Comments on Dr. Brandt's Paper

By George L. Mehren

The major purpose here is to suggest specific ways in which impediments to sales of American farm commodities to other nations may be mitigated or even eliminated. To do this, it is first necessary to identify the factors which are interfering with trade in individual commodities or to particular nations. Factors impeding foreign trade must, of course, be one or more of the general determinants of trade, and nothing else. Policy to eliminate impediments must, therefore, involve manipulating one or more of the basic determinants which govern trade in any product between any points.

The general conditions for trade between any two points can be stated most briefly and with adequate generality by considering a single commodity and two markets. For trade to flow between the two markets, two general conditions are always necessary: (1) the price of the commodity in the importing area must exceed the price in the exporting area by at least the full cost of transfer from the exporting region to the importing market, and (2) the importing area must have means of paying for imports in the currency of the exporting region. If these two conditions exist, trade in the commodity is profitable both to shippers in the exporting region and to importers in the buying area.

Impediments to trade must lie in one or more of four determinants: (1) relative costs of production, (2) relative demands, (3) transfer costs, or (4) means of obtaining exchange for payments. Similarly, policy designed to widen trade flows must be aimed at one or more of these four broad classes of determinants. Such policy must quite obviously be formulated under present conditions with respect to particular commodities and particular markets. The impediments and, therefore, the policy implications will differ among regions and commodities.

It seems to me insufficient to state that elimination of dollar gap or attainment of convertibility will eliminate trade impediments. This is essentially a tautology. Gaps are symptomatic of disequilibria in one or more of the determinants, and nonconvertibility is usually a protective device designed either to protect internal factor price levels or to guide internal development. I doubt that some of the major barriers to trade would be removed by elimination of all tariffs, quotas, or other direct barriers which either raise transfer costs between nations or lower demands in importing areas. I doubt that the United States is a major offender in creating or maintaining trade barriers. Finally, it seems to me that with the world in two blocs and with the political necessity of maintaining allies, there are relatively few directions in which American foreign trade policy can move.

This nation can do nothing about reducing costs of production in such nations as Japan. On the contrary, it may be politically necessary to maintain living levels. With physical productivity in many lines still far below comparable United States levels, and with floors placed upon factor prices, Japan has been deficit in dollars for roughly 60 to 90 percent of its postwar imports from the United States. However, by a variety of devices this nation has contributed to physical efficiency of production in many areas since the war ended. This American assistance has helped such nations to produce some commodities at prices low enough to sell commercially in the United States and to give Americans stiff competition in some foreign markets.

Given the other three sets of conditions, nations could be induced to import more American farm products if their wants for them could be intensified. Certainly improvement of quality and packaging to conform with import demands at specified price levels is sensible. But I am doubtful that a few energetic salesmen can greatly increase American exports to areas where the major reasons for low trade levels are: (1) inability to produce competitively either because of pegged resource prices or low productivity preventing the earning of dollars in trade, (2) high barriers designed to protect exchange positions—often a consequence of the first condition, or, similarly, (3) a desperate deficit in dollars.

There is no basic objection to proposals for lowering or eliminating barriers. It is, however, a political fact that such barriers cannot immediately be removed if inconsistent with internal price policies of the United States. Indefinite extension of multilateral trading may not be possible in a cold war. And it is certainly true that often fantastic barriers are placed against American products in other nations. It is doubtful that the protected positions of some American specialty industries could be obliterated overnight. Barriers seem now to be most important with respect to such areas as Europe where productivity—with American help—has recovered sufficiently for nations to earn foreign exchange in fairly free competition. But again in some Latin-American and Asiatic nations, trade would not be increased dramatically by full removal of barriers because the immediate reasons for impeded trade are not so much barriers as relatively low productivity, pegged internal resource prices, and immediate crisis situations in exchange balances.

The government of the United States has certainly made vast sources of dollar exchange available to other nations from "unusual" sources. It may well be that we have failed to take the appropriate leadership in banking required to protect other nations against short-run emergencies which may occur if convertibility were established in some areas. But we have certainly helped other nations maintain both their exchange rates and their internal levels of living by grants of dollars.

In a cold-war world, trade policy must be governed in part by political and military criteria. It must also be consistent, at least in the short run, with major internal price policy set by law. The areas in which feasible immediate trade policy seem to be consistent with the long-run needs of this nation are reasonably clear.

Efforts to develop capital and productivity in other nations by loans, grants, technical assistance, or other devices should be extended insofar as consistent with political or security goals. Development of demand seems to me to be a less fundamental reason for trade dislocations. Elimination of barriers might increase American exports by as much as 500 million dollars.

In many areas, especially Asia, it seems necessary to maintain dollar balances in face of the fact that such dollars cannot at the moment be earned. Here it would seem sensible to stockpile critical or durable materials in return for farm exports which can be moved without disturbance of markets now held by friendly nations. Certainly the experiment of receiving foreign currencies for American exports should be given a trial. Military expenditures have been and will continue to be a major source of dollars.

Since enhancement of productivity in friendly nations can ultimately permit them to earn dollars, grants of dollars by any of these methods should be designed as much to develop capital in other nations as to remove excess supplies from American outlets.