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ECONOMICS OF WORLD TRADE

Dr. Howard S. Piquet

NOTICE

INDUSTRIAL COLLEGE OF THE ARMED FORCES

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ECONOMICS OF WORLD TRADE

21 September 1960

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MR. TERRILL: General Houseman, Gentlemen:

This morning we will have the first of two lectures on the subject of international economics. It is fitting that we do so at this time, having completed a review of the domestic economic scene.

Our speaker is Dr. Howard S. Piquet, who is an authority on this subject. I have had the pleasure of knowing Dr. Piquet for almost two decades. I can assure you that he is an outstanding authority in this field and and has had extensive experience in government policy operations and research.

You will recall from his biography, which you have, that he is the author of a special study which is assigned reading. It is entitled "Imports, Exports, and the U. S. Balance of Payments."

I can best describe Dr. Piquet as an economist's economist. All of us in government service who deal with economic problems know and greatly respect Dr. Piquet's judgment. He is, as many of you know, an old friend of the College. This in fact is his 12th appearance.

With this brief introduction I present Dr. Piquet.

DR. PIQUET: I am so used to the old auditorium that I don't know if I can get used to this luxury here. It looks a little bit like a theater, and I'm not too used to being in dramatics, but I'll try my best.

It is always a pleasure to come here and talk to you people, because, as I tell people on the outside, some of the most incisive questions that I have ever had from any audience have been from the Industrial College. I have also been told something else that made me understand that even if I say something off the record it is still being recorded on tape. The trouble this morning is that you never know. Big Brother is always watching you somewhere.

I thank my friend, Bob Terrill, for the fine introduction. I suppose if I had been an ambassador along with him for some time and had had a chance to introduce him, I would have done equally as good a job.

I am going to talk this morning on the Economics of World Trade. My official position, as you probably know, is with the Legislative Reference Service of the Library of Congress. In that capacity I serve all Members of Congress, both Republican and Democratic. Therefore, I have no politics in the open. By the same token I am not a member of the Government and I am not responsible for the content of my work to the President of the United States or to any government department. I am a free wheeler, and therefore I can speak, in the technical sense of the term, irresponsibly. I assure you I will speak responsibly as far as my training as an economist is concerned.

I am going to wrap my remarks around three main headings. Before I do that I want to point out that the economics of international trade is almost a meaningless phrase unless it is considered in conjunction with the politics of the time in which we live. I call myself a political economist rather than a narrow economic technician. You can discuss these things from the point of view of pure logic or you can discuss them from the point of view of practical problems. I prefer the latter.

I want to dismiss first of all a few hobgoblins that haunt us. We hear everywhere statements to the effect that the United States is becoming weaker vis-a-vis the Soviet Union, because our gross national product is growing more slowly than that of the Soviet Union.

Secondly there is the statement that the United States is pricing itself out of world markets and that we have a very bad balance of payments problem.

Thirdly, it is said that we are losing gold so rapidly that we are beginning to lose our shirts.

Fourthly, they say that we are investing some of our private capital abroad and developing imports that come back to haunt us, and we need somehow to stop this.

I could talk all morning on these four points. I am not going to, however, I am going to dismiss them fairly rapidly, I hope. But I think it is important that these hobgoblins be thrown out of our minds, because they get in the way of clear thinking.

I hope that you have read my pamphlet on the balance of payments. I hope you understood it. Whatever our weaknesses may be as a nation--

and Heaven knows we have weaknesses--no nation is without them--it is not that we are weak in terms of basic economic strength. That is not a weakness. We are stronger today than we have ever been economically. I don't need a GNP to prove it.

It is true that the Soviet Union is growing more rapidly than we are in terms of gross national product--whatever that means. The authority of the technicians seem to agree that the Soviet Union is growing at about the rate of 6 percent per annum, and that the United States is growing at about the rate of 3 percent per annum in terms of their very rough measurement of GNP.

I prefer to take a more precise measurement. I think steel production is a more precise measurement, and it is true that in that case the United States is growing less rapidly than is the Soviet Union. It would be very surprising if it were not so.

Many of you are fathers and have children. I have a daughter, age 14, and she has been growing at a pretty rapid rate. She's about my height. Now, if she continued at that rate for the next 14 years she would be a monstrosity. No boy would want her.

The Soviet Union has done better than a remarkable job economically, at a price of human freedom. It has deliberately forced economic power and strength into production lines, as opposed to consumer lines. But it's a young economy. If you take their steel capacity and our steel production, you will find that theirs is growing more rapidly, yes. If you put it on a curve--and every day's curve is a parabolic curve--rates do not stay the same but decline--it's a phenomenon everywhere in nature--you will find on the 40-year log that the two curves are just about alike. So, though the Soviet Union's growth is more rapid than ours, this is accounted for obviously by the fact that they had the advantage of Western technology in getting started.

I am not concerned in the slightest about relative mathematical rates of growth. But I am concerned about what we do with what we've got. The fact is that either one of us could blow the other off the face of the earth. You know that. The important thing is how we behave with what we've got.

As far as pretty much disappointment about our GNP is concerned, it was all I could do to get down here this morning because the traffic was so congested. Are we going to be better off because we can afford to have three cars in the family instead of two? That's the reason about all this. We have all the wealth that we need. We need to know how to control it. It is so easy to dodge our economic problems by saying that an expanding economy is easier to take care of. Of course it is. The truth is: How do you keep the economy in balance when there is no longer a period of rapid expansion? That is a challenge to any free economy.

Secondly, I said there is concern because we are pricing ourselves out of world markets. You were assigned my pamphlet. In that pamphlet on, I think, page 21 I show that, if we take the proper years for comparison, there is very little if any evidence to indicate that we are pricing ourselves out of world markets in any general sense.

Now there are industries that are sick in terms of their position abroad. Our automobile industry has taken a tremendous slap in the face due to its own stupidity, but our automobile imports, you will see on page 20 of my pamphlet, have increased by the astounding percentage of 895 percent between 1955 and 1959. That's in terms of percent. The absolute increase is in terms of something like $760 million.

Now then, if you look at the chart on the earlier page--page 14--showing exports in relation to imports, you will see that the year 1957 was a very poor year to take as a basis of comparison. Most comparisons you have heard from people who say we are pricing ourselves out of world markets are comparisons which have taken 1957 as a base year. Of course, if you take a peak year like 1957, which was a bulge year in exports, a bulge year because of the Suez crisis--just as the year 1951 year was a bulge year because of the Korean crisis—you have to iron out those bumps if you are going to make any reasonable comparison.

Therefore, the most reasonable year to take is the year 1954-55 and compare the year 1959 with that. If you do that you will find that there are certain things that we have really lost out on besides automobiles. Imports of petroleum have increased. Iron ore and steel mill products imports have increased, also fish, and so on. Also certain exports have decreased, such as automobiles and petroleum, and iron ore and steel mill products.

And certainly imports have increased by even more than the gross national product.

But, if you look at the other side of the picture, you will find that we have exports that have increased tremendously since 1955, including many machinery items. There are brains and preparations, of course, which will be subsequently enroute. Then there are chemical specialties, oil seeds, oil, rubber products, and industrial chemicals, on page 18, and so on.

If we take automobiles, petroleum products, and iron ore and steel mill products alone--those three--the decline of exports and the increase of imports more than makes up for the narrowing of the trade balance between 1955 and 1959. The automobile problem I said is largely due to the industrial policy that we followed, that of producing big cars. They are rectifying that, largely due to the fact that we did import small cars. Iron and steel mill products show this largely because of the strike, and we are using up petroleum so rapidly that obviously we are going on an import basis.

These are structural trends that we are witnessing. In 1960 our export volume is increasing remarkably relative to our imports. As I indicated in the pamphlet--I didn't forecast it but I indicated it very strongly--that situation will correct itself and it is doing so. No, we are not pricing ourselves out of world markets in a general sense. There are certain industries that are being hard hit, but that is the nature of competition.

The next point is that we are losing gold very rapidly. You have heard this all over the place. The fact is that we have had too much of the world's gold. Even now, after having lost a substantial amount of gold in 1958, we still have about one-half of the world's monetary gold. We have been accumulating gold since the close of World War I by our various policies. In spite of the fact that we lost $2.3 billion worth of gold in 1958 and in 1959 we lost less than a billion, in 1960 the export rate is even less than that--it has corrected itself.

I wish I had time this morning to give you a discourse on the theory of international trade, of the theory of international gold, and some of the free gold standards. Obviously I don't have time for that. We do not have free gold movements. No country in the world today allows gold to move freely. It is all regulated. Our currencies are managed. Under the old theory of the 19th century political economy, gold would move freely. The exchange rates would be allowed to move. The economies would adjust to each other, with the result that the gold would be automatically distributed among the countries of the world in such a way as to bear a proper relationship to the amount of business being done in an economy. That's the way the textbooks say it. That's the way, roughly speaking, it did actually prevail in the middle of the 19th century, when Great Britain was paramount in the world economy.

All of that has changed. We live in the middle of the 20th century.

There is no longer a leading economic power that has been able thus far--I am referring, of course, to ourselves--to manage this thing internationally the way the British did in the 19th century. We haven't yet learned how to do this.

It is important that our gold reserve not be impaired because, since the war, the United States dollar has taken the place of the British pound sterling as the international currency. Therefore, the stability of the dollar is more important than it would otherwise be. So there is some reason for being concerned about the undue loss of gold.

But I assure you we haven't yet reached the point where we need to be alarmed. We still have about $19 to $20 billion worth of gold in this country, which I said before is about half of the total free world's monetary gold. Of that gold all but about $7.5 billion is earmarked as reserve against our Federal Reserve notes and Federal Reserve deposits--that is a reserve against our outstanding credit.

That is an archaic thing. We are the only important country in the world that has a legal minimum gold reserve. In 1945, out of the Gold Reserve Act, we lowered the gold standard reserve from 40 percent and 30 percent respectively on Federal Reserve notes and Federal Reserve deposits to 25 percent, and nobody noticed it. We could just as easily now do away with the 25 percent minimum if we took the right time to do it.

The gold reserve is almost meaningless because you cannot get gold for your money. We are not on a gold standard--on a free gold standard. We might be on a psychological gold standard, but we are on a managed currency basis. So that means that really, for international purposes, we have the whole $19 billion available. We can lose gold at a considerable rate for a few more years, without impairing the basic reserve of the dollar internationally.

These things do correct themselves if you allow them to do so. I am old-fashioned enough with my economic training and beliefs to believe that the forces of economic adjustment are still working, even though they are impeded by many rigidities in our economy. If the interest rates were allowed to move freely in various countries the gold would be much more likely to flow the way it should flow. Our interest rates are being kept normally low, compared with other countries. As long as the other countries have higher interest rates than we have, they attract capital, obviously.

So, in the first 6 or 7 months of 1960, even though there has been a correction occurring in our trade balance--our exports have increased rapidly relative to our imports--that has been offset in a large measure by the fact that there has been a persistent movement of American capital abroad, which is primarily a phenomenon of exchange rates, on top of the phenomenon of the European Common Market, and the temptation to induce American factories to move abroad.

If I thought that we were going to persistently lose gold, of course, I would be alarmed. But I don't think we are. I think that this is being corrected. One of the very important things to observe is that in 1959, when we became concerned over our balance of international payments, the British, particularly, and other European countries realized that we were being concerned and took steps themselves to help us. How? The British began to stop buying the gold for their reserve purposes and they even paid back part of their loan ahead of time to the Export-Import Bank. We are dealing with rather intelligent people in other countries who realize that it is to their advantage that the United States dollar remain stable. We mustn't forget that basic fact.

I could develop this a little more, but I think we will have to stop that discussion because I have other things to talk about.

When we talk about this investment of private capital abroad being a bad thing we find that it is not a bad thing. The fact that we can invest capital abroad is a sign that we are economically mature and strong. One of the most important things about the British Empire and Great Britain in the 19th century was that she was sending her investments all over the world. You can argue, of course, that if Great Britain hadn't done that and hadn't become the firstrate power in the world maybe she wouldn't have the headaches she has now, because she would not have been overexpanded with population. That I think is not a very important observation. I think the important thing is that a characteristic of maturity in nations is that they do have surpluses for investment abroad.

The balance of international payments as such should not be confused with the balance sheet of a country. The balance of payments, as I pointed out in the early pages of that pamphlet, the balance of international payments, is nothing more than a statement of the dollars that go out of the country, set against the dollars that come into the country for various purposes.

A poor country can be in balance with a rich country, and indeed must be. A poor man is in balance, as far as his payments are concerned, at a low level, with a rich man. My yard man who does my work certainly must be in a balance-of-payments position with me. Otherwise he is in debt to me and he has to get out of debt.

Japan today has a very strong balance-of-payments position. Some people have jumped to the conclusion, therefore, that, because Japan has a strong balance-of-payments position, her trade balance being much better than it was, her exports to us being for the first time in excess of her imports from us, she has no economic problems. Would that that were so. Japan is still basically, economically, in a very precarious position, because her basic wealth, her basic resources, are not sufficient to take care of her growing population, even in spite of the fact that they are practicing birth control very intelligently.

Japan must increase her exports relative to her imports if she is to survive at her present level of standard of living.

By the same token, the fact that we have had a weakness in our balance-of-payments position, with a deficit of between $3 and $4 billion, this does not mean that we are going broke. We are still a strong country. We are still the strongest country in the world economically. Of course, compared with Japan, there simply is no comparison.

Why do we have a balance-of-payments deficit? We have been giving away $5 billion a year, unilaterally, ever since the close of World War II, in the form of the support of the United States military establishment abroad, which is an integral, vital part of our foreign policy, and we have been giving the rest of the $5 billion in the form of direct non-military grant assistance to foreign countries, which is also a vital part of our foreign policy.

Now, if we persist in giving $5 billion a year away, how can we be in balance unless the other things take it up, take up the slack--unless our exports increase enough to force out of normal balance the $5 billion, to make up for the abnormality of giving away $5 billion? Strange to say, from 1950 to 1957, our exports were increasing. There were correctives at work, tending to bring the thing into what I like to call an abnormal balance, if you will. The exports, of course, earn dollars. Ultimately speaking, dollars are valuable in only one place; that is in the United States. Ultimately the British pound sterling is valuable in only one place; that is in the United Kingdom. Dollars always come home to roost eventually, and our dollars have been coming back to roost, but not all in the form of increased exports. They have been coming here because we have been attractive as a depository for foreign investment. Our foreign dollar balances have been growing steadily and are still growing. That is, the foreign countries are keeping their reserve balances in the United States in New York banks, because it is the safest place, and because it is the most important financial center in the world. Does that indicate a lack of confidence in the United States system, the fact that they are sending their money here? Of course not. The question is, when will they decide to use those dollars to buy our goods instead of merely keeping them here on deposit as their legal or other reserves? There are already indications, as I said before, that they are already doing this, beginning to buy more American goods.

The balance sheet of a country would indicate its real wealth set against its population. In that respect we are in a very fortunate position.

Now let me discuss for the remaining 20 minutes three headings: What our present trade policy is in theory and in practice; some of the realities that we face that I am afraid we are not living up to; and what we can do about them.

Our present foreign trade policy goes back to 1934, to the inauguration of the Hull Reciprocal Trade Agreements Program. Prior to that time we were riding high, wide, and handsome on the protectionist road under the Portland-McComber Act after World War I and the Smoot-Hawley

Act
/ of 1930. In 1934, when the world was in the throes of a tremendous depression, the United States changed gears--turned around, if you like that better--and embarked upon a policy of liberalizing trade by the reciprocal lowering of trade barriers. In the thirties that was a very vital program. The United States did slash duties. So did other countries. But there was an awful lot of slashing to be done, gentlemen. Our duties were unbelievably high. We slashed some duties from 200 percent to 100 percent. They're still at 100. There was an awful lot of excess protection.

In the thirties it was possible for the Administration to say in all truthfulness, "We are slashing these duties. We are not hurting anybody." They did do that. But then came the war and the Truman Administration, and old Harry discovered it wasn't so easy to do this any more, because from then on it began to hurt. Not only that, but the Administration itself, under State Department leadership, worked properly, I believe, although not using good legal judgment, and decided that the way to do this was to do it more quickly.

So we changed our system from a bilateral negotiating basis to a multilateral basis, and we were instrumental in forming what has since become known as the GATT--the General Agreement on Tariffs and Trade--which is presently meeting in Geneva. That is an instrumentality, an ad hoc international organization , that enables us to hold tariff conferences, to lower tariff duties, and to try to do something about import quotas.

But, after you wring the water out of a towel you can't do much more wringing, and there is a certain hollow ring to our present Reciprocal Trade Agreement Program. The Act has been successively emasculated so that the President's powers now are very restricted. At the very same time that we were moving from bilateral negotiating to multilateral negotiating, the Congress was getting increasingly scared.

Starting in 1947 Congress instituted an escape clause to be inserted in the Act, so that henceforth, whenever imports increase to an extent that they threaten injury to a domestic producing interest, the Tariff Commission, after an investigation, if it finds injury, recommends that fact to the President, who then can either reject it entirely at his own political peril or who can raise the duty.

Now, I must say in all candor that the present Administration has been very courageous about holding out against this tide of protectionism. But it's a tide that can't be stopped by such an infantile thing as the escape clause. Let me put this in better perspective. We want to expand trade. I presume that is what the Administration means when it says it is going to lower duties. A tariff is no longer that which keeps out goods exclusively. Ours is a large market. It is difficult for foreigners to break into this market in many lines where we are strong.

Automobiles is an exception, but, as I said before, that's a peculiar case. Radio tubes and electronics at the moment is an inviting field for the Japanese. But for the most part, the imports that come into this country historically have been imports that have competed with the weaker segments of our economy--textiles, plywood, pottery, chinaware, and things of that sort, where price competition is important but their servicing is not important.

If we really wanted to expand trade, we would have to look beyond the simple tariff reduction formula. In late years we have crippled our Act even more than we did in 1947 or 1951. In 1958 we gave the Congress the power again to veto the President even in his escape-clause actions. So that now, if the Tariff Commission finds there is injury and the President in the national interest fails to raise the duty, then Congress can overrule him by a two-thirds vote. That's new in the Act since 1958.

We have an express policy of lowering duties, but we are negating it by the very fact that we are restricting imports whenever they occur. You reach a certain point where you have to fish or cut bait. You just can't do both. And we are trying to give the impression that we have a liberal trade policy at the same time that we are doing everything in our power to negate it.

The idea of a free trade of course is a simple idea, though politicians in the Administration will proclaim to high Heaven that we don't have a free trade policy--it's freer trade we are talking about. That's largely double talk. If we continue to reduce duties little by little, eventually we obviously come to the point where we have free trade. Our idea is a multilateral trading system with relatively free trade, much along the line that the British were so successful in implementing in the 19th century. And it's a laudable idea. I don't want you to think that because I have given some critical impressions about our trade policy I don't think we have been on the right track. I think we have. But we are not taking the steps now that we should take to implement it in the light of the conditions that prevail in 1960. We are not living in the year 1940 any more.

The logic of free trade is so simple--it's do the thing that you can do best and you make out better. If I could be paid $500 for this lecture, I think it would be a very good idea. If I were and if I had given lectures for $500, and I can also type pretty well, and I actually am not such a bad hand at fixing my own lawn, if I have to, which would it pay me to do? Concentrate on the lecturing and the writing that goes with it? Or should I allocate my time and do my own typing of my lectures and my articles, and also take a day or two off a week to fix my lawn and maybe to repair things in the house? Obviously, from an economic point of view, it would pay me to concentrate on that which I relatively can do best and get the next best job man to do the odd work, and get the next best stenographer to do the typing. Concentrate on the thing that gives you the maximum comparative return.

That's a simple theory of comparative advantage, and it applies to nations as well as to individuals. But it does imply this: That nations must be willing, if they are going to implement this kind of policy, to allow their economies to adjust to other economies. And the world is not the kind of world where we can afford to do that. Let's face it. This is not a world of peace. This is a world of cold, hot, smoldering, and what kind of war I don't know. This is not a world of peace, along the lines that prevailed throughout the bulk of the 19th century.

This, then, is our foreign trade policy: the ideal is multilateralism, treating everybody alike. In practice it is being thwarted by the realities of the situation which are that you have people who cannot afford to see themselves submerged by competition and by the fact that we live in a world that is not at peace.

Now what are some of these really unavoidable realities which we have to face and which I am afraid we are not facing realistically? First, my good friend, Bob Terrill, could give you a much better exposition than I can possibly give you as to what the Soviet Union is doing in terms of trade penetration. Suffice it to say they are doing a lot, not in terms of actual volume of trade but in terms of holding the bait of trade in front of the uncommitted nations, not the least important of which are the new nations in Africa.

Second, we have regionalism in blocks. We have the European Common Market. I could give you a lecture on that. We have the European Free Trade Association. These are two rival blocks in Europe that are politically at each other's throats but which economically are evidence of a movement toward regionalism in the world. These countries in the central part of Western Europe and the continent that are members of the Common Market are Belgium, The Netherlands, Luxembourg, Western Germany, France, and Italy. They are combining themselves into an economic community with free trade among themselves and with a common tariff against the rest of the world, including the United States. That means that in some cases the tariff that we will have to pay to get into their market will go up, that is to the Netherlands, and Belgium. In other cases tariffs will come down to us, to a common average.

We are scared stiff about the European Common Market right now, politically. We are putting pressure in Geneva on the European Common Market to be reasonable in their agricultural policy, forgetting our own policy meanwhile with respect to agriculture. We are not too reasonable, either. We are spending a thousand dollars a minute right now to store the wheat that we can't use--a thousand dollars a minute. That's $550 million a year, just to store the wheat. If anybody is giving agricultural subsidies, they are not the ones--we are.

We've got the GATT. It's a reality. It's an instrumentality for negotiation. We've got the European Common Market as a reality. The important thing is that our delegates have the power to act, or that they can act under an emaciated, tired, old law, circumscribed by an escape clause that prevents anybody from taking us seriously.

The same thing applies to the United Nations. It is not foreign policy to say that we are supporting the United Nations by sending delegates there. Unless we have a national policy within the United States, the United Nations is not going to work in the way we want it to work. There is no substitute for national policy that is realistic, and strong, and effective. Our intentions are good, but we are not willing to do very much. Every 2x4 industry feels that it needs to be protected by the power of the Federal Government, and it is getting that protection.

A few years ago I made a study of what it would mean to the United States in a period of prosperity if we did away with all tariffs. The Bureau of Labor Statistics, taking the figures that I had arrived at in conjunction with the experts of the U. S. Tariff Commission, came to the conclusion that it would affect somewhere between 200,000 and 400,000 jobs at the most, man years that is, of work. Of course this is peanuts compared to our economy as a whole.

The whole tariff problem has been vastly exaggerated. It has been important in the aggregate. But the important thing is that the toes that are stepped on are the toes that are connected with tongues that are vocal. If there is any one thing that a politician is conscious of--and I say this in all respect to Members of Congress--I have worked with them for a long time, and I have a high regard for most of them, in terms of

good
conscientiousness, /intentions, and general ability--it is his constituents. They are responsible to their constituents, and that's the way it should be. The fault lies not with the Members of Congress. The fault lies with the constituents, the leaders of the constituents--the bankers, the agricultural leaders, the department store people, the leaders in the communities, who are economically, for the most part, illiterate. We need a mirror if we are going to criticize ourselves. We shouldn't be too hasty in criticizing either the Administration or Congress.

In the underdeveloped areas we have major problems--countries which are largely uncommitted but produce raw materials like rubber and tin. They don't care about tariff reductions. They want stable prices. What happens in the prices of raw materials like lead and zinc? They go all over the map, up, down, up down, up down, and the poor people who are producing these things are either in feast or famine. What do we do? Do we go into a national commidity agreement to stabilize? No. We put import restrictions on lead and zinc, thereby antagonizing Canada, antagonizing Mexico, and antagonizing South America.

The same thing is true with petroleum. We must learn to think in terms that are bigger, in terms that are nationally and internationally fitting, and recognize that maybe there is some other way out than the protection of every 2x4 industry in this country.

What do we do about it? I will be specific. There are a few minutes left only. I think there are lots of things that we can do about it. There are certain things happening in the Senate of the United States today--not today but within the last few weeks--that are encouraging. More and more attention is being given to what is known as the adjustment assistance philosophy. Fortunately we have bills in the Senate introduced by both Republicans and Democrats. Senator Humphrey and Eugene McCarthy have one bill, and Senator Javits of New York has just introduced another. So you recognize the fact that you have all this opposition, and people would be damaged if imports were increased, but these bills will implement our trade policy by providing that, in those cases where the President of the United States deems it is important that we have the imports, we will have the imports, such as some from Japan. If we don't accept some Japanese imports we might as well kiss goodbye to Japan. Strategically in the Pacific we can't afford to do that. It is necessary that Japan sells something. But suppose we selected those things that we figure we could live with in the way of Japanese imports--they have to be fairly substantial. Then if any domestic producer can prove that he is being hurt--or a whole industry, according to the Javits bill, or just an individual producer--there would be government assistance, not a subsidy, not a permanent subsidizing or perpetuation of the present line of activity, but it would take the form of such things as low-cost loans to enable them to adjust to other lines of output--like the Elgin Watch Company did recently on its own steam, when it shifted from watches over to jewelry items of various kinds, along

we could
with watches--and/make these loans low cost, 3 percent. It would retrain young workers like we retrained people under our GI Bill of Rights. It would enable people to move from country to country by paying their expenses. It would speed up retirement in those cases where the people have become obsolete. It would speed up and increase up to a point the unemployment compensation payments in a period of adjustment. It would assist the adjustment, in other words, recognize the forces that are working, and use the force of government to oil it up, to lubricate it, so that the adjustment can occur without the innocent victim suffering because he happens to be in a vulnerable position.

There is a lot of talk about raising labor standards abroad. How can we compete with low wages of Japan? Of course in many cases that's a phony to start with, because the productivity of Japan has not been as great as ours. Obviously, the wage rates alone are not enough. You have to take into account their productivity of the labor, which means that the important thing is the unit cost. But it does so happen that Japan is a very modern nation. Those of you who have been there I think will agree with me. There are two economies, side by side, the old and the new, and the new is just as efficient as ours, and they can undercut us now on many lines because they have the same modern machinery that we have, and in some cases theirs is even better. They also have low wages because of the unfavorable relationship overall of their population to their resources. The whole scale is low.

If there were some way that we could help them to improve their productivity, all to the good. But there are some bills in the Senate now, and in the House, that would try to equalize labor standards here and abroad by tariffs. That's the old cost-of-production equalization theory, and it is a complete phony.

This difference in cost of production is what makes all trade possible, foreign and domestic, equalized through the force of government. The competitive conditions between two countries and two industries do away with incentive to trade, but yet the absence of the comprehension of this thing in proper perspective makes this sort of thing very attractive to people--"If we can't compete, keep out the foreigner."

Our sights must be raised. The trouble is that we are lazy as a people. I said that in a very soft voice. I hope you didn't catch it. We are getting lazy. I am not going to say you ~~that~~ people are soft, because you are in a nice, comfortable building, but as a people we are getting sluggish in our thinking. We are not facing up to these realities. We are not really facing up to the economic threat of the Soviet Union.

On the foreign-aid front we have done a reasonably good job, just reasonably good. On the foreign-trade front we are simply living with a tired, old instrument that needs to be pepped up. Maybe what we need is a dose of political and economic geritol to wake us up a little bit.

I don't know how to do it. I have talked before about the educational constituencies. I don't believe that every American should become an economist. Heaven forbid. That would be awful. But at least we ought to have more attempts on the part of our profession in economics to breach the chasm between the technician and the man in the street. That's what I tried to do in a certain pamphlet I did for Senator Humphrey. But people don't read them. You don't read a thing like that. Somebody ought to pick it up and dramatize it, make a movie out of it.

Well, I think my time is up. I understand we will come back, and I hope you will ask me some questions on the parts that I haven't had a chance to talk about.

DR. KRESS: Gentlemen, we have two points. One is that for several days we have noticed that unless you make a special effort to throw your voice up in asking questions the rest of the audience is often unaware of your questions. And this morning the speaker says he has an ear that he favors, so he wants you to speak up a little louder so that he can hear you.

QUESTION: Doctor, would you care to comment on the effect on our export-import balance of the expropriation of our investments and the nationalization of our banks in Cuba?

DR. PIQUET: I am afraid that that rather stumps me. It's a rather specific question in Cuba. I can give you a general answer rather than a Cuban answer. In general, of course, the expropriation of American capital abroad isn't going to encourage investment, obviously, and to the extent that it discourages new foreign investment it might have a temporary beneficial effect on the balance of payments, whatever that is worth. I don't think that the balance of payments consideration is a paramount consideration in this connection.

QUESTION: Doctor, being a realist I would like to know how we can get rid of this tremendous surplus of agricultural products that we have without affecting or burying our allies who are in the agricultural business.

DR. PIQUET: Why such dirty questions? In previous years they have always been polite.

DR. KRESS: We haven't even had the discussion period yet.

DR. PIQUET: That is the $64,000 question--adjustment for things like the pottery industry, or the textile mills in New England, are baby stuff compared with agriculture. We are reaping the whirlwind. We tried to stimulate agricultural production all we could, at the time of the Korean War, particularly, as well as during the Second World War. The trouble with agricultural production is that once you stimulate it and start it you can't stop it.

Agriculture never has adjusted as well as industry. That was observed by no less a personage than the late Adam Smith in 1776 in his "Wealth of Nations." Agriculture is always slow in adjusting. It's always out of step.

The cold answer would be: "Let them adjust." Be Marie Antoinette-like and say, "Let them eat cake. Let them starve to death." But that isn't a good answer. What can we do with our surplus? We have been paying subsidies, as I indicated before, to our farmers. All the agricultural countries of the Western world are doing this, too, in order to enable them to keep their heads above water economically. A large part of the money of course doesn't go to the farmer but just to store the darn stuff.

One thing we could do would be to throw the wheat in the river. But of course you would have all sorts of moral indignation if we did that, just like we did when we ploughed under the litter pigs in the 1930's. That probably is the most direct way to get rid of the surplus. It would save quite a few billions of dollars.

But your question is: How can we get rid of these surpluses, how can we solve our agriculture problem, without hurting our relationships with Canada, Australia, and other allies? Do you know it is difficult to give away rice and dairy products right now under PL-480? When I was in the Orient a few years ago I heard a lot of criticism of the fact that we were giving dairy products--dried milk and cheese--to Formosans. They told me they were feeding them to the cattle. This was probably exaggerated a little bit. But they didn't like it. They figured we were trying to get rid of surpluses instead of trying to help them.

We've been criticized in Pakistan because the wheat that we sent there began to sprout by the time they got ready to use it. It's awfully difficult to give things away. We want to be sure when we give it away that we give it away through channels that don't interfere with commercial competitors, such as Canada.

In our domestic programs, one thing we could do would be to take farmers out of production and actually cut down output. We haven't succeeded in doing that. Neither Secretary Benson nor the Congress seems willing to do that, nor the President.

Frankly, I can't answer your question. I wish I knew the answer. You see, if we simply try to adjust the farm population into industry, immediately we are confronted by the same question in industry. The economists in industry today are very much worried about the technological break-through that we are now witnessing. In the printing industry alone, I am told, we are on the threshhold of a development that is going to be every bit as important cost-wise and labor-wise as the introduction of the linotype machine in the 1880's. Technological development in electronics and automation is everywhere.

The problem of technological unemployment of course is not a permanent problem. People die eventually. But there is an intermediate-run problem. Although in the long run you are dead you do live in the short run. This problem of technological unemployment is agricultural and industrial both. If you get high enough up and look down at the earth, as you would if you were on the moon, the problem becomes simple.

There are only two things we can do, or a combination of the two, if we are producing things so efficiently that we can't stop producing. One is that we produce more and everybody consumes more. The other is that we produce less and have more leisure. Or we can have some of each.

Now, if you can just supplement that and fill it in, come down off the moon and show us how to do it, you have the answer to your question. But I'm still on the moon.

QUESTION: Dr. Piquet, you mentioned that the United States has approximately 50 percent, or half, of the world's gold supply. In your pamphlet you show the gold holdings of various countries. I notice that the Soviet Union is not on this list.

DR. PIQUET: I said 50 percent of the free world's gold.

STUDENT: Yes, sir. The question is: Is this holding that the Soviet Union presumably has, in view of its extended line operation, a threat to our economy or to world trade, or is this another hobgoblin that we needn't worry about?

DR. PIQUET: It could be a threat. We don't know how much gold the Soviet Union has. If the Soviet Union wanted to flood the world with gold I suppose it could do so. I rather doubt that it is as much a threat as are some of the other things that the Soviet Union is doing. I think it would be possible, if we were really an adult set of nations in the free world, that we could get along monetarily and economically without any gold. The necessity of the gold standard is a sign that we are a rather primitive economy.

Look at what we have done internally. Suppose all the checks that are drawn on every bank in Washington alone--and we are not the biggest city in the country--had to be settled by gold moving from bank to bank, hard money moving from bank to bank. In New York City think what that would mean. We have set up the clearing-house system in our cities, and in 1914 we extended that to our Nation through the Federal Reserve System, so that the vast bulk of our transactions internally involve not only no gold but no money, in the sense of hard money. Ours is a credit economy.

We have not yet reached the stage where we have learned how to do that internationally. We thought at the end of World War II with the Keynes Plan that we would have something like an international central bank or a world money system. We found out very quickly that the nations were not willing to accept that degree of a surrender of sovereignty in the economic field, so we had to compromise for a very weak substitute in the form of the International Monetary Bank.

Suggestions are being made now by Professor Clifton and others that maybe the time is ripe for the United States to take leadership and set up a real international reserve bank. But, to the extent that we can recognize that a managed currency will work if you know how to manage it--and if we don't, each one of us, selfishly try to protect his own national self-sufficiency at the expense of everybody else--

we're back to the same old problem that we face every day--and within the free world work together as a people, the United Nations will become a world parliament of the free nations. To the extent that we remain primitive, of course, then a primitive weapon like gold could be dangerous to us.

But I doubt that Russia is going to play fast and loose with gold. She may not get it back. She's fairly primitive, too.

QUESTION: The reciprocal trade agreements of the thirties were achieved in a rather unique political and economic plan. Do you foresee anything in the next few years which might produce a similar opportunity?

DR. PIQUET: You don't mean another depression? There are two kinds of climates. One is political and the other is economic. I hope economically we never repeat the climate of the thirties--the depression. That would be very unfortunate.

The political climate might well improve, and I think will. We are confronted by the fact, I think, that whichever party wins this election we'll have a young President of the United States. This I think is a great advantage. I think we are going to find a revival of leadership. I think we are going to find imaginative leadership, leadership which is going to rely on technical experts, whether Mr. Nixon wins or Senator Kennedy wins. I am not being political, you will notice. Perhaps I should wear two buttons, one Nixon and one Kennedy. I am absolutely impartial. But I say this regardless of who wins. I think that in the new leadership a new political environment will come to be. I am an optimist with regard to the next four years, as far as this is concerned. I have a suspicion that Mr. Khrushchev is going to change his tune after January 1961. I don't know which way, but I hope for the better. But there is no substitute, gentlemen, for leadership.

QUESTION: One of the principal means suggested for correcting the unfavorable balance of payments was the introduction of the payment in kind by the provision to buy American on development loan, also by payments to servicemen by certificates. Would you comment on the anticipated success of that measure?

DR. PIQUET: I'll tell you a secret. That was my own idea. There is very little movement along this direction. I personally think as I examine these facts that it would be possible to do a lot of things in terms of payments in kind instead of balanced. I was amazed a few months ago when a good friend of mine, who is an adviser to a Senator, got back from Viet Nam. He was quite alarmed because he found that some of our direct aid, which was surplus commodities even, involved dollar payments. We just took the wheat, or grain, or whatever it was, and shot it over there and gave it to them, or sold it for local currency. I found out that a large number of the transactions take the form of first making a dollar grant to the Vietnamese government, and then they shop around with the dollars wherever they can, which of course in pure theory sounds good. I don't think it makes sense. I also have the feeling, and I may be stepping on some toes here, that maybe in our military establishments abroad we could do with fewer dollars in a place like Seoul, Korea, and have more payments in kind. Maybe it is not necessary in the military establishment for families to go abroad for short tours. I realize I am stepping on toes now, but these are areas where I think we could do something in this line.

I made a very rough estimate that maybe a half or three-quarters of a billion dollars could be saved if we were imaginative along this line.

Certainly that idea has been gathering more momentum in the quarters that count.

QUESTION: The United States produces and imports a number of strategic and critical materials, lead and zinc being among them. We like to maintain a mobilization base for most of these strategic materials. Recognizing the desirability of completely free trade, what would your feelings be about the maintenance of this mobilization base, and how do we go about doing it?

DR. PIQUET: If you asked me about rubber I might be hard pressed for an answer, because rubber is not durable for stockpiling purposes. You fortunately, kindly, asked me about lead and zinc. Lead and zinc are both very storable metals. We need a mobilization base in terms of lead and zinc. That is not necessarily a mobilization base in terms of active mining operations, although a certain amount of that may well be necessary. I certainly want to preface what I am about to say with a statement that I certainly agree that whatever is necessary, honestly, in terms of national defense and security must be of paramount importance, but it must be an honest defense judgment. We must not use defense as an excuse as we did in the case of watches.

Now, then, about lead and zinc--the stabilization of price is the important thing. It would be possible--and I happen to have thought this through fairly clearly--to draw up an international commodity agreement on lead and zinc, somewhat similar to the international wheat agreement, only simpler, because lead and zinc are very easily storable without deterioration, whereby we could set, by international agreement, a maximum price and a minimum price, an agreement to buy in a certain zone midway. If the price went too high we would cease to buy, and if the price went too low we would buy. We could build up a stockpile that would not interfere with our defense stockpile. This would not be a strategic stockpile. This would be an economic stabilization stockpile.

There would have to be guarantees, however, Congressionally established that that stockpile would not be used by the Government as a threat to the private industry for any ulterior motive in the eyes of industry, such as antitrust action. It would have to be insulated against such use.

If we could by this device build up a stockpile of lead and zinc, it is true that we might have lead and zinc coming out of our ears. Good.

According to the Paley Commission Report of a few years ago--that is, the President's Materials Policy Commission--within a relatively short time there is going to be a great shortage of lead and zinc, unless, of course, we find some plastic substitute, which I very much doubt.

So it seems to me that the storage of lead and zinc as a hedge against their depletion in the world supply, as in the case of many other metals, like Joseph in Egypt, makes a lot of sense. As far as lead and zinc are concerned I think the answer is a simple one technically speaking.

I don't know how you will get the St. Joseph lead people to agree to this. A large part of the production of lead and zinc is done by infiltration of the United States Government. The Assistant Secretary of the Interior, at the time these decisions were being made, happened to be the President or the Vice President of one of the largest lead and zinc companies in the United States, and after he got what he wanted he went back to private industry.

That's what I mean by national thinking. Conflict of interests is important, but, for God's sake, let's concentrate on the important cases.

QUESTION: Doctor, after reading your very fine study and listening to your excellent and clear presentation, it appears now that we do have a problem, but it isn't a problem that a lot of people have thought it is. In your study you have a very excellent action program. You mentioned in your presentation that there is a need for leadership. My question is: Where in the Government, and in what kind of a mix between the Executive and the Legislative Branches, are we going to find the action program that you have advocated being implemented, and what is your prediction with respect to this implementation?

DR. PIQUET: Of course, under our form of government we do have separation of powers, for which I am very thankful. This has been very important throughout our history. We have had an independent Congress. This was the way our forefathers planned it, to prevent the possibility of a dictator arising. Now we are confronted by the fact that in the international field this is proving to be a difficult situation, not only politically.

I admire very much what Mr. Nixon said the other day, and I think that Kennedy would do the same thing. He said that if elected he would use the Vice President as something like a prime minister. I would hope that we might by action of Congress make it possible for the prime minister to take some leadership in the Congress, as they do in Britain, particularly in the international field.

In the 1930's before March 4, 1933, remember the big criticism that people were making that the United States had no leadership. Remember? All that President Hoover was able to do—and I have great respect for the gentleman as an executive--as a politician was to pace the floor, call business men in, and pray and hope that things would improve.

On the morning of March 4, 1933, the whole thing changed, because a dynamic individual was up there. Some people think he was a fourflusher, even today. He was a great actor. He was a great political leader. This was demonstrated. He was a poor executive. The Presidency is not an executive position. The Presidency is a political leadership job. A strong President, if he is fortunate enough to have in the Senate leaders like we have had in the last few years in the persons of both Republican and Democratic leaders in the Senate, and if he is himself forceful and knows how to use experts, without being run by his experts, without delegating responsibility to his advisers, but himself making the decisions, will make things happen, and our chances for this are better than at any time since the close of World War II.

That's what I meant before when I said I was optimistic about this. There is no formula that I can introduce as to how this can be done. Remember that both candidates for the Presidency have had good backgrounds, good experience in these questions. Neither one has had executive-leadership experience, that is true. I repeat, the Presidency is not an executive job, not an administrative job.

There is every reason to believe that the people who have been dealing with these things legislatively, if they have youth and if they have vigor, can be good executives in the White House. I think that the facts are clear. For instance, in Congress the other day a proposal was made that we need another commission at the cost of a million dollars to study the foreign trade problem. I was asked what I thought of it. I said, "Oh, I've got indigestion." We don't need more facts. We've got all the facts we need, except close-ups in these communities. We need that. But we don't need any more facts than we now have to take action that is necessary internationally.

We need more facts. Of course we do. I think we ought to have all the facts we can about each locality in the United States and how it is affected by foreign trade. But that's not what they are talking about. They are talking about another commission like the Randall Commission, which would waste another year before we do anything. If you want to stop action, there is nothing like a commission.

The time has come when we have to decide. I think with somebody like F. D. Roosevelt, with a figurative gun at the head of Congress, we would have that action. The Presidency is a powerful position. Think of the power the President has in his appointments, the power he has over TV and radio. It's tremendous. He could use it. And I think either one of the candidates will use it.

DR. KRESS: Gentlemen, our time limit has come. Dr. Piquet has generously offered to come to our several sections. I know there are lots of hands here yet. You will be able to get in some of those questions, anyway. I have here a little booklet that Dr. Piquet did for the Brookings Institution. It's called "The Trade Agreements Act and the National Interest." Then there is tnis bigger book, "Aid, Trade, and the Tariff." It is delightfully written, and it is still worth putting into your reading

DR. PIQUET: That's the one I get the royalties on, the big one.

DR. KRESS: I read the title, "Aid, Trade, and the Tariff." That is what I was going to say. Dr. Piquet said he has gotten $500 for a lecture. But he doesn't get a nickel for this one. But if we did pay him in proportion to his contribution once in a while, we'd owe him several thousand dollars.

DR. PIQUET: I thank you, sir.