INTERNATIONAL PRICE STABILIZATION

Mr. John K. Havemeyer
Mr. John W. Hight
Mr. Anthony J. Poirier
Mr. Arthur A. Verner

NOTICE

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Reviewed by: Colonel Tom W. Sills, USA

Date: 29 March 1960.

INDUSTRIAL COLLEGE OF THE ARMED FORCES

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18 February 1960

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DR. KRESS: General Mundy, General Houseman, Gentlemen: We want to discuss here today international price stabilization and in its broader aspects.

We have here a panel of practical people, who are out in the world every day handling these problems. I don't want to say that they are not academicians, because two of them, Mr. Verner and Mr. Poirier, are ex-academicians; and they may use that background, of course, as do the other gentlemen. But in the school business, in which I was for so many years, we had a saying : "Those which can, does; those which can't, teaches." These gentlemen saw the handwriting on the wall, and they have been in the "can do" operation for a long, long while.

Then, without more introduction of them, because you do have their biographies, I want to lay down a few rules as to procedure. We'll go along here for 50 minutes, and then take our usual break, and then come back and finish up whatever we have to finish up. I will give you an opportunity to ask questions from time to time. I would like you to confine those questions to the point that is then under consideration or previous points. In other words, I'm asking you not to jump to the end of the list early in the game.

For the benefit of our panel people I want to lay down two or three assumptions. One is that you, as I know you have--and I'm telling them now--you do have reading background in the international organizations and about the various international agreements that affect prices. You also know how much gold the United States has, and how many claims there are against each ounce of it. So we don't need to run through that again. But we do want to talk about prices and price stabilization and American business problems the world over; and these gentlemen are the ones that can do it.

I want to start out with the first topic for discussion here--international prices. Mr. Verner is an old professor on economic problems, and I want to ask if he won't say a few words about how you arrive at foreign prices anyhow.

MR. VERNER: That's the $64,000 dollar question. You have all had the principles of economics and the theory of prices, and, generally speaking, the theory is applicable. However, I think there is something that I'd like to point up on this pricing thing, as opposed to general theory, something perhaps that you have heard a lot about in recent years, and that's the current trend toward administered prices. Indeed, what I have to say about that affects a lot of the things that we will probably discuss in this panel in other fields.

That is that as we get more technically involved and a little more complex in our production, there is a tendency toward administrative prices. That doesn't necessarily mean that there is monopoly. It doesn't necessarily mean that there is collusion. But in manufactured goods, the strange thing about it is that the cost of manufacturing any given commodity usually runs about the same. You have a more or less universal ability of know-how. Whether that's American, British, or French know-how that is exported elsewhere in the world, the know-how is spread around.

In addition to that, you have a more or less fixed capital investment, all of which is a charge against a given industry. There aren't too many ways of variation in a given industry of manufacturing.

The labor factor is one of those fantastic things where we get into all sorts of discussions, particularly now--I think you've heard a lot of it on radio and television--where there is quite a difference--true--in the hourly wage. There is a tremendous difference also in productivity. And in my particular field, and in closely related manufacturing industries, you do find a tendency for the cost of labor per unit to add up about the same.

In other words, to put it very bluntly, the American laborer is a pretty hard-working guy; and, although he earns a great deal of money, he produces an awful lot in the course of an hour, or eight hours, or whatever way you want to measure it, as opposed to a foreigner, generally speaking--and I don't care which one--who may get considerably less wages, but somehow or other he seems to average out pretty generally. There isn't too much of a margin.

So when it gets around to pricing, you ultimately get down to a question of costs--costs of manufacturing--and a reasonable return on your capital and a reasonable return for risks taken.

Now, from time to time in manufacturing goods you may find price wars and things of that kind, but over the long run it will tend to follow the same general level, simply because costs are more or less the same.

When you get into the raw materials field, however, you have a somewhat different situation. I am speaking of things like copper, tin, rubber, and even coffee. There I don't think you have administrative prices. Even though we do have, to all intents and purposes, in many instances, world cartels, or what might be similar to world cartels, there is still the interplay of the old economic theory of the law of supply and demand, which is an unfortunate thing as it affects those countries that are dependent on raw materials.

So I would generalize the thing on this problem of pricing by saying that, generally speaking, manufactured or processed goods tend to have equalized prices throughout the world, whereas raw materials will fluctuate with the demand and the supply at any given moment.

Does that give you a broad picture of my thoughts on it?

DR. KRESS: I think so.

I do not have the feeling that each panel member should comment on each one of these questions; but if any of the three of you do have anything to add there, I would be happy to have you do so.

MR. HIGHT: I agree thoroughly with Mr. Verner that costs and prices are probably pretty much uniform, at least among the industrial firms, around the world. And I think that one of the reasons that they are is that you have a large volume of world trade.

I think that trade in itself is probably the greatest stabilizer of prices, or the greatest factor in creating equality of prices. When you get distortions, usually or frequently they come from discriminatory actions by governments or tariffs of varying levels. That distorts trade, of course; and you then tend, it seems to me, to get differing prices and perhaps differing costs around the world.

DR. KRESS: Are there any questions on that particular topic?

QUESTION: Mr. Verner, how is it then, basing your statement that labor costs are relatively the same the world over in industrial situations, why then do we get all this hue and cry on this business of pricing ourselves out of the foreign markets? Is there a truth to this statement? Or is this just a lot of hokum, put out by NAM?

MR. VERNER: I think we were all talking about generalizations in a general way. Yes; there are certain things, no doubt, that come to mind quickly. Take bicycles. Sure; the Germans manufacture bycycles, and so do the English, much more cheaply than we do. There are a number of products like that.

But I don't think that if you took the whole net of American trade, and took those industries that are damaged, I don't think those industries would represent a great portion of either our capital investment or manpower involved. I'm a bit of a free trader at heart, and I feel that those industries where we can't compete, it might behoove us to put our manpower and know-how and technological ability into developing those industries where we can compete, and let's forget about these things that we can't compete on.

DR. KRESS: I think that's interesting. You have so many academicians that come up and say that and you say, "Well, how do you do it?" Well, here's a man that has been doing it for twenty years and he's still sticking to that.

QUESTION: I heard recently that some of the competition is based on the tax write-offs that some of these other countries have. Our corporations are taxed not only on their corporate assets, but they also have various write-offs that are allowed. I think that a case in point is England, where they have a lot different method of computing their depreciation and so forth, and that has an effect on the price. Would you care to discuss that?

MR. VERNER: I'm thinking of my own business now. I happen to have an operation in England that I can compare quite well with our own.

They give us more rapid write-offs; that's true. But the interesting thing is--and I happened to look it up yesterday to make doubly sure--that it costs us more in England to build a passenger tire than it does to build one here in the United States; and it's about the same on a truck tire. That is after taking in all the allowances that you get.

The thing tends to equalize itself. In other words, where you are allowed a greater allowance for depreciation, you have perhaps a higher labor cost. That may startle you for a moment, but our labor costs in England to build a tire is much greater than our labor cost in the United States. Yet we pay about two and a half times the salary here in the United States that we do in England for the same job. You don't get the efficiency.

Now, if you'll permit me to carry this on a little bit: The same thing is true of distribution. Distribution costs in most countries abroad--and England is an excellent example--run per unit of sales--and I don't care whether it's automobiles, tires, refrigerators, or what you're talking about--run about twice what they cost in this country. It's fantastic. Take an average salesman in this country and he gets a wage, let's say, a young man just starting out and starting with us, he gets somewhere around $450 or $500 a month. He has at least a Plymouth or a Chevrolet car. You know what his hotel rates are. You know what his food costs are. An Englishman gets very much less than that in salary. True; he has a smaller car, but it's equally expensive. His food is a lot less expensive. He doesn't have to travel as many miles. Yet he does a relatively inefficient job, simply because the merchandising system is inefficient.

To put this another way, he has to see, to do the same volume of business that he would do with one plant in this country, about ten in England. And that's true not only in our business, but it's true in practically every major distributing business where you have volume. So that your costs all along the line of doing business are very high.

DR. KRESS: I think it would be nice if we continue our usual custom of stating your name and your service. Captain Matthews.

QUESTION: Mr. Verner, I assume that you believe in the subsidy of certain industries where we cannot compete with foreign countries, such as shipbuilding and other areas. If so, could it be that the interrelationship of our industries in this country is more responsible for the increased costs than perhaps labor costs themselves?

MR. VERNER: As I take the question, Captain, the point that you are making is that because we subsidize our merchant marine, for example, that in turn has spread a layer, or has had the reaction of spreading a layer of higher costs all along the line; so that it has affected our total economy. I don't think so. I don't think there has been enough impact on our total economy in that isolated industry. I don't have the facts and the figures, but that would be my reaction. Maybe some of these gentlemen would have more figures on that than I would.

MR. HIGHT: I would suggest myself that a subsidy is not too different in effect from a tariff. If we have high tariffs on items--and there are a number still in this country--I think that clearly has an effect on costs. It tends to maintain costs at a higher level than they perhaps otherwise would be if there were better international competition.

The shipbuilding situation is, of course, a special one, tied up with the national defense. I would wonder whether, if it were not for the national defense question, the subsidies would continue or at least continue at the rate that they have been going.

DR. KRESS: Mr. Poirier spent so many months in those [redacted] GATT hearings and those teams that set up these rates that I think his family thought they had been abandoned. Would you say a word or two, Tony, about how difficult it is to do some of these things?

MR. POIRIER: I would like to; yes. I would also like to revert to the question of pricing, if I may, for just a moment. I have heard a lot of generalities, but I think something can be said for particular lines of industry or particular types of industry.

On the question of the U.S. pricing itself out of the market, I don't believe that that is so in those lines of manufactured goods which can be manufactured on a whole scale largely by automatic machines and where there is a minimum of hand work. But in other lines of industry where you have very considerable hand assembly and manual operation--I think the watch industry of Switzerland is typical of that and getting into typewriters and that sort of a delicate operation which cannot be entrusted wholly to automation machinery, but which requires a good deal of hand work--in those fields I think we are encountering our stiffest co mpetition.

There are also other lines of industry which are perhaps peculiar unto themselves in that they do allow for a good deal of leeway in establishing prices. I know, for example, that in a very recent case [redacted] we have been asked by a big U.S. manufacturer of a particular line of goods to find out for them, if we can, what their competing machines made by companies in West Germany are selling for throughout the world. They want this so they can have some idea of where to set their own prices. So apparently they must have a considerable leeway there, and obviously they will set their prices in order to compete with the price of these German goods. And since they ask for those prices, they must have considerable leeway. So there is that second special category of merchandise where you have a good deal of leeway.

Reverting to the question which was referred to me by the moderator, of course this question of getting customs tariffs reduced is going on and has been going on, I would say, since 1934, when the United States Reciprocal Trade Agreement Act was passed. It first took effect in a series of bilateral tariff-cutting agreements with some 34 countries throughout the world. Then that program was largely superseded in 1947 by the setting up of the GATT or the General Agreement on Tariffs and Trade. And there is scheduled to be something, which will be probably the fifth or sixth big round of tariff-cutting negotiations again, beginning in September of this year at Geneva, and lasting through July of 1961.

But Dr. Kress mentioned the fact that it wasn't very easy. Having worked on this thing quite intensively for some 25 years or so, I find that it was a lot more easy to get really valuable tariff concessions at the beginning of the program, in 1934, when we started on the bilateral scheme. It was sort of an honor for Country X, whether it was in Asia or Latin America, to negotiate a trade agreement with the United States. It was something to look forward to. It was a landmark in their economic history. And I think that that series of bilateral agreements from the U.S. point of view were much more productive than GATT has been.

Now, GATT in its inception, as conceived by Hull, was quite idealistic; but in practice it hasn't worked out too well, largely because the foreign countries have learned too during this time, during these ten or fifteen years of bilateral negotiations. They learned how to do this thing. And the more we go on with it, the less room there is for useful concessions and the more difficult it becomes to get concessions from these other countries.

They have found devious ways to take advantage of every provision in the GATT, to get out from under, to avoid their obligations, to by-pass them, to get waivers to do this and that for balance of payment reasons or a number of other reasons. So it is not too easy to go and negotiate and get telling, useful, lasting concessions.

MR. HIGHT: May I just add a word to this? I find myself not in entire agreement with Mr. Poirier on this one. I've had some experience myself with the GATT. I went with four U.S. delegations to the GATT and I was at the Torquee negotiations in 1950 and '51.

I think it's fair to say that in the early bilateral agreements you were cutting off fat. It was fairly easy to cut. The United States was operating from a tariff which was the highest in its history. I think there is very little question that many of the tariffs were prohibitive, or if not prohibitive, at least higher than they needed to be. I think that was true with a great many other countries.

So in going into a bilateral negotiation it wasn't too hard to make mutual concessions that perhaps would create some trade. Obviously, in the 25 years since the reciprocal trade agreements program began, it is much harder now, even under a multilateral agreement like the GATT, to get meaningful concessions, simply because, as I say, there is not much fat left; and it touches and it hurts.

For the last ten years, of course, most of the countries of the world have been willing to cut their tariffs with the United States; but they have maintained quantitative restrictions against imports from the United States, which have the same effect or even a more telling effect. That time is over now, at least for the European countries. And I think that what happens this fall in the GATT will be extremely significant. And if we can believe what the Common Market people say and the Outer Seven people say--that they are prepared to go as far and as fast as the United States in reducing tariffs--I think that the GATT session may be extremely significant.

DR. KRESS: Now, the clock goes around, and I know there are more questions there, and maybe we can get them in a little bit later. But while we are thinking on these terms of world prices, I would like to go to our next topic here--stabilization of prices for raw materials and strategic goods in times of emergency. We touched on that somewhat already, but I want to ask Mr. Havemeyer if he won't develop that a bit further.

MR. HAVEMEYER: First of all, I don't know whether you have all had any lectures on the Controlled Materials Plan.

DR. KRESS: Yes.

MR. HAVEMEYER: That, in the last world war, plus OPA and rationing, were the major sources of controlled prices in the United States.

In aluminum, which I worked on for something like five years in the Army and Navy Munitions Board, our biggest problem was trying to get that aluminum which was available for defense support and for defense uses. Our biggest problem was not so much for the civilians, but more how we could get the proper aluminum to the proper places at the right time.

The price angle was pretty well covered by the OPA laws. You probably know that they went along with various kinds of pricing formulae.

But as a general response to the question, I think that the major thing is your rationing, which controls your price, because in many cases there were certain types of various products where subsidies were given out by the Government in order to maintain a price on the raw materials.

I don't know whether we can go much further into this not knowing exactly how far you have gone in the Controlled Materials Plan already.

DR. KRESS: Not too much. Mr. Truppner was here and stated the background of the plan and how it is currently working, and we do have one committee that has gone into that in some detail, but the others have not. But I would like to push that a little bit wider. For example, a drought in Brazil could double the price of coffee or triple it. We don't seem to have any mechanism to guard against such things, even in nature's way.

MR. HAVEMEYER: Well, of course, that's not a strategic material. At that time we had the Inter-American Coffee Agreement, which was the United States and ten producing coffee countries. When the prices started up in the raw material itself, the green coffee, in the ten producing countries, in order not to increase the price to the United States, the OPA set aside certain funds which were used to subsidize the U. S. importer in order to maintain the price at the retail market at the same price that it had been during the previous fiscal year.

DR. KRESS: And during the war period too I used to have an acquaintance who said that the U. S. Commercial Corporation was the only corporation he ever knew of that was set up to do business in the red.

QUESTION: Recently a distinguished speaker from this platform expressed some concern about the tariff effect of the Inner Six and the Outer Seven actions on the United States and recommended that some consideration be given to establishing a North Atlantic Area, something to include all three. Subsequently we had a speaker from a South American country in a seminar group who told us that South America feels the future of the United States trade, and particularly their own welfare, is dependent upon some type of trading area in the Americas. Are these inconsistent, and what is the outlook for these for the short-term future?

MR. HIGHT: I think you are speaking first of the latest Dillon proposal, which would enlarge the OEC to include as full members the United States and Canada, for two purposes; first, for the better division of aid; and, secondly, for closer trading relations between the United States and Canada, the Economic Community, and the Outer Seven.

I have the feeling--and, of course, I don't know exactly what was in Mr. Dillon's mind--that he thought of this as a transitional arrangement. I think our traditional policy for many years has been a world multilateral system, without preferences. From that standpoint I should think it would be difficult for us to join with the South Americans in any kind of common market to the exclusion of the rest of the world, that is, Africa and Asia.

I would think that we will work out an accommodation to these six and the seven which would include equal treatment, to the extent that they can give us equal treatment, for the rest of the world. To me a common market with the South Americans makes no economic sense. It may make political sense, but I don't think the South American countries are prepared to accept U.S. industrial goods on the kind of a basis that, for instance, the Six are prepared to accept each other's . They are growing economies. They are under-developed economies. They simply could not face American competition, free American competition, in any time in the foreseeable future, so far as I can see.

DR. KRESS: They would like us to buy their raw materials.

MR. HIGHT: Yes, they would. Obviously, the common market, if it could be worked out, I think would be pretty much one-sided. They would protect their beginning manufactures, and we would tend to open our markets to their raw materials.

MR. HAVEMEYER: I have one point there. So many of the Latin American countries depend on their tariffs for so much of the government's public till that it would be very difficult for them to lower their tariffs much more unless they find other sources of income for the government.

DR. KRESS: Mr. Poirier has the title, you know, of Chief of the Latin American Republics Division of the Department of Commerce.

MR. POIRIER: Well, there are some very recent developments going on in the South American common market problem. As you know, it started off as a Latin America-wide common market proposal, fostered by ECLA--Economic Committee for Latin America--of the United Nations. But, obviously, when you try to bring in twenty countries, with such dissimilar geographical and economic conditions and the different stages of advancement of their economies, as we have, that proposal has not advanced too far.

Before then there had started the Central American economic integration and common market proposal, which is really developing at a fairly good pace. As a matter of fact, three of the countries, possibly four, have now signed a ratification, and it is being implemented little by little. So that is beginning to take hold.

More recently, and with much more impetus to it, there developed originally the four so-called South American Southern Tier Agreement--Argentina, Brazil, Chile, and Uruguay. And after two meetings at Santiago and Rio respectively, they decided to bring in or admit three other countries--Bolivia, Paraguay, and Peru. And in September, at the meeting at Montevideo, they agreed on the text of an agreement, but did not sign it, however, but deferred signature to a meeting which is now going on, may possibly still be going on at this time, but which was reported in the Wall Street Journal on Wednesday that signature would probably be taking place on Wednesday or today.

Apparently from press reports, Mexico, which had been quite enthusiastic about it, having attended as an observer at the meeting at Montevideo in September, is reported to have signed with the seven, so that we now have eight. Of course this is subject to ratification by the member countries. And then after three have ratified it, a series of bilateral negotiations among the signing and ratifying members will take place. All of which points to a gradual reduction over a period of twelve years of the rates of duty on all their internal trade among themselves on practically everything that they make.

That is about the status as I know it.

MR. HIGHT: There seems to be a general feeling that what they have in mind is something less than a full customs union, of the kind that the Common Market is developing. Do you really think that these eight countries are prepared to compete with each other, to unshelter their so-called infant industries, to face competition from the infant industries of a neighbor country?

MR. POIRIER: I doubt it. I don't think that as much will issue from this proposal as you read about it. And my chief reason is that the countries involved are already buying about as much as they can use of each other's products. I don't [redacted] see how Argentina is going to buy much more coffee from Brazil than it has been buying. I don't see how Brazil is going to buy much more wheat from Argentina than it has been buying. It's taking all it needs, with some from the U.S. And the Argentine-Chilean trade in sea shellfish and meat and livestock has been going on.

I don't see that their internal trade, that is, between themselves, can develop. It may develop a little bit from some of the new manufactures, some of the more recent developments. But I don't think it will develop into anything as forceful or of the magnitude that the words imply.

MR. VERNER: Let me go one step further on that. I quite agree with you. And even when it gets around to the so-called exchange of industries I'm not so sure the new industries that are developing are going to amount to anything either.

You mentioned Brazil. The Brazilians can't compete on their present costs anywhere in Latin America. As a matter of fact, if it weren't for the quantitative controls that Brazil has got, there would be no excuse for such industries on a cost basis today. The Volkswagen, for instance, sells for the equivalent of $3500 in Brazil. It's fantastic.

COMMENT: Mr. Poirier's prediction already shows signs of coming true. It was reported in the morning press that Brazil did not sign yesterday, and that she raised a new question. She wants to be able to withdraw on two years notice. They are now trying to negotiate that thing.

MR. POIRIER: Thank you very much. Brazil has shown some reluctance in the last six months, increasing reluctance apparently. Bolivia also, I think, was not too enthusiastic. Peru has certain misgivings about it; and Chile and Argentina don't see eye to eye on certain parts of the thing.

QUESTION: I'd like to return for just a moment to the prices.

I think this involves both Mr. Hight and Mr. Verner. We were recently visiting a Jones and Laughlin steel plant up in Pittsburgh and were told that foreign competitors were able to deliver barbed wire on their platforms and their warehouses cheaper than they could produce it here. We were also told--and this seems to be generally known--that in the war-torn economies of Europe and Japan they have installed the very latest in mechanized equipment, especially in steel production, but also in a lot of other areas; that they have every bit as good a capability for that as we have here, and in some places much better. We also saw recently, I believe in Time Magazine, a feature of the growing boom in marketing--supermarkets in Europe on the Continent and in England. This brings me to the point that we have an imbalance of payments coming up continuing; and I'm asking, Doesn't this show that we are getting more and more into trouble in this question of pricing ourselves out of world markets rather than that the problem is abating or that we will be able to live with it?

MR. HIGHT: On the question of barbed wire, there was a Tariff Commission complaint last year, which the Commission did not entertain. The big companies were not involved at all. It was a few small barbed wire companies, specialists in barbed wire, that made the complaint, and it was not supported by the Tariff Commission.

MR. HAVEMEYER: We filed last week.

MR. HIGHT: Are the big companies in?

MR. HAVEMEYER: No.

MR. HIGHT: Barbed wire is one item, and it may well be that European production costs on barbed wire are lower than they are in the United States. But across the whole range of steel products I would doubt it very seriously.

As a matter of fact, I think--and I defer to the Department of Commerce people on this--that although our imports of steel products last year were considerably higher than our exports for the first time in history, a good deal of that was due to the strike; and that we will recover steel markets abroad in the coming year. To take just one product--cold-rolled sheet. Nobody in the world can compete with the United States on that product.

MR. VERNER: Or on specialized steels either.

MR. HIGHT: No.

DR. KRESS: Gentlemen, we want to get along here now. Just let me say one thing. In a few months you will be given an opportunity to join the Alumni Association of the Industrial College, and there has been a rumor around here for years that anyone who joins, graduates.

At the last two or three alumni meetings back we had a labor leader--and I won't name him, because he doesn't need the publicity--who very vociferously said that the American barbed wire people were totally obsolete and out of date, and that if the industry would wake up and get on the ball, it could compete very nicely. I thought that was an unusual thing for a labor leader to say.

MR. HIGHT: No. That is the union line, definitely.

DR. KRESS: Well, now, let's go along. We have touched on item No. 3 incidentally and indirectly; but I think we should give it a little bit more time. Apparently, as far as I can determine, unless we can make some kind of international agreement in advance, we do not have very much chance of controlling violent price fluctuations in time of emergency, whether it's a wartime emergency or a simple drought. On the other hand, the United States, in my opinion, has been showing a lack of leadership in developing these industries too.

Mr. Poirier, does that come under your field?

MR. POIRIER: I would merely say that it is not the U.S. policy to encourage, foster, or develop, or to participate in, except in certain cases, international commodity agreements. The economic policy here is a free, untrammeled, undirected commerce, and only in rare cases where there is a really serious economic problem does the U.S. Government, or my department at least, think that it is a good thing to have an international commodity agreement.

MR. HIGHT: You have become somewhat more flexible in the last year on that attitude, haven't you? You are more willing to entertain a proposal than you were?

MR. POIRIER: There has been a little bending to accommodate certain problems. We have listened to and we have participated in, though only as observers, in discussions of certain international commodity agreements. We have even made available facilities for them in the international coffee agreements, of which we are not members.

MR. HIGHT: If I could take just one minute: There are two sides to this. I think the first thing that ought to be said is that the general price level for raw materials has increased much more slowly than it has for manufactured goods over the last 25 years. The terms of trade of the raw materials producing countries have gone distinctly adverse in the last two or three years, improving somewhat lately.

I think there is the problem of long-term fluctuations and short-term fluctuations; and I know we are addressing ourselves to the question of the strategic importance of stabilizing prices for strategic purposes in times of emergency. I think, of course, we ought all to agree that that is only part of the problem; that the export earnings of the primary producing countries is an extremely important problem from the United States standpoint; and, of course, obviously is tied in with our foreign aid. It has been estimated that the primary producing countries have lost two billion dollars generally in the last three years through price declines in their export products. Now, that's a serious matter, because none of them carry any reserves to speak of.

MR. HAVEMEYER: You also have the problem that the U.S. price level of 1947 and 1948 compared with '59 went up 19 percent on the wholesale price list of the Labor Department. However, you find that automobiles increased 73 percent, and steel 43 percent, in the same period. Therefore, if you are looking into the price, one of the things that are keeping the level down to the 19 percent, you should look at those two large industries which have increased so high.

MR. VERNER: Maybe I don't understand this thing, or maybe I'm off on a tangent. Are we talking about price controls during an emergency?

DR. KRESS: Not altogether controls, but every time there is an emergency, for example, not long ago the Australian wool crop--everybody was out trying to buy it. So as a result, when the Korean thing broke out, the price of wool went up 300 percent overnight, and there is nothing you can do but pay it. Then when the emergency is over and the price goes down, in the meantime the Australians have got used to their new level of living and they're all bankrupt and you've got to go in and lend them some money.

MR. VERNER: This is a rather sentimental thought, but, speaking of alumni and one thing or another, I suppose I ought to be an honorary alumnus of sorts, because I taught at the Industrial War College way back in 1946 or '7 or something like that, up through 1940, I think. But then we were busily engaged in drawing up plans for price control in case of a national emergency. That's what I was thinking of, rather a situation developing as a result of a hazard in the production of raw materials. We worked mightily on that; and I think that after about three years we gave birth to a policy paper, which was supposed to be used in the case of a national emergency, but a national emergency came along and I don't know what happened to the paper. I guess it was thrown out of the window. But I wasn't very close to it for four and a half years. I was overseas for four and a half years; and I came back and, much to my amazement, prices were all over the lot.

From what little research I did on it I found fundamentally that what had happened was that all the principles we had laid down were forgotten. Take such things as the control of wages--the most important, as a matter of fact. All during the war it kept creeping in here and there, inch by inch, one industry and then another.

Sure; we subsidized the raw materials, which should have meant that all things were equal; that they would have gotten into the production scheme at the same costs as they were in 1940. So that your costs of raw materials were the same; but somehow or other we allowed the costs of machinery, the labor costs, and everything else to inch up. So finally you get back to the end of 1945 and you find that the cost of everything has gone up.

The answer fundamentally is that you can draw up all the plans in the world, and you can have an administered economy--no doubt about it--but it finally ends up in how much tenacity of purpose the administrators have got to make things stick.

DR. KRESS: I think that's a good note on which to take a ten-minute halt.

(BREAK)

DR. KRESS: Mr. Havemeyer, you had a comment toward the end there. Do you want to let that go?

MR. HAVEMEYER: No. I wanted to comment on the legislation that we were able to get through for price control. You remember, Leon at all

Henderson started out at the beginning with no legislation/trying to hold the line. Mainly he did it through attacks in the press on industries that were raising prices. And the last act of the price control, when Roosevelt was going to sign it, Chester Bowles went over to see him and he said, "What do you think of this act?" and he said: "Just last week my colored boy has been doing a lot of work for me on the farm and I gave him a quart of whiskey and I asked him the next day how he liked it. He said: 'Well, if it was any worse, you wouldn't have given it to me. If it had been any better, you still wouldn't have given it to me.'"

DR. KRESS: So he didn't sign it?

MR. HAVEMEYER: Yes, he did.

MR. VERNER: But it was a far cry. You see, we were prepared before the war as against an emergency. We had prepared an act that was supposed to have gone automatically into Congress to control prices. But what came out was a far cry from the work that your predecessors had done back in 1937, '38, and '39. It's true that the act was put into Congress; but by the time the gentlemen got through playing with it, it came out somewhat emasculated.

DR. KRESS: I take it you are referring to the Mobilization Plan of 1939?

MR. VERNER: Yes.

DR. KRESS: It went into the round file. And one of the reasons it went into the round file was because the gentlemen who would have to operate it didn't know much about it.

Sometime back Mr. Eisenhower was quoted several times--and I happened to be there when he made these remarks--to the reserve of the department pretty much--he was an executive reservist of the Department of Commerce--he said: "The important thing is the planning. When the emergency actually breaks, you're likely to sweep the plans on the shelf in to the discard. But now that you knew how to do the planning and what was involved in the situation, you could make a plan that would solve that particular situation."

QUESTION: Before we leave this problem of international price control of critical items, I'd like to raise one question for the panel on this. Between the Department of Agriculture and the GSA we have a very substantial amount of these critical items in the stockpile, and some in agriculture that are not considered critical items. I'd like to ask three questions. One, what are we doing in connection with the stockpile, what can we do in connection with the stockpile, to control international prices? What are we doing? And what should we do?

MR. HAVEMEYER: One problem we have is that we have the law which requires that on anything sold from the stockpile we have to get permission from Congress. The second thing is that there are only raw materials in the stockpile. Thirdly, the major products that are sold are those items, such as rubber, which deteriorate. I believe that the report last week was that most of the stocks that were put in three years ago were now liquidated and they are buying new stocks.

Fourthly, on problems such as Peru, Chile, and the Belgian Congo sources for copper--and I think about 40 percent of our copper requirements come in from overseas--and when those economies get low such that they are losing a great deal of foreign exchange, the United States at that time assisted in the world price by purchasing certain stocks in those countries for our stockpile, which helped to keep those prices of raw materials on a more equitable basis.

MR. HIGHT: The problem really lately has been one of declining prices rather than of rising prices. A stockpile, I would suppose, theoretitcally would be sold in time of rising prices to stabilize the prices.

MR. VERNER: That is exactly what has happened, to a degree. Take rubber as an example. However, again, as you pointed out a little earlier, you have to use a certain amount of discretion as to how much control or at what level you want to control your prices internationally, because we do have in the case of rubber these countries that are trying to find their feet. We are trying to place them, not only from an economic point of view equitably, give them a start in this industry, but also we have to think of the socio-political aspects of it too.

If we try to stabilize this price contrary to my industry's interest, we would rather have rubber at the moment stabilized at 28 or 29 cents, rather than 41 or 42. But, on the other hand, I think most people in the industry recognize the fact that our hands are somewhat tied in the sense that we might open ourselves to tremendous criticism if we attempted to dump a lot of rubber on the market and bring the price down to what would be a more reasonable level. We've got to watch that. In other words, it's not altogether economic. There are a lot of socio-political international relations tied up in this thing.

A truism, whether we like it or not, is that the big countries are always looked at as being the nasty people. We are just merely getting into the phase of international responsibility, and therefore international reaction, which the British had in the 19th century. Nobody liked the British in the 19th century, and nobody is going to like the Americans for the rest of the 20th, simply because we are a big, powerful country; and the little man looks at us with a great deal of jealousy; and anything we do--good, bad, or indifferent--is considered unfair and inequitable.

QUESTION: On the subject of international trade agreements, the political developments in Cuba in the last thirteen and a half months have led some people to question the wisdom or the desirability of continuing to buy over half the Cuban sugar crop and pay her double the going world market price, saying, among other things, that part of this extra money is being used to finance Castro's hate-America campaign. Would one of you gentlemen care to comment on that particular question?

MR. VERNER: Let me just say this: that part of that adds up to the point we were discussing a moment ago--you're damned if you do and damned if you don't. We're walking a political tightrope at the moment.

Sure. As a matter of Government policy I feel quite confident that our Administration is definitely opposed to subsidizing Castro and what is implied. But we're in a position where at the moment we can't take a unilateral action that we might without having repercusions not only in Cuba, but other parts of South America, in which they would point the finger of scorn at the United States. I think that's one of the big things that we have to worry about.

MR. HIGHT: I think it's largely a political problem too. I think that we would be accused of using our economic power to further our political ends. I think we have to understand that in paying the five cents a pound for Cuban sugar we are accomplishing two objectives, both of which are important in this country. The first is to protect our own sugar producers. We could do that with a tariff or an excise tax on imports, and we could save the American Government considerable money. It wouldn't make any difference to the consumers, but the Government itself obviously would have the benefit then that it now gives to the Cubans.

We have done it this way, I presume, because we feel that we are closely tied to Cuba traditionally, and this is a form of economic aid to Cuba. Under the Castro situation, to me it seems to be a political decision as to how we would handle it, rather than an economic one.

DR. KRESS: Gentlemen, I was told several days back that I would never get these fifteen areas covered; and, of course, I realize that. But I did think I would get a little farther along than No. 3.

Now, we had a speaker who was to tell us something of the effects of the European Common Market on the United States economy. He became ill. We found a substitute, and the substitute was called before the Congress. So we are not too well covered in that field. I might add that the original speaker is now scheduled to come in March. I know that he's one of these vivant personalities of the world and an international figure; and that's, of course, one of the reasons that he's sick. He's overworked at it and had to take a break.

But I would like to ask if any of these gentlemen would comment on the effect of the Customs Union, not so much on trade with each other, but what that's going to do to American taxpayers, if anything.

MR. HAVEMEYER: I have one example that I can give. The paper and pulp people made a small study on this. It is not thoroughly developed yet. It was not on the Common Market but on the Outer Seven. It looks as if our paper and pulp business, in which our largest exports go to Great Britain, if the EFCA comes into force, we will stand to lose practically all of that export to the U.K. unless there is some way of finding an equitable way of settling the matter so that the exports of the Scandinavian countries to the U.K. and the U.K. will accept the same benefits from third countries which the United States is getting.

This is the kind of thing that we've got to watch in order to come in on this type of case. We have several other cases too. Mr. Dillon had used those in December, when he was in London, and picked the pulp and paper problem as an example of what might be among so many other commodities.

MR. HIGHT: I would think that that would be one of the more important of our negotiations at the end of this year in the GATT with the United Kingdom, to see whether or not we could not get their tariffs down on pulp and paper, so that we would have a position that was less unfavorable than it would be otherwise in competition with the Swedish producers.

My own feeling on the general question is that over the long term, if the Common Market works as most people think it will, and you do actually get rapid economic expansion and higher consumption levels, our total trade with Europe will increase, provided that they are prepared to reduce their external tariffs at the same rate we are. And from all that we can gather, their intentions perhaps are bolder than ours. We have a Trade Agreements Act now that will permit us a 20 percent reduction on items which must be selected with an eye to the peril point and to possible escape clause action, which restricts us considerably, whereas the Common Market is in a position to reduce tariffs on whole categories of products.

It may well be that the shape of our Trade Agreements Act is not such that we actually could keep up with what the Common Market would be prepared to do in reciprocal tariffs. I hope we can. I think that this is something that we're going to have to worry about.

But I think that over the long period, as long as the Common Market does not turn completely inward and follows the dicta which it has so frequently announced that they are in favor of--of wider ties with the world and a strengthening of the world multilateral system, along with their own integration--if they do that, I myself would have no fear so far as American exports to Europe are concerned.

DR. KRESS: I seem to see this problem a little bit broader than many people do. This world is made up of little trivia, you know; and sometimes they begin to add up. I was in St. Louis on the field trip, as you know; and we had a bright young man there who said that the American people were not aware of the effects of the Common Market on the United States. And I agreed with him that I didn't think they were either, but that there were some aspects when they do find out about it, that might not be quite what he had in mind either.

For example, I have a little Opal automobile, which I refer to as [redacted], a German Chevrolet. My wife is very active in patriotic societies, and at first she was boasting about this thing. Now she doesn't say anything, because she comes home and tells me that these women say to her: "Why don't you buy an American car?" I said: "Well, tell them it's a German Chevvie."

Now, when I was buying this car, the salesman, the first one I approached, didn't have any and told me I could go to another place and might get one. I said, "Why don't you bring more of them in?" He said: "Mr. Reuther doesn't want them brought in."

Now, I don't know whether an automobile salesman can speak for Mr. Reuther or not, but I suspect that he had heard that in the development of these Buick sales companies handling these sales over a period of time.

Now, about two years ago we called on one of the trade associations here and asked them if they didn't know some businessmen that could add to one of our afternoon seminars; and they said: "Sure. We'll bring in someone from Chicago." Well, they brought in two--one from Moline, Illinois, and one from Chicago; and it appeared that they were competitors and making tractors. And while we were sitting and waiting for the General to speak to them, one of them said to the other: "When are you going to stop bringing those German tractors in here?" And he said, "Well, why?" And he said, "Because I'm going to bring in English ones if you don't." So there were the two sitting there and talking to each other right frankly.

Now, that's the kind of problem that I see about all our American factories rushing over to Europe to establish these branch plants. It's all fine to get behind that tariff wall. But the next thing is, these products will be fed into various parts of the world. For example, if an order comes over here for an American tractor, he might fill it from a German plant o or a British plant. That would be one of the first things. Then the second thing is, Will they try to feed these things back into the American economy; and if they do, is that good or bad? I don't know.

MR. HIGHT: I'd like to comment, if I may. I think, in the first place, it's not the same tractor. They make a small tractor--the big U.S. tractor manufacturers. What happened last year was that one or two of the companies began to build a small diesel tractor, which sold for something under $3000. One was manufactured in France and another in Britain. ~~Now, these had~~

Now, these had never been manufactured in the United States, on the ground that the market wasn't large enough for a small diesel tractor. But they decided that they would like to test out the market, to see ~~whether~~ just how big it was. So they brought in a number of these tractors.

The local unions in both of these companies made quite a protest; and the companies answered that the market, so far as they could see, was not large enough to set up a production line in Racine or Moline.

This goes a step further. One of the companies then decided that perhaps they would make a small diesel tractor in the United States. They built a fully automated plant in Iowa, and they found that they could make the tractor at some $300 less than they could make it in their French factory.

I think this kind of thing is merely another example or an extension of the specialization of manufacturing. I think most international companies do not make the same thing in different countries unless there are special reasons for doing so, unless it be a protected market that they could not otherwise get in. I think there's been a great deal of investment in the Common Market in Europe on the ground that it will be a protected market. And I think that perhaps some companies may find that it will not be so protected as they thought it would, if the High Commission and the responsible leaders of the Common Market do what they say they will do, and that is reduce tariffs all the way around.

Take the office equipment industry--typewriters, adding machines, co mputers. There are, for instance, many less adding machines made in this country today than there were a few years ago--many more made by American companies abroad and imported into this country. But the exports for the entire industry have steadily gone up and much more than compensate for the imports of the adding machines. In other words, the concentration in this country has been on the computers, has been on the bookkeeping machines, highly complicated kinds of equipment, where our costs are clearly lower than they are abroad. You don't have the trained people. You don't have the trained managers abroad. You don't have the quality control abroad.

Now, these frequently are high labor-content items. It's not something that is made on a production line. They are put together by hand. They are hand-machined. The large companies find that they can't make them abroad at anywhere near the cost that they can make them in this country.

I have another example, and this is in the pharmaceutical line. I heard a man, a high officer in a large pharmaceutical company, who had just opened a penicillin plant in India. He did that because of the quantitative restrictions that the Indian Government has imposed on imports of pharmaceuticals. The only way he could get into the Indian market was to open a plant there. The going wage was 9 cents an hour, and he pays 2 1/2 to 3 dollars an hour in this country. He told a congressional committee quite flatly that he could produce penicillin in this country cheaper than he could in his plant in India.

MR. VERNER: You said very much the same thing I would have said, except that you did a better job of it.

After all, let's be practical about this thing. Any large American corporation is not going to put money abroad and invest in an industry with the thought of importing its product back into this country. American management just doesn't think that way. The only reason that we go abroad is either because we've got a market for a particular product of a certain type abroad that we don't have here, or because we have certain restrictions that have kept us heretofore from getting into that particular market.

Because we bring a product in in its initial stages doesn't necessarily mean it's going to continue. At the present moment I'm importing from my English operation a lot of 13-inch tires. Sure. I'll probably do so until about the end of this year and then I'll stop, because by the end of this year the volume of business will be such that it will justify an inventment in this country to produce the tires. But heretofore there was no sense in our making 13-inch tires in the United States, because the demand was so infinitesimal that by the time we produced a thousand a day, we'd have warehouses stuffed full of them. Remember, a thousand a day in 270 days a year is an awful lot of tires.

Our economy in this country is geared for mass production generally speaking; and we do a terrific job on it. And nobody else in the world can quite do the same job on mass production. First of all, they don't have the markets. Secondly, they haven't had the background that we've had. Maybe they will in twenty years, another generation. But certainly at the moment they haven't got the background or the technical know-how to do it. That is principally due not because they haven't got the intelligence. It's because heretofore they have had small markets. They've had peculiar markets. They've had markets that had different characteristics than ours. The social type of life that we have in this country has brought about the demand for a different type of product.

So that I don't think we need worry about these so-called figures that we read every once in a while when we read Fortune Magazone or Time Magazine and so on about how many hundred thousand cars are coming in. The irony of it is that the American corporations are so awfully darned slow in doing it. Who were the people who first brought in the European cars? It wasn't any American corporations to speak of. It was people like Vauxhall, British Motors, and those people; and then we came slowly tailing along behind. If there's any criticism attached to it, it's the fact that we're just too rigid in our management. We don't move fast enough, because we don't think in terms of small units. We think in terms of thousands. So I'm not too worried about it.

Now, sure; a lot of hand-processed goods will come in. Again, I think that can be absorbed. I go back in my memory and I recall many years ago discussing this thing in a seminar at school, and one of the choice examples I had--I don't recall the figures now, but if anybody is interested, you can dig them up--you take an analysis of the trade between Great Britain and Germany from 1870, from the establishment of the German Empire in 1870, up through, well, take any period up to the Second World War--that's a good period--or even the period after it if you want to;but that, however, had a number of factors in there that might destroy the illustration. England at the time in Parliament had a great deal of discussion about whether England should continue its free trade policy vis-a-vis Germany, because now that Germany was coming in and developing a highly integrated manufacturing industry and was going to wipe the British right off the face of the map and they were going to lose business to Germany, where theretofore they had shipped a large quantity of manufactured goods. Well, you look at the trade from 1870 to the Second World War; and England never in one year, except during the war years, had an unfavorable trade balance with Germany. But what happened? You had a switch in the type of trade. Instead of shipping calico and tin trays from Birmingham, they were shipping machine tools and highly technical equipment to Germany to use in their manufacturing.

MR. HIGHT: And you had a steady increase in the trade.

MR. VERNER: Yes.

DR. KRESS: We'll take one question.

QUESTION: I'd like to put this last question in a different setting. I'd like to put it in the recession. The Council of Economic Advisers said that one of our problems facing the country now is this cost-wage push. In the 1957-58 recession our costs didn't go down. They stayed rigid. In Europe, if they have a recession, I would presume that their costs would go down, like they do in any business cycle. This will increase the spread between the prices that we pay for foreign products and our own products. After a few business cycles do you think we'll be priced out of the market then because of the cost-wage push on American goods?

MR. HAVEMEYER: You have your unit costs. During a recession there are fewer pieces going out and you might get rid of certain of your overhead costs, but your unit costs are the major problem. If you cut from 1000 a day to 800 a day, you only get rid of a certain amount of your day-by-day expenditures and still have the same costs.

COMMENT: The statement was made that in the cost of production in foreign countries the labor cost is more important than it is in the United States, because to make an automobile in England, for instance, it takes twice as many man-hours as it does in the United States. But in every recession the wages go down in England and that would make the price of the automobile go down twice as fast as it would in the United States. In the United States the price didn't go down at all in the 1957-58 recession, because of this cost-wage push. In England it would go way down, and that might mean that we would be priced right out of the market on automobiles.

MR. HIGHT: I don't think that that's quite accurate. I am not familiar with the source of the second part of your statement--that there is more flexibility of costs abroad than there is here. I think it's certainly not true with respect to labor costs, because commonly abroad you have a paternalistic kind of system, where you [redacted] don't lay people off. It's particularly true in Italy, in Japan, and in Germany. Just take the steel industry. If the demand for steel falls off in the German industry, they don't lay off people. That is automatic in this country. You don't keep anybody working unless he's got a job to do. I therefore don't think that

that statement is accurate. I think that the cost-push problem is a common problem both in Europe and in the United States.

I think this leads to the next question, which is one of our general balance of payments and the kind of flexibility we might have in combatting a recession in this country and the effect it would have on our balance of payment. I think that is a serious question. I myself do not feel that we are at a disadvantage with respect to costs during a recession as compared to other countries.

MR. VERNER: I'll agree to that. I was just trying to cast around in my mind.

Within the industries that I am familiar with, which are pretty much automotive, I just can't think of any diminution of costs that occurred in '58 and '59. On the contrary, there is a greater stimulant in Europe, I think, toward increased costs than there is in the United States at the moment.

You may think I'm silly in making that statement. I think what is happening in America today is that we are beginning to realize that wages--I think the mass of the people, as the result of the discussions we've had on radio, television, and newspaper articles of the general fights among the unions, the recent strikes, and so on, I think the masses in this country, including the working man, are becoming aware of the fact that there must be some sort of relationship between wages and production. I don't mean by that that they are all ready tomorrow morning to break down on some of their principles. I merely am stating that I think the average man on the street is becoming more aware of this problem; and to the extent that he's becoming more aware of it, there's less push and less energy and will be less energy back of just necessarily increasing wages without getting commensurate increased productivity or allowing for it.

In Europe you've got a slightly different thing. I think the trade unions in Europe did something different than our trade unions did in this country. In Europe you remember your trade unions went along the political line , feeling that they would attain their objective, which the unions conceived of as what we would call socialism, that way; and they became a political party as such.

I think the last election in England marks a social change that is occurring. I commented on this about five or six years ago, and nobody would quite believe me. As a matter of fact, I took some small bets in England last year on the trend of this coming election, and, much to my amazement, I won them,on the basis of this thesis: that your Englishman today, your average workingman, is beginning to feel that a trade union as a political party is no longer successful. And I think you're going to find, and I think you're already finding, a groping around in England to find some other solution.

Now, how it will develop I don't know. It's possible that the so-called Labor Party in England might become a political party, and that the unions that they have will draw away from the party and become unions as we know them. So I think you've got an evolution going on in England.

Now, in Germany you have another ~~situation~~ interesting thing. The Germans have been able to work very closely with the trade unions after the war, largely because of the general philosophy of the Germans; and they were able to subordinate, or had the unions succeed in subordinating, the pressure of the labor rates. But today it's interesting to note that the trade union is no longer important in Germany. Actually your wages are set, not by the unions, but by the laborers themselves. And they don't have to go on strike to do it, because you have a peculiar situation developing in Germany, in which the demand for labor far exceeds the supply.

So what is happening today is that an able-bodied, intelligent young man may work in one factory today. He'll go to the next town on his day off, or take a few hours off, and apply for a job at a higher wage. If he gets it, he goes back to his boss and says: "Look, I'm quitting unless I get this wage." And you've got this cycle going around. In other words, they have given up the unions for the moment. Once the relationship of supply and demand is changed, that philosophy will change, in which the unions will then be made an issue, and the members will force the unions to do better for them in the way of benefits and wages.

So I think you've got a change going on in Europe; and it's not going to be so easy for Europeans to change wages depending on the business cycle as it has in the past. I think they are getting to a form of rigidity that we've got in our economy in that respect.

DR. KRESS: Gentlemen, all good things must end. I got the distinct feeling here this morning--and I think it's important to us here--

that there seems to be no tendency on the part of this panel to attack the American wage pattern or level or process. And my second important feeling is that we didn't dust off any of your O.P.'s for next week.

Gentlemen, on behalf of the Commandant, the Deputy Commandant, and all of us, we thank you for being here.

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