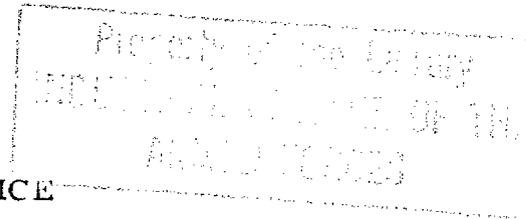




INTERNATIONAL TRADE

Dr. Howard S. Piquet



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Reviewed by Col. R. W. Bergamy, USAF ON 15 October 1963

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

1963 - 1964

International Trade

13 September 1963

CONTENTS

	<u>Page</u>
INTRODUCTION -- Major General T. R. Stoughton, USA, Deputy Commandant, School of Resident Studies, ICAF	1
SPEAKER -- Dr. Howard S. Piquet, Senior Specialist in International Trade and Economics, Legislat- tive Reference Service, Library of Congress	1
GENERAL DISCUSSION	22

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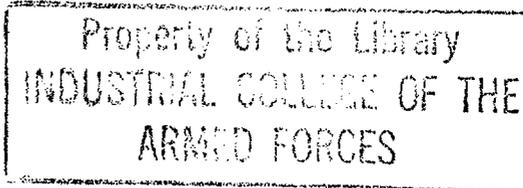
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INDUSTRIAL COLLEGE OF THE ARMED FORCES

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GENERAL STOUGHTON: We're going to test your real flexibility this morning, gentlemen, as you adjust your thoughts from outer space and multi-billion dollar programs to perhaps a little more of the mundane, but still billion dollars in the field of international economics.

As we broaden our horizons today in the economic field we're extremely fortunate to have a widely-recognized expert, Dr. Howard S. Piquet, to talk to us on this subject. Many of your predecessors here at the college have profited from the words of wisdom from Dr. Piquet, as I am sure we will this morning.

It's a real pleasure to present Dr. Howard S. Piquet.

DR. PIQUET: I've been here so often that it wouldn't be a real autumn if I didn't start it off by a kickoff here. I'm going to talk to you about things that I hope are a little more terrestrial than what you heard earlier, but I'm not so sure. We may be in space still, after we finish.

I'm going to talk on international trade from the point of view, primarily, of foreign trade policy. And, I'm going to divide my remarks under four headings. First I want to discuss the theory of international trade. Then I want to say a few things about the European Economic Community and General de Gaulle; then the balance of payments; and then trade policy. Now, that's quite an order for 45 minutes. I'll try to speak slowly, although I sometimes find that difficult.

Before I start I must say that I do not speak for the Library of Congress. I don't speak for Congress; nobody could possibly do that, even if he tried to. I speak only for myself. Being an employee of the Congressional Establishment I am not responsible to the President of the United States as to the content of what I

may say or think.

Secondly, I want to make clear the point of view from which I am discussing this subject. The point of view is not a partial point of view. I'm not looking at this problem of the European Economic Community, for instance, from the point of view of the chicken-raisers of Arkansas, although some people do that in Congress. I'm looking at it from the point of view of the United States as a whole. And I'm looking at it from the longer-run point of view; not a century, but maybe a decade; certainly, not three weeks - the long-run point of view and a national point of view.

Then, the next thing I want to warn you about is the need for depth of thought in this area - as in any other area. The problems that we sometimes discuss in isolation here are really all connected; the balance of payments and gold problem; trade policy; and the European Economic Community. These are all part and parcel of one problem; that is, the position of the United States in the world, economically. That is really the subject of my talk this morning, rather than international trade. But, we wrap the discussion of our international trade because international trade is the heart of the subject; it's the key to our solutions if we would but analyze the problems with the depth about which I am speaking.

Just a few remarks about free trade theory, largely because you said I should, in the outline you gave me. Free trade theory is one of these things that we've been debating ever since the Republic was established. The very first Act of the United States Congress - the first United States' Congress - was a Tariff Bill. And we've been arguing about the tariff ever since; whether it should be high or low; whether we should have protection or free trade; etc., etc. Now, if it were all one-sided we wouldn't have that debate. There must be two sides to a problem, at least. In this case, maybe three or four, in order for the debate to be so

long-lived.

From the purely theoretical point of view - meaning by theoretical something like you had this morning with respect to space, perhaps, there can be no argument that free trade is the logical doctrine. From the point of view of politics the possibility of attaining free trade is exceedingly remote. The free trade theory can be summarized in just a few words in a very simple way; that if each person does the thing he can do best you'll have more produced. If I can give a lecture here, write a book and get a few hundred dollars for it, and if at the same time I can do some good typing - better than many of the typists around me - and if I'm also a pretty good lawn-cutter or furnace repairman, and can do work around the house better than anybody I could employ, it obviously wouldn't pay for me to divide my day into three parts and spend part of the time writing, part of the time typing, and part of the time cutting my grass. Obviously, it would pay for me to concentrate on the thing that I can do relatively best. And the same thing applies to nations, on the assumption that a nation is an organism, which, of course, it isn't; but on the assumption that you did have complete mobility of labor and capital within a country or within countries. Then, the obvious policy should be one of applying yourself to that which you can do best.

And, the United States should be concentrating, from that point of view, on the things that it can do best in the world, which would be things like automobile production, steel production, manufacturing, generally, where we have the advantages of large-scale output and managerial skills. From that point of view we shouldn't be producing leather gloves, footwear or safety pins, or things of that sort that the other countries can produce more cheaply, very often, than we can.

However, a nation is not an organism; the nation is an organization. We are a democracy, or a republican form of government, at least, in which we govern our-

selves on the basis of counting noses. And these noses are not counted as individual noses, but it depends on which state you're in whether your nose counts a lot or whether it counts more. If you happen to be from certain states that are pivotal in terms of political power and influence, why, you'll have more to say than if you come from a state that is not in that position.

This is at the heart of the chicken war that you read so much about with regard to the EEC. Chickens are very unimportant in our total foreign trade - very unimportant. Six years ago we didn't export any chickens to Europe at all. Now we're exporting about \$40 million. The Europeans have raised the tariff on chickens. They're sore. I wonder if the fact that Senator Fulbright comes from Arkansas, and also Wilbur Mills, the Chairman of the Ways & Means Committee, might have something to do with the extreme emphasis that we're placing upon chickens. In fact, Senator Fulbright, himself - and I know the Senator very well; he's one of the best we have in the whole establishment - but Senator Fulbright said, not long ago, according to the press, that if they don't allow our chickens in we'll take our troops out of Europe. By golly, we'll train them. You can check that in the New York Times.

Our exports of chickens are about \$40 million to Europe. Our total agricultural exports to the EEC are \$1.2 billion. And of the \$1.2 billion, about 30% only, are being affected by protectionist policies of the EEC; the other 70% are not affected, such as cotton, soybeans, fruits and vegetables. Our total exports are about \$3½ Billion, of all things considered, to the EEC. And, it's the flyspeck that sometimes controls. So, that's why the purely economic doctrine of free trade is something that prevails primarily in the classroom and in the textbooks, but not in practice. And I don't think I'm going to live long enough; I don't think anybody in this room is going to live long enough to see the Free World, even, not to

mention the Communist World, embrace the doctrine of outright free trade. We may have freer trade, but I don't think we're going to live to see complete free trade.

Well, that is the theory of comparative advantage, the theory of international trade. Economists of the econometric persuasion can draw all sorts of things on the blackboard and give you all sorts of demonstrations mathematically you gained if you did it this way and how much if you did it that way, which is largely irrelevant. The fact is, we have to deal in terms of political economy; political realities, meaning by political the fact that we are deciding things in a democracy on the basis of what we as individuals vote for. And that is not always determined, in fact it is very seldom determined that what we think is in the national interest. Most of us identify the national interest with our own short-run self-interest, and it's obvious and necessary, perhaps.

Now about the EEC. All sorts of misinformation; all sorts of sloppy thinking; all sorts of projections into the future in a pessimistic sort of way have scared us with regard to Western Europe. We Americans, and I guess people generally, have rather short memories. I was Deputy Staff Director of the Herter Committee back in 1947, in Congress, when Mr. Herter was Chairman of the committee, that evolved the Marshall Plan. And one of the things that that committee, the Congress, and the American people generally - and President Truman in particular - was so insistent upon, was that Europe must be strong; Europe must get off our backs. We were then supporting Europe, don't forget. So, we would give them the food, the fuel, the fertilizer, the capital equipment, etc. that they needed to get on their feet. And we spent about \$20 billion for that under the European Recovery Program. It was a huge success which I think everybody will agree with.

By 1950, had it not been for the Korean War episode, things could have been terminated in Western Europe. In fact, Great Britain did decide to receive no more

aid after 1950. It was a great success. Europe became viable, as we say. Europe became prosperous. And the consequences of that we find very hard to take, because we didn't think through what it would mean. We have suddenly, for one thing, been experiencing a balance of payments deficit. That is, paying out more money than we get in. That's the other side of the coin. Europe, at this period I am talking about, had deficits. Now Europe has surpluses. Europe is talking back to us, just like a teen-ager does, although this teen-ager happens to be in its 20s at the moment. They're telling us where to get off. We have to expect that if we really meant what we said when we said we wanted Europe to be strong and independent. We didn't quite use the words "third force" because we didn't really mean an honest-to-goodness third force; we want a secondary force on our side, obviously.

But Europe is powerful, Europe is strong, and Europe now is approaching us in terms of the size of an economy. I won't go into the details of the European Economic Community. You know that there was such a thing as the "Treaty of Rome." And you know that the Europeans are trying to coalesce themselves, at least the six countries - the Low Countries - and France, Germany and Italy - are trying to coalesce themselves into an economic community, a major aspect of which is a customs union. Meaning by that that over a period of years they will tear down the trade barriers among themselves so that there will, very shortly now - probably by 1967, or maybe even '66, be free trade within that area of Europe. Meanwhile, they are imposing a common external tariff against the rest of the world, arrived at, for the most part, by the averaging of their previous tariffs.

Belgium, the Netherlands, Luxembourg - and to a certain extent, Germany - had low tariffs before, and France and Italy had high tariffs. So, the tariff on automobiles, for instance, would be an average between the high tariffs of France and Italy, and the low tariffs of Belgium, the Netherlands and Luxembourg. But, it

will be a higher tariff than it was before on cars shipped into Germany, for example. That is known as the common external tariff. It is discriminatory against us. Obviously, if they have to pay duties on American cars going into Italy, Italian importers do not have to pay duties on German cars - Volkswagons - going into Italy; it's discriminatory in the settings of the former areas as individual countries.

But let us not forget that we did the very same thing in 1787. You may remember from your history, that under the Articles of Confederation the United States Government was very weak. The federal government did not have the power to tax, and each state was levying tariffs against the goods of each other. You had trade wars between Maryland and Virginia; you had trade wars between New Jersey, Pennsylvania and New York. In fact, one of the main purposes of the Philadelphia Convention in 1787 was to establish a more perfect Union by the adoption of what is now our Constitution. And way at the top of the list was the provision that none of the states will be allowed to levy tariffs against each other - free trade within the area which later becomes this huge United States.

Never before in world history has there been such a large area believing in the doctrine of free trade, internally. The result is that the United States has grown tremendously with no tariff barriers within its own area. We have been able to pursue what we economists call the "Economy of Scale." We have been able to have large-scale production; our factories have not been held back by a limited market. In Europe, on the other hand, all these countries have had tariffs against each other; imposts of one kind or another, keeping out each other's goods; a whole series of walls dividing the countries from each other. Now, for the first time, Europe is breaking down those walls. She is trying to do what we have done. And, I would think that under the circumstances, regardless of mathematical projections and pre-

sent happenings with regard to poultry, etc., I should think that there is every reason for Americans to be optimistic about what is eventually going to happen in Western Europe.

Their gross national product - and I don't think I need burden you about what we mean by gross national product; you've been exposed to it; we don't know quite what we mean by it, but it's very handy as a measure of the size of various countries; a very rough measurement - the gross national product of the six countries of the EEC together, is just between $1/3$ and $1/2$ of ours. On a per capita basis their gross national product - and again I say it's not strictly comparable, but roughly so - is about a little over \$1,000 per person. Ours is \$2,800 per person.

Now, I would think that the presumption is pretty strong that as they're tearing down these barriers continuously, that they are going to grow very rapidly; and so they have been growing in the last few years at an average of about 6% a year, compared with about $3\frac{1}{2}\%$ for us, or 3% and a fraction. Of course, they are still much smaller than we are - as I say, between $1/3$ and $1/2$ as large, in terms of gross national product, on a per capita basis. I would think that the chances are very good that if they continue to grow, or that they will continue to grow at, let us say, the rate of 4% a year, and if they do, that means that they will double in size in about 17 years, by simple mathematics of compound interest; and if they double in the course of the next 15 to 17 years I should think it's a fair presumption that they will want much more in the way of goods and that they will not try to be self-sufficient.

Now, here I come back to this point of view I started out trying to express; that we must look at these things from the overall point of view and not from the partial point of view. If you look at this problem from the point of view of the Arkansas producer of chickens the outlook is very dim. If you're looking at it

from the point of view of the grain producers of Montana the outlook is pretty grim. Because, the chances are pretty good that to agricultural protectionism, the response of the politician in Europe to the pressures of the farmers in Europe - particularly in France - is going to be just about like the response of the American politician to the pressure of the farmer. American and European farmers are the sacred cows of politics; they musn't be touched. Whether that will continue, of course, for a long period of time, is anybody's guess. But it's going to continue for quite awhile.

So, if you're looking at it from the partial point of view, of these particular producers that I am talking about, those areas in which Europe is trying to be self-sufficient for political reasons, then I say the outlook is dim. But if you're looking at it from the point of view of the United States' economy as a whole after the adjustments have occurred, the chances are very good that our exports to Europe are going to increase tremendously in the course of the next decade. Of what? I wish I knew precisely which commodities they are going to buy from us. If I did, I wouldn't be wasting my time in government at the moment; I'd be out making some money. We don't know what they're going to buy, but they're going to buy something. Because, the European leadership, you can bet your life, is not stupid.

As they grow and as the Europeans become more accustomed to abundances such as we are, the chances are they are going to change their way of life and live more like we do. If you've been in Europe lately - particularly Paris - I think you will agree with me that you don't need statistics to show you that Paris is changing economically; it's becoming more like us, I'm sorry to say, in some respects. Supermarkets don't seem to fit Paris; and huge buildings, packaged goods and refrigeration. And even coal.

If you say to the average economist today that we're going to have a big coal

market in Europe, he'd think you were crazy. I think that the chances are 50-50 that we'll have a big increase in the demand for American coal, which, at the moment, is very small because they're keeping it out in favor of their own production. But it may well be that the Europeans - and even the British - might prefer to have heat in their houses for a change. In which case, they're not going to transform to oil; they're going to use coal. Of course, in industry there will be a big use of petroleum, we have to admit that. I wouldn't want to bet on this; I'm not buying coal stock. But it seems to me that the chances are pretty good for this.

Of all these agricultural products that we send to the EEC, of \$1.2 billion, that I mentioned a little while ago, 70% of them are not affected by the present agricultural protectionism in Europe - such things as cotton, fruit, soybeans, etc. Only 30% are affected. So, even though, it seems to me, our exports are going to increase to Europe - and our imports from them also - there will be a different configuration of these exports. There will be different kinds of products than we produce now and send to them. Now, in machine tools, I have a suspicion that the United States will probably remain - in some lines, at least - at the top of the heap. Certainly, in electronic computing machines and that sort of thing. I think we have a rather thorough and permanent comparative advantage. We can't say what.

Their imports now amount to about 11% of their gross national product, and about $\frac{1}{2}$ of our exports to them are competitive, and the other half aren't competitive. If our total exports double they'll be just as big as the non-competitive part are now. So, it seems to me that the outlook is one of optimism in spite of what is happening.

And also, we must not forget that General de Gaulle is not Western Europe. There is a great cleavage of opinion between the General and between the economic leaders like Jai Monet who was very outspoken here in New York last January, in

criticism of the General. The economic motives, particularly after the people of Europe begin to taste the good things of life in substantial quantity, is not going to be overruled by, I think, the political outlook as it is at the moment. However, this is anybody's guess.

Our outlook toward the EEC at the moment is one of, I would say, ^{despair;} one of retaliation, which I don't like to see, at the moment. You saw in the paper this morning, that Mr. Herter and the group have come up with a list of 19 items that we intend to retaliate on; that is, put increased tariffs on our imports from the EEC if they don't do something about these old chickens. I'd hate to see this happen. I think we're just showing our teeth. I think it's a game of bluff. I think we're trying to call their bluff and they're trying to call ours. But we shouldn't forget that we do the same thing that they're doing with regard to chickens, very often. Talk to some of the people from Denmark, for instance, and see how they feel about our restrictions against Danish cheese; or the people in South America who are exporting lead and zinc - or in Canada. We don't allow lead and zinc to come into this country in any substantial quantities, and we even have import quotas against petroleum, which Venezuela doesn't like. The pot is calling the kettle black, very often. Of course, when any people do it themselves they say that this is necessary in view of the extenuating circumstances. But if you do it, that's because you're just bad; you're evil. The other guy is always wrong; you are always right.

We're all wrong in this case. We all tend to look at these things from the point of view of immediate rather than long-range objectives.

Now, this leads me to my second point which, of course, is connected, as I said before, and that is our balance of payments situation. Probably there is more confusion in the minds of the American public about the balance of payments than any other single thing at the moment on the economic front. The balance of pay-

ments is not what most people think it is. It doesn't mean the United States is going broke. We've been losing quite a lot of our gold since 1958, it's true. But, we're not busted. We are still the richest country in the world; we're still powerful. We've never been stronger than we are today, economically. We have claims against the rest of the world, in the way of investments, of over \$40 billion. The liquid claims - which means all the claims, for practical purposes, of foreigners, or European people in the United States - is about \$21 billion. But, the trouble is that the claims that we have to pay are short-run, and the claims that we have against the other parts of the world are long-run.

Now, the balance of payments should not be confused with a balance sheet of a corporation or of a country. Nor should it be confused with a statement of profit and loss of a country. This is a technical problem arising out of historical accident, which I shall discuss in a few minutes, whereby the dollars that we pay out are larger than the money that we collect coming in. It's a little bit as though Conrad Hilton were in Hong Kong where his new hotel is located and he happened to have lost his traveler's checks, and he can't get a room because he hasn't any cash. Now, Conrad Hilton isn't broke. But he's in a certain part of the world where they don't know him - probably Hong Kong is not a good illustration - he would be busted too. I've had that experience where I've been in a strange part of the country and didn't have enough money to buy something; it's rather embarrassing.

Or, to change the analogy, it's a little bit as though the United States Steel Corporation declined to build a new continuous sheet mill because it doesn't have enough money in its petty cash account. There is no connection between the basic wealth of the country and this technical balance of payments difficulty.

Now, before 1914 - before we got involved in these world wars - we were a rather, I suppose, naive people in the Western World. At least, we were living the

way the British told us to live, financially. We lived under the Gold Standard. Money was a simple thing in those days. Money was gold. The dollar was convertible into gold - a certain fixed weight; so was the pound sterling; all the other currencies - all convertible into gold. Gold was the money of the world; with the result that as gold moved from country to country because of the changes in exchange rates - each currency being convertible into a certain quantity of gold - let us say that the imports into the United States were greater than its exports. That meant that there was a drain on dollars. The dollar would depreciate in terms of the pound sterling until it hit what we call the gold export point. That meant that gold would move out of one country into another. The result was that gold was distributed among the countries of the world in accordance with prices. And those prices were directly connected to the quantity of gold that a country had. We had what some economists today are calling the "discipline of the gold standard." If the gold left a country it meant that that country had smaller reserves and there tended to be slight deflation. That is, prices would go down, including wages. And the country that received the gold would find a buoyancy resulting from the increased reserves that they had acquired. Because, it meant that credit could expand and prices and wages would go up, and everybody would be happy.

There was a movement between countries, of the economic forces through the price system, of such things as employment. But it was rather temporary. It adjusted itself reasonably well; largely because the Bank of England and the British Government wanted it to work, it worked. There was no such thing as a pound sterling shortage. The pound sterling was the actual money of account that was convertible into gold and there was always plenty of it around. And the countries allowed their economies to adjust to each other. That system has completely broken down. Gold is no longer money. Gold is a commodity that no longer moves among countries

according to the forces of the marketplace, but moves only when governments allow it to move. The standard international money of the world today is the United States dollar.

Now, how did this happen? You can bet your life we Americans didn't try to make it happen. We didn't know it was happening. All of a sudden we wake up in 1958 and find out that it is happening. This happened because, during the period of the First World War - and the inter-war period - the United States was the only economy that was really prosperous. The others had been knocked flat by war. The other countries needed American goods, and they had to send gold to get it. And the result was that the United States, like the winner in a game of monopoly, which you know about, became the chief repository of the world's monetary gold. And so, we amassed over 70% of the total monetary gold of the Western World.

There was then a period of what we call "dollar shortage." There weren't enough dollars in the world. They all wanted dollars and they couldn't get them. But, the United States, in spite of the devaluation of 1934, did maintain convertibility of the dollar into gold - and we're still doing it. Therefore, the dollar is as good as gold; which meant that the countries, having to have some sort of reserves, and not having enough gold, began to accumulate dollars to count as their reserves. So that, today, of the Western countries of Europe, and Canada, one half of their total banking reserves consists of dollars; the other half of gold. They are inter-changeable. The dollar, in other words, is no longer just a currency; it is the world's standard currency.

Now, that has meant that as the United States has been throwing dollars out into the world for foreign aid, or military expenses abroad, or for imports, or for foreign investment - whatever the purpose may be - and we've been spending a lot, as you know, for foreign aid and military expenditures; between \$3 and \$4 billion

a year - these dollars, instead of coming back to the United States - all of them - as a demand for American goods, came back in the form of deposits in the banks of New York, in the form of reserves to the account of these foreign banks and governments. So that, these foreign dollar balances have been increasing and increasing, and today are still increasing. And as long as those dollar balances are increasing it indicates that the confidence in the dollar has not yet been lost, in spite of all the talk to the contrary. Those dollar balances are liquid claims against us. We're the world's banker today. And our clients are other governments.

Now, people are saying, "Yes. But suppose these foreigners should all cash in their deposits and want gold at the same time?" Well, now, if they're a bunch of idiots they might do that. But the Bank of England has never been noted for idiocy. Neither has the French Bank been noted for idiocy. Do you suppose that they are going, consciously, if they can help it, to withdraw all those dollars and convert them into gold, and wreck the dollar? It doesn't make sense, does it? Why do you suppose the bankers of the world are uniting today to protect the dollar? Because they want to save their own investments. They're not going to wreck the currency in which they have their accounts.

So, the fact is, that by 1958 -or, I'll put it this way; by 1950 there was a subtle change in the position of the United States when we began to incur deficits instead of running surpluses. In 1950, which happened to coincide with the devaluation in the fall of '49 by Great Britain and other countries, of their currencies - and also the Korean War in July 1950, we began to become a nation of deficits, and dollar shortage gave way to dollar surplus in the world. Economists, including myself, were still talking about the dollar shortage, as late as 1955, long after it had disappeared.

By 1958 we woke up one morning and found out that all of a sudden this deficit

was real. We were losing our precious gold. In 1958 we lost over \$2 billion in gold. We've been losing it at a pretty healthy rate ever since. So that, instead of having now, 70% of the world's gold we're down to roughly 40% of the world's gold, which is still a pretty substantial chunk. But, it's scaring us. We don't like to see this gold go out. We wonder why we can't get our balance of payments into a balance again, hoping that somehow by getting our payments into balance it will prevent the loss of gold. The connection between gold today and the balance of payments deficits is very remote. If we do get our house in order and keep these deficits down, the chances are - psychologically - that there will be less a chance of a loss of confidence in the dollar. But, as yet there has been no substantial loss of confidence, as I said before, because they're still willing to increase their dollar accounts in our New York banks.

Well, what does this all add up to? Suppose that we get panicky and suppose we devalue the dollar in terms of gold? Certain people will gain; certain people will lose; and we're right back again where we started from, and the whole problem will start over again. If we exert our energies to try to increase exports by the President kissing people on both cheeks when they increase exports, or giving out pennants with a Big E on them, and saying, "Now, boys, be good little boys and we'll give you a gold star if you export," it might work. But that isn't the way to do it. The only way exports will increase is by making it profitable for people to export.

If we had a freely-varying exchange rate today so that the dollar could dip in terms of other currencies, that would increase exports. But we can't do that today. We're no longer on the gold standard; we're on the dollar standard, in a makeshift sort of way. So that, the mechanism of adjustment is no longer present. Prices are no longer connected with gold. Prices move according to credit policy on the

part of federal banks - the Federal Reserve bank in this country; the Bank of England in England, etc. We have been caught between two forces. One is, we want to maintain full employment at home. That is the motto everywhere today - full employment - don't allow imports to come in that are competitive and will throw people out of work.

There's a conference being held next Tuesday and Wednesday at the White House by the Committee to Expand Exports. They're going to beat the bushes; big speakers; all Cabinet Members are going to speak - "You've got to increase exports." Sure we have to increase exports. But how in the world can we increase exports if the Europeans won't accept those exports from us as imports? Trade is a two-way street. There are two sides to trade policy - ours and the other country's. Their keeping out our chickens is a symbol; we're keeping out their lead and zinc is a symbol. I'm just using those as symbols. No country today is willing to allow its economy to adjust to other countries. And that's the key to our problem. It's the key to the balance of payments problem. Because, the adjustments that we have now are 10-year adjustments. They are a 10-year period, let's say, or a decade or so, of dollar shortage. That gives way now to a decade of dollar surplus.

It could be that if we do attain balance in payments, that that will be simply the marking point where we're moving back into a period of dollar shortage; just like a watch that has stopped; it's right twice a day. The same here; we might be at a balance, but a momentary balance. Because, our problem is not the achievement of balance in international payments by a thrust; our problem is to create in the Western World a mechanism that will take the place of the old gold standard.

Now, some people are saying that we should go back to the old gold standard. It would be nice if you could do it, but you can't unscramble eggs. John Maynard Caines was a great force in the economic thinking of the world; the politicians

picked up his doctrines, and today the emphasis everywhere, as I've said before, is upon full employment at home, and the insulation of the economy against the economies of other nations. You might say, "Why don't we just build up a wall. Let's be self-contained." And that introduces me to the general subject of trade policy which I have about five or ten minutes to discuss.

Trade policy is not something like theology; that we should have free trade because it's good for us; or because of the principle of comparative advantage. I throw them all out the window. We need a liberal trade policy in order to solve this problem of economic viability among the countries of the Free World. Gold is no longer accepted as a standard. Gold is no longer the regulator of prices. Prices are controlled, when not by government, by corporations or by labor unions. The world today is a far cry from what it was in the days of John Stuart Mill and Adam Smith. Countries today interfere. Everybody interferes. Rigidities have taken the place of the normal forces of the marketplace.

What do we do about it? What is our objective? What are we trying to do? We want a peaceful world. We like mother, country, the flag and everything that's good. We're against sin. But, let's be specific, gentlemen. What kind of a world do we want? Do we want a fortress America? If so, then forget about trade policy. Do we want a really strong Free World? A community of nations in the Free World? A few years ago that made sense. Now it seems nonsensical to say a community of free nations. We're fighting each other. We're cutting each other's throats, economically. What do we want? Well, personally, I think George Washington, in his farewell address put his finger on something that is inside each of us today.

I wish we could tell the rest of the world to go to hell and live by ourselves; it would be wonderful. But you can't do it. It no longer takes a month to cross the Atlantic; it takes 3½ hours or less. The world is one world whether we want it

or not. Russia is real. So is Communist China real. We can't abdicate; we're caught. We have no choice. And that means, our relations - trade-wise - with the underdeveloped countries, particularly in Africa, Latin America and the Middle East, what do we do about them? I'll tell you, when you talk to some of the African leaders it makes your ears stand up. We don't want to buy friends; that isn't the point. But how are we going to help these countries resist totalitarian dictatorship? By appropriating billions of dollars and then forgetting about it? No. They have to sell the products that they can produce. They don't want aid; they want an opportunity to live. We have to think in terms of the prices of those goods that those people produce, to try to eradicate the wild variations of prices of such things as tin and rubber, through some device such as commodity agreements.

And what about Japan? Have you been following the papers lately as to what Japan is doing? Japan is prosperous; don't think she's poor. And she's not an underdeveloped country, as you know. She's highly developed; highly competent. And she's making trade agreements with the communist countries. Why? Do you think that our keeping out of Japanese textiles in October 1962 may have had something to do with it? Japan sees under the International Cotton Textile Agreement that was initiated by the United States to keep out Japanese cotton textiles. Why? To protect New England and to protect the Carolinas.

Maybe that's not the proper point of view, to look at these things from the point of view merely of protecting an industry in the United States. Maybe that industry should be sacrificed in the larger interest - maybe. But at least we should be clear as to what it is that we want.

And with the EEC what do we want? I should think - and I end up by prescribing what I think we ought to do. But how to do it is another question. I should think that right now we would try to answer this question as to whether we want

to recreate a world economy along the lines of that which existed in the 19th Century. I don't mean restore the gold standard, but a willingness on our part to adjust to each other; allowing our economies to adjust. Since gold is not longer the adjusting or equilibrating mechanism, maybe trade could be. That would mean a substantial liberalization of trade barriers throughout the Free World, including the United States, and the willingness to accept the necessity of adjusting to this increased trade. It might mean the sacrifice of certain industries in the State of West Virginia. It might mean we'd have to have an underdevelopment program of assistance for the State of West Virginia. I just say West Virginia because it happens to be one of the sick parts of the United States, economically. The industries there happen to be industries that can't stand up very well against foreign competition.

The same with parts of New England and parts of the South. Maybe in the national interest we should try to create some sort of mechanism whereby the economies of the world can adjust to each other and together be strong. Now, the United States is probably the only country in the world today - certainly, in the Western World - that could be self-sufficient. Oh, you wouldn't have much coffee and tea and cocoa, and things like that; the volume of trade in the minerals that we need is relatively small, dollar-wise. It's vital in terms of engineering, but small, dollar-wise. We can get along pretty close to self-sufficiency. But what about the other countries of the world? What about Great Britain? What about Belgium, the Netherlands and Luxembourg? These countries are very dependent upon foreign trade. In some of the those countries I just mentioned, the ratio of their foreign trade to their total GNP is over 30%. Our exports are only about 4% of our total GNP, and our imports about 3%.

We are a continental mass. We don't need much in the way of imports to keep

us going. But the rest of the Free World does. That's the key to this thing. Great Britain was able to pursue a Free Trade Policy in the 19th Century without using her head. Because, the Britishers realized, being the center of a maritime empire, that if they didn't import food, if they didn't import meat and grain they simply wouldn't eat. And even the cockney within the hearing distance of Big Ben realized it; not just the educated British; everybody realized it. Today, the reaction, or the requirement, is not a visceral reaction of hunger and necessity, but it's an intellectual reaction. We have to think think this thing through, and that hurts. But I assure you that right now things are in a great flux. We are hoping that the Trade Expansion Act of 1962 will be implemented. But it's not a very powerful Act. If we really meant what we said, we would give the President the power to remove tariffs altogether in exchange for other countries doing the same thing; not just play with them by 50%, but remove them.

That is, over a period of time, to try to get fluidity into this trade picture; try to make trade a substitute for gold. That's what I'm driving at. Let the goods bring about the changes in prices. That means a certain amount of unemployment. That, we must recognize. Now, I could give you another lecture on the unemployment problem, but I don't think you can give me the time to do that. However, I assure you that there is very little common sense in the idea that the only way we can solve our unemployment problem is by boosting the economy by giving it a hypodermic jab with a needle to make it grow.

There are a lot of people unemployed who are unemployable. And they're not going to be employed simply if we jazz up the economy. The unemployment problem has to be faced directly and head-on. And that includes unemployment brought about by increased imports of competitive goods. In our present Trade Expansion Act of '62 we have written a provision that in those cases where injury can be proved because

of increased imports, instead of jacking up the tariff to keep out those imports, the President has a choice. He can now, if he wishes, invoke what we call adjustment assistance, which is still very embryonic, but to try to retrain people; to try to help them to move from one part of the country to find other jobs; in other words, to roll with the punches; to absorb the increased imports and to face the problem of unemployment head-on by retraining, primarily. You may want to ask some questions about that a little later.

I end up on the note, then, that I started out on. That is, that we must look at these problems as all inter-connected. We must look at them from the point of view of the United States; not of local interest - from a reasonably long point of view; not eternal, but in the next decade or so; to keep our sights high and keep our thinking deep. We Americans are not too good at this. This is a new thing we've been plunged into. We haven't faced the necessity of being world leaders, until World War II, really. It's a new experience. And I think that even though I'm talking to you the way I am now in a rather critical vein of ourselves - criticizing ourselves - that if I were talking to an audience of Europeans or of Africans, or of Japanese, my emphasis would be a little different. I would put more emphasis, which I don't have to put before this audience, that it's a pretty miraculous thing that we do as well as we do, considering the fact that we've been plunged off into this cold water without any preparation for it.

Now, it's not surprising under the circumstances that we're not doing as good a job as the British did just before they assumed secondary position while they were still leaders. Give us another 500 years and we'll do as well as the British.

Thank you.

QUESTION: Dr. Piquet, at the same time that the President is encouraging in-

creased exports and the Department of Defense has decreased the supply of imports for defense needs, it has done this through the "Buy American Act" by increasing the evaluation percentage by 50%. Would you care to comment on the seeming inconsistency between these two policies?

DR. PIQUET: That is, increasing exports and decreasing imports. Is that the inconsistency to which you refer?

QUESTION: Yes.

DR. PIQUET: Of course it's inconsistent. But that's not a new phenomenon in American government. We are so obsessed - now, this just illustrated what I was trying to get across to you; that we must think deeply in this. And we must think of the national interest over a longer period of time. There is so much emphasis today upon getting balance in the payments. We want to increase exports; that is, the in-flow of money, and we want to cut down the out-flow of money. You see, the emphasis there is upon a very brittle thing; the balance in the payments; concentrating on the numbers. But that isn't what I'm driving at here. It isn't the numbers that are wrong. It isn't that we must increase exports relative to imports by conscious policy; because, the other people can do the same thing in reverse.

What we have to have is some sort of mechanism that will be as automatic as possible to bring the prices of the various countries in line in such a way that when they do get out of line equilibrium will be brought about by a movement of goods, because you don't have the gold to do it anymore. The emphasis, then, should not be upon the balance today; get those figures in balance. The answer to your question specifically is, of course they're inconsistent. Why don't we do something about it?

The whole idea of "Buy American" is to keep out competitive imports. Any interference with the movement of goods on the basis of the forces of the market-

place is contrary to what I am talking about here. I'm talking about a fundamental intellectual reform, if you will; a willingness to accept these things. Why do you suppose we have "Buy American?" It's in order to protect the domestic industries against competition. You say, "We're all in favor of competition provided it does not hit me." And the competition that takes the beating is the foreign competition because that's a foreigner. We Americans still have the idea that if it's foreign, somehow or other it isn't quite as kosher as if it's American. So, the answer is yes.

QUESTION: With regard to this equilibrium which you would reach by having trade as the medium for reaching it, what are the implications of this as regards our standard of living, considering the tremendous disparities which exist today?

DR. PIQUET: Well, it would improve our standard of living. If the Japanese are willing to give us goods at a fraction of the labor cost in terms of effort that it would take us to make the goods, we're very foolish if we don't accept those goods. If my yard-man is willing to come to my place and cut my lawn for \$5 and during the time he's cutting the lawn I can concentrate on something else and make \$50 writing, I'd be a damn fool not to let him cut my lawn.

The products of labor compete with the products of labor. The products of labor do not compete with labor. When we import from Japan, or when I buy the services of my yard-man to cut the lawn I'm not competing with him as a laborer; he is selling me goods; he's giving me a service, freeing me to do things that I can do more efficiently.

Now, I will admit that in a situation of unemployment this isn't quite as neat as I make it appear. There are problems in unemployment. But we're not going to solve those problems of unemployment by making work that is less economic - or a less economic kind of work than what we really should be doing. In the long pull

in the sense of the term of overall logic, if we could release the workers in those industries like pottery, chinaware, etc., that are relatively inefficient compared with other industries, we'd be better off, provided those people could find other jobs. And that one big specter in the wings everywhere - here and abroad - automation, is here. Automation is an overriding problem. But the way to solve the automation problem is not by making work that is inefficient, it's by spreading the leisure and cutting the working-day somehow; I don't know how.

In a period of depression, in the '30s, it was true that we did require in our Public Works Administration contracts and projects that only a certain proportion could be machines and a certain proportion had to be labor. Had we pursued that logic to its full conclusion we would have said, "No shovels; let's use teaspoons; that will make work for everybody." You see, that's not the answer. It isn't make work. Man doesn't live to work; man should work to live. But, we've never quite learned how to live. We've never quite learned how to share the leisure. We can think only in terms of keeping busy. I could pursue that for quite awhile, but I think I've given you the main tenor of the answer.

QUESTION: Dr. Piquet, would you comment on the reasons for Mr. de Gaulle's objections for England's entry into the Common Market?

DR. PIQUET: Well, I think it's an unfair question to ask an American citizen to comment upon the reasons for General de Gaulle's actions, any more than I could account for Joan of Arc herself. In fact, the two questions are closely related. But in all seriousness, if I were in the position to understand the Frenchman's mentality - and I do come from French ancestry myself, as you can tell from my name - I would suppose that being a national hero, untrained in economics, with very strong patriotism in his attitude, believing as he does that he saved France - as he did - that he can't conceive of France playing second fiddle to anybody, particu-

larly Germany.

And I'm wondering if, in that context, whether the old man isn't behaving in a way that is quite logical and plausible from his point of view. I have a suspicion that the reason he kept the U.K. primarily out of the EEC was to take a good slap at our interference in Europe. Now, that will never be known, of course. But I don't think he was just slapping the British. He didn't want to dilute the EEC as a political entity. He had dealt with the British and the Americans before.

The British particularly, are difficult to deal with, as you know. The British want their own way, and it's usually the right way; that's what annoys us Americans. And had they entered the EEC as a full-fledged member, he was afraid, I suspect, that they would want to run the show and that they might succeed. These are just guesses.

But, the economic leaders in Europe, including the French leader Jai Monet himself, and Pieurre (phonetic) and Robby Mongilierre (phonetic), and the late Mr. Schumann, these people who were the economic leaders, as you know, have been very outspoken in criticism of General de Gaulle. The economic leadership in Europe is very pro-EEC as opposed to nationalism. But, of course, they don't run the show; he runs the show. He didn't put Jai Monet in jail for what he said. It's conceivable that in a previous day if a guy had talked that way against his President would have been slapped in jail in Europe. He was very outspoken in his criticism of the General.

I think if you want to know how the General behaves you had better go and ask him.

QUESTION: Do you think that the economic union, or the EEC, over the next decade, let's say, might form into a political union on a federation basis, and if so, what impact might this have on free trade policy?

DR. PIQUET: Well, I think not only is it possible; I think it is quite likely. They have been very outspoken. This was Monet's main objective in formulating the Treaty of Rome. The Treaty of Rome was an economic document, it's true. But underneath - the background - it's all political. In other words, it will not lead to political union; this is a political move. This couldn't have happened if they hadn't had the political desire to do it in the beginning. What the effect will be, I think it's going to be one in which you will have a prosperous Europe that will not pursue an inward-looking policy of self-containment. Now, this is based largely upon hope, I will admit, and upon the statements and the beliefs of the people who are running the show.

Dr. Holschtein, a German, who is the chairman or the president of the Economic Commission, has been giving speeches along this line now for some time; that the objective is to coalesce. And while they are coalescing, of course, they can't dilute too much by a liberal outward policy. But after '66 or '67, whenever they achieve this end - and it's more likely to be '66 than '67 - maybe even '65; they're moving very rapidly - that then they can afford to tear down some of these barriers with regard to the external world. But they have to coalesce first, because this is a political movement.

That doesn't mean to say that they are going to be self-contained, however. The very fact that they were able to agree on the Treaty of Rome to tear down their trade barriers with respect to each other indicates that they have an outward-looking point of view with regard to each other. And people who start out with a philosophical predilection for outward-lookingness are likely to continue that. This is guessing, but my feeling is, knowing some of these people - having been over there and talked with them - that both the French and the Germans who are in the leadership position within the EEC, are very much worried about the General. They're

very much worried about the delay that is occurring, and they are outward-looking. So, I'm optimistic in the long pull. But I may come back to lecture ten years from now and I may have to eat these words. However, I don't think so.

QUESTION: Dr. Piquet, would you comment on the possibility of the United States giving subsidies to some of its export industries which have trouble now in competing in the world market?

DR. PIQUET: Export subsidies. If you could just do what you want to do and not worry about the reactions of other people; if the theory of gains didn't apply and you could do what you want to do, with impunity, of course, that's the answer; stimulate by subsidies. But, can't they do the same thing? Two can play this game. Now, it's true that we're members of GATT, the General Agreement on Tariffs and Trade, which very piously says there shall be no export subsidies. In spite of that fact countries all over the world are still dealing in export subsidies - hidden, if not open. Sometimes they're in the form of tax benefits of one kind or another.

We're playing with the idea. But any intervention on the part of the government to stimulate exports can incur retaliation on the part of the other countries and will. They'll do the same thing. This thing must be made as close to automatic as possible, without the intervention of governments. But today that's a big order. Because, as soon as we strike a problem what do we think of? The government must do something - the government must do something - not realizing that you can't act by government in a vacuum world. It's a real world we're dealing with. What one government can do another government can do.

Right now we are retaliating against the EEC, or threatening to, because of the poultry difficulty. They did the same thing with us, remember, a about a year ago when President Kennedy raised the duty on carpets, rugs and sheet-glass, be-

cause those industries were injured. He slapped on higher tariffs. What was the result? The European Economic Community raised their tariffs on a substantial list of chemical items. For every action there is a reaction; whatever one government does, other governments can do. The best way is to get it out of the hands of governments and try to have a system that will be as far as possible, self-regulating, which I say is a terribly big order in the latter part of the 20th Century.

QUESTION: Would you care to comment on the rationale with regard to protectionism, using the example of shoes, for example, or footwear. Now, we have a protected watch industry because it affects the national defense. This throws another factor into this problem.

DR. PIQUET: Oh yes. I would say that as far as national security is concerned - genuine national security - no economist that I know of has ever said that that should be impaired for the sake of trade. Adam Smith, himself, in the "Wealth of Nations," which is the high-point of free trade doctrine, said that national defense is more important than opulence or wealth. We agree with that philosophy - all of us. We have a national security provision in our trade act that says in those cases where certain industries or skills are necessary for national security, the President shall have the power to take whatever action is necessary to make sure that that security is not impaired. But that doesn't spell it out.

You mentioned watches. A few years ago there were two reports circulating in this city, both secret, on the watch industry. One said we must keep out watches for national security. The other one said it didn't make any difference. Whatever the reasons might be, we did raise the tariff on watches. The facts of the case in the latter report, to my way of thinking, were more important than in the former report. It was pointed out in that report that the skills of which we are speaking, that is, the making of the dies - not the assembly of the watches; watches are

assembled - even jeweled watches - by semi-skilled labor.

The actual skills involved in making the dies for a jeweled watch are very small as far as the watch industry is concerned. The Eastman Kodak Company alone, during the war, so I've been told responsibly, put out more in the way of these skills - they had more in the way of skills for these proximity fuses, etc., than the whole watch industry put together. The very last people to make the decision are the people in the industry. It's up to you people in the military to make those decisions. But they must be honest decisions and not simply use the national security amendment or provision as a device to bring protectionism, as such, in by the rear door. And I'm afraid that's what we're doing in the petroleum industry.

So, the answer to the question is, in pure theory - in pure principle - you said, "the rationale" - that whenever something is necessary in the national security, that must be over-riding. But don't allow the industry making those products to tell you that that's true. Otherwise you'll have lead pencils on the security list as well as woollen blankets and a few other things that don't belong there. It's one of those cases where practice and theory are quite divergent.

QUESTION: Dr. Piquet, our government is seemingly quite interested in seeing Great Britain enter the EEC. It has been charged that we might be interested because this would give us a means of control. Would you discuss, sir, the advantages to our country, of England's entry into the EEC?

DR. PIQUET: Well, I don't want to get too much into the political subtleties involved. If we control the British, that's pretty good. But I do know this much; that when the Administration's bill was introduced in January 1962 there was a very complicated formula which has since become law. In the case of those commodities included in statistical categories which account for 80% or more of the Free World exports, the President, in an agreement with the EEC, could remove those tariffs -

100% reductions. And there were 26 such overall statistical categories. But the only way it made sense was - or meant anything - was if the British were in the EEC. Then there would be 26 categories with a lot of products in those categories, which would have the tariffs removed from.

With the British not in the EEC there are only two categories; I think one is airplane engines and the other is oleomargarine - something like that. It's a dead letter. Now, when the bill was in Congress, Senator Douglas, a Democrat, introduced an amendment saying that that should be changed so as to give the President the power to remove tariffs on these categories even if the U.K. did not join the EEC. In other words, what he said was, if Europe - meaning the EEC - and any one or more of the countries comprising the Free Trade Association - that is, the United Kingdom or the Scandinavian countries - then the President could have the power to remove the tariffs. In other words, he would make it a more liberal power and give the President the power to act regardless of what happens vis-a-vis U.K. membership in the EEC.

That was passed by the Senate. It went to conference in the House; and, as is usual in those cases for trade legislation, they referred it to the Administration. And the Administration rejected it. The White House people tell me it was the State Department that did it and the State Department says it was the White House that did it. Somebody did it and I suspect that it was the Secretary or Under-Secretary of State. Anyway, that was a pretty clear indication that the purpose of putting that provision in the original bill was not to expand trade, but for the political purpose of getting the U.K. into the EEC.

Now, whether that was wise or not, I don't know. I don't think it was. I think we were trying to pull a political trick and we were a little too clever for ourselves. We Americans do not excel when it comes to political skill. We can't

be very subtle; we have to be more open on these things. We were trying to pull a fast one here. I followed that pretty closely at the time. And as I read the British publications, particularly the London Economist, I couldn't help but read between the lines as well as on the lines; I think the British would have preferred that we kept our mouths shut. I think they wanted to do it themselves. I'm not at all sure that the British were very disappointed when they were rejected by the EEC. Now, this is just a suspicion. I say that by reading between the lines instead of on them, they don't want to be pushed around by us; neither does the Continent of Europe.

Whether it's to our interest to get the U.K. into the EEC I just don't know. Certainly, it is inconsistent with the original idea we had in 1947, of Western Europe being strong. We have always said, however, that we wanted it to be a broad Europe; we wanted it all together. We would have far preferred to see all the countries together in Europe form one cohesive Western Europe as strong, and we still say that. We are even talking about an Atlantic Community or Atlantic Partnership. I think that's all to the good. But that isn't the question.

The question is whether you are coming to an Atlantic Partnership kind of thing or an Atlantic Community - although, I don't like that because we're not going to be that close to Europe - but a trading partnership with a strong nucleus, or without a strong nucleus. Because, the history of European cooperation like in the OEEC, has always been, like in most international organizations, that the power will be no stronger than the highest common denominator. And that is always a weakness of an international organization.

The fact that you have six countries on the Continent of Europe willing to go farther than that to form a real economic union, to make a big one out of six little ones, seems to me, in principle, to be more likely to lead to a strong Europe than

a continuation of the OEEC-type of thing, a loose international organization. I think that almost any sign of strength in Europe, from our point of view, is an advantage in the light of the whole world - the light of the Free World, that is. And I'm inclined to think that we ought to continue, as I say, to support the EEC and to try to help the other countries to have some sort of association with it.

But let's not overlook the fact that the United Kingdom traditionally has been much more Atlantic-minded than it has European-minded. Winston Churchill himself has been credited with the statement some years ago, that if we have to choose between the Continent of Europe or the Western World, that is, the Atlantic, we will choose the Atlantic. I can't put my finger on that quotation, but I've seen it. Anyway, we do know this; that the U.K. has always held itself aloof from the problems across the channel. I think the Frenchmen realize this and remember it. And they feel that if the British come in it will dilute. Now, whether that's to our advantage or not, I just don't know.

I think we ought to encourage any kind of European integration that looks as though it's going to succeed. Right now, our trade with the EFTA countries - that is, the European Free Trade Association countries - is actually larger for the first time, than it is with the EEC. There are a great many moves being made in Europe - undercover - by some of these countries, particularly Denmark, trying to get into association with the EEC as well as with the EFTA countries. We're living in a period now when there is a lot of confusion. But the important thing is that Europe should not continue its old ways of fighting each other, trying to be independent of each other, etc. We want a strong Europe.

I think we were right in 1947; we wanted a strong Europe. The question is, how do you go at it? Maybe the best thing for us to do is not to try to call the political tune, but let them do it and then we cooperate with whatever they

decide. That might be the intelligent thing to do.

DR. BARRETT: Dr. Piquet, on behalf of the college and the student body, we wish to thank you for a very stimulating discussion of our topic.

DR. PIQUET: Thank you.