starts to move, the untrained economists and the people generally think it's going to continue going that way forever. When we had the dollar shortage, we assumed it was going to continue a dollar shortage. Now it's moving the other way and people are scared because we're going to lose all of our gold. "We're pricing ourselves out of world markets." I think there is a danger that we are doing that in some fields, but not because of the movement of gold. It's primarily because our export industries are asleep at the switch. We're putting out shoddy merchandise in some cases. We should concentrate more on quality and sales methods and give people more for their money.

But the fact that we are losing the gold, the fact that we now have a dollar surplus instead of a dollar shortage, is to be put on the asset side of the ledger rather than the liability side of the ledger. I hope that in the question period and in some of the group discussions that you'll get off on these questions and I'll give you more details than I have time to give you now. But the time is almost up, there are only two min-

utes that remain, and I'd just like to face the challenge or bring to you the challenge that, it seems to me, confronts us.

It would be easy to say, "It's foreign trade." But it's not important any more. Why should we stimulate imports? There's no longer a dollar shortage. The balance is here. Yes, the balance is here, but at what level?

Most of you have been in Japan, I take it. You certainly know Japan. Japan is important to us. If we lose Japan in the Orient, we might just as well forget the Pacific. I don't think that's an overstatement. I put that sentence in the Hanna Report in 1956 and it was taken out by either the Defense people or the State Department as classified information.

Japan needs markets. Southeast Asia is a logical market, but it has no purchasing power, not to the degree that Japan needs. Communist China is an increasing market, but one that we don't want her to have if we can help it. We'd far rather she would trade elsewhere. She could trade with Russia, but there's not much trade potential there, and not much life either, I mean, not much love lost between the two. The logical place for Japan to trade for the next decade is in the West. That means the United States, Western Europe, and South America.

And that means that we must go out of our way, in our own self-interest--I'm not talking about her interest; I'm talking about our interest. It seems to me that it's in our interest that Japan be held

in the family of free nations, militarily, strategically, politically, psychologically. And that means primarily an economic challenge.

Now, I should think that, inasmuch as it would be difficult to open our doors to Japanese trade because of these political realities I have alluded to, we should try to think up some new formula. Does that make sense? And there are formulas that have been proposed. One is the Adjustment Assistance Program. There have been introduced several bills in Congress, both in the Senate and the House, to do just this. But they can't even get to the stage of committee hearing, the local presses are so great against it.

An Adjustment Assistance Program would say this: that in those cases where it necessary to remove or reduce tariffs in the national interest, in order to allow some goods to come in, we would, if any domestic interests are injured as a result of that--there's a taking away of a special privilege that we gave years ago. Nobody has a right to a tariff. It's a special privilege. Now, if the Government wants to go in and take it back, that special privilege, it's going to hurt somebody; sure. But why not do something to soften the hurt? If anybody is thrown out of work, why not give him a bit of unemployment compensation, maybe? If they're young people, pay them, like we do the G.I.'s under the Bill of Rights. If it's capital, give them some technical assistance, like we do these foreign countries.

It is possible, without going into a system of state socialism, or a huge bureaucracy, to soften the blow. It's a logical thing. It's

the American way. When you see a guy in the gutter, you give him a hand and pick him up.

Or, if we don't want to do that--and it has been called un-American; it's been called socialism by Senator Millikin--maybe we should think of some other system. Suppose we sat down, American businessmen and Japanese businessmen, and agreed: "We will allow you to send in X quantity of automobiles into this country with our assurance that we will not do anything, raise a finger, to keep them out, within limits." A system of tariff quotas, if you will. Not absolute quotas, but tariff quotas. "A certain amount of our market is open to you--free access." That might induce the Japanese to spend some money on advertising, marketing, servicing, which they can't do now. If they do, we'll use the escape clause to keep them out. So therefore they concentrate on price competition on things like textiles and pottery, with the result that they unnerve us politically.

There are any number of solutions. We might have some agreements with them with regard to fair labor standards, hours of work, child labor, that sort of thing. We have done a little bit along that line, I will admit, but not too much.

The first thing is to understand the problem. So my question to you is the challenge, is to bring to the American people an awareness of the importance of international economic behavior and policy as a weapon in the cold war in a narrow sense, or as an instrument of national interest.

We can talk about guns. You people know all about guns. You know all about military hardware and all the rest of that. But mark you my words, the people in the uncommitted areas of the world are much more hurt by economic performance than they are by guns. And I think most of you people would agree with me on that.

The two go together. The economic and the military go together to form the political. And our posture has to be a uniform posture, based upon those three main underpinnings. We mustn't rely upon military power alone, if for no other reason than that as Americans we're not able to be militaristic. We're not a militaristic country in the old traditional sense.

Politics without economics is an empty shell. And the people who need the training are not the run-of-the-mill people. You can't make economists out of everybody, thank God. You don't want to try. But we could do an awful lot back in the sticks to help train the leaders. One thing I was saying in the car coming in this morning was this: We have counterpart funds all over the world building up through our surplus-disposal program in local currencies that we don't know what to do with. Maybe we could subsidize some travel for the banker back in Keokuk, Iowa, to let him see for himself what is happening in the rest of the world. The Chinese say "One picture is worth a thousand words." One quick trip to the Orient is worth a thousand pictures. There's no substitute for that. Americans must understand the world situation, I think, at the leadership level.

I've talked too long. I'm sorry.

COL. REID: Gentlemen, Dr. Piquet is ready for any questions that you might have.

QUESTION: Dr. Piquet, you made mention of the problem that we get into with Canada on the oil restriction. Do you think that this kind of problem would be at all alleviated if we had a more formal mechanism within the Government for reaching a decision on these types of problems?

DR. PIQUET: Oh, yes. Sure. I think that's the problem. We've got a big democracy, as Paul Appleby calls it, a very big democracy, very disjointed. I think any mechanism that we could do to arrive at a concept of national interests is all to the good. We have at the National Security Council, presumably.

But how do you get people to think? How do you find time to think in Government? You're too busy doing unimportant things. You've got to take care of all the mechanics--efficiency ratings, annual leave, sick leave. I was never so happy as when I left the chiefship of the Economics Division of the Tariff Commission and became an advisor to Congress. But for two or three months I was lost. The telephone didn't even ring. They didn't know where I was. No administration. Nobody to supervise. I actually did some thinking for a while and I don't think I'll ever go back to the harness of a downtown administrative department.

But the answer to your question is, Yes.

QUESTION: My question lies a little along the same line. You

pointed out toward the end of your talk that there were a lot of things that could be done; that a slight lowering of tariff would encourage, for example, Japanese trade. You also pointed out that politically these propositions haven't even gotten to committee and didn't look like there was much chance of their getting there. My question is, What can the people in Government or in the country as a whole, who do happen to understand the importance of this thing, do to politically get this thing along? For example, you mentioned sending a Keokuk banker to Japan, but I doubt very much if Congress would appropriate the money for it.

DR. PIQUET: So do I.

QUESTION: What can be done from a realistic political point of view?

DR. PIQUET: Oh, I do get the question--because I do advise Congress--that's my job--but what's the answer to all these questions? I always come back and say, "If I knew the answers, I wouldn't be here. I'd be somewhere in a more important position."

I don't know what we can do. I do my little share the best I see it. But certainly you couldn't hold an adviser to Congress responsible for Congress. That's obvious.

I don't know what we can do other than to try to vote the right way, do the right thing, influence wherever we can. To me it's a painful thought that here we are like a giant in Gulliver's Travels, with the potential power to lead the world; and yet the most obvious instruments

we don't seem to use.

If you want to hear somebody else talk this way only more so, get Senator Fullbright to come here some day and talk to you. Maybe he has. You will find that he feels very strongly on these questions, and he's a Senator. There aren't many people in the Congress who are trained analysts on those things that have to do with the national interest. Why should they be? They're the representatives of the people. And even though--I can say this in all truthfulness--I think the average member of Congress is way ahead of his constituents in thinking, he still isn't far enough ahead, and the constituents aren't brought up.

There are very few men in Congress that I know who will go out of their way to vote against their constituents' interests. Do you know of any? And I don't think they should. It would be like expecting a hyena to be a gentle animal. He'd no longer be a hyena.

The setting here of the problem is social. We've got these counterpart funds that I mentioned before. We're not using them in any intelligent use. You watch. Some day, if I'm not wrong, there'll be another man with the economic mentality of Calvin Coolidge who will come along and say: "Well, they hired the money, didn't they?" and try to collect these counterpart funds in dollars. And then it'll be just too bad. It would be better to throw them in the ocean than to try to collect them. That's the last thing we ought to do.

But to use them intelligently in the countries, and to use them intelligently for travel, I think, would be a very useful thing. I would

like to see a program to do the counterpart of what we're doing for our Japanese friends now. I do quite a lot of talking down at the American Council for Education to the Japanese businessmen who come over here under the auspices of our productivity program. We have a lot of Japanese coming over here. They spend about six weeks at a time, different groups and industry leaders. They talk to our industry people. Then they come to Washington and they get a little indoctrination on our American democracy, with the emphasis on a free system. The embarrassing time comes when they ask a question like, "Why don't you do this? Why don't you do that? Why don't you do that other thing?" It's difficult to explain to them our political process, and our political system.

I think what we need now is a productivity exchange of Americans going abroad. I think that's every bit as important, if not more important, than to have the Japanese and other people come over here, because we can learn an awful lot by looking at the world. I think that's the concrete thing to be pushing for. But how do you push for it? I can talk you blue in the face. That doesn't do any good. Be elected to Congress and do a better job.

I can't answer your question.

QUESTION: You mentioned that in dropping the tariff the impact, as you figured it out, on this country would be imperceptible. What would be reaction throughout the world if we dropped all of our tariff barriers? I am thinking particularly that we have to permit everybody to compete. What would be the impact of our agricultural products on

the situation?

DR. PIQUET: I was afraid of that question. I'm like Khrushchev. I don't have an answer quickly that I can fool you with.

I don't know how we would solve the agricultural problem. You know, a little problem gets bigger and bigger, like cancer, until it reaches the point where the solution seem almost impossible. We're spending right now one billion dollars a year of American taxpayers' money simply to store our surplus agricultural products. Wheat alone is costing a million dollars a day just to store. We've been not blessed, I suppose, but damned by good weather for the last twenty years for raising our crops, as well as by our support programs. It has been so much easier, right from the beginning--and, of course, it becomes consecutively easier and easier--simply to dip into the taxpayer's pocket and support agriculture by benefit payments of one kind or another, than to try to introduce some therapeutic measures to cure the problem. We are producing more food now with less labor than we ever did before. We are also producing more industrial products with less labor than ever before. It isn't a simple matter of telling the farmers to go find a place in industry. There's no place in industry for them either. The problem is one of technological unemployment, and it's getting more and more severe with the introduction of electronics and automation.

How do we, in a free country, under democratic procedures of representative government, take care of this problem of increasing

production, increasing production capacity, with fewer people working? How do we spread the leisure? What do we do about the distribution of wealth and income? And if you decide what we should do, how do we do it?

We have done it through instalment credit. Our gross national product in the last ten years has grown something in terms of constant dollars like 38 or 40 percent. Our instalment credit in the same period has increased 179 percent. In 1958 we had a slight setback, because people were not expanding, and for the first time our outstanding instalment credit began to go down. Now it's up again.

How long can we keep it up? I don't want to be a prophet of doom; but unless we continue inflation, there is going to be a technical setback. How serious that will be who knows? And when Professor Sumner Slichter, who is certainly a respected economist in the United States, from Harvard, says that two percent inflation a year is nothing to worry about, I think he's all wrong. I think two percent inflation a year is a very, very serious problem. In the course of ten years that's a substantial erosion of our savings.

How you solve these surplus problems, and if you had free trade, it would aggravate it--you're quite right--though it wouldn't aggravate the agricultural one particularly. It would be mostly domestic. It would aggravate certain ones. The Commandant was talking to me during the break about the importance of import competition in certain industries. It's getting more severe; that's true. And not only because

of import competition, but also because of foreign investment. We have been trying our darndest to increase private foreign investment in the last few years. And now it's increased. And the machine tool industry and the tractor industry are scared stiff out in Wisconsin. And the U.S. News came out a few months ago with a big issue--maybe you saw it--saying that we're exporting one million jobs away from American workers.

There is no way of softening--I mean, there's no way of avoiding--economic adjustments within an economy, whether it's through imports or exports. My thesis was, and still is, that the economy is so large that in total those adjustments are not as great as we think they are. But to the people who are involved they are very serious.

The steel industry, for instance, was raised as an illustration. The big steel companies are export-minded. They don't worry about imports. The small companies do. Barbed wire is coming in now. Light structural shapes are coming in. It's not going to wreck the steel industry. And the phenomenon of a Japan undercutting us in all lines simultaneously is rather ridiculous, because they're such a small economy. But they can raise an awful lot of hell with us in this line and that line and the other line and jumping around from area to area.

The adjustment has to be made. That is what I was saying in my talk--that we ought to think more and more in terms of adjustment mechanisms and less and less of trying to stop these economic forces. Try the homeopathic approach of working with economics and not against it.

Yet 9 out of 10, if not 99 out of 100, Government actions with respect to the regulation of business and with the regulation of private enterprise generally whenever they do anything is to try to stop something, Subsidize them. Keep them in business. Don't let them get out of business. It would be far better to subsidize adjustments than to subsidize perpetuation of inefficiency. But in agriculture, to put your finger on the most difficult of all, it's gotten so much out of hand that I don't see the solution. Whether we could adjust in agriculture is very doubtful; and politically it's almost out of the question. If I knew the answer to that one, I wouldn't be here either.

QUESTION: Dr. Piquet, a great many domestic producers of productive goods have recently complained that they cannot compete against imports from foreign countries in the same class of products. I know that a great many of these people have been seeking an amendment to the Buy American Act wherein the differential between domestic goods and foreign goods would be higher. Do you believe that the act will be so amended?

DR. PIQUET: That's a very specific forecast that you're asking me to make. All I can say is that the temper of Congress is quite definitely in the protectionist direction generally speaking. Whether the Buy American Act will be changed I don't know. Are you referring primarily to the electric generator question and turbines?

QUESTION: No.

DR. PIQUET: Because that's where the Buy American pressure

has been coming from--mostly General Electric and Westinghouse--on the ground that the turbines that are coming in and the big electric generator equipment are being made tailor made, are competing with that aspect of their industry. Of course, if you take that part of the industry and relate it to the total, it's rather a small percentage of the whole. But they are worried now about electronic goods coming in from Japan.

I think the simple truth is that the Japanese are sending us with some goods right now that are better than we are producing ourselves in that field. I saw a little radio the other day. It's a beautiful little thing. You can't get it in this country. A cousin of mine brought it in from Japan. It's that big, has four little batteries in it. It's rechargeable. We can't do that here.

Some of the German goods that are coming in now are much better made than ours. The Pugeot automobile from France, for instance, I think is far better made than the average American Chevrolet or Ford. I've had some experience with Chevrolet and Ford both. I don't think we have the techniques of putting out quality merchandise.

Maybe our answer to this problem is that in the foreign field, on the export side, we should be producing better goods, meeting the Germans in their own field, better quality control, better quality.

As far as the Buy American Act is concerned, I think it's a very poor way of going about the problem. Psychologically it leaves a bad flavor in the mouths of other countries. Whether it will be amended

or not I don't know. I don't think so. I think we're more in danger of setting up a system of import quotas generally, and that would be a very dangerous thing. So the best I can do is to say that the temper of Congress is one of protectionism in spite of the growing tribute that's paid to liberal trade. The undercurrent movement has been steadily in the opposite direction--toward avoiding injury--that philosophy, that frame of mind, that has to be corrected.

QUESTION: You said that in this whole question, our foreign trade is not a very important factor--10 percent. But if we really took all the import and export quotas off and let the thing seek a laissez faire level, don't you think that it would be important actually?

DR. PIQUET: You know, these/iffy questions are always difficult. In this book "Aid, Trade, and the Tariff," that I published in 1953, I tried to cut that Gordian knot, as of 1953, and that's a little old now, I'll admit. But I don't think it's much different. I brought up to date recently some of the Latin American products, and it didn't seem much different.

The only way I know to go about it was to ask the people who were experts in the field. You see, you can't measure the height of tariffs. If you measure the height of tariffs in terms of mathematical ad valorem equivalents, you are in a logical box, because if we had our tariffs high enough, we would have no/dutiable imports coming in at all. The ad valorem equivalent would be zero, and therefore we would be on a free trade basis. It doesn't make sense. You can't do it that way. Mathematically

it's not a question of the height of the duty. In some industries a 10 percent duty can be more restrictive of imports than a 20 percent or a 25 percent duty in some other industry. It depends on the amount of pure competition that you have here and abroad. If it's an industry marked by a large number of little companies, like shoes, a 10 percent reduction to a 5 percent can cause a lot of trouble. In petroleum, where we have international companies who allocate between countries and the duties are very unimportant.

So it isn't the mathematical height of the duty that determines. You have to judge the restrictiveness; and the best thing there, in the absence of scientific objective methods, is informed judgments. And that's what I did. All these informed judgments I put together, and I found about 30 lines of production in that year where there would be some difficulties. Pen knives was one. Leather gloves was another. Mostly small industries, not counting agriculture, because in agriculture you've got the big problem of wool and sugar. If we did away with the quota on sugar, I don't know what would happen. We would still produce some sugar, but not very much, although there has been a big increase in the efficiency of our beet sugar production in the country in the Far West, which is a new factor in that picture.

But, taking the industrial part, we found that the increase in imports would not be very great. In fact, we estimated at that time that on a free trade basis probably the imports would increase, oh, somewhere between a billion and two billion. That's a 15-17 percent

in our imports, but that most of those imports would not really have a displacement effect; that the displacement effect would be the equivalent roughly of about 250,000 jobs, and most of them would be in textiles.

I think that's the closest that anybody has come to making an estimate. In fact, nobody else made it, and I find that the Randall Commission and others are taking my estimates as pretty much facts. In the absence of facts, informed judgments are the best you've got.

I don't think it would be major. But who can tell? These things do change. And with Europe doubling her productivity in the next ten years, and with Japan improving its efficiency, maybe it'll be more. But as of now I don't think the result in the aggregate would be very bad. Of course those 250,000 people would be just as hurt as if they were part of a larger statistic. It isn't the aggregate that determines the nature of the solution with respect to those who are hurt. I don't think we should just allow free trade and let these people be hurt. I don't think that's the American way. I think it should be borne by the public as a whole.

You see, there are two ways of going about it. Either we open our markets and then soften the blow where it hits, or we sit down with the Japanese and our other competitors and say: "Now, we're going to rationalize trade. We're going to allow so much of these products to come in, and you allow so much of our products." And do it in the form of a revived trade act, that would give the President other powers in addition to lowering duties.