Part I

The Farmer's Stake in Foreign Trade

Today the United States occupies a position of new and strategic importance in foreign affairs. Those of us who are engaged in the business of adult education in the social sciences have a responsibility for collecting and disseminating information that will enable our people to make sound judgments with respect to foreign policy.

Certainly more than ever before an increasing number of people are showing personal interest in and concern for America's role in foreign affairs, and they are attempting to appraise various courses of action. In a broad sense this includes not only economic, but also political and military policies. But these are all more or less interrelated.

The peoples of many nations today are virtually at a level of abject poverty. In many instances we know their standard of living is woefully low. Some steps have been taken to correct this situation, but it is realized that it must be done in a way that will not undermine our own economic health. Possibly some things are being done today at greater expense than can be justified as a matter of long-time policy. If so, a logical question to ask is: What can be done by way of putting our trade relations on a really sound long-time economic basis? On this subject three papers have been prepared.

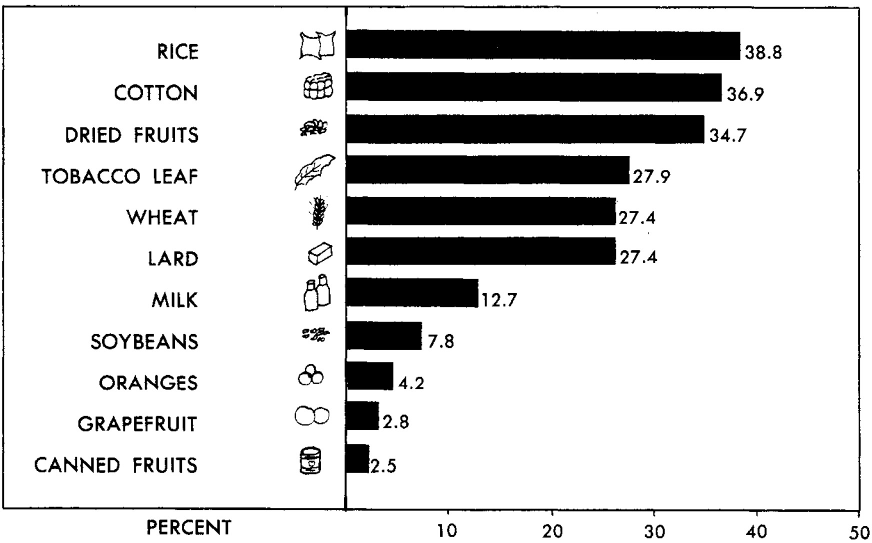
THE FARMER'S STAKE IN FOREIGN TRADE

By Arthur Mauch

American farmers, in 1951, sold 4 billion dollars worth of their products overseas, to foreign consumers they never saw and often never knew were their customers.

Although farmers would do well to get 10 percent of their cash income from their sales abroad year after year, many individual commodities lean heavily on foreign demand. For example, in 1949, the portion of the following products that was sold overseas was (in round numbers as a percent of the amount produced): rice 39 percent, cotton 37 percent, dried fruits 35 per-

AGRICULTURE DEPENDS ON EXPORTS
PERCENT OF U. S. PRODUCTION EXPORTED 1949



cent, tobacco leaf 28 percent, wheat 27 percent, lard 27 percent, milk 13 percent, soybeans 8 percent and oranges 4 percent.

The farmer's interest in exports and imports hinges primarily on their effect on price. This varies by commodities and involves many relationships that would be impossible to calculate. E. J. Working[1] points out that in 1950, exports plus military and other government purchases amounted to 9.9 percent of the 1935-39 average food production. If they had been only 2.3 percent, as in 1940, supplies available in the domestic market would have been increased by 7.6 percent of the 1935 level of production. He suggests that such an increase might be expected to decrease retail prices of food by about 30 percent.

HOW FARM EXPORT TRADE DEVELOPED

Agricultural America grew up by trading its raw materials for Europe's finished goods. Historically American farmers produced not merely for their own neighborhood, but for the rest of the nation, and for the world.

As producers for the world market, American farmers had special advantages. They had access to new lands. These lands

[1]*Journal of Farm Economics,* May 1952, p. 221.

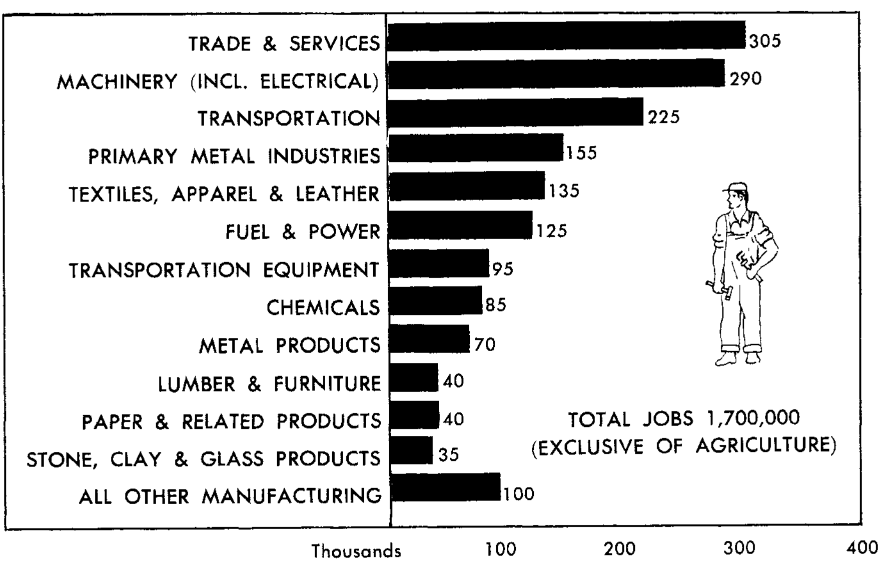
were adapted to use of machinery and large-scale production methods. Because the American farmer could sell at a low price, and because of a good demand across the Atlantic, there was a continuous market for farm products.

Before World War I we exported one fifth of our wheat, two thirds of our cotton, two fifths of our tobacco, and one eighth of our pork. Loss of the export market after the war had a drastic effect on such farm products as wheat and cotton. Because of the economic nature of the demand for farm products, even a small decline in export demand may cause a disastrous decline in price. There is little doubt that the high food exports needed during World War II, and for relief and economic recovery after the war, have been a major factor in maintaining high farm prices.

EMPLOYMENT AND EXPORTS

The most important farm market is the home market. But the extent of this demand depends on full employment at reasonable wages. Millions of United States jobs depend on exports of industrial products. An estimate was made in 1949 showing the number of workers depending on foreign demand as follows:

U.S. JOBS DEPEND ON EXPORTS—1949



trade and services 305,000; machinery 290,000; transportation 225,000; primary metal industries 155,000; textiles, apparel, and leather 135,000; fuel and power 125,000; transportation equipment 95,000; chemicals 85,000; metal products 70,000; lumber and furniture 40,000; paper and related products 40,000; stone, clay, and glass 35,000; and all other manufacturing 100,000. These add up to 1,700,000, not including workers in agriculture.

THE FARMER AS A CONSUMER

Sometimes the farmer forgets that he is a consumer, too. If he can get more for his dollar by buying imported goods, his income will provide a better living for his family.

Half of all the products we import are things which we do not produce at all or produce only in small quantities. Some of them we see and use so often in our daily lives, that until they are in short supply—as they were during the war—we seldom think of how much we depend on them. Sugar, coffee, vegetable oils, newsprint, nickel, tin, rubber, manganese, chocolate, pepper, and bananas are only a part of the list.

The government stockpiling program involving dozens of strategic raw materials emphasizes our dependence on foreign trade for defense purposes as well as for creating a high level of living for consumers.

BARRIERS TO TRADE

The first and the most important obstacle to imports is *fear*—fear both here and in foreign countries, but in each case working against an increase in imports to the United States.

Manufacturers, producers, and exporters abroad look at the extraordinary productive capacity of the United States and the amazing productive skill of the American people. They are afraid that they cannot compete effectively in our home market. And so they do not really try.

But the "giant" is also afraid. There is fear that to bring into this country a larger volume of things that people in this country want at prices they can afford to pay will be harmful, not beneficial — fear that someone is going to be hurt.

Many farmers and workers fear that a lowering of trade barriers would mean lowering our standards of living to the level of those with whom we trade. This fear is not easy to brush aside. And we must admit it is a factor to be reckoned with in some lines where efficiency has been developed to a high level even in countries with low levels of living. Nor can we overlook the fact that our inflated cost structure, due primarily to wage increases, will make it even more difficult for us to compete for world markets.

For most products this fear is not well grounded. The United States itself has demonstrated the fallacy of this kind of reasoning. In the past century we have had very high wage rates in some industrial areas, while in other areas, notably in the South, some extremely low real incomes. Yet other farmers and workers did not find that their level of living was lowered by trading with those in low-income areas. Actually the evidence indicates that this trade has been mutually beneficial and that those in low-income areas have been upgraded to become better customers and better citizens. Furthermore, there is evidence that the highest wages are paid, not by protected industries, but by the efficient industry operating free from trade barriers.

The real basis of comparison should be wage costs per unit, not wage rates per hour. Labor at 50 cents a day may not be cheap labor. Because of lack of capital goods to make labor efficient many days may be required to produce an article that with a machine could be finished in a few minutes. Of course, if we insisted on making pottery by hand, our laborer would have to accept the wage of the Mexican peon with whom he would compete. We export rice in competition with Asia only because we use the airplane, the tractor, and other machines where they use manpower. Australian wool is competitive, but the main reason for the decline in sheep production in the United States is the greater opportunity to make money in cattle, milk, and other enterprises. Sheep could not compete with other livestock for our scarce resources.

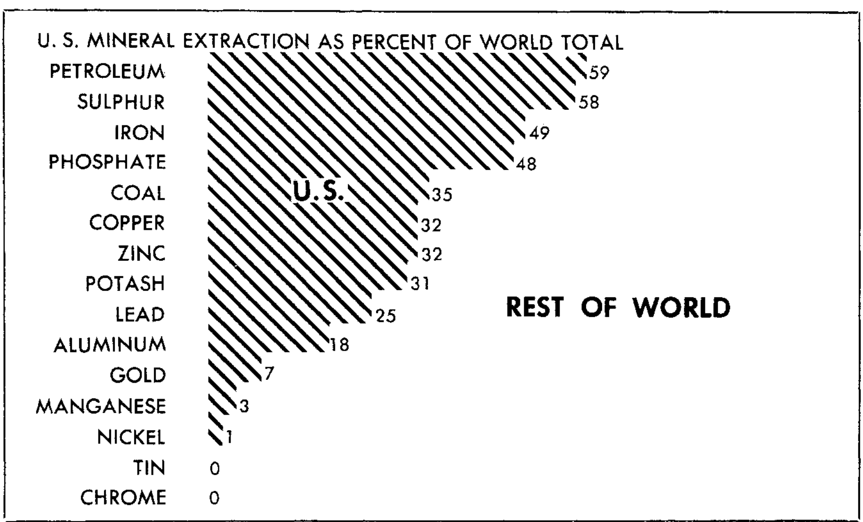
The more real competitive danger comes from a country that subsidizes exports because it is under pressure to obtain dollars. This creates unfair competition for our producers. If other countries could export more products in which they have a real advantage, they would have less need to obtain dollars by uneconomic subsidies, and at the same time we would gain by getting low-cost materials.

It is argued, too, that trade barriers should be used *to protect "infant" industries.* This will allow them to survive until they can become strong enough to compete in a world market. Continuation of the protection, however, is usually justified on the grounds that the industry was established with the expectation of protection and that vested interests will be harmed by the removal of trade barriers. In this way a permanent monopolistic advantage can be gained.

It is also argued that imports should be restricted *to encourage diversification* of enterprises. As a result, we would be more self-sufficient and suffer less in time of war. True, we would be more self-sufficient — but undoubtedly at a lower level of living. This might mean using our non-replaceable natural resources at a faster rate. It would surely mean inefficient use of resources and higher costs. Perhaps we would be less strong and less able to protect ourselves in case of war.

The United States now produces about half of the world's industrial goods—but mines only a third of the world's minerals.

U. S. PRODUCES OVER HALF THE WORLD'S INDUSTRIAL OUTPUT BUT MINES ONLY A THIRD OF WORLD MINERAL OUTPUT



Source: FREEDOM AND UNION, OCTOBER 1950

The latest national resources report indicates that 25 years from now we will have 42 million more people and will need 42 percent more food, 54 percent more iron and coal, 109 percent more oil and gas, 4 times more aluminum, 18 times more magnesium, 40 to 50 percent more copper, lead, zinc, and manganese, and tremendous increases in all other materials. Even now we are not self-sufficient in most of these.

Some imports have been restricted *to hold down the cost of domestic subsidies* to producers. For example, in order to protect the government from even greater losses in the potato price-support program a few years ago, it was necessary to stop imports of potatoes from Canada. Section 104 of the Defense Production Act directs the President to prohibit imports of farm products for reasons that may be interpreted so broadly that they could apply to any commodity at any time. Cheese imports have been restricted under this act. Repercussions from abroad have been so great that it is now referred to by some as "the cheese amendment." The situation is analyzed in the July 1952 issue of *Farm Policy Forum*, published by the Iowa State College Press, as follows:

> In the first 6 months of 1951, American cheese production was running at the annual rate of just below 1.2 billion pounds. Cheese imports stood at 55 million pounds. This was less than 5 percent of our domestic production. Because of the cheese amendment, imports were cut down to an annual rate of 37 million pounds beginning in August 1951.
>
> This reduction of 18 million pounds supposedly makes a difference between a healthy and a ruined dairy industry! When it's remembered that barely 10 percent of all the milk produced annually in the United States goes into cheese production, the theory becomes even harder to believe.
>
> What's more, most of the imported cheeses do not compete with our domestic prices. Almost without exception, imported cheeses are higher priced. Many are not made here at all. But the amendment slaps controls on all cheeses—even though reduced consumption of many of them wouldn't add one iota to consumption of domestic cheeses.
>
> The damage done by the cheese amendment is threefold. Economically, we're keeping Europe from earning dollars. It's difficult for us to realize what the cheese amendment has meant to countries like Italy and Denmark—which in 1950 derived 10 percent of their dollar earnings from cheese.

A country can't buy what it can't pay for. Therefore, either we reduce our exports because of curtailed imports – or we finance exports with foreign-aid dollars as we have done in the past. Apparently, the Senate would prefer to give our resources away than to be paid for them in imports.

The second damage is psychological. We're forfeiting our role of leadership in freeing world trade – and at a time when we're asking Europe to "integrate." We want European countries to remove trade barriers and to expose each nation to intra-European competition; we think this will make Europe stronger and war less likely.

Finally, there's the political damage. The cheese amendment offers the sort of unfavorable propaganda that our enemies might have to invent – if we didn't voluntarily hand it to them. For years they've said that America's aim, through the Marshall Plan, was to conquer the markets of Europe while keeping our own tightly closed.

Now they have proof!

Another argument for trade restriction is that interdependence means that *depressions and booms of other nations cause like disturbances in this country.* Since we are the giant, this appears to be a better reason for other countries to shun a tie-up with us than vice versa.

REASONS FOR TRADE BARRIERS

- ✓ FEAR OF LOW-WAGE COMPETITION
- ✓ PROTECT INFANT INDUSTRIES
- ✓ ENCOURAGE DIVERSIFICATION
- ✓ PROTECT PRICE SUPPORT PROGRAMS
- ✓ AVOID WORLD DEPRESSIONS
- ✓ ECONOMIC AND POLITICAL BARGAINING

Still another reason for maintaining barriers, or at least a threat of barriers, is that since other nations have them, we *must use them for bargaining purposes* at the international conference table. This may be even more useful politically than economically. Again there are many indications that results of trade barriers are more likely to lead to retaliation, international difficulties, economic warfare, and perhaps even world wars.

KINDS OF BARRIERS

When people mention trade barriers they usually are referring to a *tariff*. Tariffs are taxes or import duties on goods brought into a country. They are the most widely used of barriers but are not the most drastic. They do not completely prohibit imports unless the duty is clear out of reason.

In administering the tariffs, customs officials must make *arbitrary decisions* on classifications and rate applications. For example, does 10 cents worth of lace on a dollar's worth of cotton goods justify classifying the garment as lace goods, subject to a high duty, or as cotton goods which may be at a low rate or even duty free? Oftentimes our antiquated customs regulations more effectively discourage trade than do the actual tariff rates. It is sometimes as long as three or five years before an importer knows exactly the amount of duty he will be required to pay. In some cases he has been charged more than the total sale price of the goods.

Quotas are even more restrictive than tariffs. They limit imports to specific quantities. The trend is toward greater use of the quota.

A quota of zero, of course, is an "embargo." This restriction often is used to protect against importing animal or plant diseases. In time of war it may be an embargo against exports of materials that would aid the enemy. Unfortunately, protection of health may be used as an excuse to gain a monopoly position.

Money exchange rates may be manipulated to regulate trade. If X country wishes to discourage imports and encourage exports it can make its own money worth less in other countries and conversely make it possible for other currencies to buy more per unit in X country. Or even more likely, they may give a favorable rate to a commodity they wish to export or import and a less favorable rate to those they wish to avoid.

The *import license* by a government is another device to restrict trading. It may have the effect of a quota or in extreme cases even be an effective embargo.

KINDS OF BARRIERS

- ✓ TARIFF
- ✓ CUSTOMS
- ✓ QUOTA
- ✓ EMBARGO
- ✓ CONTROLLED EXCHANGE RATE
- ✓ IMPORT LICENSE

Our federal, and many of our state and local governments, which spend billions of dollars each year for supplies and equipment are required to "buy American." The federal government, for example, is prohibited from buying foreign materials, or commodities manufactured from foreign materials, unless these materials are not available in the United States, or unless the prices of corresponding domestic items are unreasonable. "Unreasonable" is usually interpreted as meaning considerably more expensive — perhaps as much as 25 percent more.

We often must tell citizens of friendly countries that we cannot accept their offer to haul our goods in their ships because we are obligated to use our own vessels regardless of the service or cost. The labor cost for a ship operated by the United

States is estimated to be nearly double that of one operated by England.

In the United States the high point in these restrictions was reached in 1930 when we imposed the Smoot-Hawley tariff rates to keep the American market to ourselves. Within a year and a half, about 25 countries had adopted retaliatory measures. Under the Reciprocal Trade Agreement Act in 1934 the executive branch of our government was authorized to bargain with other nations to reduce tariffs and other trade barriers. The maximum reduction was limited to 50 percent of the 1934 level, but in 1945 another reduction of 50 percent of the rate in effect on January 1, 1945, was authorized. So far these agreements have reduced our rates to about half the level reached in 1934.

A high tariff does not assure a high price. The farmer saw wheat at 97 cents in 1914 when it was duty free; at 92 cents in 1923 when the tariff was 30 cents; and at 38 cents in 1932 when the tariff was 42 cents. In wheat we are on an export basis. Tariffs are effective only when we import. In the Congressional log-rolling process, farmers were led to believe they were getting a bargain when they accepted a high tariff on wheat in exchange for other tariffs that raised their costs.

Farmers should also recognize that they do not have an equal interest in tariffs. The markets for some farm products depend heavily on exports and on the ability of foreign nations to buy them. Wheat, cotton, and tobacco are examples. On the other hand, producers of wool, sugar, fruits, rice, and many other commodities are concerned with competition of foreign products. All farmers, however, are interested as consumers and also because of the impact of a healthy foreign commerce on the general prosperity of this country.

STUFF FOR STUFF

In 1951 the United States exported about 15 billion dollars worth of merchandise and imported almost 11 billion dollars worth. The excess of exports over imports, or net export balance, was thus about 4 billion dollars. This is the "dollar gap" we hear so much about. This is generally known as a "favorable" balance of trade. But is it really favorable to us? Let's look at some facts.

U.S. FOREIGN TRADE BY COMMODITIES—1951

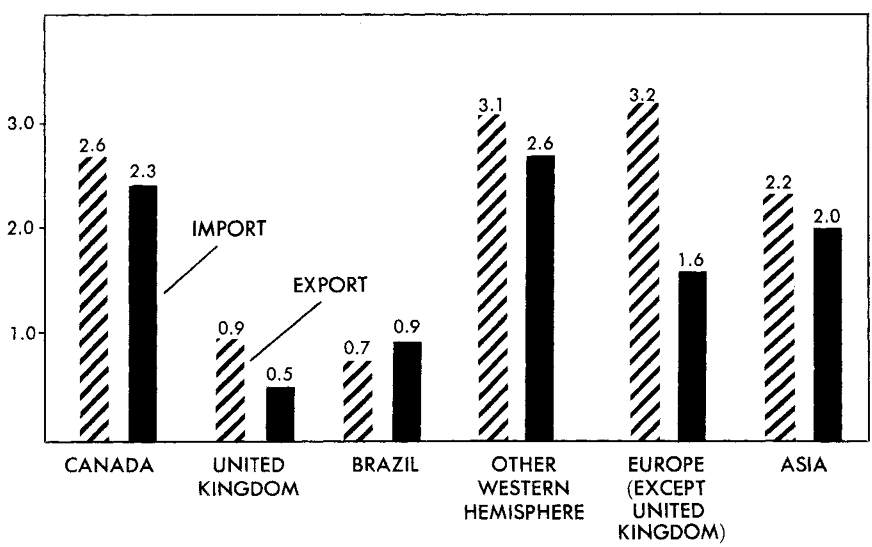
(BILLIONS OF DOLLARS)

EXPORTS $14.9		IMPORTS $10.8	
MANUFACTURES* $10.2		MANUFACTURES* $4.4	
Machinery	$2.1	Pulp and Newsprint	$ .9
Cars, Trucks, Tractors	1.2	Refined Metals	.8
Textiles	.6	Sawed Lumber	.2
		Gas and Fuel Oil	.2
RAW MATERIALS $4.7		RAW MATERIALS $6.4	
Cotton	$1.1	Coffee	$1.4
Wheat	.9	Rubber	.8
Manufact'd Foodstuffs	.8	Wool	.7
Other Grains	.4	Sugar and Molasses	.4
Coal	.3	Metal Ores	.4
Tobacco	.3	Crude Petroleum	.4

*Also includes semi-manufactures

U.S. FOREIGN TRADE BY COUNTRIES—1951

(BILLIONS OF DOLLARS)



International trade is an exchange of stuff for stuff. Of course, credit may be used to postpone the payment. Buyers pay for foreign purchases in four principal ways: (1) the sale and shipment of goods, both raw and manufactured; (2) the sale of services such as ocean transportation and spending by travelers; (3) the sale of stocks, bonds, and real property; and (4) the shipment of gold.

When the United States was young we borrowed heavily from Europe to develop our resources quickly. As a *debtor nation* we paid our debts largely with raw materials, which Europe as a *creditor nation,* readily accepted in return for the money lent us. Since it was necessary for so many years for us to have a net export balance to pay our debts we got used to calling this a "favorable" balance.

The tide was turned in World War I. Europe was desperately in need of our goods and services. We not only paid our debts in full, but Europe became heavily indebted to us. The shoe was on the other foot. But we failed to recognize it. When Europe tried to send us goods to pay the debt we increased our trade barriers to protect special interest groups from foreign competition. This made it impossible for them to pay their debts.

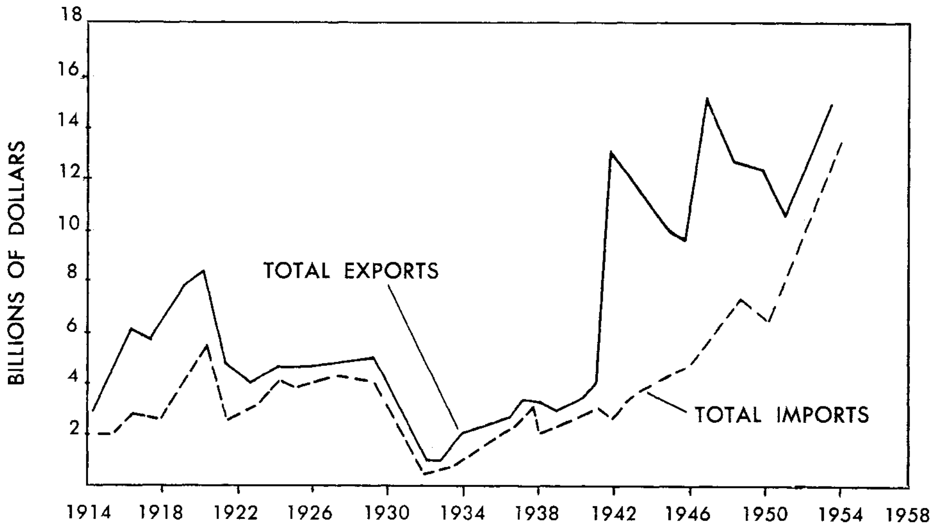
Since 1914 the United States has not had a single year with a net import balance, and the total export balance has mounted to well over a hundred billion dollars. To get some idea of the magnitude of this sum let us imagine the people in this country receiving payment in homes. This would be equivalent to 10 million $10,000 homes or enough for about one out of every four families in this country.

Perhaps this balance of exports over imports has been favorable to certain producers in this country, and temporarily favorable to consumers in other countries. But there is no doubt that the definition of "favorable" balance for a creditor nation should be surplus of imports over exports in the long run.

IT PAYS TO SPECIALIZE AND TRADE

Our history has emphatically demonstrated that it pays to specialize in the production of things that each person is best fitted to produce. By trading with others we can have more

EXPORTS AND IMPORTS SINCE 1914—U. S.



total goods and services than by attempting to produce everything for our own needs. The artificial boundary lines between nations should have no real bearing on this economic principle.

If one producer could grow twice as much wheat per day as another, and the other could weave twice as much cloth as the first, each would obviously gain by concentrating on his specialty and trading with the other. It is not so obvious, but equally true, that the first party could have a comparative production advantage in both wheat and cloth and yet both could gain by specializing. This is true where the difference in efficiency is not the same for each article. In this case the second party puts more of his time on the product in which he has the least disadvantage, and the first party on the product in which he has the greatest advantage.

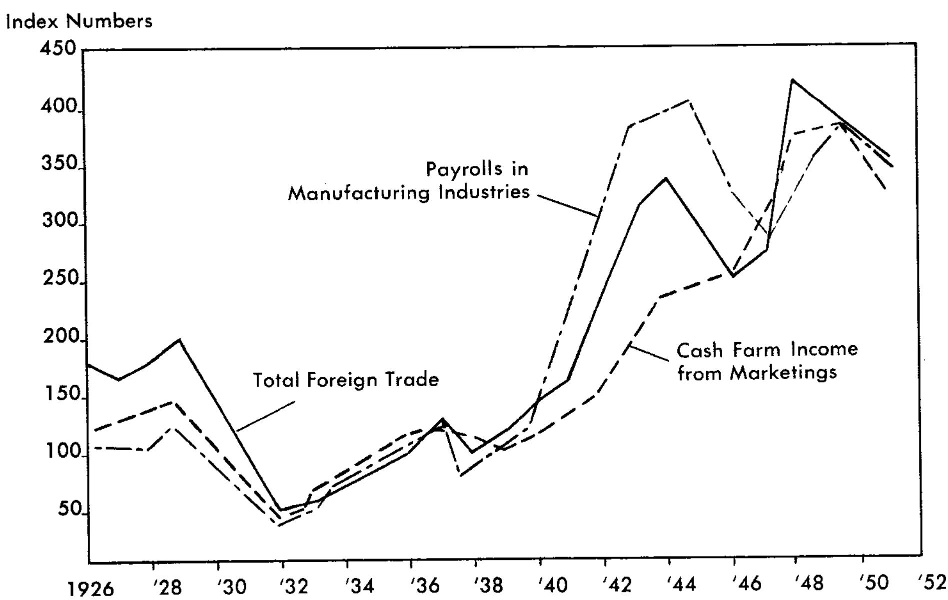
CONCLUSION

The fundamental reason for maintaining and expanding American foreign trade is to increase the economic strength and the welfare of the United States. A nation's wealth is increased if it trades the goods which it produces more efficiently than can other countries for foreign goods which it needs but does not produce, and for goods which are produced more economically abroad. Through foreign trade, a nation can obtain the goods it imports with less effort and in greater volume by producing the export goods which it exchanges for them than by attempting to produce these goods itself.

Our foreign trade provides jobs in American export industries. Jobs in other domestic industries also result from purchases made by workers employed in the export industries. Jobs in export industries are high-wage jobs, as statistics confirm. Efficiency in production enables the United States to compete in world markets while paying high wages. Any increase in our exports causes an increase in the number of these highly paid jobs; any decrease in exports results in a decrease in these jobs and wages, and in purchasing power.

We do not lose dollars when we buy foreign goods. The only place where the dollar is any good is for purchase of goods in the United States.

INDICES OF FOREIGN TRADE, PAYROLLS IN MANUFACTURING INDUSTRIES & CASH FARM INCOME



Foreign countries cannot buy our exports without American dollars. In the final analysis, the only way in which they can earn dollars is by selling goods and services to the United States. For all practical purposes, every dollar spent on imports returns to the United States in payment for exports produced by American workers. The dollar earnings of foreign countries, since the end of the war, have been inadequate for buying all the American exports they urgently need to prevent economic chaos and a general spread of communism. Consequently the American taxpayer has financed exports valued at several billion dollars annually.

In the present serious circumstances, our foreign trade is more vital than ever to the security of the United States and the rest of the free world. Our imports give us many of the things most needed for increasing our material resources and production to meet critical national defense requirements. Our exports provide the other free nations with the goods they desperately need to cooperate effectively against possible Communist aggression as well as to prevent the economic want, distress, and unrest which breed communism internally.

In formulating a long-run trade policy the United States can do one, or a combination of the following:

(1) We can cut exports, which would have a serious effect on the United States economy and create unemployment.

(2) We can continue indefinitely to make gifts of dollars, which means the United States will never be paid for its exports and the American taxpayer will make up the difference.

(3) Or we can allow the nations of the free world who need American products for our joint defense to sell us their products and so help earn the dollars they need to pay us.

Americans must choose!