197

87th Congress
1st Session

JOINT COMMITTEE PRINT

TRADE ADJUSTMENT IN THEORY AND PRACTICE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

76697 WASHINGTON : 1961

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington 25, D.C. - Price 30 cents

JOINT ECONOMIC COMMITTEE

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

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

HOUSE OF REPRESENTATIVES	SENATE
RICHARD BOLLING, Missouri	JOHN SPARKMAN, Alabama
HALE BOGGS, Louisiana	J. W. FULBRIGHT, Arkansas
HENRY S. REUSS, Wisconsin	WILLIAM PROXMIRE, Wisconsin
MARTHA W. GRIFFITHS, Michigan	CLAIBORNE PELL, Rhode Island
THOMAS B. CURTIS, Missouri	PRESCOTT BUSH, Connecticut
CLARENCE E. KILBURN, New York	JOHN MARSHALL BUTLER, Maryland
WILLIAM B. WIDNALL, New Jersey	JACOB K. JAVITS, New York

WM. SUMMERS JOHNSON, *Executive Director*
JOHN W. LEHMAN, *Deputy Executive Director*
RICHARD J. BARBER, *Clerk*

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

REPRESENTATIVE HALE BOGGS, Louisiana, *Chairman*

REPRESENTATIVE HENRY S. REUSS, Wisconsin	REPRESENTATIVE THOMAS B. CURTIS, Missouri
SENATOR JOHN SPARKMAN, Alabama	SENATOR PRESCOTT BUSH, Connecticut
SENATOR J. W. FULBRIGHT, Arkansas	SENATOR JACOB K. JAVITS, New York
SENATOR CLAIBORNE PELL, Rhode Island	

TRADE ADJUSTMENT IN THEORY AND PRACTICE

By

Otto R. Reischer

LETTERS OF TRANSMITTAL

NOVEMBER 21, 1961.

To the Members of the Joint Economic Committee:

Transmitted herewith for use of the Joint Economic Committee, other Members of the Congress and the general public, is a study paper titled "Trade Adjustment in Theory and Practice," by Dr. Otto R. Reischer.

It is believed that this paper will be especially useful to the members of the Subcommittee on Foreign Economic Policy, and to the witnesses who will be testifying before the subcommittee later this year.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

NOVEMBER 21, 1961.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study paper titled "Trade Adjustment in Theory and Practice" which has been prepared by Otto R. Reischer, and submitted for the use of the Subcommittee on Foreign Economic Policy, in connection with its present review of our foreign economic policy.

Dr. Reischer is a consulting economist, practicing in Washington, D.C. He has taught economics at Rutgers University, the University of British Columbia, Michigan State University and the University of Virginia, and has served as a consultant to the Pan American Union.

I believe that the present study paper provides valuable information which will be useful to other Members of Congress and to the general public.

Sincerely,

HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy.

CONTENTS

TRADE ADJUSTMENT IN THEORY AND PRACTICE

CHAPTER I

INTRODUCTION: THE SIGNIFICANCE OF READJUSTING TO INCREASED COMPETITIVE IMPORTS

This study examines various methods designed to minimize economic dislocations caused by increased competitive imports; the desirability of greater freedom of trade is taken for granted.

Withdrawal of tariff protection from an industry often entails severe losses to groups or individuals. Such losses are open to objection on social grounds, even though they result from a decision of the Government taken in the national interest. But these losses may also give rise to political opposition which can prevent or delay trade liberalization. Much could be gained, therefore, if it were possible to remove these objections to a policy shift from protection to adaptation by providing adjustment assistance to producers who, despite efficient operations, have suffered, or are being threatened with, serious injury from competitive imports.

Attrition of an industry due to general technological progress is not the same as damage inflicted on that industry by intensified import competition resulting from lowered trade barriers. In the latter case the damage results from a policy decision of the Government taken in the national interest—national in the sense that matters of trade and tariff policy are of a nationwide rather than regional, sectional, or local character. In following through this policy decision, the Federal Government may be expected to assume responsibility for mitigating some of these immediately adverse consequences of freer trade.

In the domestic economy of a free society like our own, where market forces are given reasonable play, technical progress tends to be equated with the "law of the market"—the operation of impersonal economic forces to which producers have to submit or perish. The Government is charged with keeping these forces operating at home and fosters them through antitrust and antimonopoly legislation and controls. The Government also is obliged to desist from directly influencing technical progress except in an upward direction. It assists such progress by issuing patents and undertaking research activities, public works and other forms of assistance.

In the area of foreign trade, however, the "law of the market" only rarely has been given free rein. Here market forces still are hemmed in by many restrictive devices dating back to a period when such restrictions were in fact beneficial on a nationwide basis, and when stable markets had to be secured for many of this country's infant

industries. Behind the shield of tariffs, industries have grown up over the years, investments have been sunk in plant and equipment, and prosperous businesses have been built up.[1]

Though firms within an industry differ in their ability to cope with new developments and new types of competition, domestic competition has had to be accepted as the law of the land, with a tradition going back many generations. But foreign competition has not had to be accepted, at least not until fairly recently. Foreign manufacturers are not covered by our legislation on labor standards and restraint of trade. Against their competition the tariff and other trade restrictions have been an effective shelter, not available against an industry's domestic competitors.[2]

Economic progress in a free society cannot be dissociated from competition, and no cushioning is needed or desirable. In the foreign trade field, however, equity requires that the impact of a Government policy decision leading to increased import competition be accompanied by a policy to facilitate adjustments and minimize injury suffered by industries deprived of their accustomed shield against competitive imports.

The Government's objective in safeguarding competition on the domestic scene is to increase the general welfare; the same objective underlies the decision to increase competition in foreign trade. The objective would be realized in the long run (total adaptation) through the benefits from specialization according to the doctrine of comparative advantage. In the short run (partial adaptation) it would be achieved as a result of the stimulus of competition and of concessions obtained from our trading partners. In both instances, it may be noted, American exports are increased.

Withdrawal of protection from an industry accustomed to rely on it may contribute to the demise of a certain number of firms in that industry. Their number will vary in proportion to the measures they themselves take and the opportunity the Government gives them to make a satisfactory adjustment to the new competitive situation.[3]

No firm or industry is entitled to a blanket dispensation from having to adjust its operations to changes in its economic environment. But the Government, by removing safeguards against injury from foreign competition which it had provided initially, incurs, as a matter of equity, an obligation to provide some form of assistance to these firms and industries now unable to make a satisfactory adaptation on their own. Increased competition from abroad is a relatively small matter compared with disturbances in the home market due to technological and other changes. The burden of that new obligation should therefore be rather small.[4]

---

[1] As Don D. Humphrey has said, "A case for assistance to those who are seriously injured by imports can be made on economic grounds alone; the injury results from a basic change in America's historic policy of protectionism." American Imports, New York, 1955, p. 482.

[2] See also Bidwell, Percy W., "What the Tariff Means to American Industries," New York, 1956, p. 264.

[3] If the Government were to relax, or abolish provisions of its antitrust and antimonopoly structure on the domestic side, it would similarly have to assume responsibility for helping smaller business units to survive by other means, either by finding ways of supporting them directly, or by making it possible for them to merge into larger and more viable units.

[4] For a fuller discussion of this point see Salant, Walter S., and Vaccara, Beatrice N., "Import Liberalization and Employment: The Effects of Unilateral Reductions in United States Import Barriers." Washington, D.C., 1961.

CHAPTER II

ECONOMIC AND PUBLIC POLICY ASPECTS OF TRADE ADJUSTMENT

Economic dislocations as a rule have more than one cause. If an industry is suffering in some degree from foreign competition, it is also suffering from a much larger array of ailments. Changed conditions of domestic demand or new sources of domestic supply often create the basic problem. But the processes of adjustment are similar, regardless of whether the dislocation stems from domestic or foreign causes.

UNASSISTED VERSUS ASSISTED READJUSTMENT

Two general types of readaptation can be distinguished: unassisted readaptation, and readaptation aided by government.

Unassisted readaptation may entail cost reduction, diversification of production, market research, and importing. In industries producing standardized commodities for a wide market, such as electrical manufacturing, chemicals, and iron and steel, opportunities for cost reduction are easily found.[1] But even in small-scale manufacturing, cost reductions are found possible, through time and motion studies, for example. In general, however, import-sensitive industries may find more help in competing with foreign firms by analyzing consumer demand more carefully, and determining the changed characteristics of the market. Developing of new designs has been helpful, too.

Diversification has been another way firms have taken in adapting themselves to changed competitive situations. In the present context, this has meant branching out into lines not subject to import competition. But successful selection of new products requires detailed studies of market possibilities and production techniques, and not all firms suffering from import competition command the necessary financial resources and managerial skills to undertake the studies and apply the findings.

For producers of labor-intensive commodities unable to reduce costs to the level of competitors in low-wage countries making identical goods, the only solution has been in offering something distinctive, which usually has meant something more expensive.[2]

There are many interesting examples of successful adaptation to rising foreign competition in the wake of tariff concessions. Manufacturers of bicycles turned to competitive models. They also use their facilities in the off-season for making other products—lawn-

[1] See Bidwell, Percy W., "What the Tariff Means to American Industries," New York, 1956, p. 265.

[2] Steuben Glass, for example, has become relatively immune to foreign competition because of concentrating on glass products of the highest quality. Lenox China is in a similar position. See Bidwell, op. cit., p. 266.

mowers, air-conditioning apparatus, equipment for gas stations and so on. Some woolen and worsted mills make automobile fabrics as well as apparel cloth; others are producing synthetic and blended fabrics. Manufacturers of hand-fashioned glass have begun to turn out Fiberglas. Manufacturers of fine household china also make hotel ware. And watch companies in addition to defense items are making watch cases and bracelets, men's jewelry, and electronic apparatus.

Producers of import-sensitive goods often have taken to selling imported goods to improve their position. Some watch manufacturers also are importers of Swiss watch movements, which they case and sell under their own or another trade name. Several bicycle manufacturers have made arrangements with foreign firms to market their products in the United States. American producers of dyestuffs also are engaged in importing. For, while the manufacturer is mainly interested in turning out the goods himself, importing as a sideline provides him with a more complete line of products, including items which can be procured more cheaply abroad than produced at home.

But unassisted readaptation may not always be enough for coping with a changed competitive situation. When, for example, an import-sensitive industry has been the sole or predominant source of employment in a community, a tariff reduction may push an already weak producer to the brink of disaster. This may not be a tariff problem pure and simple, for overspecialization too would have made the community vulnerable to any sudden change, whether of domestic or foreign origin. Whatever the cause, the remedy in these cases would be to broaden the industrial base and thereby create new opportunities for employment.

From the point of view of the workers, even a successful diversification program may involve considerable hardship.[3] Labor is far from being perfectly mobile. Older workers in particular lack the inclination and the ability to find employment in other industries. Workers who do not move suffer losses in earnings because of downgrading in skill classification. And many a new job may be less satisfactory than the old.

To cope with such difficulties is in the first instance the responsibility of both management and labor in the affected industry, and of State and local authorities. But since such efforts often are inadequate, the Federal Government tends to assume responsibility for providing help, and has done so in the past. In fact, our Federal social security and unemployment assistance programs are reflections of that tendency, as is the recently adopted depressed area program. The thesis of this study is that more should be done.

Advocates of freer trade deny that the higher American wage scale makes this country more vulnerable to import competition originating in low-wage countries, since higher wages in our industries reflect higher productivity, and are therefore no indication of higher unit costs. However, this superiority holds true chiefly for standardized commodities which are turned out in quantity by mass production methods.[4]

---

[3] See, e.g., National Planning Association, "Depressed Industrial Areas—A National Problem," Planning Pamphlet No. 98, Washington, D.C., January 1957, p. 7.
[4] See also Bidwell, op. cit., pp. 283–284.

In producing such commodities, heavy investment of capital makes possible much larger output per worker per hour than in foreign plants not so well equipped.[5] But relatively high wages in this country tend to be a serious handicap to low-capital producers in import-sensitive industries. The basic difficulty of these industries, however, is not the low wages paid abroad. Rather, it is the high competing wages paid by other American industries, based on the high level of productivity in American industry. The goods we export are produced by our most productive, highest wage industries.[6]

No industry stands by itself in competition with foreign suppliers. Its changing cost structure vis-a-vis the cost structures of foreign competitors is to a major extent a reflection, indeed a function, of the changing cost patterns of the national economy in which it operates. Adaptation to increased imports is not an isolated phenomenon but a facet of the general process of economic adaptation and growth. One significant feature of this type of adjustment is that it represents a point of convergence of domestic and foreign economic policy. This brings us to the public policy aspects of assisted readjustment which will be discussed after a brief review of its economic aspects.

ECONOMIC ASPECTS OF TRADE ADJUSTMENT

The economic objective of assisted readjustment is to soften or spread out the impact on domestic producers of an increase in competitive imports resulting from freer trade. A major prerequisite of a workable adjustment program will be to convince these producers of the usefulness of making an adjustment. This prerequisite would be met by offering those American businessmen who bear the brunt of intensified import competition a program consistent with the free-enterprise system and which allows them to continue to exercise their managerial prerogatives. Such a program would include financial assistance and technical advice, but no detailed guidelines or prescriptions. Moreover, the program should be optional, and offered as an alternative to methods currently used for relieving injury resulting from freer trade, with appropriate administrative safeguards. Various types of assistance thus made available to businesses as and where needed would help them to carry the burden of the required adaptation.

Assistance in adjustment to economic change is intended to increase flexibility and mobility, not as compensation for injury. Greater flexibility and mobility are desirable in themselves, quite apart from any reductions in trade barriers with which adjustment assistance may be associated. Adjustment assistance also can be made preventive rather than remedial. It can be made available to those who merely expect to be (or face a threat of being) injured so that they may act before injury occurs.[7]

---

[5] American electrical manufacturers and chemical producers, for example, are not troubled by foreign competition with respect to the bulk of their products. They are sensitive to competitive imports only in a few specialties—such as heavy hydroelectric equipment and batch-process dyes. For technical reasons these and other items cannot be mass-produced and consequently require a large input of highly paid labor.

[6] It has been shown that American export industries tend to pay higher wages than import-competing industries; in fact, they have done so for over half a century. See Kravis, Irving B., "Wages and Foreign Trade," Review of Economics and Statistics, vol. XXXVIII, No. 1 (February 1956), p. 14.

[7] See also statement by Walter S. Salant, Brookings Institution, in "Foreign Trade Policy," Hearings before the Subcommittee on Foreign Trade Policy of the Committee on Ways and Means, House of Representatives, 85th Cong., 1st sess., pursuant to H. Res. 104 (Washington 1958), pp. 577–578.

From the viewpoint of the economy as a whole it seems best to focus such a program on the individual business firm immediately affected by increased imports. Workers and communities are affected by such imports less directly; their injury is a function of the extent to which the business firms employing the workers, or situated in the communities, fail to make the necessary adaptation.

Trade liberalization generally is more likely to take place when there is little resistance to moves of that sort, e.g., in times of comparative prosperity, when workers can shift without too much difficulty to jobs similar to those they had been doing before being dislocated. If necessary, workers can be given preference in existing public welfare and assistance facilities. Larger enterprises in general can be counted on to make necessary adjustments in operations without assistance. There would remain only the smaller business units to be looked after. A comprehensive adjustment program could then be devised for every type of industry.

The true test of a readjustment program would be the real economic gain it could produce through a shift of resources to more profitable employment. That gain is difficult to measure. Parts of it are quantifiable in money terms. Other parts defy that kind of measurement, being widely diffused through the economy.

THE PUBLIC POLICY ASPECT OF TRADE ADJUSTMENT

Public policy enters into a program of assisted readjustment by virtue of the fact that through such a program the Government could insulate problems of *foreign* economic policy, of which tariff and trade policy is one variety, from *domestic* economic policy problems created by trade liberalization. Separating the effects of governmental action in the two areas would allow greater freedom of movement as well as greater precision in achieving the respective policy objectives.

At home, the major policy problem is to keep competition at least workable by preventing undue increases in concentration of economic power. Small units have to be kept from being pushed to the wall, and economic self-reliance among entrepreneurs is to be fostered.

In the domestic policy area also, the Government has to face a problem pertaining to the national security. It has to decide which industries and what portion of the labor force are important enough from a defense standpoint to be kept at their current tasks despite relatively and often uneconomically high costs.

The problem of national security also arises in the field of foreign economic policy, where we strive to maintain mutually beneficial economic relations with allied nations. To maintain these relations requires eventual achievement of relatively unrestricted trade. As a condition for fulfilling this requirement, this country will have to accept a sizable increase in the volume of imports. Since existing trade barriers in general are still too high to permit such an increase the Government is endeavoring to lower barriers accordingly. As a result, certain domestic industries are already suffering injury from increased import competition despite existing safeguards, and more industries are likely to do so before this particular policy objective is attained. The industries injured are mostly those who in some way had

geared their operations to the existence of certain types of protection—to sustaining intervention by Government.

Continuance of such protection would mean, of course, that these industries would go on receiving indirect Government subsidies. The number of producers of those industries' products would be limited by virtue of a partial or total exclusion of foreign goods. And the price of the goods produced domestically would be kept substantially higher than if producers were subjected to competitive pressure from more freely admitted foreign goods.

The Government faces a dilemma in having to deal simultaneously with relatively inadequate competition at home (in the absence of advantageously priced imports), and excessive competition from abroad (from the viewpoint of national interest, that is). The dilemma cannot be resolved so long as the Government has to rely on trade restrictions, or sustaining intervention, as the only technique available for ordering these two conflicting tendencies. Whenever it now wishes to stop excessive foreign competition, the Government is forced, as it were, to pour out the baby with the bathwater: it can indeed curtail foreign competition, yet at the same time domestic competition is also weakened. If the Government adopted the technique of adaptive intervention, in conjunction with a tariff reduction, the baby would be lifted out of the bath before the tub is emptied, and the result would be greater precision in policy implementation: policy makers could then achieve the objectives of liberal trade policy without any paralyzing concern for protected home industries. Obliged for once to make adjustments to freer trade and increased competitive imports, these industries could then be granted assistance on a temporary basis during a transition period.

A trade adjustment program thus provides the Government with a tool for separating decisionmaking in the domestic economic sphere from decisionmaking in the foreign economic sphere. Once the concept of readjustment assistance is accepted, the Government can deal with requirements of protection for domestic industries in isolation from requirements of foreign economic policy. And consideration of the one need not be distorted by consideration of the other, and vice versa.

A Federal program of assisted adaptation would also have considerable political usefulness. If the appropriate legislation were passed, it would be easier for many Congressmen who, although convinced that freer trade is in the national interest, nevertheless have protected industries in their districts, to vote for tariff reduction. They would then better be able to face their protection-minded constituents by pointing to the existence of and the advantages offered by the trade adjustment programs.

THE GAIN FROM TRADE ADJUSTMENT

Increased adaptability

Assisted readjustment to increased competitive imports basically aims at increasing the adaptability of this country's industrial structure to changed world trade conditions.

Implicit in greater adaptability is a better allocation of domestic resources. Spurred by a lowering of trade barriers, the domestic

economy would gain in strength as marginal producers in import-sensitive industries are impelled to switch to other and more profitable pursuits. As imports rise, and assuming that other countries also lower trade restrictions, there would appear a tendency for exports to increase in payment for imports. This increase in exports would be a reflection of stronger foreign demand for specific American goods, such as products of the automotive and engineering industries, for example. This increased foreign demand will cause more resources to be attracted into existing and into new export industries, the latter springing up as new needs and opportunities are discovered in foreign markets. Foreign investment opportunities also would multiply, and domestic resources, especially capital goods, will be absorbed by such investments. With progressive easing of multilateral trading restrictions, the effect of freer trade will also be felt in the less specialized export industries, those which hitherto may have produced almost exclusively for the home market. With the increase in opportunities created by these developments, marginal producers initially displaced by greater import competition should find adaptation not beyond their reach, especially if appropriate assistance is made available.

With obstacles to freer trade being removed gradually and in conjunction with appropriate programs of assisted adaptation—other things remaining equal—a process of economic expansion will get underway at home and abroad. As expansion of production and trade continues over time, it may be possible for the Government to reduce its expenditures for various types of foreign economic assistance including military aid.

Foreign economic aid—in the absence of any significant freeing of trade that would allow an increase in the volume of goods exchanged between the United States and aid-recipient countries—may be considered as a concealed subsidy to certain groups of domestic producers. This subsidy serves to support those marginal elements of American industry that would stand to suffer from increased foreign competition. Such support is granted at the taxpayers' expense. If these marginal producers could adapt themselves to a new competitive situation involving the freer admittance of foreign goods, with or without assistance from the Government, certain industries in the aid-recipient countries could increase their exports to the United States. To the extent that these foreign producers would be able to take advantage of relaxed American protection, they could contribute to the prosperity of their own countries, with the result that the need for further substantial foreign aid may be lessened, with corresponding reductions in U.S. outlays.

A good deal of U.S. foreign aid has taken the form of orders placed with a foreign country's capital goods industries for production of weapons and materiel. Various national engineering and related industries have been strengthened in that way. When at some future point in time the present danger should subside, these national industries may be expected to continue producing durable goods, but of a nonmilitary character. If the respective internal market should prove too small for keeping these industries busy, they will seek outlets for their products in world markets. These efforts in the first instance will generate sustained pressure for freer trade on a global basis. With greater productive capacity all around, the need for

greater international specialization and division of labor will increase in proportion. If by the time this need becomes urgent American trade policy should prove not flexible enough to cope with it (in part for the reason of not having adopted a policy of assisted adaptation of marginal segments of import-sensitive industries), another foreign-aid program, but of vastly greater dimensions, may have to be devised.

A seemingly unending vicious spiral threatens to emerge as seen from the simplified sequence of measures and conceivable countermeasures which follows: The military buildup in countries friendly to the United States continues for a time, with assistance from this country. A detente with the Soviet bloc is then assumed to set in. Armament industries in countries friendly to the United States then revamp operations and exert pressure for more exports. American trade policy, however, continues unchanged in a moderately restrictive vein (without a policy of assisted adaptation). The friendly countries thereupon retaliate by discriminating against American exports. At the same time they begin suffering from unemployment in their overgrown durable goods industries. One unfavorable development brings forth another. The economies of these countries become unstable, and one more economic aid from the the United States becomes indispensable.[8] The next move would be up to the Soviet bloc. With a renewed tightening of the international situation, the spiral goes into another turn, and U.S. economic aid once more is supplemented or transformed into military aid and "defense support."[9] With successful and rapid adaptation to economic change this repetitive succession of events might be prevented.

THE PROBABLE DIMENSION OF TRADE ADJUSTMENT

Available evidence suggests that the extent of the readjustment problem will be much smaller than commonly expected. One reason for this is that the aggregate area of displacement of domestic production by imports is likely to be quite small in comparison with the national economy as a whole.[10]

Shifts in production and marketing practices take time.[11] Foreign products not only must compete pricewise with domestic products after paying freight and other charges, but must also conform to established tastes, and appropriate channels of distribution must be developed for them. Owing to these requirements, whatever readjustments by domestic producers must be executed can be made gradually, even if rates of duties were reduced more rapidly than, for example, at a rate of 5 percent per year.

Given unimpeded economic progress at home and abroad, there need be no fear lest resources freed by marginal enterprises not be taken up by others, such as business firms benefiting from an expansion in production for exports.[12]

---

[8] Changes can be rung on this sequence of developments by varying the assumed relative position of the aid-recipient country vis-a-vis the United States.

[9] The existence of thermonuclear imbalances and of "missile gaps" adds to the grimeness of the prospect.

[10] See Salant, Walter S., and Vaccara, Beatrice N., "Import Liberalization and Employment: The Effects of Unilateral Reductions in United States Import Barriers," Washington, D.C., 1961.

[11] In this connection, see the discussion pertaining to Western European integration in Hulley, John, "Protect or Compensate," World Politics, April 1953, especially pp. 320 sq.

[12] See in this connection, Hinrichs, A. Ford, "Iowa and World Trade: An Economic Analysis of the First Congressional District of Iowa," Washington, D.C., 1954.

76697—61——2

In a recent investigation concerning the qualitative effect of a conceivable tariff reduction in eight American industries,[13] on the assumption that the reduction would be gradual and would not be undertaken in a period of general unemployment and falling national income, it was found that lower import duties would affect large-scale manufacturers only peripherally. Certain small-scale industries, though, with a high ratio of labor costs to total manufacturing costs, in some cases aggravated by declining markets, appear to be marginal from the standpoint of the American industry as a whole. Within these marginal industries, increased imports would hit marginal firms hardest. But tariff changes in general do not determine whether or not an entire industry will survive or disintegrate; they determine only the dimensions of the industry. And any lowering of tariff duties on commodities which are sensitive to import competition is a selective process in which only the fringes of an industry—the marginal firms—are cut off.

The small dimension of readaptation is matched by its probable low cost in real terms. The real cost of using resources in any given line of production is the return foregone by what these resources would yield in other lines. The real cost to the economy of not shifting resources from marginal firms in import-sensitive industries appears to be substantial. Conversely, the real cost of a readjustment program in terms of production sacrificed because of a reallocation of resources would be comparatively small. Besides, this small cost will be offset and exceeded, after a reasonable period of time, by the multiplier effect inherent in successful readaptation.[14]

To sum up, the case for adjustment assistance in instances of dislocation by increased competitive imports may be restated briefly. Readjustment assistance can be advocated on two grounds: it benefits the economy through freer trade and better allocation of resources, and it solves the short-term problems that such shifts entail. The fact that freer trade benefits the economy is generally accepted. Since readjustment assistance would facilitate acceptance of imports, it would tend to promote removal of trade restrictions. And since assisted readaptation in the face of increased import competition may be expected to reduce opposition to a further lowering of trade barriers, a readjustment program becomes that much more desirable.

Past opposition to assisted readjustment has concentrated on two points: the administrative complications of the program, and its redundancy in the presence of a gradual lowering of tariff duties. It has been held that a readjustment assistance program could not possibly be instituted without very great difficulties of implementation. To this objection it may be replied that a simple program can be devised that would be no more cumbersome than current measures of protection, and possibly much less so.[15]

---

[13] Bidwell, Percy W., "What the Tariff Means to American Industries," New York, 1956, pp. 286–288.

[14] On the working of this multiplier, see, for example, Hildebrand, George H., and Mace, Arthur, Jr. "The Employment Multiplier in an Expanding Industrial Market: Los Angeles County, 1940–47," 'Review of Economics and Statistics," vol. XXXII, No. 3 (August 1950), pp. 241–249; Federal Reserve Bank, Kansas City, "The Employment Multiplier in Wichita," its Monthly Review, Sept. 30, 1952, pp. 1–7; and Federal Reserve Bank, Boston, "What Happens When a Community Gains Manufacturing Jobs," its Monthly Review, March 1955, pp. 1–6.

[15] See below; and also Clubb, Bruce E., and Reischer, Otto R., "The Trade Adjustment Bills: Their Purpose and Efficacy," Columbia Law Review, March 1961, pp. 490–503.

It has also been asserted that with a gradual lowering of tariff rates there would be no need to bother with governmental aid in adaptation, since under such circumstances the necessary changes in the industrial structure would take place anyway. The answer to this objection is, that even in a situation like the present, when there exists legislation providing for a gradual decrease of tariff duties over a number of years, there is still a great deal of opposition to a freeing of trade, to judge from testimony before congressional committees studying our trade policy, and from the number of applications for relief from competitive imports processed by the Tariff Commission. Therefore, even with a gradual reduction of tariff duties, a comparatively simple trade adjustment program, that cuts down resistance to increased imports, would enhance the boon to economic progress.[16]

[16] Attitudes of prospective beneficiaries from the program admittedly will vary. But it seems likely that a successful assistance program would fare like other innovations: accepted only by a few at first, it would later be taken for granted by the community at large.

CHAPTER III

FOREIGN EXAMPLES OF READAPTATION

Readaptation to economic change is not a new phenomenon, nor is the idea peculiarly suited to the United States alone. In Europe, in the course of steps being taken toward economic integration, readaptation has been adopted as an essential corollary to the program of changing national market and industrial structures of the participants in the Benelux Economic Union, the European Coal and Steel Community, and the European Common Market. This chapter gives a quick survey of some of the relevant provisions and a short evaluation of the program's operation.

READAPTATION IN BENELUX

Benelux was formally started in the fall of 1944 with the signing of a customs convention between Holland and the Belgium-Luxembourg Economic Union. But not for almost a decade was it felt necessary to assist firms which had to carry the main burden of adjusting to changes in the policy of protection against foreign competition.[1] In 1953 agreement was reached on setting up a joint readaptation fund designed to provide temporary financial help to such firms with a view to raising their productivity.[2] A capital fund was set up, subscribed in equal halves by the Netherlands Government, and by the Governments of Belgium and Luxembourg. It provided loans to the affected industries to help them make the necessary adjustments. It was also agreed that the proceeds from any special charges levied on the trade among the three Benelux countries as a means for temporary protection (other than on agricultural products) should be paid into the Benelux Fund for Readaptation. The functions of the Fund, as prescribed by article 2 of the agreement, must not include direct subsidies to the enterprises eligible for assistance, but rather special readaptation credits, at low rates of interest. The Fund is also empowered to finance studies and research tending toward an amalgamation of certain of the affected enterprises with a view to increasing their productivity.[3]

The agreement on the Readaptation Fund was preceded by an agreement signed at The Hague on July 24, 1953, which among other matters dealt with the problem of granting special temporary assistance to particular branches of industry which might be badly hit by the processes of adjustment required from time to time by the main-

[1] Robertson, W., "Benelux and Problems of Economic Integration," Oxford Economic Papers, N.S., vol. 8, No. 1 (February 1956), p. 50.

[2] The agreement was signed in Brussels on Nov. 16, 1953, but not ratified for another 3 years. For the text of the agreement, see "Moniteur Belge," Aug. 12, 1956, pp. 5416–5418. See also Meade, James E., "Negotiations for Benelux: An Annotated Chronicle, 1943–56" Princeton Studies in International Finance, No. 6, 1957, p. 66.

[3] "Moniteur Belge," loc. cit.

tenance of overall domestic and external balance. This protocol includes specific criteria governing the granting of aid.[4]

In order to be eligible, the firm's production must have been reduced by a given amount in any 6-month period relative to its level in the corresponding period of the previous 2 years, as a result of increased imports from one of the partner countries: or the imports of the competing product from one of the partner countries must have increased in any 6-month period by a given amount relative to their imports in the corresponding period of the previous 2 years. Provision is also made in the protocol to give on the one hand some temporary protection in special circumstances to an industry which does not meet these criteria, and on the other hand to withhold such protection, though warranted by the criteria, if granting it would impose too severe a burden on the export industry of the partner country. Any measures of protection are to be temporary, and their permitted duration is to be announced at the time the measures are instituted. Every 6 months an examination is made to see whether the continuation of protective measures is still necessary. Cases of dispute are subjected to compulsory arbitration.[5]

THE EUROPEAN COAL AND STEEL COMMUNITY AND READAPTATION

Section 23 of the Convention on Transitional Provisions applicable to the treaty setting up the European Coal and Steel Community[6] allows the High Authority to place funds at the disposal of governments and firms to deal with unemployment and to organize readaptation of laid-off workers, and also to help financing of government-approved conversion programs to rehire such workers. Intervention is limited to firms that have been put out of business or compelled to change their activities as a result of the establishment of the Common Market for Coal and Steel.[7] This power was granted for the first 5 years of the Common Market only, although it can be extended for another 2 years by decision of the High Authority, with approval of the Council of Ministers.[8]

Article 56 of the treaty grants similar power of intervention for the duration of the treaty. These powers may be exercised by the High Authority whenever the introduction of technical processes or new equipment leads to an exceptionally large reduction in labor requirements in the coal and steel industries of the member countries, and which would make it difficult for certain areas to reemploy the workers displaced by these developments. The powers under this clause appear to give the High Authority considerable latitude, but they have not been implemented during the transition period.[9]

---

[4] Meade, op. cit., p. 65.
[5] Robertson, loc. cit., p. 34.
[6] See ECSC Information Bulletin, July–August 1956, p. 9.
[7] The transition period of the Common Market for Coal and Steel was set from Feb. 10, 1953, to Feb. 10, 1958.
[8] For actions taken under this provision, particularly with regard to the marginal Belgian coal mines of the Borinage, and the Sulcis mines on Sardinia, see, for example, "Fifth General Report on the Activities of the Community" (Luxembourg, Apr. 13, 1957), pp. 168–177; for other measures of readaptation, ibid., pp. 210–216.
[9] The High Authority has also sponsored a series of studies of problems encountered in the process of readaptation. See "Obstacles à la Mobilité des Travailleurs et Problèmes Sociaux de Réadaptation," Luxembourg, 1956. For Belgium, the Institut de Sociologie de la Faculté de Droit de Liège has prepared a study commissioned by the ECSC, "Migrations Provoquées et Problèmes Sociaux de Mobilité Ouvrière" (Liège, 1956). Similar studies have been prepared by groups in the other countries.

READAPTATION AND EUROPEAN COMMON MARKET

The so-called Spaak report,[10] which forms the basis for the treaty for the European Common Market, signed in Rome on March 25, 1957, provided for a retraining fund or social fund. According to the report, the purpose of retraining workers is to facilitate conversion of industry made necessary by economic progress. Retraining would afford them protection against the risks accompanying conversion, and would reconcile necessary mobility with stable employment. Due provisions must also be made for the inevitable change entailed by the conversion from a Common Market limited to coal and steel to a general Common Market. Grants for unemployment relief in the various countries must be harmonized, taking into account the principle of retraining.

The retraining fund is to be financed by contributions from member states. Contributions are to be based on the total amount of wages and social security benefits paid in each country. Payments from the fund would not require proof that unemployment was due to the setting up of a Common Market. It would be assumed that the Community as a whole, as well as each state, would be interested in progressive structural changes in industry, in rationalization of enterprises, and in a better use of manpower for the purpose of increasing productivity and raising the standard of living. This interest would justify sharing in the expenditure necessary to protect workers against risks connected with the conversion.

During the transition period, the fund would meet up to 50 percent of the expenditure incurred in connection with cases and objectives agreed on in advance. Contributions would be made available for retraining workers for resettlement of workers, and for payments to workers temporarily unemployed or on short time due to conversion of a plant to other production. The length of the transition period is to be broken down into three stages of 4 years each, extendable within a 15-year overall maximum. Detailed provision for administering the transition period are spelled out in the treaty.[11]

The provision for assisting labor and industry to adapt to the new situation created by the elimination of trade barriers—

> is not the traditional American concept of a free market, but rather than of a "supervised" market with central institutions to insure fair play and to promote common policies, and endowed with funds to assist the transitional process and to alleviate hardship * * *.[12]

EVALUATION

Without going into detail on the efficacy of readjustment measures in Europe, it must be noted that application of readaptation measures in some instances have been less than effective because some of the national governments as well as industrial interests involved in the European Coal and Steel Community, for example, have, in effect,

---

[10] "Report Prepared by the Heads of Delegations of the Intergovernmental Committee Set up by the Messina Conference to the Ministries of Foreign Affairs," OEEC Document C(56) 215, Aug. 28, 1956 (mimeographed), pp. 64–67.

[11] For a summary of these provisions, see Camps, Miriam, "The European Common Market and American Policy," memorandum No. 11, Center of International Studies, Princeton University, Nov. 28, 1956, pp. XVII–XIX.

[12] Camps, loc. cit., p. 8.

sabotaged directives of the High Authority.[13] The European experience, at least up to now, would not seem to be a good basis for judging the efficacy of a trade adjustment program in the United States.

A case in point is the example of the Belgian mines.[14] According to one recent analysis—

> The [coal] mines in southern Belgium still could stand on their own feet in the Common Market at the end of the transition period [1958]; their situation has, if anything, deteriorated.
>
> The measures to make the southern mines viable were taken too late and applied without sufficient vigor; the results were therefore disappointing. Costs of production were still too high, and the typical firm was still too small to put up or to obtain the funds required for reorganization. Though the subsidy might have been used to help the firms to compete in the Common Market, it encouraged them, with the help of the business boom, to avoid the problem instead.[15]
>
> The mines in southern Belgium encountered the same problem in 1958, when the ending of the transitional period coincided with a business recession, as in 1953, another year of recession, as though nothing had been done to change their situation: stocks of coal at the mines grew and prices were too high. A serious strike broke out in the Borinage early in 1959 when the operators announced that several mines would be closed. As a result of the strike the Government requested permission from the High Authority to pay a further subsidy. The life of the high-cost mines was prolonged for a short period and the High Authority agreed to extend readaptation payments to the miners, but made any further subsidies conditional on the preparation by the Government and operators of a long-term reorganization and modernization plan.[16]

The fact that European adjustment programs have met with difficulties does in no way detract from the importance of these programs. They are bound to gain in importance as economic integration progresses. On the whole there simply has not elapsed enough time to make a balanced evaluation of the efficacy of measures put in effect in various sectors of the several countries. Nor does it appear that sufficiently detailed investigations have been made as yet. Among the more remarkable positive developments in the realm of trade adjustment reported so far is the case of the Norwegian textile industry.[17] As Edwin L. Dale, Jr., points out:

> Industries are likely to adapt remarkably quickly to lower tariffs on competitive imports on one condition: There must be absolute certainty that the tariffs will decline and eventually disappear—certainly written into laws and treaties * * *. Vulnerable industries will make the necessary changes only when there is no longer any hope of avoiding tariff cuts.[18]

---

[13] See, for example, Diebold, William, Jr., "The Schuman Plan, a Study in Economic Cooperation, 1950–59," New York, 1959, pp. 425–426.

[14] Lister, Louis, "Europe's Coal and Steel Community, an Experiment in Economic Unions," New York, 1960, p. 116.

[15] Lister, op. cit., p. 120.

[16] Lister, op. cit., p. 121. The submarginal Belgian coal mines therefore may be said to have developed into a depressed area problem as the result of nonfunctioning of the original readaptation program. For a useful recent overview of European assistance programs for area development, see "Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe," materials prepared for the Joint Economic Committee, Congress of the United States, Washington, 1960. The survey given there includes programs in Belgium, Denmark, Federal Republic of Germany, France, Great Britain, Italy, Northern Ireland, and Sweden.

[17] "Western European Industries Adapt Quickly to Tariff Cuts," by Edward L. Dale, Jr., the New York Times, May 15, 1961, p. 43.

[18] Ibid. Dale goes on to say: "This sort of adaptation is made easier, of course, when business conditions generally are good as they have been in Europe. Furthermore, the basic principle does not necessarily apply to that handful of items including textiles, where the threat comes not from other "advanced" countries but from "low wage" countries, * * *. But for "fair" competition, the experience with the free-trade experiment in Europe leaves little doubt that industries can and do adapt."

For 6 years (the Norwegian textile) industry was in the forefront of those forces in Norway that successfully blocked the establishment of a Scandinavian common market, on the ground that it could not compete with Denmark and Sweden.

Then the rush of events, started by the formation of the Common Market on the Continent, suddenly forced Norway almost overnight into the European Free Trade Association. There was to be tariff-free competition not only from Sweden and Denmark, but from Britain, Switzerland, Portugal, and Austria as well.

With remarkable speed, the Norwegian textile industry faced up to the new situation. Some product lines were dropped, with concentration on a smaller number of items that could be competitively produced. And already, with the tariff cutting only beginning, the industry—no doubt to its own surprise—is not only surviving, but has become an important exporter.

CHAPTER IV

PREVIOUS CONTRIBUTIONS TO THE DISCUSSION OF TRADE ADJUSTMENT

This chapter will review a number of proposals advanced in the last 10 or 15 years on how to expedite readaptation to increased competitive imports resulting from freer trade. No attempt will be made to evaluate these proposals systematically except for a brief summary which also introduces the more detailed discussion of organizational and administrative aspects of a Federal trade adjustment program in chapter V.[1]

STALEY AND THE PROBLEM OF COMPENSATION

Staley's discussion of the problem of industrial adaptation,[2] although set in the broad framework of general economic development rather than that of impact of increased imports on one country, touches many points useful to our discussion. According to Staley, the problem of assisted readaptation is to protect people, not industries, as such. When economic change takes place, it may, therefore be desirable to liquidate a particular industry in a particular locality. Transfers into other industries must then be made easier and the burden of transition not be allowed to fall unfairly upon particular groups.

The first adaptive possibility would lie in the industry's own technical and managerial efficiency. New methods and improvement in management may be all it takes to put the industry on its feet. But changes in demand and supply may make it advisable to curtail, if not completely abandon, a particular line of production or, alternatively, to increase productive capacity of the more efficient plants in the industry. To link vocational retraining with the existing system of unemployment benefits would then become an important step in the direction of assisted adaptation.

Unwillingness by management to write off obsolete equipment sometimes makes for hesitancy in the face of technological advance. Staley suggests exploration of the feasibility of encouraging adaptation by allowing shorter terms of amortization for tax purposes in certain industries, on condition that funds accumulated in this way be put periodically into complete plant modernization or into launching new products.[3] He also suggests that the Government make annual surveys of all industries receiving either direct subsidies from the Government or import protection which enables them to keep

[1] For further details on some aspects of the programs here discussed see Clubb, B. E., and Reischer, O. R., "The Trade Adjustment Bills: Their Purpose and Efficacy," Columbia Law Review, March 1961, pp. 490–503.

[2] See Staley, Eugene, "World Economic Development," Montreal, 1945, ch. 9.

[3] Staley, op. cit., p. 205. The problem of accelerated amortization is discussed more fully in ch. V, below.

prices for their products up by a certain minimum percentage higher than consumers would have to pay in the absence of such protection. These surveys would report, first, measures taken in that year by each industry to improve its productive efficiency and, second, the amount spent in each industry on research for new products and new methods of production, and how effective this research and development effort has been.[4]

Staley also observes that the gains from successful adaptation are often more widely shared than the costs involved, which may be concentrated on relatively few people. In many instances, particularly in a situation involving removal of trade restrictions, an adaptive change in a country's industrial structure would bring a substantial permanent net gain to the economy as a whole, but at the risk of large, albeit temporary, losses to particular individuals and groups. In cases of this sort—

> * * * it might be equitable and useful to compensate private interests for transition costs made necessary by industrial adjustment in the general social interest. If the people of the United States, for example, could * * * somehow arrange to "buy out" the beet-sugar interests at a price not exceeding, say, two or three times the annual amount which consumers would save by free imports of sugar, the bargain would be a good one. The "buying out" might consist partly of compensation in money, and partly in free vocational retraining, subsidization of developmental projects, and research directed to the discovery of new products which would lead to industrial expansion in the regions affected.[5]

A similar proposal was advanced some years later in the United States, in connection with the so-called Gray report.[6] The Gray report strongly emphasized the need of this country's accepting more imports, and of adopting measures to bring this about:

> There is a need to reduce import barriers not only to augment our already strained sources of supply, but [also] to limit Western European countries' requirements for economic assistance from the United States * * *. Present circumstances offer the possibility of moving toward reduction of import barriers with minimum disturbance and distress to American agriculture, business and labor. * * *[7]

The Gray report, in its published version, did not deal specifically with ways in which domestic industry could adapt itself to expanded imports. The reason for that omission may have been that it was feared that objections, primarily on grounds of alleged difficulty of administration to any plan of adjustment assistance following a tariff reduction would be as strong as "against reduction of the tariff if no compensation were proposed."[8]

---

[4] Staley, op. cit., p. 210.
[5] Op. cit., p. 196.
[6] "Report to the President on Foreign Economic Policies," Washington, D.C., Nov. 10, 1950.
[7] Loc. cit., p. 78.
[8] See Wilcox, Clair, "Relief for Victims of Tariff Cuts," American Economic Review, vol. XI, No. 5, pt. 1 (December 1950), p. 889. While Wilcox ruled out compensation, he saw no objection to a "policy of providing public assistance to facilitate conversion to more promising activities." This would include loans to enterprises, and temporary support and retraining for workers. Insofar as existing services of this nature were inadequate, they could be strengthened and amplified. In later discussions, the suggestion of granting "compensation for tariff injury" has been virtually eschewed. Compensation for tariff injury and compensation for eminent domain, when private property is taken for public use, have nothing in common, according to the Bell report (p. 67). In a free-enterprise economy, business is always confronted with risks, and the Government is not obliged to insure any enterprise against the risks of business. "Tariff rates have been raised and lowered in the United States for 150 years without the Government compensating any business, export or import-competing, for the effects of a tariff change. No compensation was undertaken at the time of passage of price control or the prohibition law." See also Lindeman, John and Salant, Walter S., "Assistance for Adjustment to Tariff Reductions," in Studies in Unemployment, prepared for the Special Committee on Unemployment Problems, U.S. Senate, pursuant to S. Res. 196, 86th Cong. (Washington, 1960), p. 271.

THE BELL REPORT [9]

Regarding assisted readjustment to increased imports, the Bell report made a distinction between injury to the national economy and injury to particular industries. Injury to a particular industry may occur when certain imports are accepted. But the national economy would be injured if increased imports were not accepted. The escape clause procedure, as provided by section 7 of the Trade Agreements Extension Act, is concerned solely with the avoidance of serious injury to domestic producers from import competition. Consumer preferences receive no consideration under the law. Nor are domestic producers protected from foreign restrictions on exports as a result of U.S. restrictions on imports. Injury to the national economy should therefore be prevented by accepting imports and by providing adjustment assistance to those domestic industries for whom an increase in imports would bring competition that might be hard to meet.

The problems of adjustment in import-competing industries would be relatively simple, if these industries were located in great industrial centers where alternative job opportunities are available. Here the normal growth of the economy would provide adequate jobs for those displaced in import-competing industries. But some of the industries that would be most affected by imports are located in communities where other types of industrial employment are not easily available.[10] Measures must be devised to facilitate adjustment in these communities.

Although there is no basis for compensating them, the Bell report continues, there is good reason for helping industries faced with keener import competition to adjust their production to a more diversified line of products which they can produce profitably in the face of declining tariffs. Aside from granting some form of tax relief, the Federal Government could give special consideration to the conversion problems of such industries by loaning part or all of the new capital requirements in cases where the loan would be a good business risk.

The central readjustment problem, next to the difficulties faced by communities overly dependent upon one or a limited number of plants, was seen by the Bell Committee as finding new jobs for workers dislocated by import competition. While workers often can and do find jobs in the same community or in nearby communities, for a small number, those with less mobility, especially women and older workers, there may nevertheless ensue a longer waiting period before a new job is found. Such workers could be given unemployment insurance for a longer than ordinary period, the report suggests, the added cost to be borne by the Federal Government. Retraining programs and helping to meet the cost of moving to job opportunities in other communities would also be included in the program.

In dealing with the vulnerability of one-industry communities to increased import competition, the Bell Committee report concludes that it is a consequence of inadequate diversification. Often the com-

---

[9] Its full title is: "A Trade and Tariff Policy in the National Interest: A Report to the President by the Public Advisory Board for Mutual Security" (Washington, D.C., February 1953). Trade adjustment is discussed in ch. IV of the report.

[10] See, for example, the case of the leather glove industry in Fulton County, N.Y., treated more fully in ch. VI, below.

munity's distress is rooted in more fundamental economic causes than competition from imports, such as plants shut down because of inefficient management, a shift of plants to other localities, a change in demand for certain goods. For these communities, the only remedy would be attracting new enterprises.[11]

DAVID J. M'DONALD AND THE RANDALL REPORT

The most widely publicized proposal dealing with trade adjustment was that submitted in early 1954, by Commissioner David J. McDonald, United Steel Workers of America–CIO, for consideration by the Randall Commission.[12] The Commission's majority did not accept the proposal, but ordered it published in the body of the report, with appended dissents.[13]

Substantively there was little new in McDonald's proposal. He proposed that when the administration finds it in the national interest to lower a tariff below the "peril point," or to maintain a tariff concession despite a Tariff Commission finding of injury to an industry in an escape-clause action, the affected companies, their employees and the communities in which they are located should become eligible for aid under an adjustment assistance program. Companies and communities should have access to technical assistance, comprising such financial aid as may be necessary to carry out their adjustment program, including accelerated amortization, and receive special consideration in the award of Government contracts. Employees of these firms should also be eligible for adjustment assistance if they are not able to find new jobs promptly. A special unemployment program administered through existing Federal-State machinery, but financed by Federal funds would serve that purpose. Such a program would also include intensive counselling and placement work, special training allowances, special moving allowances, and advance eligibility for retirement benefits for unemployable older workers.

The immediate reaction to the McDonald proposal outside the Randall Commission was not unfavorable.[14] It was felt, for example, that if adopted, the program would make tariff reform easier by diminishing opposition to it and also by making it easier to argue the free-trade position. At the same time it was pointed out that the policy of helping communities ought to be a general one, and should not be limited to damage from tariff reductions. But in all instances of economic dislocation, emphasis should be placed on marginal assistance for adaptation, with the initiative coming from local areas, and Federal aid only as a supplement to local initiative.[15]

---

[11] In passing, the report observes that, "the national interest [from a defense viewpoint] in industrial dispersion is the counterpart of the local interest in industrial diversification * * *" (loc. cit., p. 67).

[12] See Commission on Foreign Economic Policy, "Report to the President and the Congress," (Washington, D.C., January 1954), pp. 54–61. See also the separate volume of "Staff Papers Presented to the Commission on Foreign Economic Policy" (Washington, D.C., February 1954). Ch. 7 deals with the problems of adjustment to imports.

[13] McDonald's colleagues did not endorse his readjustment proposal because they viewed the problem of workers and businesses suffering from declining markets owing to tariff reductions as part of the broader problem of general economic change.

[14] See Knorr, Klaus and Patterson, Gardner, eds., "A Critique of the Randall Commission Report on United States Foreign Economic Policy," Princeton, 1954. (A digest and summary of a conference of 17 economists held at Princeton in February 1954.)

[15] The Princeton critique pointed out an important omission of the McDonald program in that it did not concern itself in a balanced way with the problems of agricultural or mining areas which might wither as a result of increased import competition. Adjustment there would entail transferring people and the still usable capital resources to other locations. (For a discussion of problems likely to be encountered in trade adjustment programs in these fields, see chs. VII and VIII, below.)

CONGRESSIONAL PROPOSALS FOR TRADE ADJUSTMENT [16]

In June 1954 several bills were introduced in the 83d Congress with the purpose of providing assistance to those individuals, companies, and communities suffering serious injury or threatened with serious injury due to increased imports resulting from a national trade policy. The prototype of these bills were identical measures introduced in the Senate by the then Senator John F. Kennedy (S. 3650), and in the House by Congressman (now Senator) Harrison A. Williams, Jr. (H.R. 9652). In the 1st session of the 84th Congress, Senator Hubert H. Humphrey introduced a similar bill (S. 751), and Congressman Williams reintroduced his bill without substantial alterations (H.R. 229). Companion bills were offered by several other Congressmen, including Frank E. Smith of Mississippi (H.R. 4277) and Henry S. Reuss (H.R. 2992). In the 1st session of the 85th Congress, Senator Kennedy once more introduced his bill with only minor changes (S. 2907) as the Trade Adjustment Act of 1957. In the House similiar bills were introduced or reintroduced as the Federal Tariff Reduction Adjustment Assistance Act by Smith of Mississippi (H.R. 457), Donohue (H.R. 1105), and Eberharter (H.R. 9505).

This section will outline the basic provisions of the several bills, and emphasize the points of difference both in approach and in specific provisions.

Title

The original Kennedy-Williams bill had the title "Trade Adjustment Act of 1954." The bill was reintroduced essentially without change in 1955 and 1957. The bill introduced by Congressman Smith in 1955 bore the title, "Federal Tariff Reduction Adjustment Act," amplified upon its being reintroduced in 1957 to "Federal Tariff Reduction Adjustment Assistance Act." The bill introduced by Congressman Reuss in 1955 was entitled, "Reciprocal Trade Casualties Act of 1955."

Purpose of proposed legislation

The purpose of the Kennedy-Williams bill, shared by all other proposals, except the Reuss bill, was to resolve the problem of serious adverse effects caused particular sectors of the economy by a reduction of trade barriers. It would do so by helping particular communities, industries, enterprises, and individuals avoid or ameliorate any injury they may suffer in the adjustment of their productive activities made necessary by such a reduction. The Reuss bill proposed to concentrate such assistance on enterprises only.

Administration

The Kennedy-Williams bill called for the creation of a five-member Trade Adjustment Board, appointed by the President, one member to be designated as Chairman. The Smith bill called for a three-member Board. Under the Reuss bill, no board at all was proposed; the administrative machinery to be used would have been provided solely by the Tariff Commission.

---

[16] The proposals considered here are limited to draft legislation introduced prior to 1958. A number of additional suggestions have been included in proposals introduced into the Congress since then. These are more fully considered in Clubb and Reischer, "The Trade Adjustment Bills: Their Purpose and Efficacy," Columbia Law Review, March 1961, pp. 490–503.

The Board would have acted after notification by the President, under the escape clause of the Trade Agreements Extension Act of 1951, that a reduction in the rate of duty or other import restriction had been found to threaten or cause serious injury to a domestic industry.

Criteria for eligibility

Under the Kennedy-Williams bill, any business enterprise engaged in the production of an article identical to or directly competitive with the article in question would have been eligible for adjustment assistance. Eligibility would also have extended to any unemployed individual whose last regular employment had been in a business enterprise eligible for the benefits provided, and any community with a substantial number of residents individually eligible for assistance, as well as any industrial development corporation organized for the purpose of aiding the development of a more balanced and diversified economy, or the diversification of production in a community eligible for assistance. In determining whether a particular business enterprise is eligible for these benefits, the Board would have considered first, what portion of the total production of such enterprise consists of the production of an article identical to or directly competitive with the article declared to have been the cause of injury or threatened injury, and, second, whether such enterprise had developed satisfactory proposals for programs of economic adjustment consonant with the purpose of the proposed legislation. The last provision also would have been applicable to communities and industrial development corporations.

The Reuss bill would have made assistance applicable to producers only, but particularly those well equipped to bid on Government contracts.

Information and advice

Under the Kennedy-Williams bill, any business enterprise found eligible would apply to appropriate departments and agencies of the Government for technical information, market research, or any other form of information and advice which might be of assistance in the development of more efficient methods and of new lines of production. Similarly, eligible communities and industrial development corporations could obtain information and advice to enable them to develop a more balanced and diversified economy.

According to the Smith bill, the Adjustment Board was to establish a central clearinghouse of information to facilitate the work of the various State economic development commissions and similar agencies by providing a source of statistics and other information regarding the industrial advantages offered by various distressed communities, and by providing State and local agencies with information regarding the success of various techniques for achieving diversification and otherwise avoiding the injurious effects of tariff reductions.

Use of loans and grants

The Kennedy-Williams bill would have provided for Federal financial assistance in the form of loans to business enterprises and communities eligible for assistance either directly or through industrial development corporations, from the Small Business Corporation, subject to the same safeguards as applicable under the Small Business Act.

Under the Smith bill, the Federal Government would have paid grants to State governments who in turn would draw up appropriate adjustment plans, in the implementation of which these grants would be utilized. These programs would have included benefits to all parties involved in the adjustment process.

Unemployment compensation

The Kennedy-Williams bill provided for supplementary unemployment benefits to be paid by the individual States to unemployed individuals, for which the States would be reimbursed by the Federal Government. The supplementary payments would have been such as to make the total payment to the individual equal to two-thirds of his average weekly earning for 52 weeks.

Training and transportation

Suitable vocational rehabilitation was to be given unemployed individuals, as provided by the Kennedy-Williams bill, utilizing existing Federal facilities, and/or training facilities provided by public and private institutions as necessary. Under certain circumstances, assistance was also to be granted to transportation of an unemployed individual, his dependents and household effects to a job opportunity in a new location. The 1957 version of the bill provided for a $150 limitation in such assistance.

Retirement

Older workers certified to be unemployed as a result of international trade policy, were to be allowed under the Kennedy-Williams bill, to retire at the age of 60 rather than 65, and the Social Security Act was to be amended to that effect.

Accelerated amortization

The Kennedy-Williams bill, as well as the Smith bill, provided that business enterprises would be allowed to take advantage of the accelerated amortization provision of the Internal Revenue Code.

Preference in defense contracts

The Reuss bill provided that any domestic producer found by the Tariff Commission to be in danger of foreign imports, would receive a certificate entitling him to a percentage advantage—up to 25 percent—in his bids on Government contracts. This would have allowed the company to keep busy while casting about for new products to sustain it in the long run. The certificate was to have been good for a limited period only.

SUMMARY AND EVALUATION

The preceding proposals incorporate a number of ideas that could be usefully applied to solving the problem of assisting in adaptation to dislocations caused by intensified import competition. Each type of measure appears to be useful on the face of it and deserving of further consideration. Taken together, however, the typical set of adjustment measures as presented, for example, by the McDonald program actually trespasses onto the field of redevelopment of depressed areas and communities for which comprehensive remedial measures were enacted in 1961.

76697—61——3

The problems encountered in area redevelopment in some instances do overlap with dislocations caused by a rise in competitive imports following a lowering of trade barriers. But these problems for the most part affect a far larger portion of the county's labor force and productive capacity. Appropriate measures for area development, moreover, are being carried out irrespective of what steps are taken to cope with the problems of trade adjustment. Therefore, it appears advisable to concentrate a program of assistance in trade adjustment on the individual business firm, in the manner exemplified by the Reuss bill, rather than specifically to include in trade adjustment legislation measures designed for direct relief of committees and workers. The program, even though of a narrower scope, should have a wider coverage than the Reuss bill, and assistance under it should certainly not be limited to preferential treatment in Government procurement.

In the next chapter, the component elements of a trade adjustment program focused on the individual firm will be discussed in greater detail.

CHAPTER V

ORGANIZATIONAL AND ADMINISTRATIVE ASPECTS OF A TRADE ADJUSTMENT PROGRAM

CRITERIA FOR APPLICATION

Freer trade as cause of injury

The first step in setting up an adjustment assistance program would be to define limits within which a finding could be made to the effect that an industry or enterprise has suffered injury from increased imports. In actual practice, this first step will already have been taken by the Tariff Commission. The Commission, in the course of an escape clause or peril point investigation, makes a determination of whether or not injury has been suffered or is being threatened.[1] The business firm involved would have to show a persistent decline in earnings beginning with the lifting of the trade restriction or shortly thereafter. Domestic competition would have to be ruled out as a primary, though not as a contributory cause of the firm's difficulty.

The Commission in the process of determining injury will also have performed the task of singling out the commodity that allegedly caused the injury; more precisely, the Commission will have agreed with the applicant's identification of the particular article, the increased import of which is hurting his business.

The definition of injury as used by the Tariff Commission should be carefully drawn so as to avoid possible pitfalls. Too broad a definition would encourage so many applications under the provisions of the escape clause and the peril point amendment that a program of adjustment assistance, offered as an alternative measure of relief, would become impossible to administer. An excessively narrow definition of injury would hinder an equitable determination of losses sustained because it would deprive the authority administering the program of the latitude and flexibility in making awards. Under a narrow definition it might be hard to find even one commodity among allegedly directly competing imports which could be identified as the cause of injury inflicted on the applicant.

Determination of injury would be preceded by an examination of potential causes for injury other than increased imports, such as changes in demand, increased competitive pressure from domestic substitutes, higher costs of production and distribution in the industry, and more vigorous domestic competition in general.

The increased inflow of imports may also not have been due solely to a lowering of trade barriers. There may have been an increase in the total domestic demand for the article in question, large enough

[1] Secs. 7 and 3–4 of the Trade Agreements Extension Act. The program described here is of relatively narrow scope because it eventuates from the escape clause mechanism.

to attract and include the foreign product alongside with the domestically produced item. The domestic industry may not have been able to expand rapidly enough to fill all needs, and consumers' tastes may have been influenced in favor of the import. And foreign producers may well have improved their competitive position in the American market prior to the lowering of trade barriers, for price is only one dimension of competition.

The Tariff Commission, as a result of its escape clause decisions[2] and other investigations, has in effect built up a set of precedents which can provide guidelines in deciding new cases of injury inflicted or threatened.

The major problem in making determinations in the past has centered on the question of whether a domestic industry "producing like or directly competitive products" was being, or was about to be, seriously injured. In the 1951 Trade Agreement Extension Act, serious injury could be found, when, among other things, there was "* * * a decline in the proportion of the domestic market supplied by domestic producers." Prior to the passage of the 1955 Trade Agreement Extension Act, a minority of the Tariff Commission had tended to assign heavy weight to this criterion, particularly in cases where a decline in the share of domestic producers in the home market was accompanied by other unfavorable developments in the domestic industry. This so-called share doctrine was made explicitly part of the law in the 1955 act.[3]

In general, trend of production and level of profits have served as the key criteria for determining serious injury. But a low, consolidated net-profits-to-sales ratio for all firms in the industry, compared to that of similar industries, or of manufacturing as a whole, has been deemed, however strangely, more significant than a low ratio of profits to capital or a declining trend of profits. Yet a wide diversity in the profit experience of individual firms has been regarded by the Commission as evidence that the industry as a whole was not being seriously injured by imports. Increased imports have been considered as the cause of serious injury only when they have contributed "significantly" to a further deterioration of the industry's position.[4]

The question of whether, in examining profits, production, etc., the domestic industry should be defined as including all the operations of the constituent firms, or only those operations relating directly to the production of the article under investgiation, has also given rise to difficulty. Prior to the 1955 act, the Commission generally tended to find injury in terms of the industry's overall operations. No injury was found, if owing to profits earned in the production of other goods, the industry continued to be profitable despite a decline in the production of the product under investigation and an increase in imports of that product.

---

[2] Sec. 7 of the Trade Agreements Extension Act of 1951, as amended. See the most recent version, act of August 20, 1958, 72 Stat. 673.

[3] Increased imports, whether actual or relative, are now to be considered as the cause of threat of injury if they have contributed substantially toward causing or threating injury to an industry or segment thereof. Thus, if an industry has not succeeded in maintaining its proportional share of the domestic market—regardless of whether that market has been shrinking or expanding—the industry may still cite this relative loss as evidence of injury.

[4] The 1955 act substituted the word "substantially" for "significantly." An earlier version of the act had called for industry only to prove that it was being "materially" injured.

Extent of injury and appropriate assistance

Firms that are being, or are about to be, injured by increased imports may be assumed to need financial assistance in making necessary adjustments to escape injury. The determination of amount and type of assistance will depend on the extent of the loss, as well as on the program of readaptation suitable for the given firm.

The absolute decline in the firm's domestic sales during a given period, and the extent to which this decline was accompanied by an increase in imports after trade barriers had been lowered, may serve as measurement of loss incurred. For 1 year, factors which bear on the firm's operations other than competitive imports could be assumed as unchanging. More realistically, however, the firm's loss is likely to be incurred in a transition period in which it would adjust operations so as to gain at least partial immunity to adverse effects of increased import competition. The initial estimate of the firm's loss may therefore prove to exceed the one actually incurred.

Since the size of the loss sustained would depend on how successfully the enterprise reacted to the change in its competitive situation, assistance must be provided in a manner not to blunt managerial initiative.

Administrative considerations

Suitable administrative safeguards must insure that readjustment assistance not degenerate into a series of economically unjustifiable handouts. At least three requirements are essential.

In contrast to an "infant industry," a "senescent industry," one that has no place in a growing economy and that ekes out a meager return even with benefit of tariff protection, must not be rejuvenated at public expense without giving certain guarantees that it will modernize operations or diversify production.

The program would have to be designed so as to forestall legal or constitutional difficulties that might arise in its operation. What has to be avoided, for instance, is a situation where the administering authority would be open to charges of setting conditions in any particular readjustment project that would conflict with existing obligations of enterprises participating in the program.[5]

Finally, business enterprises must have firm advance assurance of prompt benefits from an adjustment program in the event that the damages they fear would result from a lowering of trade barriers do in fact occur. In the absence of such assurance, business' unwillingness to accept the idea of trade adjustment would be difficult to overcome.

The case for a program centered on the individual firm

The central figure in the readjustment picture is the producer himself. If the individual enterprise can adjust, and if adjustment assistance to freer trade can be given at the enterprise level, no new machinery other than existing Federal and State facilities will be needed to help workers and communities bear the burden of increased competitive imports. Successful readjustment of business enterprises would

[5] Some time ago, the Small Business Administration was accused of having offered a loan to a New York leather goods concern on condition that the plant be removed to another State. The company, however, was bound by a "no removal" clause in its contract with the union. (See New York Times, Oct. 31, 1955.)

tend to take care of the immediate economic difficulties, workers, and communities, too.[6] The individual company could be given added financial assistance which would enable it to carry its workers on the payroll during all or most of the transition period.[7] If an enterpreneur affected by increased competitive imports were relieved of responsibility for his workers, he might decide to close down his shop altogether. Readjustment for workers and for the community affected would then become even more onerous.

Readjustment and the responsibility for its being carried out would best be fixed in one focal point—the entrepreneur. The more closely a readjustment assistance program is focused on the individual firm, the less costly it is likely to be in money terms and the easier it could be administered. With the enterprise at the center of the program, assistance to workers and communities because of injury by imports has lost much of its erstwhile urgency, particularly in view of the depressed area legislation already passed by Congress.

In providing means for helping the industry, and the businessman and entrepreneur intent upon readjusting activities to increased imports, and to induce them to make necessary changes with due haste, no one formula defining an optimal rate of speed for readaptation can be prescribed.

FINANCING THE PROGRAM

Proposed sources and methods

The amount of Federal contributions to the program will be governed by the degree to which the Federal Government would participate directly in the program, and also on the program's coverage. In the case of a comprehensive adjustment program covering workers and communities as well as business firms, it might be useful to establish one major source of financing. A readjustment "equalization fund" has been suggested, fed by allocations from various sources in such a manner as supposedly to equalize burdens and benefits derived from greater import competition among industries or segments of industries. Earmarking of customs revenue either directly or as contribution to such a fund has also been proposed.[8]

Another set of proposals concerns assistance in the form of low-interest loans granted by a Government agency like the Small Business Administration, with or without private participation, and including a system of loan guarantees.

A third form of financial assistance suggested is that of accelerated depreciation writeoffs. Liberal amortization allowances would be provided to induce enterprises to discontinue a given line of production, for example, which has ceased to be profitable because of increased import competition. This would permit the company to scrap equipment more quickly, in the absence of alternative uses.

A readjustment equalization fund

One of the suggestions for financing a program of assistance in adjustment to increased competitive imports has been that of set-

[6] In this respect, most earlier congressional proposals have erred on the side of all-inclusiveness. This fact raises doubts as to their practicability.

[7] This would be in line with the closer cooperation between management and Government which has been developing as a result of the increasingly numerous "guaranteed annual wage" or "supplemental unemployment benefits" agreements. Most of the agreements concluded are in export industries, however.

[8] Burden equalization must not be made dependent on the method of financing, however.

ting up a readjustment assistance fund. The fund would aim at equalizing the burden imposed by readjustment. The Federal contribution to such a fund might be provided out of increased customs revenue. In the course of a program of trade liberalization more duties will be collected, for where nontariff restrictions such as quotas and "Buy American" preferences are reduced and tariff rates remain unchanged, customs revenues must go up. Customs revenues will also rise when tariff duties are reduced while the market for the imported product increases to a greater degree. Other factors, such as the growth of dutiable imports, which tends to accompany the normal growth of the economy, likewise enhance the possibility of greater customs receipts.

If such a fund were established, the amount set aside for it by the Federal Government might be matched by contributions by State and local governments within whose reach the companies participating in the readjustment program are located. This would be one way in which gains from freer trade that permeate the economy, including anticipated savings on expenditures out of tax receipts, could be set off against losses from dislocation. No excessive burden would be placed on any one sector of the economy in order to help finance benefits to be reaped from freer international trade by other sectors.

A major drawback of such a fund would be, however, that what it might add in equity would be lost in the administrative complications it would create. No useful purpose would be achieved if such a formidable piece of financial machinery were to service a relatively small program of assistance disbursements.

Earmarking customs revenue

As a simpler device, a portion of increased total customs revenue that would result from a larger volume of imports following a gradual lowering of trade barriers would be set aside to defray expenses arising in connection with the readjustment program, such as the periodic payments to affected enterprises to help expand research and development activities.

There are precedents for this procedure. One is the provision, under section 32 of the Agricultural Adjustment Act of 1935,[9] establishing a special fund equal to 30 percent of the gross receipts of tariff duties to be spent for encouragement of export and domestic consumption of agricultural products. Under the Agricultural Act of 1949, this fund is allowed to accumulate until it reaches $300 million.[10]

Another more recent precedent is Public Law 466, 83d Congress, 2d session, which sets aside a portion of the gross receipts from customs duties collected to be used in promoting the sale of domestic fishery products.[11]

Earmarking of revenues for specific purposes is open to grave objections, however, because preferred budgetary positions are being

---

[9] 49 Stat. 774; 7 U.S.C. 612c.

[10] U.S. Department of Agriculture, Production and Marketing Administration, "Section 32 Handbook," Washington, D.C., 1953, passim. A certain amount of this fund is set aside annually for the use of fisheries (sec. 2(a), act of Aug. 11, 1939, 53 Stat. 1411; 12 U.S. 713 C–2).

[11] This legislation coincided with a Tariff Commission recommendation for an increase on imported groundfish fillets and an import quota for 1 year. See "Groundfish Fillets, Report to the President on Escape Clause Investigation No. 25," etc., Washington, D.C., 1954. The Commission's recommendation was rejected by the President on the grounds that a reduction in imports would not help to expand the industry's market and increase fish consumption.

created [12] which obstruct the formulation of a well-balanced program within the limitations imposed by the whole budget.[13] The particular program can no longer be considered in relation to other agricultural programs, for example, because its size will already have been determined by basic legislation. Thus support for current production may be receiving greater emphasis than long-run improvements in productivity.[14]

Earmarking of taxes also introduces rigidities into the financial structure that may lead to a situation where the tax system would be rendered less flexible and where it would be more difficult to obtain an optimum combination of taxes.

Accelerated amortization

The suggestion has often been made to provide liberal amortization allowances designed to facilitate a firm's exit from a particular industry; or to allow the firm to discontinue a particular line of operations rendered unprofitable by increased import competition; or to encourage the firm to expand production of products other than those affected by the tariff reduction.[15] Proponents of this idea have argued that the program would fall into two parts: One would concentrate on scrapping a portion of the firm's existing plant and equipment; the other half of the program would be concerned with providing aid to acquire and install new plant and equipment to produce products not sensitive to import competition. The procedure would parallel that used by the Office of Civil Defense and Mobilization in inducing firms to expand existing production facilities for defense production.

With regard to the first part of the program, it may be pointed out immediately that accelerated amortization for junking equipment in the transition period would not be practicable. In fact, the incentive to change would be stronger if after a certain point no depreciation at all were allowed a firm unwilling to make necessary adjustments along these lines. The extra weight of tax burden thus imposed on the firm would serve as a negative incentive to producers of import-sensitive articles not to stay in the same line of business.

But the fundamental difference between the problem dealt with by the Office of Civil Defense and Mobilization, for example, and an organization supervising a program of assisted readaptation to increased imports is this: In the case of defense production, relatively quick installation of an asset is required; the asset may lose its value once the need for the particular product has lessened. After its installation, therefore, the asset is supposed to depreciate rather quickly, and accelerated amortization is designed to take this fact into account in lowering the firm's tax liability.

---

[12] In connection with the passage of Public Law 466, the Bureau of the Budget did point out that an annual appropriation for the conduct of research would thereby be established regardless of need, and that the procedure placed a priority on certain types of research which, as time went on, might be relatively low in priority to other research activities. See U.S. Senate Committee on Interstate and Foreign Commerce, "Report on Encouragement of Distribution of Fishery Products," Washington, D.C., Apr. 14, 1954.

[13] See in this connection, Smithies, Arthur, "The Budgetary Process in the United States," New York, 1955, p. 362.

[14] The same criticism is applicable to other agricultural programs, such as price supports, sugar subsidies, surplus removal, and conservation payments, and the sec. 32 program, Smithies, op. cit., p. 366.

[15] 1954 Internal Revenue Code, par. 168.

In a program of readaptation to increased imports, however, a firm installing new equipment should not have to anticipate that equipment to depreciate in value as rapidly as a piece of specialized defense production equipment; indeed, a gradual increase in profitability of the asset is far more likely to occur. Without expectation of an increased return from the new installation or the new line of production, readaptation would not make sense. Inducement to install new equipment would in fact be superfluous since such an investment would be in the firm's own best interest, and the firm would not be undertaking it for reasons of national security. The difficulty, if any, would arise in connection with financing new capital acquisitions and with tiding the firm over the transition period.

Assuming the new investment to contribute to the enterprise's eventual and continued profitability, it would actually be illogical to make accelerated amortization part of a readjustment program, to say nothing of the difficulties the technique has given rise to in other uses.[16] The fast writeoff as used for defense production purposes is too powerful and too wasteful an instrument for an adjustment assistance program. The best form of assistance in form of tax relief would be a special tax carryover appropriate for new enterprises.[17] A carryover would be more effective in accomplishing the objectives desired under readaptation: giving the enterprises a good start in its new pursuit by keeping burdens down at the outset, but letting the enterprise revert to a less favored position at the end of the transition period when the enterprise is again able to hold its own against competing producers at home and abroad.

Because the amounts involved are likely to be quite small compared to the total capital investment in the Nation, the problem of aggravating erosion of the tax base by this type of assistance is probably insignificant. This would be true particularly in view of the savings that will accrue to taxpayers and to the community as a whole as a result of the availability of a larger volume of imported goods at lower prices.

One version of proposed trade adjustment legislation provides for accelerated amortization of facilities used in the old line of production as well as the new facilities.[18] This provision is designed to allow the displaced firm to recover the cost of its old equipment during its last years in the protected industry. But the firms that will change to a new line of production will be those unable to make a reasonable profit in their old line of production. Thus, during the last years in the old line of production, the displaced firm will probably not have sufficient profits to offset the large deduction for amortization. The effect of accelerated amortization of the old equipment will be to create a loss which the firm could carry forward if it stayed in the

---

[16] See, for example, U.S. Congress, Joint Committee on the Economic Report, "Implications of Recent Expansion of Special Amortization Program," staff memorandum, Washington, D.C., May 29, 1956 (mimeographed), passim; and the same committee's "Federal Tax Policy for Economic Growth and Stability," (S. Rept. No. 1310, 84th Cong., 2d sess.), Washington, D.C., 1956, p. 8.

[17] New enterprises encounter a period of losses during their developmental phase. A liberal carry-forward provision insures that such development losses can eventually be offset if the enterprise proves successful, and thus encourages investment in new ventures. A carryback, suitable for enterprises nearing or in the process of liquidation, would be inappropriate for firms hurt by import competition. It would not hasten their exit from the industry; on the contrary, it would give them an inducement to prolong their existence.

[18] See Clubb and Reischer, "The Trade Adjustment Bills: Their Purpose and Efficacy," Columbia Law Review, March 1961, pp. 490–503.

same line production (1954 Int. Rev. Code, par. 1212). There is a question, however, whether and under what circumstances the firm can carry its loss over to offset profits made in the new line of production.[19] In order to encourage firms to get into other lines of production, a trade adjustment program should include tax legislation permitting a firm injured by trade concession to carry forward losses sustained while in the protected industry, in addition to the provision for new equipment discussed earlier in this section.

Loans by the Small Business Administration

Small business-type loans as a method of financing readjustment have been an often mentioned device.[20]

The Small Business Administration was set up in 1953, partly to take the place of the Small Defense Plant Administration, and partly to assume certain programs of the Reconstruction Finance Corporation.[21] According to section 202 of Public Law 163 of July 30, 1953—

> * * * the Government should aid, counsel, assist, and protect * * * the interests of small business concerns in order to preserve free competition enterprise, to insure that a fair proportion of the total purchases and contracts for supplies and services for the Government be placed with small-business enterprises, and to maintain and strengthen the overall economy of the Nation.

Lending is only one of the major activities of SBA. Two other important programs are procurement assistance to small businesses to obtain a fair share of orders for goods and services by both public and private buyers, and management and technical assistance with a view toward making small business take advantage of improved business or production methods.[22]

Participation of SBA in a readjustment assistance program would call for supplementary legislation which may not be germane to the purpose for which SBA was originally set up, for it is not always the small concern that can claim injury or threat of injury from a lowering of tariffs. Furthermore, the use of SBA in a program of readaptation to increased imports would increase the volume of small business loans. But this type of assisted readjustment is not aimed primarily at making small business thrive for the sake of counteracting monopolistic tendencies in the economy. Rather, it aims to eliminate marginal producers in a given industry or industries who are retarding the economy's progress toward the more efficient utilization of the country's resources, that would be attainable with a higher degree of international specialization resulting from freer trade. This objective transcends the accustomed purview of the SBA.

Still another reason against SBA becoming involved in financing the import readjustment program is the agency's apparent orientation toward promoting the growth of small enterprises over periods as

---

[19] This problem is particularly serious for the corporation which attempts to get into a new line of production by consolidating with another corporation. 1954 Internal Revenue Code, pars. 381, 382.

[20] 15 U.S.C.A., par. 631, sg.

[21] See Commission on Organization of the Executive Branch (Hoover Commission). "Task Force Report on Lending Agencies" (Washington, D.C., 1955), pp. 70–76, and 221–235. See also, Hoover Commission, "Lending Agencies, A Report to Congress" (Washington, D.C., 1955), pp. 89–92.

[22] The "small business" eligible for SBA is defined by law only as an enterprise independently owned and operated and not dominating in its own field. In defining "small," SBA is authorized to use such standards as number of employees and dollar volume of business. It draws no rigid line on these points, since a 1,000-employee company may be big in golf carts but small in steel. The bulk of its loans, however, has been awarded to firms employing less than 100 workers.

long as 10 years, or even longer if required. But an adjustment assistance program, to be effective, must emphasize rapid readaptation. The length of the adjustment or transition period in which assistance will be needed, will, of course, depend on the rate at which Federal foreign trade policy will allow imports to increase over time. However, business firms should not be allowed to set their own pace in readapting, and not take advantage of public assistance longer than conditions call for.

There exists, however, another area in a readjustment program to increased imports where the Small Business Administration could step in without going counter to its general orientation. That part of the program includes cases where outright liquidation rather than adaptation of an enterprise would be advisable in the national interest. This contingency may arise for units in certain handicraft or exceedingly labor-intensive industries. In a healthy economy exposed to a gradual trade liberalization the number of concerns that would fall into this category would be fairly small. With a view to preserving at least a semblance of financial respectability, it would not be advisable, in a statutory readjustment program, to authorize outright grants or indemnities for nonproductive purposes. Therefore, liquidation loans on exceptionally easy terms, patterned upon the flood and disaster loan provisions of the Small Business Act,[23] would constitute a valuable adjunct to an import adjustment program.

The theoretical objections to using the Small Business Administration as an instrument in a readjustment program other than for handling liquidation loans have been stated. Before considering practical objections, it would be normally expected that alternative arrangements be explored. In this particular case, however, this exploration will prove to be short and unsuccessful for this reason. In theory a number of important considerations can be brought forward in favor of making the Export-Import Bank the agent for readaptation assistance loans.[24] In practical terms, however, the weight of informed opinion appears to lean heavily against placing the primarily domestic function of governmental assistance to increased competitive imports with an agency exclusively concerned with overseas operations. The Small Business Administration, therefore, would appear to be best suited for administering loans under an adjustment assistance program.

OUTLINE OF A TRADE ADJUSTMENT PROGRAM

Federal aid to overcome the effects of increased import competition would best be focused on the individual business enterprise, the economic unit most exposed to any adverse effect from increased competition. For broader types of assistance the Federal Government can be relied on to backstop State and local adjustment measures in the course of performing its ordinary functions designed to further the public welfare.[25]

[23] 15 U.S.C.A., par. 636(b). See also Hoover Commission, "Task Force Report on Lending Agencies," pp. 233–234.

[24] See my "Lower Tariffs Without Pain," Michigan State Business Topics, May 1956, p. 19.

[25] Area Redevelopment Act of 1961, Public Law 87–27 (May 1, 1961).

A prime advantage of concentrating such assistance on individual business enterprises would be that it would make it easier to part sheep from goats. In the course of conducting escape clause and other types of investigations, the Tariff Commission has acquired a substantial body of experience and of precedents for attributing injury to increased competitive imports. By not including communities as direct aid recipients under the program, its administration will be materially simplified: For even in a depressed one-industry town there will invariably be numerous lines of causation leading to what economic dislocation there may be present, and many of these would not be even remotely connected with increased import competition. If, therefore, no new Federal aid were programed for communities as such, other than what would be made available to local business firms eligible for trade adjustment aid, there would be no need, in the process of determining eligibility for assistance, for going into and separating out causes underlying such economic distress as may be found in the community, and thereby complicate the administration of the program.

Functions of cooperating agencies

The philosophy behind Federal aid in trade adjustment is that it would be used as an inducement to adapt more rapidly operations of individual business enterprises to changed competitive conditions brought on by increased imports. In order to have an effective program, that philosophy must be adhered to throughout the adjustment program's operations.

As the individual enterprise will be assumed to be the focal point of assisted readjustment, it does not seem advisable to set up a special adjustment assistance board or other separate administrative body. At the center of the program would be the U.S. Tariff Commission. A finding of injury or threat of injury by the Commission would trigger the adjustment assistance apparatus. The Commission would be empowered to recommend such a program for an industry or portion of industry, as an alternative to the restoration of withholding of tariff concessions under an escape-clause or peril-point investigation.[26]

Putting such additional responsibility on the Tariff Commission might require that the Commission be provided with additional staff. Such additional staff could be placed into a trade adjustment division to be newly created. The staff of this new division, in the performance of its task, could then draw upon the services of the other divisions of the Commission, as well as on those of the appropriate departments and agencies of the executive branch.

Another function of this new division of the Tariff Commission would be to conduct or to supervise the efficiency investigations of firms applying for adjustment assistance. This requirement may well raise a number of complications. Nevertheless, in the interest of fairness and efficacy, such a determination cannot be shirked, for gross inefficiency may be an important contributory element to injury suffered.

---

[26] In order to permit certain types of readaptations that would require time for becoming effective, the Commission's finding might be in some cases accompanied by a restoration of the concession for stated limited time only, and on a downward sliding scale. (See Randall Commission, "Staff Papers," p. 387, and quotation at the end of this chapter, below.)

An efficiency investigation is called for in cases handled by the Tariff Commission under section 337 of the Tariff Act of 1930, as amended, the section dealing with "unfair competition" from imports. (In recent practice this section has been used mainly for investigations of alleged patent infringements by foreign producers.) In investigations under section 7 of the Trade Agreements Extension Act, as amended, the so-called escape clause, no formal efficiency investigation of applicant firms is called for. It is known, however, that the Commission for internal use has not infrequently collected information on the quality of managerial practices inside the firms under consideration, as well as on methods of marketing and other matters pertaining to efficiency of operation. Such information is almost never made public.[27]

Recommendations of the Tariff Commission concerning readjustment assistance to be made available would be directed to a Standing Committee on Trade Adjustment. On this Standing Committee would be represented, in addition to the Commission, one of whose representatives could act as Chairman, other agencies of the Federal Government as necessary.

Four elements of primary responsibility would be involved in the operation of this Standing Committee. These would be divided among various Federal departments and agencies as follows:

1. Determination of need for assistance, and referral: Tariff Commission.
2. Decision on amount of assistance needed: Standing Committee.
3. Rendering of technical assistance: Departments of Commerce and Labor.
4. Financing of services and loans: Treasury Department and Small Business Administration.

Agencies of secondary responsibility in the trade adjustment apparatus, and thus represented on the Standing Committee, would be the State Department, the Administration for International Development (on account of matters of foreign trade, foreign aid, and foreign economic policy involved in the program); the Departments of Defense, Agriculture, and Interior (as being familiar and concerned with the problems of particular industries that might be involved in the program);[28] the Department of Health, Education, and Welfare, and the Executive Office of the President.

Within the Standing Committee, a steering group consisting of representatives of the Tariff Commission, the Department of Commerce, and the Small Business Administration would be established to expedite proceedings of the full Committee. The steering group would have powers to coordinate agency functions and force necessary action to be taken.

---

[27] The one apparent exception to this rule in recent years is found in U.S. Tariff Commission, "Motorcycles and Parts," Report on the Escape Clause Investigation (Rept. No. 180, second series), Washington, D.C., 1953. (The report was first released in June 1952.) On pages 7 and 8 of this report the majority of the Commission ascribes the decline in the profits of the principal domestic manufacturer in part to "substantially increased overhead expense resulting from the major expansion of the company's production facilities" undertaken at a time when demand for motorcycles had sharply decreased, and resulting in a large volume of unutilized capacity at a time when the company could ill afford the "increase in the costs of depreciation and maintenance of expanded plant and facilities that have not been fully utilized."

[28] The Departments of Commerce and Labor, already represented on the Committee, would share in this secondary responsibility.

For several of the agencies involved in administering the proposed program, some modification in normal function would be necessary. The agencies concerned are: the Tariff Commission, whose activities would be widened in a manner already indicated; and the Small Business Administration, whose functions would be widened to include the granting of trade adjustment loans.[29] Otherwise the readjustment assistance mechanism here outlined essentially utilizes existing facilities within the executive branch of the Government.

In granting loans to individual business enterprises, the criterion used should be a "reasonable assurance of repayment" of the loan. This test, currently used, for example, by the Export-Import Bank in granting loans under its charter, should be sufficiently flexible so as not to bring the Government lending agency cooperating in the program in competition with private capital and lending institutions.

It should be noted also that the grouping of cooperating agencies would keep responsibility for dislocations caused by the Federal Government's trade policy essentially within the jurisdiction of the Federal agencies concerned with foreign trade. A clearer picture of the administrative accomplishments of the program and of its effects on the economy would thus be obtained than if a more complex administrative arrangement were instituted.

Once assistance has been granted, it would probably be appropriate to require participating enterprises to submit to annual reviews throughout their transition periods. The newly to be established Readjustment Division of the Tariff Commission would be an appropriate instrument for conducting these reviews, reporting to the Standing Committee.[30]

How the program would operate

Under the proposed trade adjustment program devoted primarily to relieving the individual business enterprise of distress caused by increased imports, assistance granted would be chiefly in the form of loans, from the Small Business Administration. The Department of Commerce would have opportunity of providing technical services, in conjunction with the Department of Labor. Such services are unlikely to require expansion of current staffs and facilities.

The procedure would start with announced tariff reduction. There actually would have to be a certain lapse of time after the tariff reduction went into effect so as to be sure that imports would in fact increase.[31] When imports have in effect increased, the Tariff Commission would have to determine injury or threat of injury. Transitional readjustment periods set for every industry or commodity group affected by probable increases in imports. The length of the transi-

[29] In the case of assistance granted to marginal producers, assistance to workers employed by them also will often be necessary. The Department of Labor in addition to its consultatory functions in the entire program area, and the Department of Health, Education, and Welfare, would be specifically responsible for making effective aid available to such workers. Workers would receive priority treatment under existing social security and unemployment benefit regulations. No additional administrative machinery would be required.

[30] This procedure would be patterned on the annual reviews now conducted by the Tariff Commission on commodities for which relief has been granted under the escape-clause provision of the Trade Agreement Extension Act, under Executive Order 10401.

[31] Many rates of duties have been lowered in the past and imports have decreased.

tion period would reflect the best available judgment on the time it would take to carry out necessary adjustments in each case.[32]

The Standing Committee administering the program would then call for applications from firms desiring assistance in making certain needed changes in operations. Petitioners would have to show proof of being entitled to assistance. A finding of entitlement for assistance would probably have to be based on grounds of reasonable presumption of injury suffered or threatened. Without such latitude administration of assistance in readapting to increased imports would become too rigid and hence less useful.

One additional point worthy of mention concerns interphasing of adjustment assistance and temporary protection until the adjustment program has had its desired effect. The report of the special staff of the study of U.S. foreign commerce of the Senate Committee on Interstate and Foreign Commerce makes the following suggestion:[33]

> Even after the Government has had an opportunity to extend appropriate assistance in cases of incipient or serious injury resulting from imports, complaints of serious injury or the threat of serious injury may still persist. In this event, it is possible that some form of temporary trade restriction may be necessary—a limitation of exports by the exporting country or of imports by the United States. Such action may be necessary to provide time for the adjustment remedies to take effect. Action of this kind would exceed the authority of the proposed agency administering the program.

In what form such an auxiliary program should be written into law is a question that could not be dealt with in the present study.

---

[32] The length of the transition period would interact with, or reciprocally determine the amount of assistance to be provided: the longer the period, the better the chance for the dust to settle, and the smaller the amount of assistance required. The question to be posed in each case would be: What is the economically most feasible way of correcting the inflicted or threatened dislocation? Once determination is made, performance must not be modified.

[33] "The United States and World Trade: Challenges and Opportunities," Washington, D.C., 1961, p. 158. A similar idea appeared in Randall Commission "Staff Papers," p. 387.

CHAPTER VI

TRADE ADJUSTMENT IN MANUFACTURING: THE LEATHER GLOVE INDUSTRY IN FULTON COUNTY, N.Y.

In the next three chapters appear three illustrative case studies of hypothetical adjustment programs as applied to three industries. These industries either suffer, among other things, from increased competitive imports, or they are likely to be subjected to dislocation in the event of a trade liberalization. These case studies are designed to present some of the problems involved in applying a readjustment program to a specific industry. Brief background statements on each individual industry serve to set the stage for discussing the problem of trade adjustment in manufacturing, in agriculture, and in mining.

THE LEATHER GLOVE INDUSTRY IN FULTON COUNTY

A "one-industry community" provides the first illustrative application. The leather and fabric gloves industries located in Gloversville, N.Y., have been injured by imports [1] and other circumstances. They have not succeeded in making a constructive readaptation to the situation on their own, despite energetic efforts at both the local and State level to assist them with readjustment.

In a one-industry community, alternative employment and investment opportunities are scarce. Competition from imports, added to other detrimental influences, generally is aggravating an already critical employment situation. As a result, business enterprises in the community and the workers employed by them at least in theory ought to be willing to respond with alacrity to outside assistance offered with a view to putting an end to the dislocation. The fact that the response so far has been anything but favorable adds to the complexity of the problem.[2]

Piquet [3] has estimated that leather gloves are the third largest group of commodities the imports of which would at least double, if not multiply threefold or fourfold, were a suspension of tariffs to be instituted. Moreover, because the domestic market for gloves is stag-

---

[1] Though not seriously enough to warrant relief under sec. 7 of the Trade Agreements Extension Act, the escape clause. See note 2.

[2] The following account is based chiefly on secondary sources. A brief sketch of possible readjustments in the leather glove industry was given in the present writer's "Adjustment to Imports and the National Interest," Chicago Journal of Business, October 1953. Much descriptive material is found in National Planning Association, "Local Impact of Foreign Trade," Washington, D.C., 1960, Technical Supplement A. "Report on Fulton County, N.Y.," by Betti Goldwasser and Gizella Huber. For more recent information on women's and children's leather gloves, see U.S. Tariff Commission, "Women's and Children's Leather Gloves," report on escape-clause investigation No. 7–82 under sec. 7 of the Trade Agreements Extension Act of 1951. as amended, Washington, March 1960.

[3] See his "Aid, Trade and the Tariff," pp. 25 and 47.

nant, producers of leather gloves are quite vulnerable to an eventual lowering of tariffs.[4] The increase in wool gloves imports—cut and sewn fabric gloves, as well as seamless knit gloves—would probably be "moderate." [5]

The bulk of the American leather glove industry is concentrated in one upstate New York area, Fulton County.[6] For some years (March 1952 to September 1955) this area was classified as one of substantial labor surplus.[7]

Gloversville and Johnstown are twin cities which contain the bulk of Fulton County's population (53,000 in 1954) and industry. The economy of the two towns and of the county revolves around gloves.

The leather industry (glovemaking and leather tanning) accounts for about two-thirds of the manufacturing employment of about 10,000 people in Fulton County. Altogether, nearly 90 percent of the area's factory workers are closely allied with the glove industry, including the production of knit gloves, glove linings, knit fabric production, and cut and sewn fabric gloves from knit fabric.

Glovemaking entails seasonal employment. But glove firms make it a practice to recall workers for orders coming in, and then laying them off when orders are completed. This practice affords a considerable volume of partial work. The staggering of work (or stagger week) is undertaken in agreement with the unions. Most wage earners earn some money during half of the week, and draw unemployment compensation for the remainder of the week. Unemployment benefits are less quickly exhausted, and workers can meet the minimum requirement of 20 weeks employment and of earning at least $300 in any given year in order to be eligible for unemployment benefits.[8]

Because of these arrangements the Gloversville area has been able to get along through years of successive crises. Another, and perhaps even more important reason is that in many families both husband and wife work in the glove factories: Even when they are both jobless, they can subsist on unemployment insurance and other social benefits.

A third saving feature until recently has been the proximity of Schenectady with its strong demand for labor. In late 1953, for example, some 2,500 Fulton County residents worked for General Electric or Alco Products there, or at the Naval Ordnance Depot at Scotia. An additional 500 or 600 were employed by the carpet mills at Amsterdam.

THE DOMESTIC LEATHER GLOVE INDUSTRY

Early tariff protection of glovemaking in the United States [9] encouraged an industry which has become essentially uneconomic on

[4] See also Humphrey, Don D., "American Imports" (New York 1955) p. 401.
[5] Piquet, op. cit., p. 89.
[6] Nearly two-thirds of all leather-glove producing plants are located in New York State. A smaller concentration of plants exists in Wisconsin and Illinois.
[7] See also Randall Commission, "Staff Papers," pp. 401–406.
[8] Unemployment insurance and related payments constitute a subsidy to the community. In view of the stable character of the arrangements in Fulton County, these payments have constituted a sustaining, not an adaptive, intervention on the part of the Government.
[9] The development of the domestic industry was fostered by a protective tariff in 1862. In 1872 the tariff on imported skins was removed, paving the way for the manufacture of fine gloves. See Goldwasser and Huber, loc. cit., p. 36.

the American scene because it does not readily lend itself to mechanization.[10] Individual producers are unwilling to consolidate operations, partly because of their traditional independence, partly also because they are unwilling to give up entrepreneurial status, no matter how large the gain in income. Another obstacle is the continued emphasis on high quality production: both manufacturers and workers are unwilling to shift, for example, to producing leather work gloves, or to the less expensive varieties of dress gloves. Because of these attitudes, Fulton County glovemakers have failed to take advantage of opportunities which might have provided them with steadier employment and income.

A further contributory factor to the local industry's weakness is the fact that Fulton County concentrates on women's leather gloves rather than on men's leather gloves. Because competition from imports in women's leather gloves is stronger, the industry is to that extent more vulnerable.[11]

The leather glove industry consists in the main of small family-type enterprises. In 1954, 54 of the 143 establishments reporting to the census employed 1 to 4 employees, with an average of 2.4; only 2 establishments had over 250 employees, and only 1 of them over 500.

In 1939, New York State accounted for 66 percent of the total of 233 leather dress glove factories in the country, 62 percent of the total wage earners, and 60 percent of the total value of product. In 1947, the corresponding figures were 83 percent of 252 establishments, 73 percent of wage earners, and 77 percent of total value of product. In 1954, the percentages were 78 (143 establishments only), 73, and 74. Practically all of these establishments are in Fulton County.

Glovemaking is a labor-intensive industry. In 1954, 56 percent of value added by manufacture was made up of production workers wages, as compared with 40.1 percent for manufacturing as a whole. The manufacture of leather dress gloves is essentially a handicraft industry, the only machines used being a sewing machine for machine-sewn gloves, and a diecutting device for the cheaper grades. Cutting of gloves determines their quality and price. High-quality table-cut gloves use only the very best skins. Lower quality skins are used for pattern and clicker-cutting. Cutters are always men and are the most skilled and highly paid workers.[12]

The sewing machine operators, chiefly women, usually specialize in one type of stitching, but not in any particular operation. After having been sewn, the gloves are dampened and fitted on heated hand-shaped forms of proper size to be pressed (laid off). Men perform this operation. Finally, the gloves are brushed, provided with buttons or snaps, inspected, and prepared for shipment.

---

[10] In this respect, the situation facing the leather glove industry is the reverse of that in which the glass and china industries find themselves.

[11] In men's leather gloves, Fulton County competes with the Midwest. Rather than on style, as in women's gloves, competition in men's gloves is based on efficiency of production and variety of price line.

[12] Sewing of gloves is done by machine in the United States, because handsewing is too expensive at domestic wage rates. Labor costs have in many instances been reduced by shipping glove tranks to the Philippines for sewing by hand, or to Puerto Rico where they are either hand or machine-sewn.

THE CUT AND SEWN FABRIC GLOVE INDUSTRY

Fulton County accounts for less than 5 percent of domestic production of these gloves; they have gained in importance in recent years. Fabric glove production has served to even out seasonal fluctuations in employment in leather glovemaking. Fabric gloves can be cut by machine, and a dozen or more pairs can be handled at one time. Sewing is similar to the sewing of leather gloves. Rates are generally lower because the materials are easier to handle than leather. Production of fabric gloves may either be carried on separately, or in conjunction with leather gloves production. But in Fulton County fabric glove plants are more highly mechanized than leather glove plants. Batches of fabric gloves processed are also much larger than in leather glove plants, and various laborsaving devices, including assembly line methods, are used.

The fabric gloves industry shows less of a geographic concentration than leather gloves. In part this is due to a desire for integration with the manufacture of fabrics, an industry in which wages are lower than in the leather glove industry. But in part the manufacturers prefer not to deal with independent unions such as those in Fulton County.

THE SEAMLESS KNIT GLOVE INDUSTRY

As of early 1956, out of 17 primary producers of knit dress gloves, 5 were in Fulton County. Knit glove plants are small, and located in old buildings several stories high, as are leather glove plants. Machinery, more specialized than leather gloves machinery, is kept up to date; knit glove plants have their own machine shops to improve patterns and adjust for new types of stitches.[13] Routing inside the plant also is more efficient than in leather glove factories.

The production process of knit gloves is similar for both men and women's gloves.[14] The cuff is knitted on a machine, in a long tube, with individual cuff lengths linked by separating threads, later removed by hand. The cuff is then slipped on a machine which knits on hands, with separating threads for thumb openings and fingers. At this stage patterns may be introduced. One worker, usually a man, can handle from six to eight knitting machines, set for a variety of stitches and color combinations. The machines are large and costly, and are usually installed in a plant. The hands and attached cuffs are then passed to a fingering machine operator—usually a woman—who picks up stitches with a small hook and slips them on a small knitting machine, which knits a tube somewhat longer than a thumb. The same procedure is followed for each finger.[15] The tops of fingers and thumbs are then closed and fastened by hand with a straight needle. The final operations consist of fulling, brushing, and shaping, done in a factory, usually by men.

---

[13] Although seamless knit gloves until recently were manufactured of wool, and style was not a major element, of late string knit gloves, and embroidered and decorated wool knit gloves have become not only a larger part of total consumption but also subject to style competition.

[14] The same processes are used for seamless knit linings as for leather gloves.

[15] Fingering machines are small enough to have this operation carried out on a putting-out basis.

DOMESTIC CONSUMPTION

Per capita civilian consumption of dress gloves despite increased real income, has not changed substantially over prewar level. Population trends seem to be adequate to account for the long-range trend. If the population is assumed to be constant, total expenditure for gloves may be considered as varying with income. According to surveys by the Bureau of Labor Statistics,[16] glove expenditures in two periods—1935–36 and 1950—though varying directly with income in both periods, were lower for all income groups in the later period, despite a much increased average income. In both periods, geography and climate had an important influence on demand for gloves; thus persons in the same income level spent less on gloves in the South than in the North.

Consumer tastes show two long-range shifts in preferences for apparel, both away from gloves. One is a trend toward lighter clothing accounted for by better heated automobiles, and better heating in homes and offices. The other trend is a shift toward less formal attire.

Among short-term influences on demand for gloves, the two most important are the weather and style changes. The role of price in the shift from leather to fabric gloves is not clear-cut because of price overlaps. A highly styled and embroidered fabric glove may be substantially more expensive than a plain leather glove, even of good quality, but in general more women's fabric gloves are being bought because they cost less than leather gloves.

Income changes also have an important short-term influence on demand for gloves. The purchase of gloves is a postponable item and expenditures on gloves are more subject to fluctuation than personal expenditures of higher priority.

IMPORT COMPETITION

The domestic glove industry for some years has been denouncing foreign imports and has been arguing for higher tariffs. The impact of import competition varies for different types of gloves.

Leather gloves

Leather glove manufacturers are concerned with various types of foreign competition. In women's gloves, chiefly from France and Italy, competition of imported gloves is mainly in terms of styles and prestige rather than in terms of price, although there is some price-competition in the lower brackets.[17] In men's leather gloves, however, domestic producers are able to compete successfully in the lower brackets even on a price basis. But the lower price of the cheapest foreign women's leather gloves has forced domestic producers to maintain an unprofitable low-priced line in order to compete with imports and to offer a full range to retailers. As far as Fulton County is concerned, the appearance of injury is greatest in women's gloves and in men's table-cut—highest quality—gloves, for which Fulton

[16] Cited by Goldwasser and Huber, op. cit.
[17] See also U.S. Tariff Commission, "Women's and Children's Leather Gloves," above. The Commission refused to make a finding of injury in this particular investigation.

County is the major source in this country. Because of emphasis on women's gloves, imports also appear to affect Fulton County more than midwestern glove centers.

There seems to be no technical or economic reason why Fulton County producers could not broaden their operation into fields of glove production where domestic producers can meet foreign competition at existing wage rates, utilizing mass production methods or more highly mechanized operations. Domestic producers of men's leather gloves can compete successfully with imports because men's gloves are more standardized than women's gloves. Domestic producers also compete successfully in block-and-pattern cut gloves, which are lower priced and produced with less hand labor than table-cut gloves.

Imports in men's gloves come traditionally in the high-quality and high-price brackets, leaving lower price ranges for domestic gloves. There have been no changes in tariff rates on men's leather gloves since 1948.[18]

Competition is substantially greater in women's leather gloves, as noted. Duties on these have not been raised either since 1948, except for an adjustment in the rate schedule for unlined gloves at Torquay in 1950.[19]

Cut and sewn fabric gloves

Germany was the main source of imports of cotton fabric gloves before 1933. Thereafter imports decreased, and domestic production began to rise, chiefly of fabric knitted on thread machines.[20] There was an insufficient number of socalled Simplex machines in this country to manufacture a fabric that can be treated on both sides so as to look like suede, and which accounted for most of the imports. Gradually more Simplex machines were introduced in this country, and after the war the domestic industry appeared to be in a comparatively favorable position. But West Germany regained its position as major foreign supplier, and Italian and British importers likewise were coming up. By 1954 imports of cut and sewn fabric gloves had surpassed the 1939 level.

The domestic industry has endeavored to counter this competition by introducing nylon and "stretch" gloves. But these were rapidly copied abroad and are now being imported into this country. Japan has shown signs of being able to step up its exports markedly during the past several years by introducing a cheap fabric glove which retails here at a substantially lower price than domestic gloves. As the quality of the Japanese product improves, difficulties are expected to be created for the domestic industry, paralleling developments in the seamless glove industry (see below). Japan has been the major foreign supplier since 1950, with about half its imports coming in in the cheaper price brackets.

Seamless knit gloves

Consumption of wool gloves in this country showed a steady increase in 1933. Imports from various sources began to increase also,

[18] The most recent reductions were made in 1945 and 1948.
[19] See U.S. Tariff Commission, op. cit.
[20] U.S. Tariff Commission, "Summaries of Tariff Information" (Washington, D.C., 1948), vol. 9, p. 151.

with Germany and Czechoslovakia accounting for most of the imports, mainly unembroidered. In the later thirties, Japan became the major source of imports, and embroidered gloves also became more important.[21]

During World War II, domestic production of seamless knit gloves increased appreciably. A large part of the gloves then produced had leather palms, required by the armed services. But since these gloves were too expensive for general civilian needs after the war, the industry probably would have found it difficult to maintain a market for them, even without increased imports.

Before 1949, when Japan reentered the market, knit gloves valued at more than $3.50 per dozen pairs were the major category. The duties on these had been lowered in 1939 in the trade agreement with the United Kingdom, and rates were further reduced at Geneva in 1948. The following year, the Japanese industry had completed its recovery and could take advantage of these lower rates so that already in 1949 imports amounted to about one-third of U.S. domestic production; by 1950 they constituted two-thirds.

The Korean war caused another expansion in domestic production, but by 1953, the industry was back to pre-World War II levels. In 1954, the industry applied for relief under the escape clause on wool knit gloves and mittens valued at over $1.75 per dozen pairs. The Tariff Commission refused to recommend withdrawal of concessions granted on import duties because of the "lighter weight" of Japanese gloves which are not competitive with the domestic article and because unusually high inventories carried over from 1953, as well as the mild fall weather had made for lower imports in 1954 than would have been the case otherwise. The Commission implied that after inventories were used up, the domestic industry would get more orders, or at least an increased share of the total.[22]

ALTERNATIVES FOR FULTON COUNTY

In the absence of a Federal trade adjustment program, Fulton County glove producers appear to have several ways of getting themselves out of their difficulties: Continue to press for higher tariffs to protect themselves against competitive imports;[23] undertake a nationwide advertising campaign to improve their sales;[24] or take part in a program of industrial diversification.

Attempts to secure new industries, while less expensive than an adequate advertising campaign, are complicated by the fact that glove manufacturers and glove workers do not wish to let glovemaking become second to another industry. This basic attitude toward change notwithstanding, some elements in the community have taken steps to become more adaptable to the new competitive situation. These adjustment measures will be briefly reviewed before the illustrative trade adjustment program is presented.

---

[21] U.S. Tariff Commission, "Summaries of Tariff Information" (Washington, D.C., 1948), vol. 2, pt. 2, p. 74.

[22] U.S. Tariff Commission, "Wool Gloves and Mittens, and Gloves and Mitten Linings of Wool," report on escape-clause investigation No. 35, under sec. 7 of the Trade Agreements Extension Act of 1951 (Washington, D.C., December 1954).

[23] Little success has met these efforts thus far.

[24] This is considered to be too expensive. See Goldwasser and Huber, op. cit.

UNASSISTED READJUSTMENT MEASURES

By manufacturers

Readjustment can be thought of as falling into two categories. The first is automatic readjustment. This comprises steps taken in response to pressures of the moment, without awareness of their ultimate impact. This category includes persistence in the status quo, tightening of belts, muddling along and vegetating, in a manner of speaking. The other category includes action consciously directed toward terminating a particular situation, based on willingness to cope with new developments, and acceptance of disruptive consequences of a relatively bold course of action. Fulton County in the main has only made the first type of adjustment.

Leather glove manufacturers have had to adjust to competition from domestically produced fabric gloves and leather glove imports. Some of the larger firms have added fabric gloves to their operation, others are producing fabric gloves exclusively, and some have added certain knit specialty items. Until recently, little research and development has been undertaken by the leather glove industry to improve their product, although substitution of fabric gloves for leather gloves has had an increasing adverse influence on the industry.[25]

The problem of switching from leather to fabric is not a recent one, however. During the 1930's, management in the leather glove industry became aware of the trend toward fabric gloves but considered it a temporary style-vogue, and made no attempt to adjust its operations to it. The war years, because of Government contracts, proved to be sufficiently profitable without such a changeover. Whatever output could be made available for the civilian market, was readily sold. After the war, the industry finally began to face up to the threat of fabric gloves, and proposals were presented to the local labor unions involving a switch in production to nonleather gloves and in wage rate schedules. But unemployment among glove workers was already mounting. And workers' resistance to a changeover was increased not only because of a threatened displacement of male glove cutters,[26] but also because the industry's proposal was viewed as the first sign of decomposition which eventually could affect rate schedules for leather gloves as well. Labor therefore continued to insist on piece-work rates for fabric gloves identical with leather glove piece rates. A number of Gloversville firms are producing fabric gloves, but about four-fifths of the operations are farmed out to various plants in adjoining areas, because of labor resistance to a rate schedule revision.

Managerial inefficiency also accounts for the leather glove industry's difficulties. Between 1940 and 1950, only one leather glove firm in the Gloversville area constructed new plant facilities. The remainder of the industry continued to own plants fully depreciated

[25] A new tanning process, which permits leather gloves to be washed more easily, may improve the latter's competitive position somewhat.

[26] A majority of workers in all glove establishments are women. In leather glove plants, the ratio is 3 female workers to 1 table cutter (for the highest quality gloves), and 5 to 6 female workers to 1 block cutter (the less expensive variety). The ratio for cut and sewn fabric gloves is similar, if not greater, for cut and sewn fabric gloves.

decades ago. Inability to cut costs in the past, and ever-increasing reluctance to take risks currently, have encouraged operations with obsolescent plant and inadequate capital investment.[27]

By labor .

Trade unions in the leather glove industry have always insisted on "equal distribution of work." This insistence has resulted in shorter hours, shorter workweek, and skip-week employment, instead of steady work for one part of the labor force and extended layoffs for the other. The impact of seasonal operations on the glove workers' families has thereby been reduced. Those who worked only every other week, or every third week, could draw unemployment benefits for intervening idle periods. Those who worked 3 days a week or less could draw partial benefits.

Many more families in Fulton County than elsewhere have two or more wage earners. The 1950 census (although taken in April, an off-season month in glovemaking), showed 41 percent women in Fulton County's labor force, compared with a New York State average of 32 percent.[28]

Another circumstance tending to weaken workers' willingness to readapt has been that the unions representing the majority of local leather glove workers have no affiliation with other labor organizations for glove workers. Of limited outlook, their activities have tended to be concerned solely with local problems and have shown an almost medieval rigidity. Glove cutters, for example, have not permitted a tablecutter to do block or pattern cutting and the other way round. For many years also the cutters union has restricted apprenticeship, allowing only sons of members to serve the 3 years' apprenticeship required for table cutters.[29]

The postwar shift to employment outside Fulton County has been brought about as much by the attraction of high wage rates in defense work as by the lack of local opportunities. But even though it is an hour's drive from Gloversville to Schenectady, practically nobody appears to have moved closer to their work. Scarcity of housing and preference for local amenities may explain this immobility.

Another factor making for immobility has been homeownership in the Gloversville area.[30] According to the 1950 Census of Population, about one-fourth of the houses in Fulton County are owned mortgage-free—a higher ratio than for New York State as a whole (22 percent). This high percentage of homeownership means that more cash is available for other living expenses, since there are no rent payments, and repairs and maintenance can be postponed. As a result, the possibility of higher income elsewhere becomes less attractive.

Being relatively comfortably situated, the older people tend to remain in the community. The old homes have a comparatively small resale value, and there is a little opportunity to sell. The presence of so many older people means that the local labor force is of higher than average age. In late 1954, the average glove cutters' age was reported

---

[27] With the sewing machine essentially the most important piece of equipment in a leather glove plant, modernization would have to be chiefly environmental.

[28] This appears to be a carryover from the days when homework was prevalent in the industry. In New York State, homework has been outlawed since May 1942.

[29] After World War II, the union admitted 82 apprentices under the "GI bill." However, by the end of 1954, all but three of these newcomers had left the industry, mostly for better paying or more steady employment elsewhere.

[30] Goldwasser and Huber, op. cit.

to be about 60; a large proportion of the men working in the industries were in their sixties and seventies. But with shrinking employment opportunities in the area, there has come a reduction of the skilled labor force. The Consolidated Cutters and Shavers Union of Fulton County (now part of the Amalgamated Clothing Workers) dropped in membership from 2,000 before the war to 850 in late 1953. This decrease was in part due to the fact that members that died or retired were not replaced.

By the community and local authorities

Gloversville faces considerable handicaps in attracting new industries. There is no suitable factory space to move into. The vacant glove factories are usually several stories high, with small rooms, and of unsound construction. The buildings would be suitable for the apparel industry, but local interests are opposed to this type of industry because of the high turnover of the firms in it, and also because the apparel season coincides too closely with the glove season. Gloversville also lacks railroad facilities. There is no rail passenger service, and only a single track spur for freight.

Late in 1953 a group of Gloversville residents began to make a study of the community's social and economic problems, and investigate possible solutions. Their efforts resulted in a mimeographed "Report on Gloversville" in early 1954, dealing with all problem areas, but offering no remedial proposal other than greater community cooperation in general.

About the same time the Gloversville Development Corporation, more recently merged with a similar Johnstown organization to form the Fulton County Development Corporation, began its efforts to attract new industry.[31] The first major newcomer was a record manufacturing company (Decca-Brunswick), which established a plant in Gloversville, employing 300 workers in early 1954. The development corporation raised $30,000 by selling stock to local businessmen at $10 a share. Two-thirds of the proceeds were spent in buying the lease on an abandoned plant, and paying transitional operating expenses, while negotiations were in progress. The New York State Department of Commerce assisted the development corporation through the negotiations, and the New York State Employment Service helped in screening applicants for the new plant. The development corporation since then has encouraged other small industries to locate in the county, and has helped at least one local industry to expand.[32]

AN ILLUSTRATIVE TRADE ADJUSTMENT PROGRAM

Introductory note

A detailed program of industrial diversification would have to be preceded by a survey of all opportunities for establishing new industries in the area. Not only would these industries have to be screened for the size of their employment multiplier, but also for impervious-

[31] Also formed was the Joint Industrial Development Committee of the Gloversville and Johnstown Chambers of Commerce.

[32] A New York Business Development Corporation was set up in February 1955 (Laws of New York, ch. 863 of the Laws of 1955, art. V–A of the Banking Law) which finances small businesses in ned of medium term credit.

ness to economic fluctuations. Community efforts of the type exemplified by the "Report on Gloversville" will be of help in this task, provided they can be kept up to date.

The resources of the Federal Government also could be put at the disposal of the community and of the State with a view to getting such a survey underway. The survey also would present the problems involved in establishing new industries in the area to private interests and provide an incentive for them to take advantage of business opportunities hitherto not recognized.[33]

Through the survey, acceptable industrial projects would be identified which would promise to expand and stabilize employment in the area. It is fairly evident that any new industries brought into Fulton County would have to operate on a relatively small scale in view of the lack of transportation and industrial raw materials. The manufacture of parts for electronic equipment, of plastics, or of work gloves, for example, would conform to these environmental circumstances.[34]

Tariff Commission's finding

The program of assisted readjustment would start to operate with the industry or the firm making application to the Tariff Commission for relief from injury suffered or threatened by increased competitive imports under the provisions of section 7 of the Trade Agreement Extension Act (the escape clause).[35] In contrast to current practice, the Commission would be authorized to recommend assisted readjustment of the firms being parties to the investigation, as an alternative to higher rates of duty or other forms of traditional relief involving import restrictions.[36] The Commission then would instruct the Readjustment Division (newly to be established) to prepare a preliminary report on the situation, with appropriate substantive recommendations for adjustment relief. Report and recommendations then would be transmitted to the Interagency Standing Committee.[37]

The Interagency Standing Committee

After appropriate study of the report presented by the Tariff Commission, the Standing Committee would decide that, whereas the glove industry in general has been faced with a difficult problem because of suddenly increased imports (due to lowered trade restrictions), the firms needing relief most urgently were those in the Fulton County area. The Committee thereupon would instruct a marketing and

---

[33] The technical details of such survey, including criteria for the establishment of new industries, cannot be gone into here.

[34] No attempt will be made here to deal with these potential new industries in greater detail.

[35] The fact that as recently as March 1960 the U.S. Tariff Commission felt impelled to deny an application for relief brought before it by the women's and children's leather glove industry would seem to make institution of an alternative method of relief that much more desirable.

[36] The existence of adjustment assistance provisions would have to loosen criteria used by the Tariff Commission under sec. 7. This point needs further investigation. A temporary raising of rates of duties, interphasing with the adjustment program, need not be ruled out. See last paragraph of chapter V, above.

[37] This first step could actually be simplified in this manner: The Tariff Commission even under present procedure has to undertake a considerable amount of economic analysis for each of its investigations under the escape clause. The Commission at present does not publish this analysis. By "declassifying" the substance of such material, the Commission could use it as a basis for informal recommendations appended to its escape-clause report, without encumbering the docket with additional, very probably repetitive, documentation.

engineering survey to be made, in cooperation with the field and regional offices of the U.S. Department of Commerce and U.S. Department of Labor, and of the New York State Department of Labor and Commerce.

Result of survey

The survey is carried out with assistance from the local chambers of commerce and the Industrial Development Corp. On the basis of information developed through the survey, the Commerce Department recommends that one fabric and five leather glove plants undertake conversion to other types of production—with assistance, as necessary, and that three small leather glove producers be assisted in liquidating operations in an orderly manner. The six firms involved in the recommended conversion employ more than 50 workers, the fabric glove concern more than 100.

The cost of the survey amounts to $20,000. This cost is absorbed by the agencies cooperating, acting "in line of duty."

Recommendation is made that the five leather glove firms be given assistance so as to enable them to undertake production of electronic component parts. The facilities of the fabric glove firm are found suitable for producing work gloves as a sideline, after procurement of additional equipment for chemical treatment and dipping.[38]

Review and financing of program

The Standing Committee approves the recommendations, and instructs the financial agencies cooperating in the program (the Small Business Administration, at the Federal level, and the New York State Business Development Corp. at the State level) to proceed with arranging the actual financing of the program.

For the three small leather glove producers, liquidation loans are arranged for by the Small Business Administration, at a total cost of $45,000. The fabric glove concern undertaking to produce work gloves is assisted in obtaining a $350,000 3-year loan with a private financial institution, with guarantee for the loan provided by the Small Business Administration. Of the five former leather glove firms, three decide on merging. This leaves three units to be serviced by adjustment assistance facilities: Two 5-year loans of $250,000 each are provided for the two larger plants, both guaranteed by the State Business Development Corp., in cooperation with the Small Business Administration. The third concern is eligible for a 5-year, $150,000 loan from the Small Business Administration.

Resumption of production

After a minimum delay occasioned by negotiations of the financial provisions of the program and implementation of required engineering measures, operations are resumed. The total cost of the program amounts to $1 million. Spread over 3 years, the annual cost of the program would be in the neighborhood of $300,000. Actual nonreimbursable outlays by Federal and State agencies involved, including the cost of survey, may be assumed at less than 15 percent of the total annual cost.[39]

---

[38] No specific provision is made for retraining workers outside the plants. It is assumed that they are kept on the payroll and acquire necessary knowledge of the new processes as they go along.

[39] The discussion in the text does not include the possibility of temporary tariff relief, to be withdrawn after successful adjustment, although a combination of temporary tariff relief and adjustment assistance deserves further examination. See last paragraph of Chapter V, above.

COMPARATIVE COST OF TRADE ADJUSTMENT

In order to ascertain the gain to be derived from the proposed program, its estimated cost may best be compared with the cost of benefits being made available by units of Government to those affected by dislocation in Fulton County industry, in the form of unemployment benefits, social security benefits, and public assistance benefits.

In New York State, maximum weekly unemployment insurance benefits in 1957 were $36. These benefits are contributory, with employers paying varying percentages of the first $3,000 of wages paid each employee. The percentage depends on the employer's record of stability. The State collects the money, and pays out benefits as and when needed. No Federal funds are involved, except that administrative costs may be provided from Federal funds, if the U.S. Department of Labor deems it necessary.

Social security benefits also are contributory, both by employer and employee. Payments go into a trust fund, and no further appropriations of Federal funds are necessary. Benefits include retirement and disability insurance payments, as well as survivor insurance payments to widows, children, and parents.[40]

Public assistance, the third type of benefit to be used in this comparison, includes old-age assistance, aid to dependent children, to the blind, and permanently and totally disabled. Expenditures are split between the Federal Government and the States, on a pro rata basis. Funds in this program are channeled through the Federal budget, in the form of an open-ended appropriation, with deficits made good by supplemental appropriations at the end of the fiscal year.

In New York State, Federal grants for these several benefits were disbursed on a per capita basis as follows (for the fiscal year 1952/3).[41] Employment security, $2; old-age assistance, $3.21; aid to permanently and totally disabled, $1; aid to dependent children, $2.52. For Fulton County, the aggregate amounts of these grants can be estimated as follows: With a 1950 population of 50,021, the Federal contribution for employment security would have been about $100,000; for old-age assistance, $161,000; for aid to disabled, $50,000; and for aid to dependent children, $126,000. The total, in round figures, would be $400,000 per year. But since old-age benefits are not dependent on the recipient being jobless, they need not be included. The total, then, reduces to $260,000.

Though not necessarily related to the level of employment in the county, these expenditures are not productive in the sense that they cannot be expected to generate income, but merely keep recipients from becoming destitute. Two-thirds of this money may be presumed to be paid out irrespective of the level of prosperity in the county. A possible saving of one-third of these outlays, or roughly $150,000, could be regarded as a gain due to successful readjustment programs.[42]

State payments in unemployment insurance benefits amount to $36 per claimant per week. For a maximum period of 26 weeks a year,

---

[40] On social security payments as a source of income, see for example, Schaller, Howard G., "Social Security Transfer Payments and Differences in State Per Capita Incomes, 1929, 1939 and 1949," *Review of Economics and Statistics*, vol. XXXVII, No. 1 (February 1955), pp. 83–89.

[41] "Report of Commission on Intergovernmental Relations," Washington, D.C., June 1955, appendix tables 4 and 5.

[42] The amount saved by the State in matching contributions would be considerable, but of an indeterminate amount.

this would come to a total of $936 (or $950, if rounded) per person per year.

Just as a two-wage-earner family provides a better living during periods of employment, so double unemployment benefits make adjustment to periods of unemployment less difficult. For Fulton County, unemployment compensation has in effect become an important part of the community's adjustment to economic difficulties.[43] The use of the stagger system of spreading employment in the glove industry results in a maximum number of claimants for unemployment compensation at any given moment. Glove workers, moreover, have been habitually reluctant to return to work before their benefits are exhausted. A household dependent on only one person's benefit payment could hardly afford to postpone working for so long. But with two or three payments per household, the pressure to seek other employment is appreciably reduced.

Old-age and survivors insurance payments also have been carefully calculated by older workers in setting their employment patterns for the year. Many workers past the age of 65 continue in the glove industry. If their earnings do not exceed $1,200 during the year, these workers remain eligible for old-age insurance benefits. And combined old-age insurance, unemployment compensation, and wage payments have provided a fairly comfortable income for husband and wife, even when employment possibilities were poor.

While unemployment compensation benefits constitute a subsidy attenuating the effect of economic dislocation, such payments do not contribute to a cure nor help in the transition toward a cure except insofar as they aid in maintaining consumer demand in general. In the long run, expenditures of like amounts by Federal and State Governments to help establish new industries would probably be of greater assistance to Fulton County than any form of sustaining intervention.

Piquet has estimated [44] that under a temporary tariff suspension, imports of leather gloves would increase between 100 and 300 percent, and would result in imports supplying 23 percent of total domestic consumption.[45] In terms of effect on employment, a 300-percent increase of leather glove imports from the 1953 level, assuming that the same volume of domestic production is displaced, would mean imports of 4,792 dozen pairs, and a decrease in domestic production of 28.9 percent.[46] The corresponding loss in employment in Fulton County's leather glove industry would be about 1,600 workers.

For knit gloves, the tariff has been no barrier to Japanese imports.[47] A suspension would increase imports of relatively expensive gloves from Europe, without, however, causing any further unemployment in Fulton County.

---

[43] See also Goldwasser and Huber, op. cit.
[44] "Aid, Trade, and the Tariff," pp. 25, 74 and passim.
[45] In 1953, for example, imports of leather gloves provided only 8.8 percent of total domestic consumption.
[46] See also Goldwasser and Huber, op. cit.
[47] The Office of Civil and Defense Mobilization on Nov. 20, 1960, ruled that imports of wool knit gloves were not threatening the national security, and declined import restrictions to be imposed under sec. 8 of the Trade Agreements Extension Act, as amended (Journal of Commerce, Nov. 21, 1960).

For cut and sewn fabric gloves, if a tariff suspension resulted in a 10-percent increase in imports, there would be a net displacement of 4,380 dozen pairs of domestic output.[48] This would mean about 56 more unemployed workers in Fulton County.

Maximum displacement of workers in Fulton County as a result of increased imports thus would be about 1,660 workers, or slightly more than half the average number of unemployment insurance claimants in 1954. The annual maximum cost to the State in terms of unemployment insurance payments would be in excess of $1.5 million, in the absence of mitigating factors that would tend to reduce this figure. Since a total suspension of tariffs is unlikely, half the maximum payments figure, or $750,000, may be taken as basis for comparing the cost of coping with the assumed dislocation by means of sustaining measures, as opposed to a program of constructive adaptation. This would be the costs borne by the State.

Assuming that applicable Federal expenditures would also increase by 50 percent, this would represent an annual increase in recurrent expenditures of $150,000—the potential "savings" noted earlier which now are not being saved, plus $75,000—the assumed 50-percent increase, giving a total of $225,000 of Federal expenditures per year. Adding to this the $750,000 expenditure by the State results in an annual total of $975,000 per year for an indefinite period. This then would be the cost of keeping the community going at its traditional and relatively low level of activity.

The cost of the illustrative readjustment assistance program, in comparison, could be recapitulated as follows: Technical services for each of six plants, financed from Federal funds, at $20,000 each, amounting to $120,000, nonrepayable; plus loans to be granted in a total amount of $1 million; resulting in annual aid to be granted over a 5-year period in the amount of approximately $300,000, including nonrepayable expenditures of $45,000.

The net expenditure involved in an efficiently administered trade adjustment program would thus be considerably lower than the current rate of sustaining expenditures. The probable gain in income generated by the newly established industries has not been taken into account in the foregoing rough calculation, but it is evident that that factor would tip the scales even lower in favor of assisted readaptation.

[48] Piquet's analysis applies only to imported commodities that would supply from 10 to 90 percent of domestic consumption after the tariff suspension. Cut and sewn gloves are not included.

CHAPTER VII

TRADE ADJUSTMENT IN AGRICULTURE: WOOLGROWING

We now turn to the agricultural sector. Here the woolgrowing industry has been chosen to illustrate the problems likely to be encountered in applying an adjustment assistance program. This industry, because of the political power of its members, also typifies one obstacle to trade liberalization if this kind of program is not put into practice.

IMPORTS VERSUS DOMESTIC WOOL PRODUCTION

Domestic wool production normally is not adequate to supply domestic needs, and in time of war has fallen far below requirements. Although a large portion of wool consumed in the United States has to be imported, domestic woolgrowers have placed heavy emphasis on tariffs as a way of supporting wool prices and encouraging production. Because of these large imports the domestic wool industry is heavily dependent on price movements in the international wool market. But changes in domestic demand and the nature of the woolen textile industry have an even greater effect on wool prices.[1]

In a period of depression, the demand for new clothing and for other products made from wool can drop off very sharply. As a result the demand for raw wool is less continuous and stable than the demand for other farm products such as foodstuffs. Moreover, the nature of the woolen textile industry is such that sizable stocks of raw wool are normally in hands of the mills, importers, speculators, and others. Stocks of finished woolen goods are held by garment makers and wholesale and retail handlers. If consumer demand falls off suddenly, these inventories allow mills and other sectors of the wool trade to discontinue buying of raw wool for a time while stocks are disposed of.

Severe declines in demand thus are characteristic of the industry. But wool prices also have a tendency to recover more rapidly than those of other farm commodities. Price stability, rather than production control or tariff protection, is therefore of primary importance for woolgrowers.

Wool production does not, nor can it be made to, vary greatly from year to year. The principal method of adjusting supply to increased or decreased demand has been through variation in imports. During the 1930's, for example, despite greatly reduced demand, domestic wool production continued at a high level, but imports fell off sharply.[2] In

[1] Benedict, M. R., and Stine, O., "The Agricultural Commodity Programs," (New York, 1956), p. 330.

[2] U.S. Agricultural Marketing Service, "Wool Statistics and Related Data" (Stat. Bull. 142, September 1954), pp. 38 and 80.

the late twenties imports had been 100 million pounds per year. By 1932 they were down to about 17 million, and they remained fairly low until 1939. The outbreak of World War II brought a demand for wool that was far in excess of the amounts the domestic sheep industry could supply. Between 1942 and 1946, wool imports were at unprecedented levels, and substantially in excess of the amounts producted domestically.[3] Even in the postwar years, imports were larger than the amounts produced in the United States. The level of domestic production continued to be below the amounts required for domestic consumption into the 1950's.

THE U.S. WOOLGROWING INDUSTRY

Sheep are grown in all of the States, but the large-scale, range-type sheep production in the West is the principal source of the domestic wool supply.[4] In large sections of the West, the rangeland is marginal for any use except for grazing sheep. The lamb and wool marketed from the Western States thus form an important share of the "harvest" from the vast acreage of grazing land. Many farm areas also carry sheep to utilize feed resources more efficiently. In irrigated areas, sheep offer a useful means of harvesting legumes planted to build up soil fertility, for example.

There is, however, general agreement that it would not be economically feasible for this country to become self-sufficient in wool production;[5] nor does it appear practical to increase domestic wool production sufficiently to meet any emergency defense requirements that might arise. The desirable level of domestic sheep and wool production depends upon efficient utilization of domestic production resources, and upon the efficiencies reached in production, marketing, and processing, and distribution of domestic wool and its products.

One analysis of domestic sources of supply indicates that the grazing and feed resources of the United States would be sufficient for about 37 million head of stock sheep.[6] Annual wool production from that number of sheep would be about 290 million pounds of shorn wool and 45 million pounds of pulled wool, the equivalent of about 160 million pounds scoured.[7]

Numbers of sheep have gone through several cycles since 1884, in response to price and feed conditions. The most drastic decline, however, took place between 1942 and 1950, when numbers of sheep and lambs fell from a near all-time high of over 49 million head to an all-time low of 26 million. The number of sheep has not appreciably increased since then.

---

[3] Agricultural Statistics, 1953, p. 378. U.S. Agricultural Marketing Service, supplement for 1955 to "Wool Statistics and Related Data" (November 1955), p. 10.

[4] "Range-sheep States" include the 11 Western States, Texas and South Dakota. "Native-sheep States" are all other States where sheep are produced mainly under farm conditions, usually incidental or supplemental to other enterprises. These States produce only slightly more than one-fourth of U.S. wool.

[5] "Wool Study Group Report" (1953), p. 43.

[6] U.S. Department of Agriculture, "Domestic Wool Requirements and Sources of Supply" (Washington, D.C., June 1950), p. 62.

[7] According to a later analysis, using a different set of cost-price relationships, a balanced livestock population would include about 31 million head of stock sheep, with an annual production of about 260 million pounds of shorn wool, and about 40 million pounds of pulled wool, the equivalent of about 144 million pounds of scoured wool. U.S. Department of Agriculture, "Agriculture's Capacity To Produce" (Washington, D.C., June 1952). [Cited in "Wool Study Group Report," p. 43.] Maximum U.S. production capacity may thus be considered to lie between 260 and 290 million pounds per year, given a continuation of the price supports and other types of subsidies in force at the time the estimates were made.

The decline in sheep numbers during the 1940's resulted primarily from farmers and ranchers getting out of the sheep business, rather than merely reducing the size of their flocks. The liquidation of sheep enterprises was greatest on farms with small flocks, most of which were in the native States.[8]

In the early days sheep were raised primarily for their wool. Prior to 1920, the sale of shorn wool provided some 40 to 50 percent of farmers and ranchers gross income from sheep. But in recent years less than 30 percent of their gross income has been from the sale of shorn wool. And even in the Western States where wool is more important than in the native States, about 70 percent of family operated sheep rancher's total cash receipts from their sheep enterprises is provided by lamb and sheep sales. However, the price of wool remains a significant factor in determining the profitableness and hence the level of sheep and wool production.

For the domestic-sheep industry, the most significant consequence of World War II was a scarcity and a rise in cost of competent labor. In the Western States, even family operated sheep ranches were dependent on hired labor for half of their total labor force. Skilled herders became almost nonexistent. Wage rates for available less-skilled labor increased. The Armed Forces and defense industries cut into the supply of family labor. Sheep operators who were in a position to do so began to liquidate their flocks while prices were still relatively favorable and shifted to cattle raising, which depended less upon hired labor.

In the native-sheep States the same factors were at work, though their impact was different. Most flocks were smaller than a hundred head, being minor farm enterprises designed to utilize unpaid family labor, feed resources not used by other livestock, and were intended to augment the relatively low farm incomes of the 1930's. Shortage and high cost of labor, increased losses caused by dogs and other predators, and increased incomes received from the major farm enterprises caused many farmers to liquidate their sheep enterprises at the relatively favorable prices which still prevailed in 1942. In the following years the low returns from sheep as compared to returns from cattle explain the continuing decline in sheep mentioned earlier. The low incomes of sheep operators were due to a variety of factors: wool prices remained relatively stable while cattle prices were increasing rapidly; higher production costs were not offset by increases in efficiency; and competition from synthetic and other fibers was increasing. Uncertainties as to probable impact of foreign and domestic stocks of wool, and of tariff reductions such as those of 1948 also contributed to sheep operators' decision to shift to cattle, or to get out of the ranching business.[9]

The hired labor bill on 1,000 ewe sheep ranches in the intermountain region increased from about $1,700 in 1942 to nearly $5,500 in 1952. During the same period the labor bill of small cattle ranches only increased from slightly over $100 to about $500.[10]

---

[8] Between 1940 and 1950, the number of sheep on farms and ranches declined 42 percent, that of farmers and ranchers reporting sheep, 46 percent.

[9] See "Domestic Wool Requirements and Sources of Supply," p. 52 et seq., for summary of reasons given by farmers and ranchers for reducing sheep numbers.

[10] A less marked disparity has prevailed on family operated sheep and cattle ranches in the northern Great Plains where many of the sheep are under fence and ranchers depend less on hired labor. There the net returns on family operated sheep ranches generally have exceeded that of family operated cattle ranches, but the sheep rancher's investments have been substantially larger.

Efficiency of production is low, and does not counteract high labor costs: many sheep ranchers are still operating at about the level of efficiency of 1930–33. Technological advances of crop farmers and livestock farmers have not been paralleled in the semiarid range areas of the West.

COMPETITION FROM MANMADE FIBERS

Competition from manmade fibers has had a considerable impact on the wool industry. Beginning in the prewar period, its rise during the postwar period has been striking. Rayon and acetate fibers were the only manmade fibers entering into the wool manufacturing field before World War II. These have been supplemented by a variety of new fibers, some of which are especially well adapted for use either in wool mixtures or for making nonwool fabrics serving the same uses as wool. There has not been an absolute decline in the total consumption of apparel wool in the United States; in fact, wool consumption by 1955 was still substantially above the prewar level, although far below the high levels of the war and postwar years. But the per capita mill consumption of apparel wool, notwithstanding a large increase in consumer purchasing power, was only about what it was prior to the war—2.21 pounds in 1952, as compared with an average of 2.15 pounds for 1935–39. Per capita consumption of manmade fibers, on the other hand, increased from an average of 0.34 pound in 1935–39 to about 3.05 pounds in 1954.

Wool has failed to retain its position in the textile field largely due to the growing competition from manmade fibers, although influences like the trend toward lighter weight clothing were partly responsible too. Wool's future place in the textile field depends in part upon its price relative to the price of manmade fibers. This relationship has tended increasingly to favor the manmade fibers. The price index for fine wool, taking the average price for the period of 1935–39 as base, stood at 189 in 1952, for medium grade at 167. For viscose rayon, using the same base, the index in 1952 was 140, and for acetate 81. The spread has widened since then.

Synthetic fibers made considerable inroads in the men's clothing field in the early fifties. Since 1954, their importance has receded, however, and wool has regained some ground. Only in lightweight suits remain synthetics an important factor.

DOMESTIC WOOL PROGRAMS DURING AND AFTER WORLD WAR II

Domestic wool, after reaching about 40 cents in 1942—about 55 percent higher than average 1939 prices—saw its demand fall off in 1943. Military requirements were declining, and mill operators showed a marked preference for foreign wools because of their relative cheapness and because they required less labor on account of having been better prepared for the market before shipment.

To overcome the uncertainty with regard to outlets for domestic wool, the Secretary of Agriculture directed the Commodity Credit Corporation to purchase the entire domestic clip in 1943 at ceiling prices, and required that all domestic wool, with minor exceptions, be sold to the CCC. This procedure was extended year by year until April 1947.[11] The support prices thus maintained were favorable as

[11] Benedict and Stine, op. cit., p. 341.

compared with prices of wool prevailing in preceding years, but growers were running into high costs and were especially handicapped by the shortage of skilled help.

The Government purchase price in 1943 was 41.7 cents per pound, or 141 percent of parity. It remained at approximately the same level through 1949. However, the prices of most other farm products rose rapidly from 1945 on, so that the price of wool, though relatively favorable at the outset, became less and less favorable. By 1949, meat animals were 183 percent above their 1939 level, and farm products as a whole were up 160 percent; wool prices, however, had increased only 120 percent.

High costs, labor shortages, and relatively low prices made for reduced production of shorn wool from 1942 on.[12] In that year, 388 million pounds were produced. By 1949, output was down to 213 million pounds. Although wool did not share in the rapid price advance of those years, lambs, another product of the same flocks, rose practically in the same proportion as other meat products.[13]

Commodity Credit Corporation stocks of wool had increased toward the end of the war, as mills turned to the production of civilian goods and the use of domestic wool dropped off sharply, because the CCC selling price was higher than the prices of comparable imported wools.[14] In November 1945, the CCC announced that it would sell domestic wools at the price of duty-paid foreign wools. But since most mills preferred the better prepared foreign wools to those grown in the United States, if the former could be obtained at a comparable price, the CCC concession had little effect. The price was further reduced in February 1946. CCC sales of domestic fine-combing territory wool for the first half of 1946 were about 19 cents—clean basis—below the purchase price. The loss was absorbed by the CCC. Only then did domestic wools begin to move more freely, and the market for them improved.

From 1947 on, the world wool market also continued strong with generally rising prices, and consumption was running substantially above production. When the greatly increased demand after the outbreak of the Korean war in 1950 was superimposed on a market without any large carryovers, wool prices to farmers rose nearly 100 percent between June 1950 and June 1951. The rise, however, was largely speculative. U.S. mill consumption rose about 30 percent in 1950, but fell back to near the 1949 level by 1952.

The wartime wool program expired on April 14, 1947. It was resumed on August 14, 1947, through an act which directed the CCC to support the price of wool until December 1948 at the same rate as in 1946.[15] The most important feature of this act was an authorization for CCC to sell its stock on a competitive basis with foreign wools.[16] This plus the active demand of the postwar period led to a

[12] Shorn wool production has tended to vary with numbers of sheep on farms and ranches, whereas pulled wool production has varied with changes in the slaughter of sheep and lambs. Since about fourth-fifths of domestic wool is produced as shorn wool, total wool production has varied with numbers of sheep.

[13] The income from wool is estimated to be only about 40 percent of the total income from sheep, lambs, and wool. The percentage varies from region to region: In the Middle West, more of the total comes from meat, whereas in the specialized wool-producing areas of the Plains and Mountain States, more comes from wool.

[14] The CCC held 327 million pounds grease raw wool on July 1, 1945. By July 1, 1946, holdings had increased to 499 million pounds, or more than the equivalent of an entire year's domestic wool production.

[15] Public Law 360, Aug. 5, 1947.

[16] CCC holdings of both domestic and foreign wools had reached a peak of 540 million pounds (grease basis) in October 1946. Benedict and Stine, op. cit., p. 347.

gradual reduction of CCC holdings. By April 1, 1949, they were down to 67 million pounds—scoured basis, and to 17 million by April 1950.

Under the August 1947 act, wool prices to growers were supported at an average level of 42.3 cents. While relatively favorable in terms of percentage of parity in the war years, this advantage rapidly disappeared as prices of things bought by farmers rose. The parity percentage, 101 percent in 1947, dropped to 94 percent in 1948 and 1949.[17]

The Agricultural Act of 1949 (sec. 201)[18] made it mandatory for the Secretary of Agriculture to support the price of wool at such levels between 60 and 90 percent of parity as the Secretary determined necessary, to encourage an annual production of approximately 360 million pounds of shorn wool.[19] Wool thus became, and still is, the only agricultural commodity for which Congress has set a specific quantitative production objective. Since domestic production was far short of the legislative goal, the price support level was set at 90 percent of parity as of April 1, 1950, in an effort to encourage producers to raise production toward the legislative goal.[20]

Price-support operations under the 1949 act were being carried out by means of a nonrecourse loan program for producers of shorn wool, and through a purchase program for pulled wool. Domestic producers were supposed to be given an opportunity to market their wool in an orderly manner, through normal trade channels, and at prices not lower than 90 percent of parity. The nonrecourse loan program was designed to enable the producer by redeeming the loan to take advantage of any increase in market price to above the loan level plus carrying charges. But in the event the market price dropped below the loan level, the producer did not assume any liability. As long as market prices were below the support level, domestic wool thus was held off the market. In the meantime, however, domestic mills continued to meet their needs from foreign markets and domestic wool piled up in the hands of the Commodity Credit Corporation.[21] In September 1953, CCC had acquired title to about 100 million pounds of wool (grease), and 40 percent of all the domestic wool produced in 1952.

Price support arrangements on the 1953 clip were substantially the same as those for 1952, and prices to farmers likewise. While duty-paid prices on some grades of imported wools remained below domestic support prices, it was evident that a large volume of imported wools would continue to move to the mills, whereas domestic wool tended to go into stocks. These stocks not only were difficult to dispose of, but they also had a depressing effect on the market.

---

[17] The parity price for wool is a national average of prices, on a grease basis, received by all farmers on first sales of growers' hands.

[18] "Wool Study Group Report," p. 38. See also Benedict, M. R., "Farm Policies of the United States 1790–1950," (New York 1953), p. 478.

[19] The appropriateness of setting a goal at the level is discussed below.

[20] The 1949 act also renewed the authorization for CCC sales at less than cost of purchase. This left the way open for continuing purchase of domestic wool at premium prices without building up excessive stocks in hands of the CCC. But if wool prices had fallen below the foreign price plus tariff, a continuous subsidy would have been provided.

[21] Between July 1, 1943, and June 30, 1952, the CCC lost $92.2 million on its various wool programs. Of this, approximately $26 million consisted of carrying charges, including storage costs, transportation, grading, etc. The balance of the loss resulted from the necessity of reducing selling prices below purchase prices in order to dispose of the wool, and was the largest loss incurred on any storable agricultural commodity in that period.

Early in 1954, the administration proposed a new approach to the wool problem. Direct payments were to be made to growers at the end of season, in amounts sufficient to make up the difference between the average prices received by growers and the incentive prices specified. The payments were to be made from the general revenues of the Government, but could not exceed the unobligated tariff receipts from imports of wool and wool products.[22]

This plan eventually was incorporated in the National Wool Act of 1954 (see below). One feature of this act was an attempt on the part of the Congress to provide an ostensible solution of the wool problem without raising tariffs and thereby leaving international trade relations undisturbed. Before examining the act in greater detail, and appraising the usefulness as a point of departure for a readjustment assistance program for the domestic wool industry, a brief survey of the wool tariff is in order.

THE TARIFF ON WOOL

The domestic woolgrowing industry has become established with tariff protection which has continued for a long period. Price support by means of tariffs also has long been the procedure most favored by woolgrowers. But wool prices and the level of tariffs have not always been closely related. The drastic decline of wool prices in 1921, for example, may have been affected to some extent by the preceding period in which wool was on the free list, but only in a limited way.[23]

Wool had been placed on the free list by the Underwood Simmons tariff (approved October 3, 1913). This constituted a very large reduction since previous to that, wool had borne an ad valorem equivalent of 44 percent. During World War I, however, wool prices stood high, despite heavy imports. After the war, there was a decrease in demand, severely affecting wool prices.[24] The Emergency Tariff Act of 1921 thereupon provided for a sharp increase in wool duties, and further increases were provided in the Fordney-McCumber Tariff Act of 1923.[25] The Smoot-Hawley Tariff Act of 1930 established rates for raw wool which in general were the highest in the history of the wool tariff since 1816. But wool prices in 1932 were even lower than in 1921.[26]

In the beginning of a depression the tariff cannot have much effect on wool prices. Mills with access to their own stocks and to stocks readily available through trade channels can carry on without importing much foreign wool or even buying in the domestic market. Wool prices thus can go very low without causing much increase in the amounts of wool purchased by the mills. But once readily available stocks are used up, the mills turn to imported wools. These must come in over the tariff and are therefore more highly priced. In this situation the price of domestic wool tends to improve rather quickly, unlike the prices of other farm products of which there is a surplus.

---

[22] Similar supports were proposed for pulled wool and mohair, with appropriate rate differentials.
[23] Benedict, "Farm Policies of the United States," p. 143.
[24] Benedict, op. cit., p. 170.
[25] Benedict, op. cit., pp. 202 and 204. See also Taussig, F. W., "The Tariff History of the United States," 8th edition (New York 1931), p. 460. sq.
[26] Benedict, op. cit., p. 251.

In such periods of incipient prosperity the wool tariff has been most effective as a means of price support.

Some of the high duties on wool under the 1930 Tariff Act were subsequently reduced by bilateral agreements with Argentina, Uruguay, and the United Kingdom. Under the Trade Agreements Act of 1934 these concessions were granted to all other countries. The General Agreement on Tariffs and Trade of 1948 reduced rates on wool in general by 25 percent. This was the last overall reduction. The current (1957) duty on grease wool finer than 44's is 25½ cents per clean pound.

The tariff is generally more effective in supporting wool prices to domestic producers when prices are low than when they are high. With duties on raw wool at a fixed rate per pound, less protection is afforded domestic producers as wool prices increase. Similarly, protection in terms of growers' purchasing power becomes relatively less as the level of prices of things growers must buy rises.

Although the tariff on wool has tended to maintain prices of domestic wool higher than world market level, imported wools generally command a premium over domestic wools of same grade because of uniformity and better preparation, which in turn lowers processing costs for woolen manufacturers.[27] Greater processing costs because of sorting before use constitutes the most important single price disadvantage of domestic wool vis-a-vis foreign wools. This disadvantage neither tariff nor price support programs have been able to eliminate.

There still remains to be mentioned the relation of tariffs and other import restrictions to the various price support programs for wools.

A price support program, particularly one that involves Government purchase at a price higher than the prevailing world market price, cannot operate successfully unless the influx of foreign goods is controlled in some way so as not to swamp the domestic market. This purpose is served by the mechanism established under section 22 of the Agricultural Adjustment Act.[28]

With regard to wool, the Department of Agriculture in recent years recommended on two occasions that import quotas or higher tariffs be imposed under section 22.[29] On the second investigation the Tariff Commission [30] recommended imposition of an import fee of 10 cents per pound of clean content, but not more than 50 percent ad valorem on imports of the specified wool, and imposition of an 11¼ cents fee on imports of carboned wool and wool tops—both fees in addition to the duties levied under the 1930 Tariff Act. The recommendation was based on a finding by the Commission's majority that increased imports of wool constituted material interference with the wool price support program in general, and specifically with the program as it

---

[27] Most imported wools are skirted, classed and packed for shipment in compressed bales. Domestic wools, however, are packed in bags as they are shorn, and are sold with little or no further preparation.

[28] First enacted 1935 (49 Stat. 773); reenacted 1937 (50 Stat. 246).

[29] On the first investigation, begun by the U.S. Tariff Commission in September 1952, no recommendation was made because the price-support program for wool in effect when the investigation was ordered, had ended in April 1953.

[30] U.S. Tariff Commission, "Report to the President: Wool, Wool Tops, and Carbonized Wool," Investigation No. 8 under sec. 22 of the Agricultural Adjustment Act, amended, Washington, D.C., February 1954 (processed). The President's letter is dated Mar. 4, 1954.

was administered under the Agricultural Adjustment Act of 1949, the controlling legislation in force at the time.[31]

The President did not approve the proposed increase, but indicated that on the basis of a study prepared by the Secretary of Agriculture [32] he had determined that domestic woolgrowers required continued price or income assistance in a more effective form than that provided under the 1949 act, without added limitations to the imports of wool. For this reason the administration accepted the principal recommendations made by the Secretary of Agriculture with respect to such a program, and submitted them to Congress.[33]

THE NATIONAL WOOL ACTS OF 1954 AND 1958 [34]

According to section 702 of the 1954 act—

> * * * wool is an essential and strategic commodity which is not produced in quantities and grades in the United States to meet the domestic needs * * * the desired domestic production of wool is impaired by the depressing effects of wide fluctuations in the price of wool in the world markets.
>
> It is hereby declared to be the policy of Congress * * * to encourage the annual domestic production of approximately 300 million pounds of shorn wool, grease basis, at prices fair to both producers and consumers in a manner which will have the least adverse effects upon foreign trade.

Support for wool is provided by forward pricing rather than by price supports in the traditional manner. Whereas the fixed percentage of parity support price looks to past price relationships without immediate regard to the resulting output, forward or incentive prices seek to guide production in desired directions. Thus they may imply differential downward adjustments in price supports as well as differential upward revisions. Support for wool provided by incentive pricing may not exceed 110 percent of parity. If the support price is put at 90 percent of parity or below, it must be at such a level as to encourage production of 300 million pounds of shorn wool.[35] Between 60 and 90 percent of parity, the Commodity Credit Corporation is entitled to use any method of support (loans, purchase, payments, etc.) it deems advisable for carrying the intention of the act, but above 90 percent of parity, no support other than through payments may be provided. The total amount of such payments may not exceed 70 percent of the accumulated totals of specific duties on wool and wool products collected after January 1, 1953, under schedule 11

---

[31] The minority (Commissioners Ryder and Edminister) felt that the Commission had not been able to show that increased imports of wool had led to, or were threatening to create losses for the Commodity Credit Corporation in operations with respect to the domestic wool crop great enough to be regarded as excessive from the standpoint of overall administration of the price support program, and therefore as interfering with the program or rendering it worthless. See "Wool—Wool Tops," etc., pp. 64 et seq.

[32] "The Wool Study Group Report."

[33] Most of these recommendations were included in the National Wool Act of 1954, see below.

[34] Act of Aug. 28, 1954, ch. 1041, title VII, secs. 701–708, 68 Stat. 910. The act was extended by the National Wool Act of 1958 (act of Aug. 28, 1958, Public Law 85–835, title IV, secs. 401–403, 72 Stat. 994). The major difference between the two acts is that whereas under the 1954 act payments were being made from a fund established from customs revenues on raw wool imports only, the 1958 act set-aside provisions included custom revenues from all wool imports, including woolens. The 1958 act expires in 1962.

[35] Pulled wool and mohair are to be supported at such levels as will maintain "normal trading practices."

of the Tariff Act of 1930, as amended. Payments may be made through the marketing agencies to whom, or through whom, the grower sells his wool.[36]

Wool prices are now allowed to find their own level in a free market, except for the price-supporting effect of the tariff. Supplementary payments on the wool sold in a given year are made in the summer of the year following. At that time a determination is made of the average price received by growers, and of the percentage by which this must be increased to yield an average national return equivalent to the announced support price, such as, for example, 62 cents per pound for the 1955 clip.[37] Each grower, either directly or through his marketing agency, must file a claim supported by appropriate documents at his local county agricultural stabilization and conservation office, giving date of sale, net price received, and other pertinent information. The national average percentage, by which the announced support price exceeds the average return to growers by way of the market is applied to each grower's net sales proceeds to determine the amount of supplementary payments due him.[38] Similar arrangements are provided for making supplementary payments on pulled wool.

While this program avoids accumulation of stocks in CCC warehouses, it involves more detailed and more extensive administrative arrangements in the field. Each and every grower account must now be handled separately, whereas, under the plan in effect from 1950 to 1954, only those growers who obtained loans, had to be dealt with individually. Under the CCC purchase plan used during the 1940's, even that amount of direct contact with the individual grower could be dispensed with.[39]

Woolgrowers thus sell their products at the market price, and then have their income brought up to an agreed level by a subsidy from the Government. For the 1955 wool year which ended in March 1956 the Secretary of Agriculture fixed 62 cents a pound as the average price to which growers were entitled for raw grease wool. The average price woolgrowers actually received in the market was 42.8 cents a pound. Therefore the average subsidy to which growers were entitled was 19.2 cents a pound. But the Department of Agriculture, instead of simply paying this amount to growers for each pound of wool they had marketed during the year, calculates the subsidy on a percentage basis: 19.2 cents being 44.9 percent of 42.8 cents (the actual average market price), the Department made payments on the basis of 44.9 percent of each growers actual market receipts for his wool.

The effect of this method of calculation and payment is to give greater reward to the man who originally received a higher price for

---

[36] The 70-percent limitation, it may be noted in passing, may prove to be the source of some complication, should the tariff on wool be lowered. However, removal of wool duties would logically require the elimination of the compensating element for raw wool in the duty on woolens and worsted fabrics. Otherwise, free raw wool would give the manufacturers substantially increased protection. See Bidwell, op. cit., p. 144.

[37] This was 106 percent of parity as of Sept. 15, 1954. It was 8.8 cents per pound or 16.5 percent above the national average loan rate for 1954, and 15 percent above the national average received by growers in 1954. The support levels for 1950 through 1954 had been at 90 percent of parity.

[38] The plan is somewhat similar to the one used in making payments to domestic sugar producers. But whereas the sugar program looks specifically to the stabilization of prices and production, and includes import quota provisions, the wool program, following the precedent established in the 1949 act, aims to encourage U.S. growers to produce more wool. Also, the wool program is tied to customs collected on wool and its products, whereas the sugar program includes a domestic excise tax. See Benedict and Stine, op. cit., pp. 291–328 for a description of the sugar program.

[39] Benedict and Stine, op. cit., p. 352.

his wool. The grower who, for example, sells his wool for only 40 cents a pound is given an additional 17 cents in subsidy, or 57 cents in all (instead of 62 cents, the average fixed price), whereas the grower who is able to sell his wool for 50 cents in the market is paid an additional 22.45 cents, with the result that his total comes to 75.45 cents per pound. In that way the farmers who grew and marketed better than average wool are being rewarded.[40]

The new plan provided a substantially higher price to woolgrowers than that authorized under the 1949 act, but the price to consumers was expected to be no higher than under the earlier plans, when the Commodity Credit Corporation was allowed to sell its wool acquisitions at prices competitive with those of foreign wools. As a result, prices paid by consumers were at or near free-market levels, except for differentials resulting from the tariff. Such influence as tariff rates may have had on domestic wool prices remain in effect under the 1954 program. But because of the larger subsidy thus granted woolgrowers, the total cost of the program to the U.S. Treasury will be higher. In consequence, the public as a whole will indirectly pay a higher price for wool than under the plans previously in effect, regardless of whether or not that cost is considered as a reduction in net returns to the Treasury from wool duties.[41]

THE NATIONAL WOOL ACT AND TARIFF PROTECTION

Under the policy established under the 1954 act, the importance of tariffs for wool producers may be expected to decline. In theory, the level of the tariff would be immaterial, if the Government were willing to support wool prices on an incentive basis, and as long as 70 percent of the amount of the duty collected is adequate to carry out the program.[42]

The incentive program in effect under the 1954 act, however, actually provides more protection for the domestic wool growing industry than a tariff ever could provide: With a 1955 average market price of about $1.10 a pound, clean basis, a tariff increase providing the same incremental return for growers as the incentive program would have to increase the average price by 40 percent (that is to say, by 44 cents, on $1.10).[43] Under the incentive program, a 44-cents-a-pound subsidy was afforded domestic wool growers, "with least adverse effect upon foreign trade," as provided by the 1954 act. Had equivalent protection

---

[40] At the outset, however, "the growers were all so confused by this recondite method of calculation and so busy trying to figure out what they were going to receive that they do not seem to have had time to plan to increase or to improve their flocks." See "Brannan in Sheep's Clothing," The Economist, Jan. 5, 1957, p. 34.

[41] The loss to the Government in the period 1950–1954 was relatively small, comprising only the amount resulting from resale of lower prices of wool acquired under the nonrecourse loans programs of 1953 and 1954. (See "CCC Report of Financial Conditions and Operations," Dec. 31, 1952, p. 23, and ibid. Apr. 30, 1955, p. 24). In fiscal 1951, CCC realized a gain of $124,596 on its wool operations; a loss of $86,610 was incurred in fiscal 1952, and losses of $15,290 and $452,501 for fiscal 1953 and 1954 respectively. Consumers have, of course, paid an additional indirect subsidy to domestic growers as a result of the tariffs on imported wool.

[42] If the cost of the program were higher, woolgrowers presumably would have a strong incentive for advocating increased duties on imported wool, under existing arrangements for financing the incentive payments.

[43] The level of the incentive price program was 62 cents per pound, grease basis. The price received by growers under the program in effect in 1955 was 42.8 cents, also on a grease basis. This meant that the incentive program resulted in a subsidy of 19.2 cents on a pound of shorn wool, grease basis. Expressed in terms of clean wool, this subsidy would have been equivalent to approximately 44 cents. Accordingly, the equivalent protection to growers by the 1955 incentive program was 44 cents a pound of clean wool, without affecting the domestic price of wool.

been provided by an effective tariff, the situation for 1955 would have been as follows: Mill consumption was 286 million pounds, clean basis, whereas domestic consumption was 134 million pounds, with imports of 152 million pounds. A 40-percent duty increase, if allowed to raise the domestic price of wool accordingly, would have brought consumption close to the amount of domestic production by helping wool prices itself out of the market. This would have meant that even with a small volume of imports the new higher wool tariff could not have increased returns to domestic producers any further, had sales fallen off for other reasons, such as competition from synthetic fibers, for example.[44]

While the incentive program for wool thus not only provides better protection for wool than a tariff, wool growers under the forward pricing arangement also are assured of more stable prices than would prevail if the traditional principal reliance on the level of tariffs has been continued, because growers can adjust their production to the prices as set.

The forward pricing element of the Wool Act appears to be the only useful item for a readjustment program for wool which aimed at encouraging a shrinkage in the domestic wool growing industry, with transitional assistance. The major obstacle to such a program is the production target in the present act which is set uneconomically high. Evaluation of this target involves first a consideration of the defense essentiality of the domestic wool industry.[45]

DEFENSE ESSENTIALITY OF WOOL GROWING VERSUS STOCKPILING

The goal of 300 million pounds of shorn wool established by Congress in the National Wool Act of 1954 is slightly below the level of domestic produciton in the years before World War II.[46] Excluding pulled wool, it would represent about 132 million pounds of scoured wool, or about 30 percent of domestic consumption of wool during 1950–53.

Does this 300 million pounds production goal make sense economically? There is no clear basis for deciding how much wool should be produced at home. Production levels under both the 1949 and the 1954 acts (360 million and 300 million pounds) were selected arbitrarily, although some attention was paid to past performance. But at no reasonable level of prices can domestic wool production be increased sufficiently to supply U.S. needs in wartime or in periods of high domestic demand, such as during 1945–55. This country must, therefore, count on heavy supplies from abroad at all times, except possibly in periods of very low business activity.

To increase domestic wool production to a level of self-sufficiency, even if achievable, would result in enormous oversupplies and price

---

[44] The realization of this advantage, although never hinted at in public debate, may have been one of the reasons why the congressional delegations from practically all the wool-growing States, with the sole exception of Idaho, were solidly behind the wool incentive program when it was being debated in the spring of 1954. In the fall of 1956, woolgrowers tried to persuade the Secretary of Agriculture to have the incentive level raised from 62 cents to 67.5 cents, but did not succeed in doing so.

[45] The goal has not been altered in the 1958 act.

[46] Shorn wool production was approximately 300 million pounds per year in 1909–11, but was beginning to fall off just prior to World War I. It passed the 300 million pound mark in 1928, and moved up fairly steadily to 388 million pounds in 1942. During most of this period, except in the years 1930–32, wool prices were more favorable than those of most other farm products.

gluts even in ordinary times. The wool industry can be more stable—and stability, rather than higher production, would seem to be the most desirable objective of wool legislation—if fluctuation of demand and production can be absorbed by the very extensive world market, rather than artificially confining them to the domestic market. Except for a minimum supply, Government and domestic consumers of wool can be supplied more economically by the low-cost producers of Australia, New Zealand, and other supplying countries, than by our own wool growers.

The Joint Economic Committee a few years ago attempted to establish a set of criteria for the treatment of industries requesting special treatment in the name of national defense needs.[47] It was found that only in a very limited number of cases would the balanced assessment of all factors reveal need of special treatment of a few industries for the sake of defense. And if these were industries whose manipulation would have international repercussions, the alternative means to aid these industries should be weighed carefully in each individual case. The committee ruled out tariff and quota increases and suggested assistance in the form of stockpiling of durable items not subject to obsolescence,[48] as well as subsidies, and expanded research and development.

For wool, in order to achieve the protection afforded by the legislative production goal of 300 million (in the face of the stated intention of the 1954 Wool Act, that the method of support adopted there "have the least adverse effects upon foreign trade"), opponents of the measure had to argue that wool was a strategic material,[49] that requirements for it rose sharply in wartime, and that then the supply of imported wool, most of which must come by sea over long distances, could be cut off.

These arguments are not supported by this country's war experience.[50] Very large military requirements were met without serious difficulty, from current imports, and only moderate and perhaps unnecessary restrictions were imposed on civilian uses of wool. In fact, a large part of the domestic clips accumulated in the hands of the Commodity Credit Corporation between 1943 and 1947 when it purchased domestic wools at OPA ceiling prices, well above the prices for comparable imported wools. It was on the postwar sale of these stocks, mostly for export, that most of the loss sustained by CCC on wool operations was incurred.[51]

Moreover, in recent years, new types of man-made fibers suitable for blending with wool, have been developed. High prices for wool, particularly in the United States, have stimulated this development. Since the output of such fibers can be readily increased, the risk of severe shortage in wool has been reduced.

It is true, however, that large armed forces require huge amounts of more or less specialized woolen goods. And it is also true that military requirements may rise sharply on short notice after the outbreak

[47] "Defense Essentiality and Foreign Economic Policy" (S. Rept. No. 2629, 84th Cong., 2d sess., Washington, D.C., 1956), p. 11. The report was an outgrowth of a series of hearings by a subcommittee investigating the defense-essentiality of the jewel watch industry.
[48] Loc. cit., pp. 29–30.
[49] See, e.g., Randall Commission, "Staff Papers" (1954), pp. 184–5.
[50] Benedict and Stine, op. cit., p. 338 et seq.
[51] See above.

of a war. The remedy for that is stockpiling. The Defense Department Appropriation Act for fiscal 1951 for that reason authorized the Department to build up a war reserve of fabrics and "end items," involving 100 million pounds of wool, clean basis.[52]

Experience during and after World War II thus indicates that stockpiling of wool is feasible. Deterioration in storage, for several years, is inconsequential under proper management. The cost of stockpiling, though by no means negligible, is not prohibitive.[53] The cost of storing fabric includes mothproofing, rolling into bolts and fire protection, plus the general rates for warehousing—which on a percentage basis are relatively low as compared to storing raw wool.

In short, the defense argument provides little or no justification for a program of price support for domestic wool, particularly with a production goal out of line in terms of purely economic considerations. The national interest would therefore be served better by a further redistribution of resources from sheep raising to other farming pursuits. If farm policy were revised accordingly, the problem then would be how best to provide assistance for the readjustment of woolgrowers.

READJUSTMENT IN WOOL GROWING

Domestic wool production in no event will supply as large a part of domestic consumption as it did in earlier times when land was much more plentiful and the country's population much smaller. There remain, indeed, very large areas in the United States that are probably best used for sheep production. Where these are also suited for beef cattle, they probably should be shifted to that type of use. The country's population is rising rapidly, and the need for larger quantities of beef would assure maximum use of that type of land resource.[54]

There appears to be a continuing long-term trend toward a diminishing relative importance of sheep and wool in the national economy. But even if there were no tariff on wool and no other mode of price or income support for wool growers, sheep raising and wool production in the United States would surely not disappear. Some further shrinkage might occur, although swings in sheep numbers and production are certainly to be expected. Such shrinkage would mean a further change in the proportion of the growers' income received from lamb and wool, respectively, with lambs accounting for a still larger portion of the total than they do now.[55] At the same time, increased

[52] Raw wool has not been seriously considered for stockpiling. Already in September 1952, it was removed from group I of the list of strategic and critical materials for stockpiling. The 100 million pound fabric stockpile is still in operation. The raw wool stockpile had been liquidated by late 1957.

[53] In the stockpile for strategic purposes it has been found preferable to store cloth, finished or unfinished, despite obvious limitations of color and weave, because the amount of time it would take to get raw wool out of storage and channeling it into production. For purposes of calculation, it may be assumed that the cost of a unit of fabric is three times the cost of a unit of clean raw wool.

[54] Encouragement of sheep production can, however, be defended on other grounds: Much of the Plains area are and have recently been converted to wheat production, a crop in which there exists a substantial surplus. As part of the wool adjustment program, livestock production can be made relatively more attractive and crop production relatively less attractive. Considerable areas in the Plains, especially those subject to frequent droughts, could probably be used to better national advantage in the production of livestock, including sheep, than in grain production. See Benedict and Stine, op. cit., p. 358.

[55] See above.

consumption of wool, resulting from reduction in the price of foreign wool to mills in the absence of a tariff, would tend to set a limit to any price reduction in domestic wool.[56]

The income support program under the Wool Act fulfills the stated intention of Congress in the foreign economic sphere only to the extent that it has stabilized the tariff situation existing at the time of its passage, comparatively favorable to the domestic wool industry.[57] However, by virtue of setting up an uneconomically high production goal and granting growers correspondingly high incentive payments, the act in effect provides better protection to domestic growers, but its provisions are not really designed to attain freer trade. The Wool Act, nevertheless, does contain certain elements that would be useful in connection with a program of assisted readjustment of the wool growing industry in the event of a lowering of trade barriers, particularly after the defense-essential production goal had been cut down or eliminated.

A PROGRAM OF ASSISTED READJUSTMENT

The first step in a program of assisted readjustment for the wool growing industry would have to be a substantial downward revision if not elimination of the production goal as specified in the Wool Act.

It is an established fact that wool can and actually is being stockpiled. With an active stockpiling program, greater latitude is gained for determining the optimal capacity of a given defense-essential industry. In the case of woolgrowing, this circumstance provides the possibility of reducing the present production objective considerably. For purposes of this discussion, it will be assumed that the production goal is cut in half, to 150 million pounds shorn wool.[58]

With a lowered production objective, woolgrowers should be able to quit the industry in an orderly manner, as and when competitive imports increase as a result of a trade liberalization. Even without assistance, such an exodus would not necessarily create undue hardships for all growers. As has been noted earlier, many growers have set a precedent to this movement out of wool, especially during the war years, when a shift to cattle raising became profitable. In the Eastern (or native) States, moreover, sheep raising has always been only one facet of the diversified agriculture practiced there, and operators consider sheep raising not as a major enterprise. This situation leaves the Federal Government, in administering the readjustment assistance program, with the problem of devising and putting into operation methods and means to help increase the efficiency of growers who cannot readily shift to other pursuits, or are located in areas where other types of land utilization would be uneconomical.

---

[56] The effect of the present tariff is to make wool more costly to manufacturers (though not necessarily by the full amount of the duty) and to make apparel and other woolen goods still more costly to consumers, as well as to the Government on purchases for military requirements. The president of the Boston Wool Trade Association in 1953 estimated the yearly cost of the tariff to consumers of woolen goods, taking 1948–52 as an average, at $240 million, as compared with customs revenues of $100 million per year, and gains for domestic wool growers, resulting from protection afforded them, at $30 million annually. (See New York Times, Nov. 18, 1953.) If the indirect subsidy to synthetic fabric producers had been included in this figure, its cost would be even higher.

[57] The stated objective of the act, to cause the "least adverse effect upon foreign trade" thus becomes illusory, and ancillary to the production objective.

[58] This reduction admittedly is a matter of judgment, though it appears to be plausible in view of the industry's past history.

Agricultural producers in general, when threatened by increased competitive imports, enjoy less flexibility than producers and workers in manufacturing industries. For this they are being compensated, at least to some extent, by the farflung system of agricultural support. In the case of woolgrowing, the program in recent years has consisted of incentive payments to growers. With the lowered production objective, which would decrease the cost of supplementary income payments, there would seem to be no objection to continuing moderate price supports, satisfactory from a technical standpoint, while the readjustment assistance program is in operation.[59]

The purpose of the readjustment program would be to help liquidate unwanted flocks, to provide loans for operators wishing to switch to other agricultural or nonagricultural pursuits, and to furnish them with competent technical assistance in speeding them on their way.

Assistance for adjustment to increased import competition differs basically from compensation for injury.[60] Adjustment assistance is intended to increase flexibility and mobility, not as a reparation tribute. Greater flexibility and mobility are desirable in themselves, entirely apart from reductions in import barriers with which the assistance proffered happens to be associated.

Adjustment assistance also can be made preventive rather than merely remedial. It can be made available to those who merely are threatened with injury so that they may act before injury occurs. This line of reasoning would suggest that adjustment assistance for woolgrowers be provided on an optional basis, alongside a moderate price support program. But while the industry and operators initially can choose to adopt the program, once they have elected to take advantage of readjustment assistance, they must not be permitted to revert to their old practices.

Wool is not a surplus commodity. However, any increase in the price of wool, whatever its cause and irrespective of any tariff change, is limited by the availability of substitutes in the form of synthetic fibers, in pure form or in various admixtures and combinations. On the other hand, pure wool is preferred in many uses, when there is no significant price difference between wool and its substitutes. Generally speaking, the prices of the substitutes appear to be relatively stable, with a slight downward tendency as the efficiency in their production increases. The major problem in wool, though, is that of price instability, caused by a variety of factors, foreign and domestic. A moderate support program would appear to be necessary to protect the growers electing to stay in wool from being penalized as the result of their choice, but not make it excessively attractive for marginal producers lest they refuse to participate in the adjustment program. With fairly stable prices, competitive with prices for substitutes, and with the industry cut down to reasonable size, unhampered by mistaken considerations of defense essentiality, a fair return to woolgrowers would be assured.

---

[59] A conflict could arise here between the two types of governmental intervention, adaptive—the readjustment program, and sustaining—the traditional price or income support programs. Abolition of the latter in the case of wool is clearly out of the question without also radically altering the support programs in force for other crops. The scope of the present study did not provide opportunity for further examining this problem.

[60] See statement by Walter S. Salant, Brooking Institution, in "Foreign Trade Policy," hearings before the Subcommittee on Foreign Trade Policy of the Committee on Ways and Means, House of Representatives, 85th Cong., 1st sess. (Washington, D.C., 1958), pp. 577–578.

In carrying out such a support program (of a temporary nature) it would be preferable to retain the system of supplemental payments in force now. Under this system the Government exerts no direct control over prices, as it does under a loan program, where schedules of prices have to be set. Government purchase under a loan program also means Government appraisal. Under a payment program, no appraisal of stocks is necessary: the Government merely accepts the grower's valid invoice of his sales as basis for computing the payments required under the program.

With a lower production goal the adjustment assistance then would be by supplementary income payments over a transition period. In setting the level for these supplementary payments (assuming a moderate support price program to be continuing), the administering authority would have to be concerned with the relative prices of substitutes and potential substitutes for wool, as well as with world prices.[61] The support program could and probably would be eliminated, once adjustment of the industry to a greater volume of imports has been accomplished—that is to say, after 3 to 5 years following the inception of the program.[62]

Additional assistance measures would include research to increase the efficiency of the sheep industry itself.[63] A number of fields of research which offer promise as ways of increasing the efficiency and profitableness of the sheep industry has been described by the Interagency Wool Study Group.[64] These include more effective control of parasites and infectious diseases, nutritional problems, improved breeding, range improvement, control of predators and so on. The wool study group also outlined a number of promising fields of study in the marketing and processing phases of the wool industry, including those which would make wool fabrics more attractive to consumers and thereby check the shift to substituted fibers suited for similar purposes.[65]

THE COST OF TRADE ADJUSTMENT

The cost of an adjustment assistance program for wool must be considered in conjunction with the moderate price support program which is bound to accompany it, plus the cost of maintaining the wool or woolen stockpile required by the lowered production objective. The support program alone would be considerably less than what it has been in the past several years, even if income payments as pro-

[61] The world market for wool would make it necessary to retain some form of import restriction as long as a support program continues in operation, even of moderate proportions. This would not be the case, however, with an income-payments program that does not jack up prices. Otherwise the American taxpayer would have to foot the bill for coping with market difficulties faced by other woolproducing areas.

[62] To assume immediate or even gradual elimination of price supports for wool would complicate matters at this stage of presentation and distract from the main object of the present inquiry.

[63] At the end of a 20-year period ending in 1953, the sheep industry among other agricultural pursuits, stood at the bottom of the list in terms of improvements in production per unit of input: Output per unit of input on sheep ranches in the Northern Plains area in 1953, 5 percent lower than in 1930–33, in comparison, e.g., with small-grain and livestock farms in the same area which showed 69 percent increase. See "U.S. Agriculture: Perspectives and Prospects," a report prepared for the American Assembly, Graduate School of Business, Columbia University, 1955 (cited by Benedict and Stine, op. cit., p. 358).

[64] See its report, pp. 44–53.

[65] The study group's proposal for an expanded and improved program of public relations and promotion was incorporated in the 1954 act, and funds were specifically set aside for that purpose.

vided under the 1954 Wool Act were maintained.[66] The cost of maintaining a wool or woolen stockpile, though not known outside the agencies concerned with its administration, actually may be treated as a defense item. For the time being, consumers are providing an annual subsidy of about $50 million to the domestic woolgrowing industry.[67] That cost has had to be weighed against the importance to the United States of maintaining domestic wool production at the levels set up as goals in existing legislation—actually a defense expenditure, to be taken care of by the stockpiling program; the cost also had to be weighed against equitable treatment for woolgrowers who have made large investments under protective policies of the past.[68] The cost of the subsidy finally must be measured against such encouragement as may be desirable for converting cropland now used in growing wheat and other surplus crops to other uses and maintaining prosperity in communities built up in areas heavily dependent on sheep production.

With a reduced production objective of 150 million pounds, the present subsidy would certainly be lowered. However, while exit from the industry would be encouraged, particularly for some growers in the native States, the reduced production objective would still permit intramarginal wool growers in the Western States to continue operations under a moderate price support program.

A stabilization program of the kind run by the Commodity Credit Corporation would remain desirable even under an adjustment program such as described in this chapter. As an acquisition and holding operation—separate and distinct from the stockpiling program—it would reduce Government losses from a temporary glut in the wool market, which otherwise might result in very low prices and correspondingly high Government support payments.[69] Since the market for raw wool may be severely depressed from time to time by a sharp falling off of demand, there is continuing need for standby arrangements whereby domestically grown wool can be acquired and held until mill demand picks up. For this task an organization like the CCC is well suited. Even large wool stocks can be liquidated in an orderly way, if the holding agency has sufficient time and financial resources.

---

[66] The program would probably be even less costly if handled in the form of purchase-and-loan operations. Keeping the income-payment approach, however, would not interfere with the objectives of the adjustment program, and would probably ease the way to its adoption.

[67] For the year 1955, for example, the cost of the wool program under the 1954 Wool Act was $57,585,166, including $49,989,467 for shorn wool incentive payments, and $7.6 million for lamb (meat price support) payments. From these payments deductions of $3.1 million were made for the wool and lamb promotion program provided for in the act (USDA press release 1949–57, June 21, 1957). The cost of the 1956 program appears to have been about 90 percent of the 1955 program—or roughly $45 million for shorn wool. For 1957, the incentive price, 62 cents, was left unchanged, and the cost of the program remained about the same.

[68] The high level of support for wool provided by the 1954 act rested on the assumption that it would affect the amount of wool produced and could, therefore, be justified in terms of equity. However, the problem of equitable returns to sheepgrowers is complicated by the fact that wool producers have income from lambs and mutton as well. See Benedict and Stine, op. cit., p. 360.

[69] Current activities of the Commodity Credit Corporation are essentially concerned with operations at the support price level, which is lower than the present incentive price level. But with a reduced production objective, the two prices may well coincide. In recent years, the CCC has had no problem selling wool at supporting price and has been able to hold down its inventory of raw wool to manageable proportions. In the event of a reversal of market trends the stabilization function of the CCC evidently would assume much greater importance.

Because of the tendency for wool prices to recover as soon as pipeline stocks have been used up, stabilizing purchases may not involve much loss, provided they are handled so as to ease the impact of large but temporary fluctuations in demand rather than as a method of keeping prices continually above their open-market levels.[70] But because of the predominant influence of change in demand in the wool market, some standby arrangements for the absorption and holding of temporarily redundant supplies would be important, especially when wool price supports were being lowered, as they would be in an adjustment program.[71]

But the cost reported by the CCC does not reflect the full cost to the public of contributions made to wool producers under the support program prior to 1955, and by way of the trade restrictions prior to 1948. It has been estimated[72] that wool producers through tariffs alone in ordinary times were getting an annual subsidy of about $25 million—or 20 cents per pound on 130 million pounds, clean basis. As a result of a trade liberalization in conjunction with an assistance program, this subsidy would be correspondingly lowered. The reduction would constitute a further gain to the consumer, and a further benefit to be derived from the adjustment.[73]

---

[70] Wools acquired in that way must usually be held for more than a year and worked off gradually. Consequently this type of operation would be difficult to handle under the financing arrangements customarily used by cooperative and other selling agencies, whose primary interest lies in carrying out orderly marketing within the production year. For a brief survey of CCC operations in wool, see Benedict and Stine, op. cit., pp. 364–366.

[71] The overall cost of wool operations as reported by the CCC for the period Oct. 17, 1933 to Dec. 31, 1957, was $113,829,214, an average of about $4.8 million per year. (See Commodity Credit Corporation, "Report of Financial Conditions and Operations," Dec. 31, 1957, p. 31.) It should be noted, however, that not all years had a support program, and except for the higher tariffs before 1948, the level of support for wool was lower than it has been in recent years.

[72] Benedict and Stine, op. cit., p. 366.

[73] In view of the illustrative nature of the discussion, no attempt has been made to estimate the actual cost of adaptive intervention in wool growing. Further investigation into this question would be very desirable.

CHAPTER VIII

TRADE ADJUSTMENT IN MINING: THE LEAD-ZINC MINING INDUSTRY

THE INDUSTRY'S NEED FOR READJUSTMENT

This chapter will try to show how a readjustment assistance program might be applied to the lead and zinc mining industry. A segment of the industry has been injured by increased imports in part due to lowered trade restrictions. Also, the industry has exerted great pressure for increased protection on the executive and legislative branches of the Government.[1] Such pressure may increase if an adjustment program is not instituted.[2]

The industry consists of two major segments: Mining and milling, and smelting and refining. Competition from imports is different for these two. Imports in the form of ores and concentrates, usually of much higher metal content than domestic supplies, or of metal, tend to reduce the demand for domestically produced ores, thus also reducing the operations of mines and mills. But domestic lead and zinc smelters and refineries also process imported ores and concentrates. For them imports provide an additional source of income and supplement their supply of raw materials. In fact, a substantial part of the zinc metal produced in this country, as well as a smaller proportion of domestic lead metal production comes from imported ores.[3] The availability of imported ores and concentrates to the domestic lead and zinc smelters and refineries using such materials has made it possible for them substantially to increase, or at least to maintain the level of their activity.

---

[1] The industry's efforts in that direction have not been in vain. After investigation by the Tariff Commission under sec. 7 of the Trade Agreements Extension Act of 1951 as amended (U.S. Tariff Commission, "Lead and Zinc: Report to the President on Escape Clause Investigation No. 65" under the provisions of sec. 7 of the Trade Agreements Extension Act of 1951, as amended, Washington, April 1958), the President, effective Oct. 1, 1958, modified the concessions on unmanufactured lead and zinc granted in the General Agreement on Tariffs and Trade and imposed absolute quotas on imports of the two metals (Proclamation No. 3257 of Sept. 22, 1958; 3 CFR, 158 Supp., p. 39). The annual quotas are to equal 80 percent of the average commercial imports during the 5-year period 1953–57. Import duties remained unchanged—1¼ a pound on lead, and ¼ a pound on zinc. In its first report under Executive Order 10401 of Oct. 14, 1952 (3 CFR, 1949–53 Comp., p. 901), which calls for the periodic review of a tariff modification resulting from an escape clause action, the Tariff Commission found that developments in the trade of lead and zinc did not justify restoration of the concession without causing or threatening serious injury to industry (U.S. Tariff Commission, "Lead and Zinc: Report to the President" (1960) under Executive Order 10401, Washington, October 1960). For a more detailed survey of developments in lead and zinc since 1952, see U.S. Tariff Commission, "Lead and Zinc: Report to the Congress on Investigation No. 332–326 (Supplemental) Under Section 332 of the Tariff Act of 1930" made pursuant to S. Res. 162, 86th Cong., adopted Aug. 21, 1959 (Washington, March 1960.)

[2] On Sept. 23, 1961, the Senate completed action on H.R. 84, providing tapering-off subsidies for small lead and zinc mines. The President signed the bill on Oct. 4, 1961. No trade liberalization is tied to this legislation, however.

[3] U.S. Tariff Commission, "Lead and Zinc Industries," report on investigation conducted under sec. 332 of the Tariff Act of 1930 pursuant to a resolution by the Committee on Finance of the U.S. Senate dated July 27, 1953, and a resolution by the Committee on Ways and Means of the U.S. House of Representatives dated July 29, 1953 (rept. No. 192, second series, Washington, 1954), p. 87.

The mining and milling end of the industry includes numerous enterprises. In 1952, for example, lead and zinc ores were mined at about 900 mines distributed over 25 States and Alaska. The number of lead and zinc smelters and refineries is relatively small, about 40 in all as of late 1956.

There exists a conflict with regard to competitive imports between the small mine operators and the integrated big companies. The big companies are able to keep going even in the depths of a price drop, because a number of them, in addition to doing their own smelting and refining, also produce gold, silver, and other metals aside from lead and zinc. The other source of interest-conflict lies in the fact that the big integrated companies often own mining properties abroad.[4] As small operators have been growing weaker in recent years, bigger producers in effect appear to have been growing stronger, not the least because of smelting high metal content ores from low-cost foreign mines.[5] In the Coeur d'Alene district of Idaho, for example, site of considerable mine unemployment, smelters of Bunker Hill Co. at Kellogg were getting half of their raw materials in lead and zinc ores through purchase outside the company's mines, from Australia and South America. And while smaller mine operators were drastically reducing production.[6] Bunker Hill's electrolytic zinc plant near Kellogg was undergoing a substantial expansion.

The conflict between smelters and miners can also be illustrated by the case of American Metal Co., Ltd., which owns and operates a large zinc smelter at Blackwell, Okla., in addition to mining, smelting, and refining operations in Mexico and Canada.[7] The Blackwell smelter was designed to work concentrates from the nearby tristate area (Oklahoma, Kansas, and southwest Missouri) and to take advantage of cheap and abundant natural gas. As local mine output declined, and no other adequate domestic source of concentrates became available, Blackwell began to rely on imported concentrates. In recent years about 85 percent of concentrates smelted at Blackwell have come from Mexico.

STRUCTURE OF INDUSTRY

Lead or zinc metal produced from ore is known as primary metal. Secondary metal is produced from scrap. Production of primary lead or zinc metal involves mining crude ore, milling to produce concentrates, and smelting and refining to produce refined metal.

The number of mines engaged in producing crude ores is relatively large. The number of mills, located near the mines, that concentrate the ores, is smaller and the number of primary smelters or refineries is still smaller. The number of both lead and zinc mines in 1956 was 413, of which 194 were mining chiefly lead, and 219 chiefly zinc.[8] The num-

[4] Approximately one-third of lead and zinc imports to this country are said to be brought in by American operators. See "Trade Agreements Extension," hearings before the Senate Finance Committee on H.R. 1, 84th Cong., 1st sess. (Washington, D.C., 1955), pt. 3, p. 1379.

[5] See "Mine Lament: Lead-Zinc Downturn Blights Mining Areas," by Ray J. Schrick, Wall Street Journal July 5, 1957.

[6] The curtailment of production by small operators has led to a growing concentration of operations. Whereas in Idaho in 1952, for example, 25 mines produced some 90 percent of that year's production of lead; in 1955, only 13 mines produced 95 percent of all the lead produced in the State. Zinc production has seen a similar concentration.

[7] See "Trade Agreements Extension," hearings before the House Ways and Means Committee on H.R. 1, 84th Cong., 1st sess., (Washington, D.C., 1955), pt. 2, pp. 2573–2577.

[8] U.S. Tariff Commission, "Lead and Zinc," report to the President on escape clause investigation No. 65 under the provisions of sec. 7 of the Trade Agreements Extension Act of 1951 as amended (Washington, D.C., April 1958), statistical appendix, table 36.

ber of mills in production in 1956 was 109, with 43 working chiefly lead, and 66 milling and producing chiefly zinc concentrates. The number of primary lead smelters and refineries in operation as of the end of 1956 was 13, and the number of primary zinc smelters, 18.[9]

Of the 696 lead mines and zinc mines in operation during 1956, 557 mines, or 80 percent, accounted for only 3 percent of the annual production of the two metals (895,166 short tons). Each of these mines produced less than 499 tons of either metal during the year. Only 37 mines reported a production of recoverable metal in excess of 5,000 short tons during the year; but these mines alone accounted for 73.4 percent of total domestic production.[10] The number of the larger mines remains relatively constant from year to year, whereas the number of smaller mines fluctuates widely, depending on the prevailing prices of the metal.

The five largest domestic producers of lead normally supply over half of the total output on a mine basis.[11] Some of these companies also have substantial lead-mining interests in foreign countries. In the case of zinc, the six largest companies supply less than half the total.[12] Nearly 60 percent of domestic lead mine production and about 67 percent of domestic zinc-mine production normally comes from the Western States.

PRICES, RESERVES, AND SUBSTITUTES

Production of the two metals is governed by prices. An outstanding feature of lead and zinc market prices is their relative instability. This in turn results in fluctuating incomes for the industry, especially for the mining and milling segment. Here one finds many concerns with limited financial resources, unable to endure a period of very low prices. Price fluctuations also lead to instability in the cost of raw materials for industries manufacturing lead and zinc products. The uncertainty thus created tends to narrow the competitive advantage of lead and zinc over substitute raw materials, such as aluminum, which enjoy relative price stability.[13]

Until the early 1920's, the market price of zinc generally exceeded the market price of lead. Since then, the relationship has been reversed, except in times of war; zinc enters into military products (brass shell cases, for example), in greater volume than lead.[14]

Prices also have a bearing on deposits and reserves. Estimates of lead and zinc in ores only represent the reserves shown by development work. Because of the expense involved, mining companies usually do not develop ore bodies for more than 4 or 5 years ahead of mining. The reserves, moreover, are those regarded as profitably exploitable at metal prices and production costs prevailing at the time the estimates are made. The estimates in turn depend upon

---

[9] Ibid., tables 43 and 44.

[10] Ibid., table 32.

[11] See Bishop, O. M., and Mentch, R. L., "Lead" in Mineral Facts and Problems, USBM Bulletin No. 556 (Washington, D.C., 1956), pp. 418–443.

[12] See Bishop, O. M., and Mentch, R. L., "Zinc" in Mineral Facts and Problems, USBM Bulletin No. 556 (Washington, D.C., 1956), pp. 977–1002.

[13] U.S. Tariff Commission, "Lead and Zinc Industries" (1954), pp. 65–66.

[14] The development of selective flotation, allowing recovery of most of the zinc content in the more abundant lead-zinc, or zinc-lead ores (as opposed to pure lead ores) is believed to have had a bearing on that secular change in relative prices. Also, ores containing both metals are found to be richer in zinc than in lead as mining operations penetrate to deeper levels.

the state of development work and the economic conditions prevailing at the time. Existing estimates of domestic lead and zinc reserves thus underestimate the resource base. If the price-cost ratio of the metals increases, domestic production and discovery of domestic reserves will be stimulated. New sources of ore supply would be developed as mining of lower grade ore becomes profitable. It is not known, however, to what extent such developments would augment present domestic production.[15]

A growing share of the domestic supply of lead and, to a lesser extent, of zinc, is obtained from scrap. Lead production from scrap in recent years has exceeded mine production. With a steady growth in the stock of lead- or zinc-containing articles from which these metals can be salvaged after use, the increase in secondary production of lead is expected to continue. Recovery of zinc from scrap also may increase.

Another source for lead and zinc is material rejected during the milling or concentration of crude ores, called tailings. The amount of metal thus lost in former years constituted a relatively considerable portion of overall production. Milling methods have improved, however, and less metal is lost in milling than before. Some of the older mining districts, notably the tristate area and the southeast Missouri district, have accumulated large piles of tailings. Their metal content can be extracted with improved methods when prices are favorable.

Lead and zinc are normally the lowest priced nonferrous metals. Lead is strongly entrenched in most of its major uses because of its high suitability to these particular applications. But even lead encounters competition from other materials, and is subject to the influence of technological changes that could make the use of lead less necessary than it now is. Plastics, aluminum, and combinations of the two in certain types of cable sheathing, and nickel and cadmium in storage batteries are among the materials currently being substituted for two important uses of lead.[16]

The most important material competing with zinc is aluminum. That competition is significant with regard to the two largest uses of zinc: Products of aluminum sheet may be substituted for galvanized products. Aluminum is also highly competitive with zinc in die-casting. Another possible substitute is titanium, which competes with zinc in pigments, and there is a trend toward increased substitution of magnesium for rolled zinc, in dry-cell batteries and engraving plates.

LABOR COSTS AND EMPLOYMENT SENSITIVITY

The most important single operating expense in lead and zinc mining and milling is labor cost. The cost of labor per ton of ore

[15] Between 1950 and 1952, under the stimulus of high lead and zinc prices and Government encouragement, numerous exploration projects were undertaken both in the United States and in foreign countries. A certain amount of such development work is continued even when prices are temporarily unfavorable.

[16] Tetraethyl lead, the most widely used antiknock additive gasoline, has become the second largest use of lead, after storage batteries. No substitutes seem to be in the offing, and the upward trend in use of lead is expected to continue. Titanium and other pigments, however, are replacing lead in paints; plastics and other materials are replacing it in construction, and new packaging methods and aluminum foil have restricted lead foil to specialized purposes. Lead also is being displaced in insecticides. Concrete and high-density tungsten-copper alloys are used as protective shields against radiation from radioactive substances at the expense of lead, though the alloys are much more costly.

mined is determined by wage rates and by the unit of labor required per ton of ore mined and milled. For 1952, for example, wages and salaries represented 44.2 percent of the mine value of all lead and zinc products; supplies and materials accounted for 20.7 percent, fuel for 0.5 percent, and purchased electric energy for 3.4 percent.[17] And whereas the combined price of lead and zinc per pound has fallen from 32.7 cents in 1952 to 26.1 cents in 1957, average hourly wages paid to production and related workers have increased from $1.95 to $2.27 in these 5 years.[18]

Low prices and high labor costs have had an adverse effect on employment. Employment in lead and zinc mining and milling has decreased substantially in recent years. In 1952, the mining and milling segment of the industry employed on the average 24,279 workers,[19] divided roughly in a 1-to-2 proportion between lead and zinc. That average dropped to 19,771 for the first 10 months of 1953, to 17,016 for 1954, 16,845 for 1956, and to 15,563 for the first 10 months of 1957.[20]

Between 1952 and 1953, the drop in employment was greater at operations producing principally zinc than at those producing principally lead. The latter decreased by 37.6 percent, as against a decrease of only 21.5 percent for zinc.[21]

Employment declined most sharply in the Western States. The decline for the nine Western States averaged 38 percent, and ranged from 26 percent for Idaho to 88 percent for New Mexico. In the West Central States, the decline was about 28 percent; in the predominantly zinc-producing tristate district, 64 percent; in the predominantly lead-producing southeast Missouri district, however, it was only 5 percent.

Many of the lead and zinc mines, particularly in the western States, are located in areas where other means of livelihood are limited or nonexistent. Mine or mill shutdowns in such areas present a difficult problem both to the worker and his family, and to the supporting service industries. In some areas, the situation, if long continued, gives rise to so-called ghost towns, with a consequent severe depreciation or total loss of realty holdings, in addition to the loss of income to the workers. The mine operator, on the other hand, loses skilled workmen who may not be easily replaced, should economic conditions permit resumptions of operations at a later time.

The cessation of production at lead and zinc mines, however, does not eliminate the cost of maintenance and upkeep. Large expenditures for pumping, retimbering, and other maintenance are needed to prevent excessive damage to mine equipment and installations and underground workings from flooding and cave-ins. These maintenance costs are frequently the only alternative to permanent closure of the mines and the loss of ore reserves, because of the high costs that would otherwise be involved in restoring the mines to production.

Virtually all the decline in total employment in the lead and zinc industries between 1952 and 1953, as well as in subsequent years was

[17] U.S. Tariff Commission, "Lead and Zinc Industries" (1954), p. 49.
[18] U.S. Tariff Commission, "Lead and Zinc" (1958), statistical appendix, table 23.
[19] U.S. Tariff Commission, "Lead and Zinc Industries," (1954), p. 31. Mines and mills producing predominantly and chiefly lead accounted for 8,373; those producing predominantly and chiefly zinc, 15,906.
[20] U.S. Tariff Commission, "Lead and Zinc," (1958), statistical appendix, table 35. Detailed figures equivalent to those for 1952 are not available for later years.
[21] U.S. Tariff Commission, "Lead and Zinc Industries," (1954), p. 36.

confined to mines and mills. Employment at smelters and refineries was maintained at a relatively stable level throughout the period: The 1952 average of 17,889 compares favorably with an average of 17,111 for the first 10 months of 1957.[22]

IMPORTS AND CONSUMPTION

Since the end of World War II, the position of the United States has changed from one of relatively minor importance in the international movement of lead and zinc to one of major importance. This country's consumption of both lead and zinc has greatly expanded and become much larger than domestic production. There has been a general upward trend of foreign primary lead and zinc production, accompanied by a substantially decreased U.S. primary lead production and an only moderately decreased production of primary zinc.[23] In consequence, imports of unmanufactured lead and zinc have been very much larger than imports at any earlier period. Outside the United States the demand for primary lead has decreased substantially and the demand for zinc has increased only slightly. Thus a large part of the exportable surplus of foreign producing countries has moved to the United States.

The high level of domestic consumption of the two metals compared with prewar years is attributable only in part to defense needs. Over the past decade and a half, the growth in population has augmented the demand for lead and zinc in a wide variety of producers' and consumers' goods. The consumption of lead, particularly in storage batteries and as a gasoline additive, has expanded greatly, as has the consumption of zinc in galvanizing and diecasting.

The extent to which future domestic requirements for lead and zinc can be met from domestic sources will depend on the production of newly mined ores as well as on the recovery of these metals from secondary sources. But as consumption is expected to increase, while domestic mine production remains relatively constant, future domestic supply will be derived increasingly from imports and secondary sources. According to Bureau of Mines projections, based on patterns of current use, including increased demand for automobile batteries, building construction and tetraethyl lead with normal population growth, and assuming a high level of industrial growth, total lead demand in the United States is expected to be approximately 1.45 million tons by 1970. (In 1955, total demand was about 1.2 million tons.) But during the 4 years ended in 1953 mine production of lead was only 28 percent of domestic supply, while imports and secondary lead each furnished 36 percent.[24] During 1952–53, if stock accumulation and exports had been eliminated, actual consumption would have required about 257,000 tons of imported lead annually, rather than the 368,000 tons actually imported. Thus the United States does not depend on foreign sources of supply to the degree the imports suggest.[25]

---

[22] U.S. Tariff Commission, "Lead and Zinc" (1958), statistical appendix, table 35.
[23] U.S. Tariff Commision, "Lead and Zinc" (1958), statistical appendix, tables 5 and 6.
[24] See Bishop and Mentch, "Lead," loc. cit., p. 443.
[25] Total imports from Canada and Mexico alone during 1950–53 averaged almost 250,000 tons.

For zinc, in the 4 years ended 1953, domestic production met only 44 percent of the total supply, imports 34 percent, and secondary recovery 22 percent. Discounting stock accumulation and exports, U.S. imports requirements in the period 1940–53 averaged about 238,000 tons annually to meet industrial needs. This compares with actual imports (metal equivalent) of about 388,000 tons a year during that period, or on the average 150,000 tons over consumption. During 1950–53, imports of recoverable metal totaled 1,180,000 tons, or 444,000 tons over the quantity needed to balance supply and requirements excluding exports. According to the Bureau of Mines, however, imports of about 230,000 tons a year would have been ample to fulfill domestic needs which could not have been met from domestic sources.[26]

THE ESCAPE CLAUSE INVESTIGATIONS

Even though the United States has greatly expanded its overall requirements for lead and zinc, it has not been able to keep up with the high production of foreign suppliers. This situation has caused a general and sustained fall in prices for the two metals. In the domestic industry, although prices declined, costs (wage rates and prices of machinery and supplies) did not decline. Imports in the meantime stayed high. With ample supplies of metals available, domestic mine production decreased, mines were closed, and employment declined. In July 1953, the Senate Finance Committee and the House Ways and Means Committee directed the Tariff Commission to make a thorough study of all factors of the domestic lead and zinc situation.[27] In September 1953 the Tariff Commission instituted an escape clause investigation under section 7 of the Trade Agreements Extension Act of 1951.[28] The report of the industry investigation was factual and contained no recommendation. It showed that the existing tariff structure restricted imports of lead and zinc but slightly, and that during the preceding decade a substantial part of all imports was exempt from duty, and that rates of duty in effect were only having a slight effect upon the competitive position of the industry.[29]

Commissioners Edminster and Ryder, however, felt compelled to make more comprehensive statements with regard to policy decisions (ibid., pp. 91 and 95). Edminster pointed out that increased duties would not help the domestic industries. In the first place, the domestic price structure of the metals was tied to world prices. Imposition of import restrictions, diverting from the U.S. market the considerable and increasing portions of exportable surpluses of foreign countries of these metals would tend to depress their world prices. This in turn would tend to limit the effectiveness of the import restrictions in raising domestic metal prices. Edminster also mentioned the possibility of market conditions offering strong incentives for use of substitutes for both metals when prices were relatively high, and the fact that under such conditions there was added incentive to reclaim secondary lead and zinc. Both tendencies

[26] Bishop and Mentch, "Zinc," loc. cit., p. 1000.
[27] See U.S. Tariff Commission, "Lead and Zinc Industries" (1954).
[28] See U.S. Tariff Commission, "Lead and Zinc" (1954). [Escape clause investigation No. 27.] Another investigation was completed in 1958. (See below.)
[29] "Lead and Zinc Industries" (1954), p. 89.

would offset any protective effect an increase in import restrictions would have. Edminster finally mentioned the fact that additional restrictions on imports would tend to encourage the expansion of domestic operations and the working of ores the exploitation of which would not otherwise be economically feasible. This would contribute to bringing about a situation where new marginal mines would have difficulties in maintaining operations even at the higher prices resulting from the increased restrictions.

Commissioner Ryder set forth the general outlines of a policy dealing with import competition in extractive industries which should attempt to reconcile, as far as possible, the divergent interests of producers and consumers, and to integrate these private interests with the overriding national interest. Action on the one hand would be directed toward maintaining substantial lead- and zinc-mining industries in the United States, and affording them such assistance (in the form of import restriction or subsidization) as may be required to maintain production at levels generally prevailing in post-World War II years. On the other hand, action would also be directed to the maintenance of adequate imports of lead and zinc, and any stringent restriction of imports would be avoided. Such a program would not tend to increase prices to such a degree as materially to discourage domestic lead and zinc production. Existing industries and the communities dependent on them would be protected to the extent necessary to prevent serious injury which might occur if domestic producers were required to submit to the impact of unrestricted imports without any form of governmental assistance. At the same time, Government policy would not give rise to a rapid expansion of lead and zinc mining irrespective of costs. And while such a program would enable the United States to maintain its lead and zinc industries, it would permit the United States to maintain good relations with other lead- and zinc-mining countries, especially Canada and Mexico, and encourage the maintenance of well-developed lead and zinc industries in those countries. This would be especially important since in the event of a serious national emergency this country would be largely dependent upon them to supply its increased requirements for lead and zinc.[30]

The report on the first escape clause investigation (in 1954) recommended that import duties on most lead and zinc materials be increased 50 percent.[31] The administration, however, did not accept the Commission's recommendation, and instead instituted an expanded stockpiling program with a view to assisting the domestic lead and zinc industry.[32]

Beginning August 1954, Government purchases of newly mined domestic lead and zinc for the strategic stockpile were greatly accelerated in relation to the rate of acquisition of these metals in immediately preceding years. Prices of the metals increased, lead from 14 to 16.5 cents by January 1956, and zinc from 11 to 13.5 cents.[33]

---

[30] Ibid., p. 97.

[31] Tariff duties in effect in early 1958 were about 60 percent lower for zinc and 50 percent lower for lead than the statutory rates in the Tariff Act of 1930. The decrease in ad valorem equivalents of current rates of duty compared with ad valorem equivalents of prewar years is considerably larger than the reduction in specific duties because prices of the two metals have increased considerably.

[32] See appendix 2 of this chapter for a discussion of stockpiling.

[33] See U.S. Tariff Commission, "Lead and Zinc" (1958), Escape Clause Investigation No. 65, pp. 34–35.

Beginning June 1956, lead and zinc of foreign origin was purchased by the Government in exchange for perishable surplus agricultural commodities under the so-called "barter program." [34] This program was in operation until June 1957, when it was suspended.

In 1957, consumption in the United States of both lead and zinc was somewhat lower because the decline of business activity, and mine production likewise was somewhat lower. But imports of lead were 575,000 tons—18 percent higher than in 1956. Supplies exceeded consumption and export by a wide margin, which was not absorbed by Government purchases. Zinc imports (951,000 tons) rose even higher, 30 percent above the 1956 level of imports, which was higher than imports in any previous year. Even excluding imports under the barter program, total zinc imports amounted to 757,000 tons in 1957. Government purchases also were insufficient to absorb excess supplies.

Market prices for both metals declined sharply. As of April 1958, lead was at 12 cents, and zinc had dropped to 10 cents. These prices were 2 cents and one-fourth cent respectively below the prices that prevailed in May 1954 when the Tariff Commission sent its first escape clause report to the President.

The second escape clause investigation was begun in October 1957, on application by the Emergency Lead-Zinc Committee, representing domestic lead and zinc mining interests. The investigation resulted in a unanimous finding of serious injury. However, the Commission split on recommended remedial action. Whereas three Commissioners recommended reimposition of the rates originally imposed by the Tariff Act of 1930, the maximum rates permissible through escape-clause action, the other three recommended such duties to be supplemented by absolute import quotas.[35]

According to the Tariff Commission, the biggest factors in the decline of market prices were overexpanded world production, withdrawal of U.S. Government support through the barter program, and a moderate decline in consumption.[36] There was a worldwide excess of supplies, Government stockpiling purchases were coming to an end, as stockpile goals were being reached, and industrial consumption was shrinking because of generally reduced industrial activity.

Mining and milling companies, especially those without their own smelting facilities, bear the brunt of the impact of market price cuts, in the face of increased costs of labor, supplies and materials, mining equipment, freight rates, and other expense.[37] As a result, mine output for many areas in the United States was substantially lower in 1957 than in 1954. Employment was cut correspondingly, and mines were closed down. Closures were not limited to the small- and medium-size mines; operations were also completely suspended at 5 of the 34 largest lead and zinc mines in 1956.[38] The Commission, as indicated, unanimously concluded that the domestic lead and zinc

---

[34] Under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, 83d Cong.) and related legislation.

[35] Reimposition of 1930 act rates would have meant an increase of current rates of duty by 140 percent for unmanufactured lead and 200 percent for unmanufactured zinc. See "Lead and Zinc" (1958), statistical appendix, table 3.

[36] "Lead and Zinc" (1958), p. 41.

[37] Ibid., pp. 45–47.

[38] Ibid., p. 53.

industries were being seriously injured by increased imports. In the absence of alternative remedies, they unanimously recommended increases in duty, and divided on imposition of absolute quotas.[39]

FEATURES OF A TRADE ADJUSTMENT PROGRAM

Despite a finding of serious injury by the Commission, it was pointed out that conditions in the industry were spotty. While cutbacks and reduced employment have been severe in the tristate area and Montana, for example, they were much less so in southeastern Missouri, in States east of the Mississippi, and in Arizona, Colorado, Idaho, and Washington. And employment at mines and mills in New York, New Jersey, Pennsylvania, Tennessee, and Virginia was generally higher in 1957 than in 1956.[40] In general, the overall decline in production and employment resemble that which prevailed on past occasions when these industries—subject to periodical fluctuations that reflect changes in world supply, demand, and prices—were in the trough of a cycle. The better situated and stronger companies also appear to be fully able to "ride out" the trough. This leaves high-cost domestic mines that operate at little or no profit even in good times to be taken care of. In helping them, care must be taken not to inflict losses, in terms of jobs and profits, on other segments of the industries.

One solution to the world problem of oversupply is increased consumption, with careful market research guiding any future production expansion programs. Since consumption is stimulated by low metal prices, efforts to improve extractive techniques and to lower costs per unit of output would help to overcome that difficulty.

But costs of some domestic mining enterprises are bound to be too high for profitable operations. The problem of providing relief without restricting trade thus becomes one of deciding at what point of the range high-cost producers would be cut off. Various considerations enter into such a decision. Humphrey has observed that—

> the case for protection [of mining industries] derives its strength from the instability of prices.

But he also points out that—

> once mines are abandoned, flooding and caving in * * * make the cost of reopening shafts and tunnels prohibitive. If mines are not in continuous operation, * * * they will deteriorate so badly that they cannot be reopened. This leads to the paradoxical argument the production from low-grade reserves should be subsidized by tariff protection in the interest of conserving natural resources.[41]

Support of uneconomic but essential high-cost mines on a realistic basis could be provided by some form of payment. This method would very likely cost less than imposition of a higher tariff on the metals, for domestic mines output is a relatively small part of total supply, and an increase in the cost of imports would tend to raise overall costs to consumers of lead and zinc. But such an increase in tariffs would still not assure a market for domestic primary production since domestic production alone is basically inadequate for domestic re-

[39] Ibid., p. 73 and p. 85. For subsequent actions by the administration, see footnotes 1 and 2 to this chapter, above.
[40] U.S. Tariff Commission, "Lead and Zinc" (1958), pp. 106–107, and statistical appendix, table 37.
[41] Humphrey, Don D., "American Imports" (New York, 1953), p. 173.

quirements at a reasonable price. Any increase in the domestic metal price sufficient to keep a major portion of high-cost mines in operation would tend to call forth greater utilization of substitutes on the one hand, and greater production of metal from scrap and from tailings. The latter two moves would evidently have a depressing effect on primary metal prices.[42]

However, in order to administer "phasing-out" payments, an increase in bureaucratic controls would be necessary. Readjustment assistance must be limited: it must constitute only temporary support, offered with a view to achieving structural changes wherever possible. Once the desired structural change is achieved, the assistance must be terminated. In the case of lead and zinc mining, this would mean that high-cost operators would have to go and quit mining. These operators would be the ones required to make the adaptations necessary for the structural change in the industry.

The determination of the cutoff point for high-cost producers would raise considerable problems, however. The point would vary according to the prevailing metal prices, and would also be subject to engineering advice. In view of the fact that there are no security considerations present in the case of lead and zinc, with the U.S. mobilization base including Mexican as well as Canadian suppliers of the metal, no difficulty about easing marginal domestic producers out of the industry would arise on that score. Political obstacles are a horse of a different color, and ways would have to be found to cope with them.

Currently the problem of the lead and zinc mining industry is one of oversupply. Unless a readjustment assistance program is limited to helping domestic mines go out of production, the oversupply problem will not even come near to being solved. A scheme such as the "premium price plan" (see app. 1 of this chapter) would obviously not fill the bill since it would only bring new producers into the field—indeed a case of carrying quicksilver to Almaden.

Another difficulty such an assistance program would encounter would be foreign producers increasing their production even at existing low prices.[43] This last point, however, might be less troublesome if a trade adjustment program, such as the one outlined below, were adopted.

The trade adjustment program would be confiined to small independent mine operators. This limitation suggests itself on the theory that larger mining companies either are sufficiently integrated—owning smelting and refining facilities—so as to be able to rely on processing imported ores when operations of their domestic mining properties run into difficulties pricewise; or that these companies have at their disposal a large enough number of other mining properties allowing them to shift miners from high-cost to lower cost

[42] At the same time, producers in Canada and Mexico, part of this country's mobilization base, would be injured. Although this point is not often publicly mentioned, President Eisenhower in a letter to Representative Jere Cooper of the House Ways and Means Committee, of Aug. 23, 1957 (mimeographed White House release), declined to utilize the national security amendment of the Trade Agreements Extension Act to afford relief to the lead and zinc industries—an indirect public admission of this country's dependence on Canadian and Mexican lead and zinc in an emergency situation.

[43] Peru, for example, was reported to have suspeded its export tax on lead and zinc during 1957 in order to facilitate shipments to the United States at prevailing low prices.

operations,[44] while putting the former on a standby basis. The rationale of the program would be "least cost to the economy," as opposed to affording relief to the mining operators by an indirect subsidy in the form of an increase in tariff duties.

The program would be aimed toward closing certain lead and zinc mines. Mine closures cause difficulties in terms of upkeep, as noted earlier. Moreover, some of the high-cost mines, particularly those producing lead and zinc ores with silver content, will wish to remain in production or in a standby condition.

The program also would have to have a "birth control" clause so as to avoid the bringing in of new mines, possibly of a marginal character, that would add to existing supply difficulties.

An important cost item in a readjustment assistance program in a mineral industry may be the "mothballing" of mines so as to keep them in standby condition for eventual reopening. The cost of such "mothballing" varies widely, from anywhere near 2 percent to 10 percent of the annual operating costs of the given mine. The major variables affecting the costs of standby arrangements are the wetness of the mine, and required pumping connected with it; and the hardness of the ground, which determines the cost of supports.

In the case of lead and zinc, such "mothballing" would certainly be more expensive than stockpiling: in a lead-zinc stockpile, the metals can be dumped at the appropriate location without cover—custodial services and financial expenses on initial outlay constituting the only costs in addition to the amount required for acquisition. Stockpiling, however, offers no solution for readjustment. If "mothballing" is indicated, and a decision to that effect cannot be taken on economic grounds alone, the mine should not be included in a trade adjustment program. Government assistance in "mothballing" can only be justified in terms of national security, and would thus fall outside the purview of trade adjustment.

It would seem, therefore, that temporary assistance for readaptation, either in the form of tapering off grants or of loans from the Small Business Administration, would be the most economical way of solving the problem posed for the small lead and zinc mine operator by increased imports.

ANOTHER PROPOSAL

A variant of this proposal could take the following form:[44a] It would entail purchase of mineral and surface rights from marginal mineowner-operators, in return for their going out of production and having the mines withdrawn, while they undertake to seek other more profitable pursuits (possibly with temporary import controls). Such a program could be so designed that a computer could provide continuous performance check on the basis of available information. A separate agreement would be made with each mine to be withdrawn,

---

[44] This method reportedly has been employed by captive fluorspar mining operations. Also, in the case of fluorspar mining in the Illinois-Kentucky district, small companies or individuals with limited capital have been working side by side with larger producers. As cost of production has increased in recent years, there has been a trend toward acquisition of many of the individual properties by a few financially strong concerns. (See U.S. Tariff Commission, "Fluorspar," investigation under sec. 332 pursuant to resolution by Senate Finance Committee, Washington, D.C., June 1955, pp. 51–52.) No tendency toward such a concentration of ownership has been reported in lead and zinc mining.

[44a] I am endebted to Edward B. Hincks for calling attention to this procedure.

setting forth, among other items, the schedule of assistance payments; production ceilings for successive periods, if desirable, but phasing production out to zero by the end of the adjustment period; and an outline of readaptation avenues the owner will undertake or explore during the transition period. The payments for the mineral rights will be so scheduled as to terminate at the end of the transition period.

In order to have meaningful performance control by an information system the following objectives will have to be defined and programed, utilizing the information given further on: (1) "Micro objective": Closing of marginal mines after acquisition of mineral rights by adjustment authority, and former owner-operator having successfully settled in another line of production. (2) "Macro objective": All other lead and zinc mines remaining in production in the United States are economically viable, contribute to overall economic growth of this country, and require no tariff or quota protection against competitive imports.

The achievement of the "micro objective" would be measured against the target number of mines to be retired from production, and the target number of former owner-operators and miners formerly employed by the closed mines who must find new occupations. This information is essentially a summation of the individual targets contained in the individual agreements signed between owner-operator and administering authority—the achievement of the "macro objective" would be measured against current data on mine production collected and published by the Bureau of Mines, as well as prices, imports, and exports of the two metals, and projected future resource requirement balances, and by cessation of Federal appropriation.

READJUSTMENT OF MINERS

Finally, something should be said about readjustment for workers in marginal lead-zinc mines. Their problem appears to be relatively minor. For one thing, most small-scale mining operations employ very few workers. If Government assistance is provided for the owner, his labor force presumably can be included in the readjustment without too much difficulty.[45]

Miners in general are in a highly skilled occupation and, other things being equal, face less difficulty in retraining for or finding other types of skilled employment.[46] For those workers who own homes in communities which they may be obliged to leave as a result of mine closures, direct financial assistance may indeed be required. However, it stands to reason that even such help would be extremely moderate in comparison with the costs imposed on the economy through an increase in rates of duty on lead and zinc, or the imposition of quantitative restrictions.

[45] Some of the smaller mines, except those in the Western States, have been known to go in and out of production over the years, depending on cyclical conditions, and part-time mining has prevailed. Readjustment assistance for these mines would be directed to strengthen nonmining part-time employment.

[46] The risk of casual employment in hardrock mining also is generally discounted for by the relatively higher wages for miners than those prevailing in other lines of work.

CONCLUSION

The purpose of the last three chapters has been to describe and evaluate a set of methods designed to solve the problem of how consumers may be allowed to benefit from freer international trade without at the same time injuring certain segments of domestic industry by the resulting increase in competitive imports. The suggested solution in essence consists of a series of federally sponsored programs of orderly readjustment to economic change. Trade adjustment would have to be applied in different form in the various sectors of the economy. The three chapters have shown hypothetical applications of such program in manufacturing, agriculture, and mining. One finding is abundantly clear: No matter where they are put into effect, the trade adjustment programs would be less costly to the American taxpayer than a retention of existing tariff barriers.

Furthermore, a policy of trade adjustment would allow separating domestic economic problems from objectives pursued by this country in its foreign economic policy. Now the two areas of decisionmaking are rigidly linked via the tariff issue: virtually any constructive move on the foreign plane, in terms of this country accepting a larger volume of imports, leads to severe injury for some home industry. A readaptation program might be likened to a set of surgical hemostats clamped to blood vessels severed by the blow. The hemostats stop further loss of blood and allow sutures to be taken. In that way they expedite the healing process that sets in after the operation has been successfully performed.[47] But in order to successfully implement a policy of Federal trade adjustment, a good deal of further research is needed for the difficulties and possibilities of readaptation vary greatly among different industries. Even the three hypothetical applications described in some detail in this study constitute little more than scratches on the surface of this vital but extremely complex subject.

[47] In the metaphor the managers of the enterprises doing the readapting obviously would be the surgeons.

APPENDIX TO CHAPTER VIII

PROPOSED REMEDIES FOR LEAD AND ZINC MINING OTHER THAN TRADE RESTRICTIONS

THE PREMIUM PRICE PLAN

During World War II, while ceiling prices were being maintained on lead and zinc (as well as other metals) various measures had to be taken to increase domestic mine production. The most important of these was the "premium price plan."[1] This plan, instituted in 1941, entailed the payment of a comparatively high price for high-cost marginal mine output, in excess of the prevailing ceiling price for the metals. These higher prices were applicable to production in excess of officially set quotas. As costs increased during the war, quotas were decreased, and premiums were paid on progressively larger amounts of total production. The plan in effect tended to become a method of helping companies achieve a reasonable return on investments.

Oversupply, coupled with price instability, rather than inadequate supply, characterize the lead-zinc mining industry now. The premium price scheme therefore would not be applicable to the present situation.[2]

STOCKPILING

A method frequently advocated and used for affording relief to lead and zinc mining has been Government purchases for stockpiling.[3] There now exist three stockpiles in this country: the strategic stockpile, established in 1946; the long-term stockpile for minerals and metals, established in 1954; and the supplemental stockpile for nonperishable strategic materials having low storage costs, also established in 1954.

Two objectives of stockpiles may be distinguished: security, and price support. In general, if the given materials can be stored, and if there are no difficult marketing problems, stockpiling may be more economical, from the standpoint of security, than expanding production. The cost of taking the material for future use out of current markets and holding them is likely to be lower than the cost of getting

---

[1] See Oakes, Eugene E., "Incentives for Minerals Industries," the President's Materials Policy Commission, Resources for Freedom (Washington, 1952), vol. V, selected reports to the Commission, No. 3, p. 23.

[2] The scheme was abandoned on June 30, 1947, as the result of President Truman's vetoing its continuation for another 2 years. The administration pointed out at the time that with the high prices for the metals then current, the plan would not have produced a substantial increase in production; the cost of the plan was excessive; and the plan had adverse "conversion effects" in that it tended to encourage premature production, especially from dumps and tailings. See Oakes, loc. cit.

[3] For a general discussion, see Mendershausen, Horst, "Stockpiling Materials for Security," Resources for Freedom, vol. V, Selected Reports to the Commission, No. 17, pp. 137–149.

them from marginal sources. Conversely, maintaining marginal production facilities over a period of years is likely to be more costly in terms of subsidies required than keeping a stockpile.

There is, however, an inverse relation between Government buying for stockpiling and governmental support of mineral prices. Development stockpile purchases add to the demand for the mineral; they tend to sustain production, and/or create an incentive to expansion. Thus stockpiling tends to be a costly way of price support, particularly if not coupled with appropriate import restrictions.

Metal stockpiling beyond the goal required by purely military needs is not an alternative to a readjustment assistance program to relieve injury resulting from increased imports. The lead and zinc stockpiling program, as carried on in the United States since 1954,[4] with relatively unrestricted imports, has meant that the United States has been sucking in excess production of these metals of practically the entire world. Since it has not dealt with excess production in the United States alone, the program was bound to be more expensive than a support program with import restrictions, such as that in effect under section 22 of the Agricultural Adjustment Act. In the absence of such restrictions, the program covered a much wider field than would be contemplated by a readjustment assistance program for lead and zinc mines. However, stockpiling with import restrictions renders pointless any comparison with an adjustment assistance program, designed to bring about freer trade.[5]

INTERNATIONAL BUFFER STOCKS

In order to alleviate necessary readjustments by domestic lead and zinc producers that would appear to be necessary in the absence of curtailed imports, it has been variously suggested that a "buffer" stockpile be established, both nationally and internationally, so as to allow any readjustments in the industries to be shared by domestic and foreign producers. On the domestic side, this would mean establishing a Metals Credit Corporation (analogous to the Commodity Credit Corporation) with authority to purchase metals and minerals to be stored in the buffer stockpile. This arrangement would be accompanied by a system of production quotas agreed to by foreign and domestic producers.

Although international buffer stocks have often been urged as a stabilizing device for metal prices, there has been no experience with them except for their limited use under international tin control schemes.[6]

---

[4] Office of Defense Mobilization, "Stockpile Report to the Congress," January–June 1955 (Washington, D.C., 1955), p. 6. On effect of stockpiling in lieu of tariff relief, see Tariff Commission memorandum on S. 2376 (Sliding-scale tariff on lead and zinc), in "Import Tax on Lead and Zinc," hearings before Senate Finance Committee on S. 2376, 86th Cong., 1st sess. (Washington, D.C., 1957), p. 10.

[5] The U.S. Bureau of Mines estimates that the average price of lead and zinc would have been 1½ cents lower without the barter stockpile (Government metal purchases in exchange for surplus agricultural commodities) in operation between 1954 and 1957, and 1 cent lower without the Government stockpile program initiated in 1954. (Communication from Office of Chief Economist, U.S. Bureau of Mines.)

[6] See, for example, Randall Commission, "Staff Papers," p. 192. For general discussion of buffer stocks, see Davies, Joseph S., "International Commodity Agreements." Committee on International Economic Policy, Carnegie Endowment for International Peace (New York, 1947), pp. 26–36; and Mason, Edward S., "Controlling World Trade: Cartels and Commodity Agreements," CED research study (New York, 1946), pp. 167 sq.

The application of buffer stock arrangements to lead and zinc is complicated by the existence of national stockpiles of these products, possibly exceeding the levels of proposed buffer stocks. There is also is a strong tendency on the part of producers to interpret stabilizing as "boosting," with resistance directed primarily against falling rather than against rising prices. Moreover, the problem of forecasting demand-supply relations even for limited periods gives rise to extraordinary difficulties.

On an international basis, a buffer-stock arrangement not only would involve enormous investment in the two metals but also a corresponding concentration of power. This would make it politically impracticable. Political difficulties also would arise in operations. Producers of the metals are numerous and well organized. National pressures brought to bear on the management of the buffer would be so strong as to defeat its fundamental purpose.

Lead and zinc are now in surplus in the sense that portions of the industry receive "persistently" low returns in relation to the resources they employ. The economic problem in buffer-stock management would be to differentiate between long-run price changes due to changes in consumer preferences or in costs of production, and those which would sooner or later be corrected by the opposite action of market forces. The buffer's function would be to straighten out the short-period price fluctuation sooner rather than later.

A workable production quota scheme would be necessary to set up quotas adequate to insure the consistent maintenance of a level or trend of prices which would enable the buffer to control price changes which the market would in time reverse. If the buffer stock is of sufficient size, these price variations can be compensated for without quota changes. But the control authority may wish to counteract price variations by changes in the quota, while holding the buffer to small dimensions. A change in quota is of little use in protecting prices against short-run variations; it must be effective for a considerable period of time, and even then it may overshoot its mark.[7]

In the case of lead and zinc there has been persistent overproduction in recent years. Under such conditions, a buffer stock can function only in conjunction with a quota scheme. But with many producers—and there are many more lead and zinc producers than producers of tin, for example—agreement on quotas would be difficult to achieve. A quota scheme for zinc would moreover be impracticable because it would be difficult to administer in view of the great number of individual commodities involved and the variation in metal content.[8] A base period would also have to be chosen which would be bound to discriminate against foreign producers of recent vintage who were still bringing in new mines and had not yet attained peak level of production. A buffer stock program for lead would be easier to handle, for lead is being mined in relatively fewer areas than zinc. However, there is also less reason for supporting lead than there is for supporting zinc, particularly as long as automobile batteries make up two-thirds of lead's uses.

---

[7] In a buffer stock without a production quota scheme, the management not only has no control over supply in response to the level or structure of prices, but pressure from producers for higher prices would directly affect buffer-stock operations instead of indirectly, via the adjustment of quotas.

[8] On reasons against metals and concentrates quotas, see U.S. Tariff Commission, "Lead and Zinc," report on escape clause investigation No. 65 (Washington, D.C., April 1958), pp. 94–100.

BIBLIOGRAPHY

Books and Reports

American Leather Glove Industry, *Statement by the Employees and Management to Committee on Reciprocity Information*, Gloversville, New York, 1950.

Benedict, M.R., *Farm Policies of the United States*, 1790–1950, New York, 1953.

Benedict, M. R. and Stine O., *The Agricultural Commodity Programs*, New York, 1956.

Bidwell, Percy W., *What the Tariff Means to American Industries*, New York, 1956.

Camps, Miriam, *The European Common Market and American Policy*, Memorandum No. 11, Center of International Studies, Princeton University, 1956.

Commission on Organization of the Executive Branch, *Task Force Report on Lending Agencies*, Washington, D.C., 1955.

Commission on Organization of the Executive Branch, *Lending Agencies, A Report to Congress*, Washington, D.C., 1955.

Committee on Economic Development, *United States Tariff Policy*, New York, 1954.

Commodity Credit Corporation, *Reports on Financial Conditions and Operations* (annual).

Davies, Joseph S., *International Commodity Agreements*, New York, 1947.

Diebold, William, Jr., The Schuman Plan, *A Study in Economic Cooperation*, 1950–1959, New York, 1959.

Fisher, A. G. B., *Economic Progress and Social Security*, London, 1946.

Gloversville, Report on, (Workshop on Commodity Study), Gloversville, New York, 1954.

Hinrichs, A. Ford, *Iowa and World Trade*, An Economic Analysis of the First Congressional District of Iowa, Washington, D.C., 1954.

Humphrey, Don D., *American Imports*, Twentieth Century Fund, New York, 1955.

Joint Committee on the Economic Report, *The Need for Industrial Dispersal*, Washington, D.C., 1951.

Lister, Louis, *Europe's Coal and Steel Community, An Experiment in Economic Union*, New York, 1960.

Marshall, Alfred, *Principles of Economics*, 8th ed., London, 1920.

Mason, Edward S., *Controlling World Trade, Cartels and Commodity Agreements*, New York, 1946.

Miernyk, William H., *Inter-Industry Labor Mobility: The Case of the Displaced Textile Worker*, Boston, 1955.

Myrdal, Gunnar, *An International Economy*, New York, 1956.

National Planning Association, *Depressed Industrial Areas—A National Problem*, Planning Pamphlet No. 98, Washington, D.C., 1957.

National Planning Association, *Local Impact on Foreign Trade*, Washington, 1960.

New York State, Department of Commerce, *New York State Business Facts, 1954 Supplement, Mohawk Valley*, Albany, New York, 1954.

New York State, Department of Labor, Division of Employment, *Labor Market Reports, Gloversville Labor Market Area*, October, 1954.

New York State, Joint Legislative Committee on Commerce and Economic Development, *Reports for 1954 and 1955*, Albany, New York, 1954 and 1955.

Office of Defense Mobilization, *Stockpile Reports to the Congress* (semi-annual).

Piquet, Howard S., *Aid Trade and the Tariff*, Including a Handbook of Major Dutiable United States Imports, New York, 1953.

President's Materials Policy Commission, *Resources for Freedom* (Paley Report), Washington, 1952.

Princeton University, International Finance Section and Center of International Studies, *A Critique of the Randall Commission Report on United States Foreign Economic Policy*, Princeton, New Jersey, 1954.
Public Advisory Board for Mutual Security, *A Trade and Tariff Policy in the National Interest*, A Report to the President, Washington, D.C., 1953. (Bell Report.)
Randall, Clarence B., *A Foreign Economic Policy for the United States*, (Walgreen Foundation Lectures), Chicago, Ill., 1954.
Salant, W. S. & Vaccara, B., *Import Liberalization and Employment*, Washington, D.C., 1961.
Small Business Administration, *Public Statement of Loan Policy*, Washington, D.C., 1954.
Smithies, Arthur, *The Budgetary Process in the United States*, New York, 1955.
Staley, Eugene, *World Economic Development, Effect on Advanced Industrial Countries*, end ed., Montreal, 1945.
Steinberg, David J., *A Time for Decision in U.S. Foreign Trade Policy* (mimeographed) Washington, D.C., 1961.
Taussig, F. W., *The Tariff History of the United States*, 8th ed., New York, 1931.
Thorp, Willard L., *Trade, Aid or What?*, *Baltimore*, Md., 1954.
U.S. Agricultural Marketing Service, *Wool Statistics and Related Data*, Sept., 1954.
U.S. Bureau of Mines, *Mineral Facts and Problems* (Bulletin No. 556), Washington, D.C., 1956.
U.S. Commission on Foreign Economic Policy, *Report to the President and Congress*, Washington, D.C., 1954. (Randall Report.)
U.S. Commission on Foreign Economic Policy, *Staff Papers Presented to the Commission*, Washington, D.C., 1954.
U.S. Commission on Intergovernmental Relations, *A Report to the President for Transmittal to Congress*, Washington, D.C., 1955.
U.S. Commission on Organization of the Executive Branch, *Lending Agencies, A Report to Congress*, Washington, D.C., 1955. (Hoover Commission.)
U.S. Commission on Organization of the Executive Branch, *Task Force Report on Lending Agencies*, Washington D.C., 1955.
U.S. Congress, Joint Committee on the Economic Report, *Federal Tax Policy for Economic Growth and Stability*, Washington, D.C., 1956.
U.S. Congress, Joint Economic Committee, *Defense Essentiality and Foreign Economic Policy*, Washington, D.C., 1956.
U.S. Department of Agriculture, *Development of Agriculture's Human Resources, A Report on Problems of Low-Income Farmers*, Washington, D.C., 1955.
U.S. Department of Agriculture, *Domestic Wool Requirements and Sources of Supply*, Washington, D.C., 1950.
U.S. Department of Commerce, Area Development Division, *Available Federal Assistance for Community Development*, Washington, D.C., 1955.
U.S. Department of Labor, Bureau of Employment Security, *Bimonthly Summary of Labor Market Developments in Major Areas*, March, 1952.
U.S. Department of Labor, Division of Interindustry Economics, *Industrial Employment in the United States as Related to Exports in 1947*, Washington, D.C., 1952.
U.S. House of Representatives, Committee on Ways and Means, 84th Congress, 1st Session, *Trade Agreements Extension, Hearings*, 2 Parts, Washington, D.C., 1955.
U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Foreign Trade, *Hearings, Foreign Trade Policy*, 85th Congress, 1st Session, pursuant to H. Res. 104, Washington, 1958.
U.S. Joint Committee on Defense Production, *4th Annual Report of the Activities of the*, Washington, D.C., 1955.
U.S. Joint Committee on the Economic Report, *Hearings Before the Subcommittee on Foreign Economic Policy*, Washington, D.C., 1955.
U.S. Office of Defense Mobilization, *Defense Manpower Policy No. 4*, (Revised), Washington, D.C., 1953.
U.S. Office of Defense Mobilization, *Memorandum on Amortization to Defense Facility Expansions Located in Areas of Substantial Labor Surplus*, Washington, D.C., 1954.
U.S. Security and Exchange Commission, *Cost of Flotation*, 1945–1949, Washington, D.C., 1951.

U.S. Senate, Committee on Finance, *Import Tax on Lead and Zinc*, Hearings on S. 2376, 85th Congress, 1st Session, Washington, D.C., 1957.
U.S. Senate, 84th Congress, 1st Session, Committee on Finance, *Trade Agreements Extension, Hearings*, 4 Parts, Washington, D.C., 1955.
U.S. Senate, Committee on Interstate and Foreign Commerce, *Encouragement of Distribution of Fishery Products*, Washington, D.C., 1954.
U.S. Senate, Committee on Interstate and Foreign Commerce, *The United States and World Trade. Challenges and Opportunities.* (By Special Staff on Study of U.S. Foreign Commerce), Washington, D.C., 1961.
U.S. Senate Special Committee on Unemployed Problems, *Report*, Pursuant to S. Res. 196, 85th Congress, Washington, D.C., 1960.
U.S. Small Business Administration, *Development Credit Corporations*, Washington, D.C., 1954.
U.S. Tariff Commission, *Fluorspar, Investigation under Section 332 Pursuant to Resolution of Senate Finance Committee*, Washington, June, 1955.
U.S. Tariff Commission, *Groundfish Fillets (1954), Report to the President on Escape Clause Investigation No. 25, Under the Provisions of Section 7 of the Trade Agreements Act of 1951*, Washington, D.C., 1954.
U.S. Tariff Commission, *Lead and Zinc*, Report to the Congress on Investigation No. 332–26 (Supplemental) Under Section 332 of the Tariff Act of 1930 Made Pursuant to Senate Resolution 162, 86th Congress, Adopted August 21, 1959, Washington, March, 1960.
U.S. Tariff Commission, *Lead and Zinc Industries*. Report on Investigation Conducted Under Section 332 of the Tariff Act of 1930, etc. (Report No. 192, Washington, D.C., 1954).
U.S. Tariff Commission, *Lead and Zinc*, Report to the President on Escape Clause Investigation No. 65 Under Provisions of Section 7 of the Trade Agreements Extension Act of 1951, as Amended, Washington, D.C., April, 1958.
U.S. Tariff Commission, *Lead and Zinc*, Report to the President (1960) Under Executive Order 10401, Washington, October, 1960.
U.S. Tariff Commission, *Summaries of Tariff Information*, Washington, D.C., 1948.
U.S. Tariff Commission, *Women's and Children's Leather Gloves*, Report on Escape Clause Investigation No. 7–82, under Section 7 of the Trade Agreements Extension Act of 1951, as Amended, Washington, D.C., 1960.
U.S. Tariff Commission, *Wool Gloves and Mittens and Glove and Mitten Linings of Wool*, Report on Escape Clause Investigation No. 35 Under Section 7 of the Trade Agreements Extension Act of 1951, Washington, D.C., 1954.
U.S. Tariff Commission, *Wool Knit Gloves and Mittens*, Report to the President, etc., Section 336 of Title III of the Tariff Act of 1930, Report No. 108, Second Series, Washington, D.C., 1936.
U.S. Tariff Commission, *Wool, Wool Tops and Carbonized Wool*, Report to the President, Investigation No. 8 under Section 22 of the Agricultural Adjustment Act, Amended, Washington, D.C., February, 1954.
Wiles, P. J. D., *Price, Cost and Output*, Oxford, 1956.
Wool Study Group Report (U.S.D.A.), Washington, 1953.

ARTICLES

Bourque, Philip J., The Domestic Importance of Foreign Trade of the United States by Producing Regions, Manufacturing Sectors, 1947, *Review of Economics and Statistics*, November 1954, p. 401.
Clubb, Bruce E., and Reischer, O. R., The Trade Adjustment Bills, Their Purpose and Efficacy, *Columbia Law Review*, March 1961, pp. 490–503.
Federal Reserve Bank, Boston, What Happens When a Community Gains Manufacturing Jobs? *Monthly Review*, March 1955, p. 1.
Federal Reserve Bank, Kansas City, The Employment Multiplier in Wichita, *Monthly Review*, September 30, 1952, p. 1.
Goode, Richard, Accelerated Depreciation Allowances as a Stimulus to Investment, *Quarterly Journal of Economics*, Vol. 69, No. 2, May 1955.
Hildebrand, George H. and Mace, Arthur Jr., The Employment Multiplier in an Expanding Industrial Market: Los Angeles County, 1940–47, *Review of Economics and Statistics*, August 1950, p. 241.
Hulley, John, Protect or Compensate? *World Politics*, April, 1953, p. 313.
Humphrey, Don D., Forces of Disequilibrium and World Order. *American Economic Review*, May, 1954, p. 552.

Kravis, Irving B., The Growth Criterion as a Guide for Reciprocal Trade Policy, *Quarterly Journal of Economics*, May, 1952, p. 273.

———, The Trade Agreements Escape Clause, *American Economic Review*, June, 1954, p. 319.

———, Wages and Foreign Trade, *Review of Economics and Statistics*, Vol. 38, No. 1 (February 1956), p. 14.

Lindeman, John and Salant, W. S., Assistance for Readjustment to Tariff Reductions, *Studies in Unemployment*, Prepared for the Special Committee on Unemployment Problems, U.S. Senate, 86th Congress, 2nd Session, Washington, D.C., 1960, pp. 251–281.

Meade, James E., Negotiations for Benelux: An Annotated Chronicle, 1943–1956, *Princeton Studies in International Finance*, No. 6, 1957.

Miller, John Perry, The Pricing Effect of Accelerated Amortization, *Review of Economics & Statistics*, Vol 34, No. 1, February 1952, p. 17.

Piquet, Howard S., Tariff Reductions and United States Imports, *Compendium of Papers on United States Foreign Trade Policy*, House Subcommittee on Foreign Trade Policy, Washington, D.C., 1958, p. —.

———, Would Tariff Suspension Hurt U.S. Business? *Harvard Business Review*, November-December, 1953, p. 95.

Reischer, Otto R., Adjustment to Imports and the National Interest, *Journal of Business of the University of Chicago*, October 1953, p. 254.

———, Assistance in Adjusting to a Tariff Reduction, *Journal of Business of the University of Chicago*, April 1953, p. 103.

———, Lower Tariffs Without Pain, *Michigan State Business Topics*, Vol. 3, No. 6 (May 1956), 13–22.

———, The "Defense Essentiality" of Readjustment Assistance, *Hearings before the Subcommittee on Foreign Trade Policy*, Committee on Ways and Means, U.S. House of Represenatives, 85th Congress, 1st Session, Washington, D.C., 1958, pp. 816–822.

———, Statement on S. 1609, "Assistance to Small Business to Facilitate Adjustment Made Necessary by Foreign Trade," in *Small Business Adjustments 1959*, Hearings before Small Business Subcommittee, U.S. Senate Committee on Banking and Currency, 86th Congress, 1st Session, Washington, D.C., 1959.

Robertson, W., Benelux and Problems of Economic Integration, *Oxford Economic Papers*, N.S. Vol. 8, No. 1 (February 1956), p. 50.

Salant, W.S., Employment Effects of United States Import Liberalization, *American Economic Review*, Vol. L, No. 2 (May 1960), pp. 419–432.

———, The Short-Term Domestic Economic Effects of Reducing Import Barriers, *Compendium of Papers on United States Foreign Trade Policy*, House Subcommittee on Foreign Trade Policy, Washington, D.C., 1958.

Schaller, Howard G., Social Security Transfer Payments and Differences in State Per Capita Incomes, 1929, 1939, and 1949, *Review of Economics & Statistics*, February, 1955, pp. 83–89.

PERIODICALS

Barron's Financial Weekly.
Congressional Record.
The Economist (London).
Fortune Magazine.
The Journal of Commerce.
New York Times.
Survey of Current Business.
The Wall Street Journal.

○