

81  
PRESS COPY  
HOLD FOR RELEASE UNTIL

84th Congress }  
1st Session }

COMMITTEE PRINT

JAN 5 A.M.

# FOREIGN ECONOMIC POLICY

---

## R E P O R T

OF THE

SUBCOMMITTEE ON  
FOREIGN ECONOMIC POLICY

TO THE

JOINT COMMITTEE  
ON THE ECONOMIC REPORT  
CONGRESS OF THE UNITED STATES



Printed for the use of the Joint Committee on the Economic Report

---

UNITED STATES  
GOVERNMENT PRINTING OFFICE

70181

WASHINGTON : 1956

**JOINT COMMITTEE ON THE ECONOMIC REPORT**

(Created pursuant to sec. 5 (a) of Public Law 304, 79th Cong.)

**PAUL H. DOUGLAS**, Senator from Illinois, *Chairman*  
**WRIGHT PATMAN**, Representative from Texas, *Vice Chairman*

**SENATE**

**JOHN SPARKMAN**, Alabama  
**J. WILLIAM FULBRIGHT**, Arkansas  
**JOSEPH C. O'MAHONEY**, Wyoming  
**RALPH E. FLANDERS**, Vermont  
**ARTHUR V. WATKINS**, Utah  
**BARRY GOLDWATER**, Arizona

**HOUSE OF REPRESENTATIVES**

**RICHARD BOLLING**, Missouri  
**WILBUR D. MILLS**, Arkansas  
**AUGUSTINE B. KELLEY**, Pennsylvania  
**JESSE P. WOLCOTT**, Michigan  
**HENRY O. TALLE**, Iowa  
**THOMAS B. CURTIS**, Missouri

**GROVER W. ENSLEY**, *Executive Director*

**JOHN W. LEHMAN**, *Clerk*

---

**SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY**

**RICHARD BOLLING**, Missouri, *Chairman*

**PAUL H. DOUGLAS**, Illinois  
**J. WILLIAM FULBRIGHT**, Arkansas  
**RALPH E. FLANDERS**, Vermont

**HENRY O. TALLE**, Iowa

**CHARLES S. SHELDON II**, *Economist*

## LETTER OF TRANSMITTAL

---

DECEMBER 30, 1955.

HON. PAUL H. DOUGLAS,

*Chairman, Joint Committee on the Economic Report,  
United States Senate, Washington, D. C.*

DEAR SIR: Transmitted herewith is a report of the Subcommittee on Foreign Economic Policy which you appointed on March 23, 1955, pursuant to Senate Report No. 60, 84th Congress, 1st session:

This report presents findings and recommendations of the subcommittee, based upon its recent hearings and study of foreign economic policy.

We are grateful to the Legislative Reference Service, the Library of Congress, for lending us the services of Dr. Charles S. Sheldon II, who served efficiently as staff economist to the subcommittee during its past year.

Sincerely yours,

RICHARD BOLLING,  
*Chairman, Subcommittee on Foreign Economic Policy.*

# CONTENTS

Findings:	Page
I. General importance of trade.....	3
(a) Definition and place of foreign economic policy.....	3
(b) United States is dominant economic force.....	3
(c) Instability in policy a threat to trade.....	3
(d) Nature of the world economy requires conscious cooperation.....	4
II. International comparisons.....	5
(a) Importance of statistics.....	5
(b) Tariff cannot be based on real costs.....	5
(c) Relative, not absolute, efficiency controls trade.....	5
(d) Low-wage and high-wage trade is possible.....	6
(e) Cheap labor not a threat.....	6
(f) Measuring economic progress is important to policy.....	7
III. Flow of trade and payments.....	7
(a) Imports equal exports in long run.....	7
(b) New patterns of trade are emerging.....	8
(c) Balance of payments will adjust, but how?.....	9
(d) Limited effectiveness of depreciation.....	9
(e) Stable exchange rates preferred.....	9
(f) Advantage of multilateral trade.....	10
(g) Why convertibility is important.....	11
(h) Discrimination so far has not hurt United States exports.....	11
(i) Only United States free of worries on balance of payments.....	12
IV. Domestic reactions to foreign trade.....	12
(a) Similarity of domestic and international trade.....	12
(b) United States standard of living rests on productivity.....	13
(c) Freedom of consumer choice.....	13
(d) Equal importance of imports and exports.....	14
(e) Tariffs, quotas, administrative protection.....	14
(f) National versus specific effects of trade.....	16
(g) Minor nature of immediate dislocations.....	16
(h) No evidence that trade is one way.....	16
(i) Dislocations are normal to the economy.....	16
(j) No need to refrain from tariff cuts, but must consider offsets.....	17
(k) Pressures will always be with us.....	17
(l) Healthy economy is best answer.....	17
V. Regional trade.....	17
(a) Regionalism must be part of world multilateral trade.....	17
(b) Customs unions are better than preferential restrictions.....	18
(c) European integration must not cloak discrimination.....	18
(d) Japan needs world integration.....	18
(e) East-West trade is a special case.....	19
VI. Investment, aid, and development.....	20
(a) Postwar recovery complete—now stability and growth needed.....	20
(b) Foreign economic development is important to United States growth.....	20
(c) Nature of international investment.....	21
(d) Public as well as private investment is required.....	21
(e) Investment is mutually beneficial.....	22
(f) The place of loans and grants.....	22
VII. United States policy.....	23
(a) We have stemmed the tide, must not reverse course.....	23
(b) Basic United States choice must be for trade cooperation.....	23

## Findings—Continued

## VII. United States policy—Continued

Page

(c) Our goal is developing democracies in peace and prosperity.....	23
(d) We should cut tariffs selectively.....	23
(e) We should press for reciprocal cuts.....	23
(f) We should participate in GATT and the OTC.....	24
(g) We should urge convertibility of exchange.....	25
(h) We should review the escape clause and peril points.....	26
(i) We should review the antidumping rules.....	26
(j) We should review the national defense exception.....	27
(k) Measures to ease short-run adjustments.....	28
(l) Agriculture needs study.....	28
(m) The Buy-American Act should be repealed.....	28
(n) Subcommittee should continue its activities.....	29
Recommendations:	
1. Responsibility for policy.....	29
2. Psychological impact of policy.....	29
3. Champion multilateral trade.....	29
4. Approve membership in Organization for Trade Cooperation.....	29
5. Press for convertibility.....	30
6. United States tariff policy based on national interest.....	30
7. Tariff cuts to be selective.....	30
8. Aid to distressed areas and industries.....	30
9. No change in East-West trade rules.....	30
10. Encourage international investment and technical aid.....	30
11. More agricultural study.....	31
12. More defense exception study.....	31
13. More escape clause and peril points study.....	31
14. More antidumping study.....	31
15. Better statistics.....	31
16. Study of economic growth.....	31
17. Subcommittee should continue.....	31
Supplemental Views of Representative Talle.....	31

# FOREIGN ECONOMIC POLICY

## INTRODUCTION

On March 14, 1955, the report of the Joint Committee on the Economic Report stated (pp. 4 and 5):

By terms of the Employment Act, the Joint Committee is charged not only with reporting on the main recommendations of the Economic Report, but is directed also to make a "continuing study" of economic matters. Subcommittees will accordingly be set up to study several areas which seem especially worthy of early investigation.

### *Subcommittee on Foreign Economic Policy*

The committee's recent hearings revealed the need for an investigation of the significance of the whole complex of our international economic relations for the stable growth of the Nation's domestic economy. The Subcommittee on Foreign Economic Policy will undertake an appraisal of the basic theories of foreign trade as they pertain to the position of the United States in the world economy. It will attempt to determine the nature and the source of the comparative advantages enjoyed by the major participants in international markets and the impact of their trade policies not only on the overall trading position of the United States but also on the condition of our major industries. For example, the subcommittee will attempt to develop a clear picture of the extent to which relative wage rates and other elements of industrial cost structures affect our competitive position relative to that of our more important trading partners, as well as the extent to which these cost differentials give rise to trade policies such as dumping, import quotas, exchange controls, etc.

This appraisal of foreign-trade theory will provide the basis for considering the feasibility of setting up broad criteria to be used in developing an effective international economic policy and in evaluating specific proposals in the field of foreign trade. It will assist in understanding the stresses imposed on our domestic industries by changes in the international economy and the character of the adjustments these industries may be required to make. In addition it will help us to appraise the strengths and weaknesses of our foreign trade policy as an instrument in the cold war.

In the course of this study, the subcommittee will need to review the adequacy of the present statistics dealing with international economic activity. Its recommendations in this respect will be incorporated in the work of the Subcommittee on Economic Statistics.

The major work of the subcommittee has been the holding of public hearings which considered a broad range of problems within the scope of the subcommittee directive. The subcommittee during the course of 12 sessions heard from 40 witnesses drawn from academic, business, labor, farm, financial, government, and research backgrounds. Although they were drawn from many organizations, each witness was invited primarily for his professional knowledge and experience, and was asked to assess a part of the problems under review from an impartial and national point of view. Inevitably such broad representation brought contrasts of opinion, but it is still possible to recognize general areas of agreement, and these have been taken into account in the preparation of this report.

It is worth noting that the activities of the subcommittee were designed not to duplicate the work of any of the standing committees of

the Congress. There was no attempt to frame specific legislative recommendations, nor to hear an unlimited number of witnesses, each reporting on whatever interests seemed appropriate to him. Rather, each witness was asked in the light of his knowledge to prepare a section of the larger and coordinated study undertaken by the subcommittee.

It is equally clear that it was not possible in the limited time available to the subcommittee to investigate all aspects of foreign economic policy, nor to engage in detailed industry studies. The subcommittee is particularly mindful that it did not give more than cursory treatment to the problems of international investment, technical assistance, and foreign aid. Nor did it examine the economic consequences of present and alternative shipping policies.

Nonetheless, a general frame of reference has been established and future studies well can use this work as a point of departure for more detailed and specific applications. It is all too easy in studying limited and specific problems in the detail required to run the risk of losing sight of the general national interest, the repercussions which follow from any immediate policy, and the alternative benefits which may have to be surrendered to achieve the specific goal sought. The type of framework constructed in this investigation should help to maintain proper proportionality in related specific studies.

During the period of time that the subcommittee has conducted its studies there have been several apparent shifts of Sino-Soviet policy, although there is no evidence of any basic change of Communist objectives in the long run. These outward signs have a bearing on the emphasis of parts of this report, but not upon its overall conclusions. Early in the calendar year the threat in the Formosa Strait seemed to have brought us very close to war. Then the emphasis swung to sweetness and light at Geneva in the meeting at the summit. It was made clear at that time that the area of struggle was more likely than not to be economic, which gave a special importance to our review of trade policy. The second meeting at Geneva and the rapid succession of events since that time have shown Soviet intentions in a truer light, and have shown that in fact there is a dual and integrated campaign being waged by the Communists for conquest of the world. They still stand ready for military adventures, particularly if they can induce others to carry the brunt of the fighting. They are also waging an aggressive, coordinated economic-political-psychological attack on the unity of the free world. Their goal is to bring neutralist states into their orbit, as the satellites have gone already, and to weaken the alliances of the nations already committed in the struggle for freedom.

The effect of these developments on foreign economic policy is to throw in sharper relief the necessity for moves to aid the cooperation of the countries of the free world to assure their military and economic strength. It also makes more urgent a reexamination of the economic advantages and disadvantages of alternate trade policies, both for their repercussions on the growth and stability of the domestic economy and also for the contribution which these policies can make toward our broad goals of foreign policy.

Our findings and recommendations for improving trade freedom and expanding commerce relate primarily to the countries of the free

world. They are recommendations which would be important in a world truly at peace because these policies would contribute to the well-being and prosperity of the United States. They are equally or more important in a world faced by the threat of Communist aggression—military, economic, and subversive—because these policies will not only redound to our benefit but strengthen our allies whose survival as free countries is so essential to our own liberty and safety. Our references, then, to worldwide trade refer to trade among those states which are essentially interested in living in harmony and mutual respect, rather than to the whole geographic world. We also present some specific findings with regard to trade with the Sino-Soviet bloc which have an appropriate place in this record.

There follow the principal findings based upon the hearings referred to above, together with summary recommendations to the full committee.

## FINDINGS

### I. GENERAL IMPORTANCE OF TRADE

(a) *Foreign economic policy is a part of foreign policy in general and its implementation should contribute to our total national goals, economic, social, political, and military.* The shrinkage of the world through improved communications, the totalitarian efforts to spur ideological conflict, and the growing need for new supplies of raw materials and enlarged markets make trade more vital than ever before. Our foreign economic policy is broadly conceived to include not only specific Government measures in such fields as tariffs and foreign economic aid, but also all American economic behavior, public and private, foreign and domestic, which has its repercussions on the rest of the world. Some of our foreign economic policy acts can be planned and coordinated. The rest must be left to the good sense and understanding of private citizens, and this implies necessary thoughtful study by all our people.

(b) *The United States is such a dominant economic force in the world that its policies at home as well as in the foreign field have profound effects throughout the world.* With 6 percent of world population, 40 percent of world production, and 20 percent of the trade of the world, almost anything which we do will affect conditions in other countries. Though foreign trade is only 5 percent of our total economic activity, its importance to us extends beyond this mathematical measure because it includes the importation of critical and useful materials, affords profitable margins of sales from our output, and profoundly influences the well-being of the rest of the world with which we must live. Indirectly at least our domestic growth and stability depend upon the peace and prosperity of the whole world. Because the rest of the world is responsive to our behavior, the tariff and similar institutions are no longer purely domestic issues.

(c) *Instability in trade policy is one of the most serious threats to the orderly development of trade.* Tariffs, quotas, and exchange restrictions limit trade, but if they are not prohibitively severe, can become factors calculable by the businessman, so that his plans with regard to trade take them into account. But where policies are pursued which show vacillation, inconsistency, and other erratic tend-



encies, trade in any large volume and at economical cost may become well-nigh impossible. From the point of view of the individual, it would be foolhardy to invest money and time in developing a market which can be snatched away with little warning. From the national point of view, this uncertainty can discourage new investments and make for waste in resource allocation. The penalty is borne by all parts of the economy. Export industries cannot develop foreign outlets. Importers face the threat of extinction. Domestic industries do not know when they will be assailed by foreign competition, or when they will have the local market to themselves.

It would be a tremendous step toward greater progress if the United States and other nations could develop long-run policies toward trade which would be consistent over a period of years, consistent both in application and with their international obligations for strengthening the free world. This consistency would encourage better resource allocation and market development in the interest of greater efficiency and better service. Examples of present inconsistency, some of which will be reviewed presently, include resort to the escape clause, or even the threat of its application, capricious use of the antidumping penalty, application of quotas, and the great variety of administrative controls which can change suddenly or are applied inconsistently to the detriment of efficient trade. The sum total of these inconsistent policies is a war of nerves and of pocketbooks, which discourages enterprise by increasing the risk of trade to an amount greater than the possible gain. From a national point of view, it strengthens tendencies toward isolationism and self-sufficiency in other countries, which we can ill afford in competition with aggressive Communist strategy.

*(d) Where most nations once were united into a world economy, the old order now has been replaced by an international economy of decentralized direction and some tendencies toward autarky; this puts new emphasis on the necessity for conscious cooperation with other friendly nations.* By and large, the former world economy, based on the gold standard, on British leadership in industrialization, and on other circumstances peculiar to that time, left the forces of inflation and deflation without regulation by individual governments, and such conditions could be imported from abroad. Such a system required that all governments view fiscal and monetary policy in similar fashion, and leave the central direction of credit and prices to the London financial market. The system worked well in its time (before World War I), but probably cannot be restored in its prewar form to work as effectively again.

Today, financial power is more diffuse, although the United States holds a dominant position, and most governments of the world take steps to influence levels of income, employment, and prices within their respective countries. This in turn requires in some situations a regulation of trade and currency exchanges, rather than leaving these matters solely to the automatic forces of the market. Although the newer system does not always work as smoothly as did the old, countries prefer some arrangements to protect them from excessive swings of economic activity in other parts of the world.

Under these circumstances it is more important than ever that countries cooperate if trade peace, stability, and growth are to occur. The institutions of the International Monetary Fund, the International

Bank for Reconstruction and Development, and the Organization for Trade Cooperation and similar institutions therefore have a critical role in promoting these objectives and in preventing trade anarchy.

## II. INTERNATIONAL COMPARISONS

(a) *Adequate statistics for international comparisons and inter-government use are the key to scientific appraisal of needs for business and government decision making.* The alternative would be to rely on guesswork and half-truths with the inevitable miscalculation of results to be expected in planning tariff policy, exchange rate controls, and foreign investment. A good start has been made to encourage the compilation of a great variety of both simple and quite sophisticated statistics in accordance with agreed-upon uniform standards and definitions.

But this progress should not mislead one to the conclusion that coverage is yet adequate or that standards are being applied with equal rigor in all countries or even that fundamental concepts have been reconciled sufficiently to make valid all types of important comparisons. Many crucial areas of the world do not make basic figures available, notably the Communist bloc countries. What they do reveal is designed to obscure the truth. In the remaining parts of the world significant types of data are not generally available, including specifically urgently needed data on national income and product broken down not only by industry and by functional share but also distributed by size of income. This is particularly important to have for the underdeveloped countries. Also needed is cooperation for the world census of 1960.

The United States, although one of the countries best supplied with collected data and trained statisticians, has lagged behind in adaptation of reports to standards of international comparability.

(b) *Tariff policy cannot be based on international real cost comparisons and should not even if they could be made.* There is no meaningful way to compare real costs (inputs of labor and materials) from one country to another, for it is prices, not real costs, that influence trade. Nor is the concept of average cost levels for a whole country either measurable or useful. Although trade actually depends upon price comparisons, these are relatively easy to alter through variation in exchange rates, subsidies, and the normal disparity which may exist at any one time between prices and long-run money costs. Although the price of a commodity entering international trade can be and is translated through an exchange rate, it is fallacious to compare internal money costs in different countries through the use of exchange rates. For example, the components of living costs in different countries vary not only in relative prices but in proportional importance to local living standards.

(c) *The test of acceptability of foreign imports cannot be in terms of the absolute technical efficiency of their production, even if it could be measured.* The market mechanism for allocating resources, which is the basis of a free economy, is a more logical guide. It operates by the principle that we can concentrate on producing those items in which we have the greatest relative advantage and leave to trade the

acquisition of those items in which we have a comparative disadvantage. Departures from the automatic operation of this principle of economic efficiency cost us some of our economic well-being, and have been acceptable to people who understand these principles only because we do not live in a world truly at peace. Surrendering some trade freedom and hence maximum economic advantage has been necessary in a divided world.

(d) *Low-wage countries and high-wage countries are not barred from carrying on mutually beneficial trade.* This is because wages are only one element in total money costs, and money costs or prices must be compared through an exchange rate which is subject to adjustment. Further, low wages do not necessarily mean cheap labor cost per unit of output, for low wages are generally a sign of low productivity. Relatively plentiful labor is paid low wages, but usually produces so little per capita output that the price of a final product is just as likely to be higher as it is lower than the product price in a high-wage country. But low-wage countries do tend to have a comparative advantage in the production of goods which require much labor, while high-wage countries have a comparative advantage in the production of goods which require a higher proportion of capital or material resources in their manufacture. Absolute advantage in all lines of production is not found in practice and is meaningless as a concept. Low wages abroad tend to limit trade, however, because they usually imply little purchasing power for imports.

(e) *Although the profitability and employment levels of some individual home industries are markedly affected by trade, cheap foreign labor is not a threat to the interests of American labor as a whole.*<sup>1</sup> The reason for this is not only a matter of the high productivity of American workers and the general efficiency of our country which is the greatest in the world. It is also a matter of the mechanics of international trading and financial transfers. Other countries will not give their goods to us for long without wanting repayment in kind. But in fact, if foreign labor cost nothing at all, their products would be even greater bargains to improve the living standards of all Americans. Cheap foreign labor incorporated in imports has the same effect on our national economic well-being as do improvements in our technology which have been the basis of our rising living standards. Cost-cutting technological improvements like cheap imports have freed American workers from onerous work, raised real wages, shortened working hours, and have opened the door to newly whetted appetites for a greater output of goods. In the interest of an expanding economy, we long ago abandoned the fallacy that there is only so much work to do or so many goods that can be sold.

We are mindful of the problem of substandard wages in other countries from a humanitarian viewpoint, and want foreign wages to rise as rapidly as increasing productivity will allow. This is important to world peace. We know that such increases also will expand foreign markets for consumption, but if wages abroad are

<sup>1</sup> Senator FLANDERS. Although I agree with the points made in this section, I feel that cheap wage competition creates greater problems for American producers and workers than this section implies. It may be true that low wages are often a sign of low productivity, but low wages also permit some producers to gain a competitive advantage. We have yet to assay the effect of Japanese competition on our textile industry which is a major, not minor, sector of our economy.

forced above levels justified by productivity, the result will be wasteful inflation. In any case, the definition of substandard wages must be in terms of foreign conditions, not in comparison with our own, which would rule out virtually all trade if rigorously applied. To the extent our interest in the welfare of foreign workers is humanitarian, we should not refuse to accept imports from so-called substandard-wage countries as that will take away much of the opportunity for improvement of their well-being.

We are also mindful that the prevalence of lower wages abroad is a very real problem to certain individual American industries, and we will treat their problems later in this report.

(f) *Although there are conceptual and practical difficulties in making absolute comparisons of cost and income among countries, it is possible to measure small yet significant changes in rates of economic progress, and these measures are extremely important to policy guidance.* These progress comparisons are easier because they do not require translation from one currency and economy to another of a different structure and institutional setting. It is of limited significance statistically whether the richest country is 10 times or 30 times as well off per capita as the poorest country. But a change of 1 or 2 percent in annual growth rates can be highly significant as well as being measurable over time. There are enough data now available to make reasonably valid short-run growth comparisons in most of the developed countries of the free world; the problem is considerably more difficult in the underdeveloped countries which lack comprehensive statistics or in the totalitarian states which deliberately mask or distort information.

Absolute comparisons among countries of marked differences in institutional structure and standards of living, or even over long periods of time within single countries experiencing growth, are not only difficult to make for lack of uniform data compilation but conceptually present almost insurmountable obstacles except by making extremely arbitrary and hence challengeable assumptions. And yet all too often, this latter type of measuring is practiced in the name of scientific cost comparison for trade-policy purposes.

On the other hand, relative growth comparisons are extremely important because they represent the summary economic measure of the struggle of the free world, both developed and still underdeveloped countries, to maintain the lead necessary over the Sino-Soviet bloc if our system is to outweigh Communist blandishments and to be stronger militarily as well. If our measures of growth rates do not reveal at least as much progress as the forced development of the totalitarians, we would be identifying a trend toward some future time when they could overwhelm us. We do not intend to be overtaken, and must have these data as a guide to our policymaking.<sup>2</sup>

### III. FLOW OF TRADE AND PAYMENTS

(a) *The very nature of trade requires that over a period of time, imports must bear a close relationship to exports, defining both in broad terms to include goods and services.*<sup>3</sup> There is no reason why

<sup>2</sup>The Joint Committee staff study, *Trends in Economic Growth: A Comparison of the Western Powers and the Soviet Bloc*, was prepared in recognition of this need.

<sup>3</sup>Senator FLANDERS. It was brought out in an earlier committee hearing that under possible circumstances the balance would have to be made by inflation if the flow of trade were insufficient.

this balancing needs to be bilateral between pairs of countries, and indeed generally efficiency is served by multilateral flows as shaped by market forces. The balance of visible (goods) and invisible (services) trade of any country with the rest of the world will be held to a near equality except in the very short run by inevitable technical requirements which limit departures from this equality in definite ways. Whether a country's policies are wise or foolish, it cannot have a deficit in its trade in excess of its available holdings in foreign bank accounts and investments, or willingness to export gold; or its willingness to receive foreign investments and deposits, and the willingness of investors in other countries to make such transfers; or its willingness to receive gifts of aid, and the willingness of other countries to grant such aid.

It follows that long-run policy must accept the general proposition that imports and exports of goods and services will have to be roughly equivalent in value, although there are some perfectly logical qualifications of this statement which are also required. We must not only be concerned with the adjusting of the balance of payments of a country with the rest of the world; we must inquire at what levels of trade, production, consumption, and investment, and with what political consequences these adjustments take place. Some lack of balance in trade as a means to transfer capital between countries is perfectly proper when the capital transfers are for purposes which are desirable, such as to speed economic development or to earn a better return by more productive employment of resources than an absence of international investment would permit. As we view policy toward the balance of trade, we want to facilitate such useful capital transfers, not remove all deficits and surpluses in current accounts. Unilateral transfers or gifts represent an alternative method of balancing trade, and in fact represent the reason for some trade imbalances. Such transfers have been a prominent feature of post-World War II trade and have been designed to serve political, military, and humanitarian ends rather than purely commercial. Although the amount, form, and direction of such aid are subject to disagreement, there is no quarrel with the principle that such aid may be extremely useful to national policy objectives.

(b) *The prewar patterns of trade which gave relative stability have permanently shifted to new patterns and can be expected to undergo further modification.* Substantial progress has been made in the post-war readjustment necessitated by the temporary shifts occasioned by the dislocations of World War II, but new patterns will persist as former sources of raw materials diversify their economies and industrialization becomes more widespread. This will continue to require adjustments in trade policies, exchange rates, and investment flows. Patterns of trade always have changed to fit new technologies, growing populations, exhaustion of old resources, discovery of new resources, obsolescence of plants and methods, and new consumer tastes with consequent dislocation. Probably the adjustments now are somewhat harder to make because of the forced speed of economic development in many parts of the world which now have more independent control over their internal policies. Another factor which has added to the economic difficulties of adjustment has been the effort of the Communist countries to carve out a separate trading

and economic planning bloc, a bloc which they are trying to expand in size at the expense of the free world.

(c) *The balance of payments under any trading and exchange system will adjust; the real question is to select the adjustment appropriate to the circumstances of pressure on the balance.* In the short run, the adjustment may take the form of gold and short-term investment flows, or of changes in interest rates to encourage counterflows of funds. The relative amounts of imports and exports also will be altered by changes in price levels, changes in income and employment, changes in exchange rates, the imposition of trade and currency controls, or through foreign borrowing and grants of aid. Several of these policies may operate in conjunction, and each has its advantages and disadvantages in particular situations. Therefore prudence requires an examination of the circumstances rather than a blanket prescription. No adjustment is guaranteed to abolish the underlying reason for pressure in every case. Although the adjustment will occur regardless of the wishes of a country, public policy can in considerable measure determine the form of the adjustment and hence alter the balance of desirable and undesirable effects. Internal monetary, credit, and fiscal policy will be crucial to the effectiveness of balance-of-payments policy.

It can be noted in passing that the so-called dollar shortage in the accounting sense is really the obverse of the "foreign aid" coin.

(d) *Devaluation of exchange is not a universal solution to problems of pressure on the balance of payments.* It makes very good sense to use it as a remedy for overvalued currencies as may be associated with noncompetitive prices caused by a previous inflation now ended and where deflation threatens. The alternative, deflation, may imply intolerable unemployment and reduced production. On the other hand, if the cause of price noncompetitiveness is continuing inflation, or if there are large liquid balances available to be spent on goods, devaluation will not solve the fundamental cause of imbalance, and will have to be repeated as prices continue to rise. Nor does devaluation correct any widespread real need for imports of essential materials domestically in short supply in those situations where export volume cannot be increased substantially. Its effect is to worsen the terms of trade. Further, devaluation may be competitive, and therefore not correct the situation intended if other countries match the cuts made by the first. Devaluation should be used by other countries only where it is an appropriate remedy as qualified above, and we do not advocate its universal application to solving pressures on the balance of payments. The new par value should be one which restores a competitive position but does not overcompensate to give an unfair advantage; it should be a rate which will not put undue stress on the balance of payments over a period of several years.

(e) *No universal judgment is possible in choosing between fixed and floating exchange rates, although there is a prima facie case in favor of reasonably stable rates.*<sup>4</sup> Fluctuating rates make possible a rapid

---

<sup>4</sup> Senator DOUGLAS. Although this section carefully qualifies its view of the relative merits of stable and fluctuating rates, it advocates stable rates as essential to orderly trade. I would personally feel that the disadvantages of fluctuating rates have been overplayed and their merits as a means to adjust pressure on the balance of payments understated. Fluctuating rates would permit a much quicker adjustment of the balance of payments and it would put pressure upon a country not to let its costs of production rise too high. We should remind our English friends of this when they try to protect themselves against American competition by discriminating against American imports. Otherwise we may be asked to underwrite a permanent and possibly growing discrimination against American goods inconsistent with the desired policy of freer world trade.

adjustment of the balance of payments, and may have the advantage of reflecting a free market judgment on the current value of each currency for trading purposes. But that automatic adjustment of the current account of the balance of payments by this means can be secondary to other economic and political goals was made clear earlier in this report. The former automatic gold standard strictly limited fluctuations in exchange rates by the adoption of fixed gold definitions of currencies so that the price of exchange could move no farther away from the par than the gold points, or cost of shipping gold. This was a recognition of the importance of exchange stability to the orderly calculation of business expectations and hence to a large and regular volume of trade. We have seen also that the automatic gold standard is not likely to return, and had strong disadvantages as well.

However, governments can maintain fairly stable rates, with fluctuations held to narrow limits and these slight changes of price used as a guide to counteraction. Such control recreates the major benefit of the former gold standard's exchange stability without its limitations on freedom of action in individual nations' economies. But from this it does not follow that any stable rate a nation may choose to try to maintain is necessarily wise and helpful. If the rate requires restrictive trade or exchange controls to hold it at an artificial level, the freedom of trade is reduced to the possible detriment of general economic efficiency. The goal in picking a rate which is to be maintained is to find one that meets the needs of trade over a period of time without major restrictions on the use of exchange. Even so, the country concerned must have working reserves of gold or hard currency sufficient to cover temporary drains.

Although the present systems of exchange-stability measures are not automatic in the degree true of the former gold standard, there are some points of similarity. The former system did not automatically solve all problems associated with pressures on the balance of payments. When pressures were prolonged, if price and income level adjustments were either ineffective or interfered with, a given country was forced off gold or had to select a new lesser gold definition of its currency. Today, too, a rate may be picked that is unwise, or conditions may change so that it is no longer maintainable. If a government wishes to hold the range of price fluctuations of exchange to a narrow limit, it must be prepared to step into the market to buy or sell gold and foreign exchange holdings in the same manner as happened automatically in earlier years. If these short-run correctives prove inadequate, then the government concerned must look to other measures. These include the possibilities of depreciation, exchange controls, internal economic adjustments, or, of course, capital transfers and foreign-aid programs, as fits the particular situation.

(f) *Multilateral trade offers the widest opportunities for gaining access to raw materials, cheap manufactured products, and useful market outlets.* Furthermore, multilateral trade implies the best opportunities for efficient allocation of resources and energies, to encourage opportunities for progress throughout the free world. If individual businessmen and companies are allowed to carry on trade without restrictions which approximate bilateral settlement or barter, the same benefits of efficiency become available internationally as most

Americans believe have been the strength of a free-enterprise economy at home.

(g) *Currency convertibility is important to the absence of discrimination necessary to the attainment of the benefits of multilateral trade.*<sup>5</sup> There are many definitions of currency convertibility, but the essential element from the viewpoint of efficient use of resources is that there not be controls which distort the most advantageous flows of trade. Absence of convertibility, depending upon the strictness of controls, often denies access to markets where the best bargains may be available, and hence reduces efficient allocation of resources in the interest of greater economic well-being.

Restrictions on convertibility may be justified under rather special conditions. These include periods of war, and where unlimited use of exchange may be detrimental to our political well-being, as in the case of transactions with the Sino-Soviet bloc. They also include temporary panic conditions when a sudden outflow of short-term funds does not respond to the normal correctives to the balance of payments and are a threat to ordinary trade. They may also be necessary to ration the use of limited and not easily enlargeable supplies of foreign exchange.

Fortunately, considerable headway has been made through international cooperation and economic recovery toward a return to full convertibility. This is evidenced by the shrinking differences which exist between free market and official prices of the principal currencies, the relaxation of restrictions on the use and transfer of exchange, and the reappearance of a free gold market in some parts of the world. This should make possible significant and continuing progress in removing remaining discrimination against dollar imports. The United States wants to facilitate the early restoration of convertibility, but the precise timing is up to the other governments involved. We do not want de jure convertibility at the price of other restrictions on trade.

(h) *Looking back on the recent past, it is hard to insist that foreign discrimination unnecessarily limited the total volume of American exports, but we must insist on fair treatment in the future for our goods.* This is clear because other nations have been willing to spend all the dollars they could earn or borrow, other than for necessary additions to working reserves. Therefore, restrictions on the use of dollars for the purchase of goods have been more important in influencing the commodity characteristics of United States exports than in changing the total volume of such trade. Given the purchasing power these countries possessed, they bought from us all they could afford. This suggests that removal of discrimination against dollar exports will not automatically boost our total sales abroad. But at the same time, we do not want to see restraints continued on trade beyond the time they are essential to meeting very special conditions. Until discrimination ends, it is hard to predict how much new and useful trade might be created. To accept such controls without question is to deny the effectiveness of free-market mechanisms in guiding the flow of trade toward greatest economic efficiency and well-being.

<sup>5</sup> Senator DOUGLAS. I want to make absolutely clear the distinction between exchange convertibility, which this section recommends, and return to a domestic gold standard, which I do not recommend. Gold is a useful commodity for making international settlements and as a standard of reference in defining pars of exchange if it is desired to have such stable rates, but there would be distinct disadvantages in tying domestic monetary policies to the former gold standard.



(i) *The United States has been truly free of worry regarding pressure on its own balance-of-payments position, with important consequences for the framing of economic and political policy both at home and in relation to the outside world.* This has given us a freedom of action probably no other country possesses, and enables us to show a leadership in world economic affairs few other countries in the world are in a position to emulate. The causes lie in our high level of economic development; the great rate of American technical progress and efficiency, with its resulting demand for our products abroad; our relatively slighter tendency toward price inflation than is true of most other countries of the world; and even, it might be added, because of our vast gold reserves.

Where we import and export an equivalent of less than 5 percent each of our gross national product, we have a gold reserve equal to 100 percent of combined imports and exports per year. The second greatest trading nation, the United Kingdom, exports an equivalent of 22 percent of gross national product and imports 26 percent. Its gold reserve is equivalent to only 13 percent of combined annual trade. This illustrates our greater freedom from concern over trade flows.

The only other great power which may be able to act without weighing the adverse impact of current policy decisions on its balance of payments is the Soviet Union. This is not only because it holds an unknown but probably large gold reserve, but because whenever it suits Soviet political ends, that country can adjust its internal economic affairs without as much regard for the well-being of its own people. Communist willingness to subordinate economics to political-military ends is a major element in world economic policy which must be recognized if it is to be countered successfully.

#### IV. DOMESTIC REACTIONS TO FOREIGN TRADE

(a) *International and domestic trade afford similar advantages through division of labor, specialization, and mass markets; both carry the disadvantage of interdependence, but such interdependence is an inherent part of modern technical and economic organization.* If international trade is to be singled out for special regulation, the burden of proof for the necessity of this regulation rests on those who would depart from the presumptions that free markets work best. We view the economic purpose of trade to be the enhancement of living standards. There are reasons for sacrificing these standards to other social goals, but they must be made explicit. Few would deny that the economic strength of the United States rests upon the free flow of trade within its 48 States despite their variations in per capita income and endowment of resources.

This large free-trade area has brought competitive pressures on specific industries in certain parts of the country. But important as these pressures may be, they are minor compared with the cost that a system of trade restrictions to guarantee local markets would entail. Here at home even though we have a number of types of departures from automatically controlled market allocations, we accept free markets as the preferred form of economic organization. Such exceptions as have occurred have had their costs, and where deliberately chosen were in the interest of some special goal.

Likewise, there may be reasons for manipulating international trade that are acceptable to the people as a whole, but it must be recognized that such manipulation has an economic cost and, where possible, our policies should bring into the open what the costs involved are so that rational choices between economic efficiency and other goals can be made.

(b) *The United States standard of living rests basically upon our productivity, not upon protective measures.* Although there are short-run distortions and imperfections in the market process, generally the shares of wages, rent, interest, and profits have been determined by the relative availability of labor, land, capital, and business enterprise in the economy in conjunction with the demand for their services. As factors in combination have become more productive, their earnings have gone up. If we were to argue that our standard of living rests upon protection, then we could assume that greater restriction of trade would make us even more productive. But this is not so, for productivity rests upon the quality and availability of our machines and other capital goods, the richness and location of land, the skill and willingness to work of our labor, the managerial ability and incentives of our business leaders, and the general institutional setting of our society including the role of government. A poor country will not make itself rich by raising trade barriers, nor will a rich country be better off for doing so.

The thought that the demand for all American labor might be displaced by foreign-made products does not face the question of how we could obtain these imported goods for long without exporting, nor is it true that foreign labor is across-the-board cheap enough per unit of output to make foreign competition that effective. To the extent that foreign prices are lower than ours, whether the cause is cheap labor, or abundant resources, or better machines, or merely undervalued foreign exchange, such imports afford an opportunity to raise the American standard of living still higher by giving us more for our money, and releasing purchasing power for other home products we cannot now afford to buy.

We have conceded that there may be legitimate reasons for disregarding our own economic advantage, and lowering our standard of living by using some trade protection. But that there is such a cost to these policies as are associated with defense or with minimizing dislocations in home industries, must be recognized and taken into account when policy is being planned.

(c) *It is hard to see why consumers should not have the right to choose such goods as are desired, without regard to their origin or their foreign cost.*<sup>6</sup> Until we presume to replace freedom with a controlled system where people are no longer their own masters, this must be so. No group of producers should be allowed to have a vested interest in the right to dictate what our people shall consume. The excuse that such a vested interest is essential to maintaining employment is fallacious, and was not allowed to block the introduction in the past of the automobile to the detriment of coachmakers, the electric streetcar to the detriment of horse breeders, or mechanical refrigera-

---

<sup>6</sup> Senator FLANDERS. As important as consumer choice may be, most of us are producers too, and our trade policies must be designed also to make sure that our people have the opportunity to earn the money which is to pay for desired purchases.

tion to the detriment of ice deliverers. Some industries can adapt to the will of the consumer who in a democracy is king. Others have not adapted, and have become extinct.

In a country as rich as ours with shortened working hours and a complex technology at our command, including modern transport to deliver the luxuries of the world to us, there is no reason why we should not spend our money if we choose for foreign sports cars, lightweight bicycles, handmade laces, particular wines and cheeses, jeweled movement watches, or hand-cut glassware.

Our ability to command exotic products is one measure of our progress and freedom from previous limitations in the pursuit of happiness. Let our home producers use their admitted skills in advertising to compete freely with their foreign rivals. For a Government official to make a moral judgment on how we ought to spend our money is an invasion of liberty and privacy which is acceptable only where obvious public harm follows, as in the uncontrolled use of narcotics. Interference with free consumer choice must rest upon very compelling grounds, and if these relate to the short-run problems of displacement in certain industries or localities, a solution other than restriction of consumer freedom should be chosen.

*(d) Imports and exports are both important to the economy, and neither deserves artificial stimulation or restraint for its own sake.* Trade is not an end in itself, but is a means to other ends. Imports we need are those goods which we cannot produce in this country, goods which we can produce only at significantly higher cost, and goods which though we can produce at reasonable cost are ones in which we have a comparative disadvantage. We also want to import some goods not on the basis of costs or availability at home, but simply because of consumer preference for foreign brands or specialties.

Exports represent an important source of employment and profits in certain lines of production, but they are not an economic end in themselves. They may have important contributions to make in strengthening or enriching other countries just as our imports are important to us. From our own point of view, exports in the long run are made in order to pay for desired imports or to transfer capital abroad which eventually will earn the means to pay for desired imports.

If we are dissatisfied, however, with the current excess of exports over imports, it would be better to expand the volume of imports which we accept than to curtail exports based on normal commercial trade, on desired foreign investment programs, or on aid to meet specific foreign policy goals. After all, export industries if suddenly restricted would face the same kinds of displacement problems as do domestic industries hit by foreign competition. Artificial manipulation of either imports or exports distorts the freedom of market choice and efficient allocation of resources.

*(e) Tariffs are a clumsy weapon for trade protection; quotas have even worse economic effects; administrative protectionism may cause the greatest problems of all.* The historical use of tariffs to raise revenues is no longer a factor in United States tariff policy. Tariffs not only raise the price of foreign goods to our consumers, but usually are accompanied by higher prices of domestic goods protected as well. They represent a burden on our more efficient industries, and

drag the economy down by encouraging inefficiency. Under a tariff umbrella, not only is aid given to the firm which needs help, but the company already doing well can raise its prices, too. Marginal producers who previously could not command resources in competition with more efficient industries now begin to operate, and those at the new margin now can argue they, too, need protection. This process could continue logically until there is no trade at all, except where there is no would-be producer at home. And who is to say that there are not those who might not be encouraged to grow domestic coffee or mine very thin ores. This process of retreat from efficiency is limited only by the rebellion of consumers and the limited purchasing power of the people if more costly means of production are used.

In time of war, quotas on imports are the counterpart of necessary domestic controlled allocation. But, carried over to normal times, quotas are designed for a purpose similar to tariffs. They are worse because they may be insensitive to changes in the volume of demand, and to changes in costs of production and prices, and are almost always discriminatory in assigning shares of the market. A quota has the purpose of boosting the market price just as does the tariff. If consumer demand grows, except by specific administrative action there can be no increase in imports as even a tariff allows, and the only alternative is for the price to rise even more. Quotas imply the assignment of shares, and this inevitably means that choices must be made among countries of supply and individual traders. The opportunities for favoritism, for economic strangulation, for international hard feelings and reprisal, and for personal corruption are unlimited.

"Administrative protectionism" is a blanket expression that covers a host of devices. As much as anything, it opens the door to the capriciousness and the instability which were pointed out earlier to be the worst danger to orderly growth of trade. Sometimes this form of protection is either unwitting or deliberate clumsiness to regulations that add to the expense of trade to the point of being highly restrictive. This redtape involves both extra costs for complicated paperwork and long delays which increase the risks of heavy financial losses. Sometimes these devices are matters of inconsistency in applying complicated rules, variations among the practices at different ports of entry or even in a single port. Sometimes these are arbitrary rules of valuation which so interpret the cost of goods as to raise the tariff burden much higher than ordinary logic would interpret the law to intend. Sometimes by hiding behind perfectly valid sanitary and health rules, trade can be embargoed actually for the purpose of changing the competitive position of foreign industry to its disadvantage. In some parts of the world there is the added hazard of official corruption which can be a heavy burden on trade. The combined effect of these administrative rules is so to damage orderly trade, and prevent a reasonable development based upon calculable expectations, that by comparison a high but uniformly applied tariff would be a delight.

Although currency controls may be necessary in some circumstances, they have their price. Currency controls may combine on occasion the disadvantages of tariffs, quotas, and administrative protection. The use of multiple exchange rates can alter the price of individual imports as would tariffs. Exchange controls are the counterpart of quotas on merchandise imports but extend to all financial transactions.

The administration of exchange controls frequently is arbitrary and discriminatory.

The principal point of all of these devices is that they restrict trade, which is the purpose their advocates intend. Any or all of them may have to be used under some circumstances. Only the tariff has been advocated by the United States Government as the normal means to be used for the protection of domestic industry.

(f) *Distinction must be drawn between the general or national effects of trade competition and the specific effects on individual industries.* Specific effects cannot be minimized and may require corrective action. But the general welfare in the long run must not be permanently sacrificed for temporary and localized expediency if the Nation is to prosper and grow. This requires a clearer appreciation of the national interest in selecting particular remedies to dislocations.

(g) *The immediate dislocations occasioned by import competition at worst cannot be a major factor in the dynamic United States economy, however serious they may be to individual industries and communities.* Our present trade-agreements law will permit only minor reductions in tariffs. Even if imports were to increase by as much as a billion dollars a year, which would not be a likely direct result of the present limited tariff reduction authority, that would be less than one-third of 1 percent of annual gross national produce. The modified level of total activity occasioned by such change would hardly be measurable, and new imports would afford the means to finance additional exports. The importance of more trade lies not in its total volume but in its good effect on our efficiency and strategic well-being.

There is, of course, the danger that aggregate data will obscure acute individual situations, and these cannot be waved aside as unimportant. But it is clearly indicated that the measures required to relieve distress caused by trade freedom would be a very minor item of expense if the aggregate dislocation is so small. We must guard, however, against the tendency to blame all domestic dislocations upon foreign competition; if such claims are accepted uncritically, then the readjustment cost might be much heavier.

(h) *There is little doubt that dollars paid for imports into the United States will be disposed of in ways that will benefit United States economic activity.* Dollars paid out by United States importers ordinarily come back quickly to buy our goods and services, although in recent years other countries have used a small fraction of their dollar earnings to augment their currency reserves. Foreign dollar reserves, however, are not excessive, and the strengthening of such reserves, particularly in the sterling area, has been identified as a precondition for convertibility. These observations may be small comfort to individual displaced domestic industries, but they suggest that the whole economy is not likely to be dragged down by imports in the manner of those few industries which cannot meet foreign competition even in their home market.

(i) *Dislocations are a normal part of economic growth; those associated with trade are neither more nor less important in character than those of strictly domestic origin, and similar remedies seem to be in order for both.* The chief competition the depressed industries face is not foreign, but rather the greater efficiency of other home industries whose ability to pay high wages is better. The long-run

remedies for depressed conditions are to improve methods of production and marketing, to create new products, and in some cases to shift to new locations. Short-run remedies will be discussed later in these findings.

(j) *The Government need not refrain from gradual and selective tariff barrier reduction simply on the grounds that someone might be hurt; but it may wish to consider concurrent steps to ease the adjustment.* Such gradual reductions should minimize any need for Government adjustment aid. Timing of tariff cuts to match growth periods in particular domestic industries would minimize the adjustment problem, too. There is a moral argument that if the distress has been caused by an arbitrary change of Government rules on imports, then public relief measures may be appropriate, within the limits of practicability. Not every case of distress can be readily solved by Government aid at reasonable cost in current taxes or in long-run effect on national economic efficiency.

(k) *There will always be competitive pressures in both domestic and foreign trade as costs shift, technologies change, resources are discovered and used up, consumer tastes vary, and economic development proceeds.* Serious acceptance cannot be made of plans which promise otherwise if the economy is to remain dynamic and progressive. Therefore, whether we restrict trade or whether we liberalize it, we can expect still to find some distressed areas and industries. This discovery should not be allowed to deny us the advantages of greater trade freedom.

(l) *A healthy and growing economy is the best overall antidote to the displacements of foreign competition.* Adjustments to new markets are easier to make under such conditions, and imports may be able to share a growing market rather than subtracting from domestic sales. United States domestic prosperity, if allowed to include access to imports from abroad, automatically eases the dollar shortage abroad and can spur progress in other parts of the free world. This, too, reduces strain on our economy by enabling reductions in foreign-aid expenditures which might otherwise have to be larger.

#### V. REGIONAL TRADE

(a) *Regionalism as a policy when considered as part of a larger plan of strengthening worldwide multilateral trade can be a force which is positive and beneficial; but regional trade plans which limit worldwide trade are more likely to be negative in effect and harmful to economic efficiency and well-being.* The judgment on the creation of trade blocs must be made in comparison with alternatives. Creation of such blocs would be superior to any attempts to achieve complete self-sufficiency in smaller units, but if such blocs are considered a substitute for even wider ranging multilateral trade, they have definite disadvantages. Some groupings created by measures to lower trade barriers may be beneficial to world trade as a whole. The test should be that those groupings and rules used which are trade creating are to be encouraged; while those which merely divert trade or restrict trade more are to be discouraged. The United States in its own continental trading area is testimony to the effectiveness of freer trade. But where blocs are designed to freeze out rival suppliers, and

to deny access to raw materials and investment opportunities, then the seeds of future wars are being sown.

The greatest problem of restrictive and discriminatory regionalism is the existing Sino-Soviet bloc of countries which would offer us the choice, if they could, of strangulation as they take over a widening area, or of capitulation to their control.

(b) *Customs unions have advantages over most other preferential trading arrangements.*<sup>7</sup> The United States in a sense represents a very large and successful customs union. Small customs unions offer less advantage for marked economy and efficiency, so where possible unions should encompass large areas. As a practical matter, customs unions are hard to create because they involve all the pressures related to tariff reductions, and additionally require coordination of many economic policies beyond those of trade. In contrast to customs unions, many other preferential trading arrangements tend to raise barriers against the outside world rather than to cut barriers among each other. Further, they are often subject to change with consequent costs of dislocation of industry. Preferential plans raise serious questions of administration because they are discriminatory. It is necessary, too, to determine country of origin of assorted component materials in manufactures, and to apply appropriate different duties to these components, which is a cumbersome process. Multilateral trade and its advantages are inhibited when preferential groups seek special privileges to the exclusion of other nations. A customs union also alters competitive relationships but it need not cut off access to markets through the medium of new barriers.

(c) *European efforts toward economic integration are useful to world progress and prosperity, but must not be used to cloak continued or new discrimination against the rest of the world.* There is no reason why the United States should aid in making dollar discrimination respectable. European countries are now close to full convertibility, and should in time complete that process. If they can form a customs union, general or limited, that should be helpful, but the political difficulties standing in the way are formidable. It should be noted that the Western European bloc is really a world bloc, not a continental bloc, for it includes many dependent territories as well as being closely linked with the sterling countries. Now that Western European recovery has gone so far, there is no real United States interest being served by remaining discriminatory practices against our exports, except where the financial test permitting delayed convertibility makes it unavoidable.

(d) *The best hope for strengthening the Japanese economy must be its further integration into the trading system of the free world; neither a yen bloc nor partnership with Red China would serve United States, Japanese, and free-world interests.* The free countries of East Asia do not provide a large enough bilateral market with Japan to solve their mutual problems. However, such trade would go part way toward solving the problems of the area and every encouragement should be given to increased trade among these countries.

Japan would find trade with Red China less helpful than its former trade with Manchuria and China because many of the materials Japan

<sup>7</sup> Senator FLANDERS. At the Bilderberg Conference last August which I attended there was much approval of a European Customs Union and much discussion of the difficulties in the way. I called attention to the fact that these difficulties are those seen by American business in considering an effective customs union with the rest of the world and suggested that our hesitation should be viewed sympathetically.

needs most now are preempted for internal Chinese development. Full access to Red Chinese markets and resources could be obtained only at the price of political absorption into the Communist bloc.

It should further be pointed out that Japanese purchases from the United States continue to be severalfold as large as sales in this country. There is little likelihood that the United States can afford a sufficient market to solve Japan's problems by itself, but this is not reason to raise special barriers to trade. It does stress the wisdom of our policy of encouraging worldwide trade contacts for the Japanese.<sup>8</sup>

*(e) Trade policy with regard to relations with the Communist countries is not amenable to simple economic criteria because political and military considerations are more important.* It should be recognized that in total volume, trade with the Communist bloc is small, has shrunk as a percentage of total trade, and shows little prospect of growing to any significant degree. There are few real obstacles in the way of peaceful trade at any time that the Communists desire to encourage such trade and have exports to offer. But the free world cannot be expected to ship strategic goods which will strengthen the bloc's military power to make aggressive war. We recognize that trade with the satellites may be important to some of our allies, and cannot be ended. We further recognize that control of trade with the Communist bloc can be successful only as we have the cooperation of other countries. Offering alternative markets to our allies may be a concomitant of asking them to restrict trade with the Soviet bloc or Red China.

We can trade with the Communist countries only when we are convinced the advantage to ourselves and our allies is greater than the disadvantages to our side.<sup>9</sup> This suggests that constant review of the effects of trade is required, and the test of what is strategic must depend upon the latest secret intelligence rather than on any permanent published list. As a case in point, agricultural surpluses from the free world might be regarded as "peaceful," or they might be regarded as an addition to the military food stockpiles required before the bloc can initiate war. Only continual orderly reassessment can answer such a question.

We do not believe that greater amounts of trade will of necessity ease East-West tensions because trade policy is centrally controlled by the Communist bloc for its own political and military advantage. One goal of the bloc countries is autarky and trade is turned on and off to suit their ends.

The individual businessman would have trouble developing long-run trade with the Soviet state trading organization because lack of data on Soviet needs, home production, and costs makes it difficult to judge either market expectations or the basis of Soviet price competition. Another hazard of doing business with the Communists is the absence of patent protection. This allows foreign purchases to be cut off as soon as foreign designs have been pirated and put into production if that suits their ends.

Another purpose of Sino-Soviet bloc trade with the free world extends beyond the filling of their strategic needs for machine tools, nonferrous metals, rubber, and similar items. They are also trying

<sup>8</sup> Senator FLANDERS. The best expansion of regional trade in Asia would be to foster exchange between the food-surplus south East Asia and industrial Japan.

<sup>9</sup> Senator DOUGLAS. I am opposed to trade with the Communist bloc for reasons of national security and international morality.



to reorient the trade of countries such as Indonesia, Burma, India, and Egypt toward the bloc. If that process is successful, such countries will find themselves integrated like the satellites into the Communist system. Their raw materials and food will strengthen Soviet power and they will be an outlet for surplus obsolescing armaments.

Our restrictions on strategic trade are a necessary negative and short-run policy in the struggle to keep the free world stronger than the Sino-Soviet bloc. We also need to use trade positively and to meet long-run goals in this same struggle.

#### VI. INVESTMENT, AID, AND DEVELOPMENT

(a) *Immediate postwar recovery is largely complete, particularly in Europe, and, barring new emergencies, the principal need today is the orderly development of unused resources and of the innate abilities of the people of the world to raise living standards and create a sense of progress.* Countries need not only to accumulate a capital stock but equally to improve the efficiency of their labor and the level of their technical development. Technical aid will require more time to become truly effective than was the case of postwar material aid.

(b) *Foreign economic development is important to United States growth.* Our policy cannot be guided by the fear that making our technology available will merely create rivals abroad. In the first place, we do not have a monopoly on either ideas or the means to make machinery. If we fail to meet the purchase needs of countries eager to develop, other suppliers will. In the second place, there is more to economic development than just supplying modern machinery. Often the most modern equipment does not bring anything like the same volume of output per worker as in the United States for a variety of complex factors. In the third place, whatever development occurs abroad, there will be many comparative cost differences which will remain, probably leaving as much reason to trade as before. In the fourth place, both experience and commonsense have shown there are more opportunities to trade with developed countries with purchasing power than with underdeveloped countries whose complementary relationship is one of exchange of raw materials for a limited amount of manufactures.

Therefore, it is in our interest, economically as well as politically, to see the rest of the world develop and prosper, too. But, at the same time, we should not give encouragement to ill-conceived, unbalanced development programs made possible only by restrictive trade practices which will distort efficient production in the countries wanting to develop. Programs which are formulated arbitrarily without regard to the most pressing needs and the capabilities of the country concerned will tend to retard progress rather than speed it, and will prove a heavy burden on the people of the country. In a spirit of cooperation, using both our own and regional or world organizations, we should supply that assistance which our own knowledge and experience have demonstrated will contribute to real and lasting progress.

There is no more economic reason why every small country should attempt to create within its own borders all the basic heavy industries than there is reason to attempt this within each of the 48 States. New industries and public works should be tailored realistically to the training, market requirements, and probable costs which are associ-

ated with these developments. Without condemning any region to dependence on single-crop exports, we should continue to foster international specialization in those cases where it is clearly superior in efficiency to economic self-sufficiency. By no stretch of the imagination can small countries or territories free themselves of interdependence with the rest of the world at reasonable cost to their people. Therefore, the goal should be to make the best of this and to guarantee that trade will not be impeded, rather than to sacrifice well-being in the interest of an illusive isolated prosperity which cannot in fact be attained. There is enough legitimate development work to keep the world busy for many decades.

(c) *Real investment takes place in the form of a flow of goods, although the directions of flow may be roundabout.* This is true of repayment of interest and principal as well. These conclusions have implications for the balances of imports and exports. A creditor nation eventually will have to accept an import surplus or see investments go into default. This day can be delayed by continuing to make new investments and by refunding old. Refunding can be perfectly good policy. But if investors should later want to repatriate their funds, only the equivalent of an import surplus will make that possible. Policy must be prepared to accept this eventuality.

(d) *As much as we may favor private international investment, it would not be realistic to assume in the foreseeable future that it will be adequate by itself to meet all the investment needs of the world.* Private investment has many advantages. It is more likely to be put into projects which can be justified on economic grounds by earning the highest possible return, which is the useful characteristic of the market system for allocating resources to those purposes which are most efficient in meeting human needs. Another advantage of some private investments is that they carry with them automatically the necessary technical knowledge the receiving country needs. Private investments may be less likely to carry the threat of political control with them, and also are more likely to be extended indefinitely, avoiding the complications of repatriation of capital which may be required of many public investments. It has been easier to encourage direct investments abroad than those of the portfolio type, and yet the latter have a very useful place which should not be neglected.

Private investment, however, is inadequate for the needs of the world for fairly obvious reasons. Foreign governments should recognize that United States investors continue to have good opportunities to make money at home despite our vast capital accumulation. There is little practical reason why they as individuals should want to accept the risks of foreign investment in many parts of the world for the slightly higher returns that may be offered. Many foreign governments want to hold down interest rates and profits in their territories, and yet the foreign investor faces the risks of political instability, arbitrary changes in foreign laws, and even expropriation, not to mention exchange controls which may limit the use of his earnings.

Often the development needs of other countries require heavy investments in social overhead projects which are important to national growth and productivity. These include such projects as railway and road building, port construction, improvements in water supplies, sewers, public health, and education. There are places where either

private funds are not sufficient, or are not forthcoming at all where such investments are nonetheless important to the developed countries of the world both for economic and political reasons. Public investment becomes unavoidable. Administered with understanding, it can guard against the pitfalls of poor planning and waste, and the dangers of excessive interference in the internal affairs of the recipient countries.

(e) *Investment can be mutually advantageous to the countries involved.* The idea that foreign investments are exploitation of the borrower is an unsound generalization. Investment makes possible development that otherwise would be either impossible or delayed. Repayment of interest is made out of the surplus of production created by the investment. The foreign investor does so for the same reasons he would at home—to earn a future return. Making such an investment creates an export surplus with expansionist effect upon our economy. The repayment of interest in the form of imports is not a drag on our economy. This is because the means for the purchase of the imports came from the foreign earnings, not as a subtraction from domestic purchasing power.

(f) *Not only must private investments be supplemented by government loans in some circumstances, but there is a specific place for grants of aid as well.* The point has been made already that many of the development needs of the world are located geographically and politically in places where there is little inducement for private investors to place their funds. Government investment may be able to meet some needs in terms of size of credit, length of time, and lower interest rates that would be out of the question otherwise. The reasons for such government loans may be political, or they may even be very sensible economic risks that will pay definite economic rewards in the long run. Loans that can be repaid should be used where applicable, both in the economic interest of the lender and for the pride of the borrower.

But there are also circumstances in which it is not realistic to consider government transfers as something that can be repaid, and to pretend that such a transfer is a loan is unwise. During World War II, the United States recognized that although returnable hardware could remain our property, there was little advantage in adding to postwar dislocations by extracting promises to repay consumable goods. They became one of the costs of the war. In similar fashion, the UNRRA program was a humanitarian plan to meet the obvious immediate needs of hungry and homeless people. There was no thought of concrete repayment.

Aid programs are designed to meet specific national political, social, and military goals. They do not need to meet the test of investments which must generate a means for repayment. But they do present serious problems of measuring their benefits against their costs, and they compete for limited resources with other worthwhile projects. Such programs must be assessed in the light of their urgency at the time they are considered, and in the light of the alternative long-run consequences of different courses of action open to the Nation. Foreign aid is one of the devices important to maintaining the lead of the free world over the Communist bloc.

## VII. UNITED STATES POLICY

(a) *The most significant conclusion on United States policy of the last 20 years is that we have managed to stem the world tide of rising controls on trade; that course must not be reversed now.* Although we appear to have cut many duties up to 75 percent from the peak rates of 1930, most of these cuts have been in items which would not interfere seriously with the existing pattern of production in the United States. From this point on, it will be harder to make substantial cuts in tariffs without arousing more domestic objection. We must strive to hold the line against any reversal toward greater restriction, and continue to encourage behavior on the part of other countries to reach a similar degree of liberalization, if it has not been attained. Other findings of this report recommend we must do even better in the national interest than this.

(b) *The basic choice open to the United States is one of international cooperation or of self-containment; only the former is a practical, long-run choice.* Because our long-run policy cannot be built upon self-containment, we must design policies which advance our interests within the framework of cooperation. We must not throw away the long-run benefits of consistent policy with a series of temporary, emergency solutions based upon current expediency.

(c) *Our goal is to see the United States secure in a world of developing democracies devoted to peace and prosperity.* Our security can be assured only in a peaceful and prosperous world, where the benefits of progress are shared by all. We use the terms "democracy" and "peace" in the Western context, not the Soviet. A liberal trade policy is essential to the attainment of these goals, and a rising living standard is the economic measure of such progress both at home and abroad. Freer trade of itself will not guarantee peace, but will remove some of the economic causes of war. Even more to the point, if freer trade strengthens the non-Soviet world as it should, the likelihood of war will be reduced.

(d) *Tariff reductions should be gradual, and selective, and timed to fit the conditions of business.* There is no serious support for sudden abandonment of all duties. When reductions are considered it should be kept in mind that prosperous and dynamic industries can best withstand foreign competition. It would seem poor policy to apply reductions indiscriminately to industries which are in a depressed condition. The mobility of labor and resources to find other employment should be a consideration in the timing of reductions, and in some cases the speed of duty reduction can be linked to the rate of outflow of labor from our relatively less efficient industries to other jobs. Although blanket rate reductions on all commodities are not commended in general principle, the existing authority to reduce rates by 5 percent a year of present rates for 3 years is not likely to have much effect either way. A new and broader authority to cut rates in accordance with the criteria listed above should be granted under the Trade Agreements Act.

(e) *Although the United States has much to gain from its own liberalization of trade regulations, it should press as hard as possible for most-favored-nation reductions of tariffs, as well as continuing to insist on removal of quotas and relaxation of exchange controls in other countries.* This will have the advantage of helping American exports, and

also will help foreign countries to expand their own export markets in all parts of the world, rather than depending too heavily on the United States market. To the extent that American negotiators are already pressing as hard as they can for such foreign concessions, this should be brought to public attention in greater degree. Just as domestic industries are given opportunity to testify on expected import competition, so, too, should exporters have ample opportunity to call attention to foreign concessions they desire.

(f) *Participation in the General Agreement on Tariffs and Trade, and memberships in the Organization for Trade Cooperation are in the interest of the United States.* Such multilateral negotiation offers the best opportunity for widespread reductions of trade barriers, puts countries maintaining quotas and exchange controls on the defensive, obligates them to remove quota controls without any tariff concessions being required in return, and minimizes the danger of tariff wars. The GATT does not involve new principles of trade not already contained in our reciprocal-trade pacts with individual countries. It centralizes the negotiating process in the interest of simplicity and maximum concessions from all other nations on a most-favored-nation basis.

The GATT has been able to settle long-festering trade disputes that seemed otherwise incapable of solution. It promotes the very conditions which allow removal of quotas and exchange restrictions. If a participant decides to withdraw a concession, which it can do, it may suffer equivalent withdrawals by other countries, but these counteractions are limited to an amount proportional to the harm of the first withdrawal. This contrasts with earlier times when concessions could be withdrawn without giving any reason, and reprisals could become competitively worse. Even though freedom of action is left to the members, the general effect of the GATT has been to bring much-needed stability to trade to a degree not seen in decades.

The United States is such a key force in the world that its attitude toward the GATT and OTC will determine the fate of those organizations. The OTC has no supranational powers, and merely provides a small secretariat for the work of the GATT and a system of reporting on changes in trade restrictions and on other trade matters. If the United States does not join the OTC, other nations of the free world will judge that we have decided that it is inappropriate for this country to participate in continuing international discussion of tariff and trade matters. It should be kept clear that the GATT represents contracts to cut tariffs reciprocally. If these agreements are broken or withdrawn, member countries are not forced to follow GATT dictates; rather, equivalent concessions are withdrawn. No existing constitutional power is taken away from the United States Congress, which can override any agreement made under the GATT.

The GATT has permitted some exceptions in the form of quotas and currency controls to its program for reducing trade barriers. The permission to developing countries to use special controls, although it could be abused, is consistent with our interest in spurring economic development abroad. The currency discriminations of countries are largely a reflection of balance of payments difficulties which only now are being eased. The United States has been allowed a special dispensation to impose agricultural quotas to assist the domestic-sup-

port program. This country also has been the source of the exception clause which allows withdrawal of concessions as provided by the escape clause of our Trade Agreements Act. Finally, the United States seems to be working hardest to take exceptional action to raise barriers to trade liberalization when national-defense interests so dictate. All of these exceptions weaken the effectiveness of GATT, but are preferable to having the same restrictions on trade without a forum for their consideration.

The efforts of the GATT to end quota and currency controls as well as to cut tariffs are now of special importance. Tariff cuts by other countries, which earlier were made meaningless by other controls, now have become significant as many of these other controls are abolished or relaxed.

The work of GATT and the OTC is complementary to the activities of the International Monetary Fund and the International Bank for Reconstruction and Development. There is consultation between the fund and the GATT so that they do not work at cross purposes or offer different policy recommendations.

(g) *It would be in our national interest to press for free convertibility of exchange at the earliest opportunity when stable and maintainable rates have a reasonable assurance of being achieved.*<sup>10</sup> Our major concern in this regard is to end discriminatory trade practices which inconvertibility fosters. Stable rates are necessary to creating realizable expectations from trade and represent a worthy goal. But even freely fluctuating rates dictated by the market, unless the swings are extreme, have advantages over the discriminations implicit in fixed rates held at artificial levels. The judgment must, of course, be couched in terms of the circumstances. There are times when controls to prevent flight of capital or to ration limited resources of exchange for essential imports are very necessary. We cannot insist that sovereign powers follow our preferences, but we can urge in a spirit of mutual interest that particularly the sterling area and the countries of Western Europe restore full de jure convertibility with the dollar as soon as conditions outlined in this section can be met. This would be a much more simple step today than was true earlier because of the degree of Western European recovery. Confidence in these currencies would be strengthened even more if there were the assurance that rates could be kept stable and trade proceeds be made convertible without restriction. Full convertibility and stable rates would allow more completely the allocation of resources on the basis of comparative-advantage principles, to the mutual benefit of all the trading countries. The risk of a run on a particular currency would be minimized by the very knowledge that all major currencies would be translatable without restriction. Successful convertibility depends upon prior solution of major balance of payments difficulties, the selection of a suitable rate, and holding sufficient reserves of gold or hard currencies to cover temporary reverses. It may be that sterling is not yet supplied with sufficiently large reserves for this purpose.

<sup>10</sup> Senator DOUGLAS. I believe strongly enough in the advantages of fluctuating exchange rates that I would not insist on delaying exchange convertibility until there was a certainty of being able to maintain a stable rate. We should move more boldly for convertibility, and adjust pressures on the balance of payments by letting the exchange market set its own levels.

(h) *There should be a reexamination of the criteria used in judging the resort to use of the escape clause and peril points of the Trade Agreements Act.* Even if one grants the principle that an occasional change of mind on tariff concessions may be appropriate, the present escape clause is too sweeping in its opportunities to withdraw tariff reductions. The ever-present possibility of its use reduces the sanctity of any bargains we make with other countries. Foreign businessmen would be foolish to expand their American sales at any great investment on their part if the result would be to have the escape clause invoked. Other solutions to the problems of distressed domestic industries would seem to avoid the repercussions which follow escape-clause actions. These repercussions can greatly weaken world progress toward expanded trade, for other countries have an equal opportunity to use this device against their competitors anywhere, including the United States.

If the escape clause is to be applied, its use should not be authorized in the following situations: (a) when the domestic industry affected by foreign competition is still growing and expanding its markets; (b) when only a minor commodity or small group of commodities produced by complex industries are affected at a time these complex industries are doing well in other major lines (usually such industries can shift the composition of their output to their more competitive lines); (c) if imports constitute less than 10 percent of domestic sales. Imports of so low a level may be serious to individual firms but should not be thought as destructive of an entire industry.

When the escape clause is applied, it should be considered a temporary reprieve while other solutions are sought, not as permanent protection. A time limit for such a reprieve might be made a part of the action, with the provision that the original lower duties will be restored at the end of the period.

The peril-point provisions may also be unduly restrictive of trade by tending to limit tariff reductions to a degree not required by protection of domestic interests.

(i) *Quirks in our laws should not be allowed to dominate trade policy in a manner never intended by the Congress.* The Antidumping Act of 1921 was intended to control discriminatory pricing policies predatory in character by foreign suppliers against United States producers, if it could be shown that such lower priced imports were damaging to the American industry concerned. For many years this law was administered by the Treasury Department. Treasury still determines the existence of a price differential, but the determination of injury now has been transferred to the Tariff Commission.

A recent decision on cast-iron soil pipe (investigation No. 5 before the Tariff Commission) has followed a line of reasoning which if applied universally could negate much of our reciprocal program of trade liberalization. In this remarkable case, the challenged imports constituted no more than four-tenths of 1 percent of domestic production of cast-iron soil pipe, and the domestic industry during the period of this importation had expanded its production, sales, capacity, and prices. The Tariff Commission reached its conclusion regarding injury by deciding that the approximately 8 percent of national production located in California constituted a separate industry. But only one California producer who was represented at the hearings had

shown losses during the period of imports, and these losses apparently were not the first he had experienced. A further circumstance of Tariff Commission findings on all antidumping cases is that the Commission is not required to make public its data and reasoning related to the decision made.

Some price differences are a normal occurrence in trade. If each time that this occurs and there is also a marginal domestic producer, then the penalties of the Antidumping Act could be invoked by the cast-iron soil pipe interpretation. This broadening of the scope of the law is most serious. It is additionally serious because unlike escape-clause actions, the President is given no authority to override such a Tariff Commission finding in the broader national interest.

It should be noted further that the mere setting in motion of the investigatory machinery, which has occurred 165 times since 1934, generally prevents all imports in the category under study from clearing customs. All appraisals cease, and the cloud of possible retroactive penalties hangs over trade. This suggests the door is open to a dangerous tactical diversionary effort by domestic producers even in cases where they do not expect to have a finding favorable to their case.

(j) *There is a valid argument in favor of trade restrictions to aid national defense, but the case requires careful qualification.* The nature of total war requires that we pay more attention in peacetime to potential war needs than ever before. To wait until war strikes us would be too late to make plans for our industrial defense. But this necessity does not automatically sanction every claim offered by industries or Government bureaus that defense needs conceived in any narrow sense should override all other considerations. Such a course could negate the effectiveness of the free market system of directing production. There is already a tendency for some secondary industries to wrap themselves in the flag and to try to join the group of industries really vital to defense.

It is also evident that much greater study is required of the very concept of the mobilization base. There is question whether the present tests of defense essentiality reflect realistically the changing nature of war. If nuclear war comes, the suddenness of attack and the widespread destruction of industry both may militate against any orderly conversion of industry in accord with a previous plan. Only weapons in being, and a high level of skills and adaptability with wide dispersion of industry would offer much help.

There is also the danger in accepting the "fortress America" idea of neglecting the importance to our own safety of having strong allies. We could not survive in a world in which we had to "go it alone". Allied strength requires that they be encouraged both to manufacture weapons to free them from dependence on uncertain sea communications, and that they be as strong as possible economically in peacetime, so that they can withstand the many economic and psychological weapons of the Communist arsenal. This economic strength requires access to foreign markets and close ties with other free world countries so that they can share in common progress without the threat of being picked off one by one by the Soviet empire. Nor should we minimize the importance of the spur of competition both from home and foreign industries and the retention of mobility and adaptability in our economic system as aids to our defense.



Differences of opinion among witnesses make clear that further study of these problems is required in the light of new conditions. There are legitimate defense needs, and these should be met. But tariffs or quotas may be very poor ways to solve these problems. Explicit subsidization of the industries concerned may be cheaper and offer a clearer understanding of the costs involved. Perhaps, also, more study should be made of the reasons certain industries essential to defense are unable to withstand foreign competition, and an effort made to cure as many of these situations as possible.

(k) *Several methods are available to ease the short-run adjustment problem of industries affected by foreign competition.* Basic is that depressed industries should be encouraged to solve their problems rather than to be carried along with palliatives or that trade be restricted. There are proposals that depressed industries be given loan assistance, special tax benefits, and encouraged to switch to the manufacture of exports. It has also been proposed that their employees be given special unemployment compensation, or might be aided with counsel on employment, new job training, earlier retirement, and moving expenses to new locations. Two points might be made. There is no reason for limiting aid to injuries caused solely by imports if there is a case at all for such aid. Secondly, aid should concentrate on hurt individuals, whether they are workers or businessmen. Broad aid to whole industries, without regard to the condition of the separate firms, seems neither required by equity nor economical.

(l) *Without passing judgment on domestic agricultural policy, we nonetheless recognize that our trade policy will be made more difficult so long as we have substantial agricultural surpluses and some prices held above the world market level.* Such policies either take foreign markets from us as lower priced sources expand their production, or we are faced with the charge of dumping abroad with its danger of counteraction and reprisal. Artificially propped prices at home also require quota restrictions against imports, a control contrary to the objectives of trade policy. Although a limited outlet, selected surplus foods can properly be used for humanitarian relief and to free labor in developing countries to build social-overhead investments, including roads, schools, and hospitals. But such measures are only a minor part of the complete solution to the surplus problem and often have secondary effects which are undesirable. Continued efforts should be made to develop a domestic agricultural policy which can be reconciled with our foreign economic policy.

(m) *The Buy American Act has little place in our trade policies; it should be repealed.* Government purchases are too large and important to be taken out of the context of having to meet the test of market efficiency. Such associated problems as those of depressed areas and defense essentiality should be met by other solutions. There is too great a danger that favoritism, arbitrary decision, and reprisal will be invited by continued use of Buy American Act.

One of the most striking abuses of the Buy American Act has been certain rejections of foreign bids made to supply electrical generating equipment for various Federal power-dam projects. The hazards which foreign bidders have faced have been many, and the rejections of their bids have created an added burden for the American taxpayer as well as creating ill-will abroad. Often the measures used to exclude

foreign bids have been oblique. Specifications have been drawn that are difficult for foreigners to meet, and the claim has been made that foreign low bids do not meet the specifications laid down. Additional administrative rulings have awarded contracts to higher American bidders on the grounds that there is unemployment in the areas where such machinery is produced. Because our policy has wavered, and administrative discretion is so great, undoubtedly some foreign producers have been discouraged from bidding when they feel technicalities will be found to reject their offers.

A case can be made for leaving the specialty work of custom construction to foreign manufacturers of machinery, and allowing our own large machinery and electrical firms to concentrate on mass production where their talents and cost advantages show up best. Freedom of importation of such specialties would help to maintain the export outlets now so important to some of the same domestic producers who complain about competitive imports.

(n) *It is evident that no single review can explore all the problems associated with foreign economic policy coordination in the interests of domestic stability and growth.* Further study, however, would help to find better solutions to the many complex and troublesome problems in this field.

#### RECOMMENDATIONS

1. The President must continue to coordinate the diverse interests represented in the executive branch, and bear responsibility for foreign economic policy within that arm of Government. In the nature of our constitutional practices, there is not the same opportunity in the Congress for centralized coordination of all foreign economic policy, viewed in the broad sense. This puts a special responsibility upon individual members, the party leadership, and the standing committees of the Congress to consider the impact of their legislative proposals and their speeches on both home opinion and foreign behavior.

2. We should keep in mind in greater degree the psychological impact, as well as the purely economic, of domestic decisions which affect our foreign economic relations. We should keep in mind that our day-to-day actions often speak much louder than do pronouncements of overall good intentions, with consequent effect on the attitudes and behavior of friendly nations with whom we must cooperate in our own interest.

3. The United States should continue to champion multilateral trade on a most-favored-nation basis, insisting on reciprocal reductions in tariffs as well as the removal of other trade controls even without special concessions. Our reductions of trade barriers should be the occasion for hard bargaining with other countries to ease trade throughout the free world. The instrumentalities of the General Agreement on Tariffs and Trade, the Organization for Trade Cooperation, the International Monetary Fund, and the International Bank for Reconstruction and Development offer the best immediate opportunities for multilateral negotiation to make the greatest progress possible.

4. The United States should approve the agreement calling for its membership and participation in the Organization for Trade Cooperation.

5. The United States should continue to press for the earliest resumption of currency convertibility consistent with finding stable and maintainable rates. Our interest in such convertibility is to minimize trade discrimination and to spur international investment. It would be our hope that in particular the countries of Western Europe and the sterling area could meet the necessary conditions for de jure convertibility before too long. Although such convertibility should not be forced prematurely, neither should it be consigned to the indefinite future.

6. Tariff and trade policy of the United States should be dictated by the national interest, rather than in terms of specific industries or products. Where individual industries cannot meet foreign competition, other solutions than new trade barriers should be sought.

7. Further cuts in United States tariffs are in the national interest. The disruptive effect of such reductions can be minimized by making these cuts gradual, selective, reciprocal, and timed to fit the condition of business. Resort to quotas should be allowed only under extreme emergency conditions when other solutions are not available. Further simplification of the customs laws and related administrative matters should be carried out at the earliest possible date to streamline their operation and minimize arbitrary elements.

8. If aid is to be given to distressed areas or industries to meet the problems caused by new imports, such policies should be part of a broader program to meet similar problems of any source, not those of foreign trade alone. Such aid should not be aimed at blanket coverage, but to meet the specific hardships of people actually in distress. Aid should be viewed as temporary, and should be designed to contribute to the permanent correction of the distress so that aid can be terminated. It should not delay the solution of uneconomic arrangements which would continue to drag down the rest of the economy indefinitely.

9. No basic change in our controls on trade with the Communist countries is required at the present time. Trade in strategic goods would not be in the interest of the free world. But peaceful trade is not excluded from the realm of possibility any time that it is in the interest of the free world. Because East-West trade policy requires the cooperation of all countries of the free world, our policies must be coordinated with theirs. If we would limit trade important to our allies with the Communist countries, this policy carries a responsibility to provide alternate markets for their trade.

10. International investment and technical aid, both public and private, need further encouragement. Each case requires individual study and the solutions should be tailored to fit the circumstances. It should be kept in mind that this aid and investment is more than purely economic in character, and this will influence the choices made. Although broader considerations are involved, such aid, whether loans or grants, represents the positive and long-term equivalent of the negative and short-term restrictions on trade with the Communist bloc. This is a time when the Communists are using our own aid devices to further their ends, and we must be prepared to meet this challenge with a coordinated program which combines all the aspects of countering the problems created by the Communists. Only thus will the free world hold its margin of strength over the Sino-Soviet bloc.

11. Further study of domestic agricultural policy should take into account in greater degree the foreign economic policy aspects of these domestic measures.

12. Further study is required of the whole concept of defense essentiality if it is not to dominate over other necessary factors in trade policy. Not only should impartial criteria be discovered, but the whole concept of the mobilization base in the light of evolving military strategy should be reviewed.

13. New criteria should be developed to restrict application of the escape clause and peril points to industries where failure to apply these provisions would result in real hardship to individuals, whether workers or businessmen.

14. The problem of interpretation of antidumping penalties is a complicated one which deserves careful study rather than precipitate action; the need for change is recognized as its interpretation threatens to negate our foreign economic policy goals, but the remedies must be sought only with thorough investigation. At the very least, the President should be given authority to override Tariff Commission decisions when the national interest requires this.

15. We should give added encouragement to the preparation of international statistics, with attention both to the breadth of coverage and the quality of the information; data on national income and its distribution are particularly needed.

16. We need more study of what makes for economic growth both at home and abroad, if we are to choose policies which promote this development in the interests of attaining our national goals.

17. The work of this subcommittee should be continued for at least another year to explore more thoroughly some of the problems raised this year which were only partially answered. This study should include more specific analyses of individual situations than was possible within the general frame of reference of the current study.

## SUPPLEMENTAL VIEWS OF REPRESENTATIVE TALLE

The subcommittee has endeavored diligently to supply a significant contribution to our understanding of the problems of foreign economic policy. Although pressure of other committee assignments prevented me from participating in the hearings, I took part in the planning and organization of the study and am in the process of studying the printed hearings. I am particularly impressed with the need for improved statistical information in this area as was so well documented in the hearings. Trade policy must be viewed primarily from the standpoint of its effects on our industry, agriculture, living standards, and national defense. We must pursue policies that will strengthen our domestic economy and that of the free world. We must be mindful of the adjustments caused by moving toward freer trade. The suggestions offered at the hearings of the subcommittee and in this report bear careful study. Not having participated in the hearings, I do not feel that I am in a position to give my approval or disapproval to the subcommittee's report, but I believe that it should be transmitted to the Congress. I am sure that it will be of interest to the legislative committees, the Congress as a whole, the executive agencies, and the general public.

HENRY O. TALLE.