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THE COMPATABILITY OF SOFT-CURRENCY SALES OF FARM SURPLUSES AND FREE MULTILATERAL TRADE

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Is Free, Multilateral Trade Possible?

Trade in the mid-twentieth century can never be free and multilateral in the classical sense. The conditions for such a system no longer exist. Some observers have assigned to the 1812-1914 period the role of a giant aberration in the development of commercial policy, with mercantalism, autarchy and nationalism being the more normal and desirable. Conditions of enterprise, structure of economic organizations and technological processes on the one hand and government intervention and nationalism on the other have altered conditions of trade from those assumed to exist by the classicists, neoclassicists and even by the exponents of the more up-to-date general equilibrium theory. In any event, it is no longer realistic to assume that free-multilateral trade emerges from dispersed and competitive marketing processes which create a pattern of prices and production beyond the control of any of the participants.

There is little reason to expect an early end to the trade-strangling characteristics of exchange controls, regional currency blocks, state trading, commodity agreements, protective devices and other nationalistically-oriented mechanisms. Hence, emphasis should be placed more upon a return to the multilateral aspects of the classical system than to the free aspects. It seems probable that the free nations are more interested in wider markets, convertibility, built-in economic stabilizers (regionalism), etc., which are characteristic of multilateralism, than in freer trade which emphasizes an efficient pricing system, more competition, mobility of resources, elimination of the business cycle, etc.

Yet, multilateralism with convertibility of exchanges can be more easily attained when the international pricing mechanism is efficient. And it must be remembered that one of the strongest arguments for multilateral trade with any degree of freedom and competition rests on the proposition that it gives an objective basis for the allocation of resources and the distribution of income, both nationally and internationally.

The most feasible international trade norm we of the free world can hope for during the next decade or so, is, to use a military term, a very "fluid" situation where complete convertibility prevails, where the range of governmental intervention is decreasing, and where the marketing processes are tending toward more competition. Free multilateral trade will be referred to in this ill-defined context rather than the refined context where efficiency and welfare approach either their maxima, or the 19th Century pattern.

The Current Situation

Almost every attempt in the past three decades to solve the farm problem has led us inevitably into problems of foreign policy. That is true at this moment. The battle cry is "sell more abroad". To whom? Answers of many policy makers to this question make illusory assumptions about foreign demand and supply and tend to misconstrue the nature of international trade. They also underestimate the effects of these programs on our international relations. Many of the would-be answers are based on emotive phrases such as "starving millions", "inadequate diets", etc. Others have our allies scared and bewildered.

The United States Government is at present holding approximately seven billion dollars worth of farm commodities in storage. By almost any economic terminology a great portion of these commodities could be defined as surplus. No attempt will be made here to evaluate the agricultural and trade policies under which this vast accumulation has grown. It is a problem for us and our friends of the free world, and is, at this time, growing more unmanageable.

Against this picture of agricultural surplus there exists a political and military situation which is no less real. Our military build-up continues in Europe and in the Far East, and the peace achieved in Korea has done little to relieve the anxiety at home and among our allies. The Asian situation is confusing, and our position ill-defined. Appraisals of the Berlin and Geneva Conferences indicate no hope for a change in Russia's overall policy. It is assumed that these disorderly conditions will not be underestimated by the West, that the United States and its allies will of necessity have to increase their political and economic cooperation, and that this state of affairs will exist for an indefinite number of years.

A third reality, in the light of which the assigned topic must be analyzed, is the current economic and political relationships of the countries outside the Iron Curtain. There is, at present, considerable discussion as to the nature and degree of recovery and restoration of trade among the free nations. There is also some question about the economic and political stability of a great many of these nations, as well as their ability to contribute significantly to a program which has as dual objectives the prevention of further communist advances and the preservation of peace. However, there are several generalizations in this regard which may be given as information to be kept in mind as the analysis gets under way:

1. Free convertibility of exchanges is nearer than at any time since World War II, but is yet not imminent. The speed with which convertibility can now be attained is, in large part, a direct function of the international commercial and monetary policies of the United States and the magnitude of its foreign investment.

2. To alleviate the world-wide dollar unbalance, i.e., the deficit situation of the non-dollar area vis-a-vis the United States in particular, and to achieve a respectable multilateral equilibrium, will still take considerable time.

3. The pattern, direction and terms of trade have changed considerably because of the war and because of present conditions. The constituency of trade has also been altered.

4. Increased labor and capital productivities in non-dollar areas, coupled with sensible monetary policies, offer the most positive approach to a favorable trade balance in the free world.

5. Total and per capita agricultural and industrial outputs in the free world have risen to levels which are substantially above pre-war. Also, the rate of increase in agricultural output in general has caught up with the rate of population growth.

6. There has been a substantial decrease in agricultural exports by the United States during the past two years. Vanishing export markets will be more difficult to regain and new ones harder to create in the absence of increased economic aid and military activity in foreign countries.

7. Under present circumstances, outright grants in the form of agricultural surpluses are, except in cases of extreme emergency, of questionable long-run benefit to the economy of the recipient country.

This set of conditions--the agricultural surplus, the current military and political reality, and the definable eco-political relationships of the free nations--provides the setting in which the following analysis is cast.

Attempts at Solution

Post-war legislation relating to the disposal of agricultural surpluses was embodied in the Economic Cooperation Act of 1948, which provided that, as a general rule, agricultural commodities in surplus in the United States should be purchased only in the United States, and which, in effect, authorized the Secretary of Agriculture to subsidize such purchases up to 50 per cent of the purchase price. This, of course, came in addition to the Section 32 export-subsidy programs and was supplemented by Section 407 of the Agricultural Act of 1949, which allows Commodity Credit Corporation sales for export at prices below those prevailing in the domestic market.

When the Mutual Security Act of 1951 succeeded ECA, the surplus problem was not acute. This Act was amended in 1953 with mandatory provisions that agricultural surpluses, then accumulating rapidly in CCC coffers, be purchased with a specified portion of the funds appropriated. Section 550 of the 1953 Act provided that not less than $100,000,000.00 and not more than $250,000,000.00 of the funds appropriated for MSA purposes should be used to purchase surplus agricultural commodities; and authorized the President to enter into agreements for sale of such commodities and to accept as payment local currencies for the account of the United States. An additional total of $500,000,000.00 will probably be appropriated under the 1954 Mutual Defense Act.

In negotiating such agreements, the President is required to safeguard against the substitution or displacement of usual marketings of the United States or friendly countries, to assure to the maximum extent possible that sales are at prices consistent with world market prices, to use private trade channels to the maximum extent possible, to give emphasis to underdeveloped and new markets, and to obtain assurances that such commodities will be used only for consumption in the country to which they are sold.

The proceeds obtained from such sales may be used for a number of purposes, including military assistance, purchase of goods or services, loans, grants, and for stockpiling materials, all either in the country to which sales were made or in third countries. The President is directed to take special precaution to safeguard against the displacement of foreign exchange earnings which would otherwise accrue to the United States or any friendly nation.

The Agricultural Trade Development Act of 1954 was signed July 10 by the President. It contains many of the same provisions which exist in the MSA legislation. This new legislation emphasizes the use of surplus commodities for expanding markets in underdeveloped countries, and provides that $700,000,000.00 will be spent in this manner by June 30, 1957. These would be additional funds, and would neither be tied to nor dependent upon mutual security action. An additional $300,000,000.00 is provided for emergency relief programs at home and abroad.

Will These Solve the Surplus Problem?

Will such legislation as Section 550 and the Trade Development Act ameliorate the farm surplus problem to any substantial degree, in the immediate future, and under the circumstances assumed? I think not. Data have been passed out which show the volume and value of agricultural commodities under loan by the Commodity Credit Corporation on June 30, 1953, before Section 550 became law, and the same information as of June 1, 1954, nearly one year later. Also attached is a breakdown of surplus commodities and their value as distributed under MSA by the Foreign Operations Administration. As of July 8, 1954, over $245,000,000.00 worth of commodities had been distributed under these provisions.

Current legislation, which will increase expenditures to a billion and a half dollars during the next three years, seems to offer little hope for substantial relief when considered in view of the surplus, the rate at which the surplus is increasing, and in the light of the rigidities in farm legislation.

Contingencies such as the development of new and additional markets for surpluses and future agricultural production will be treated later. It should be pointed out here, however, that these proposals will do little in the short-run to relieve the surplus situation, and that, for the longer-run, as well as being vague, they seem to be lacking some of the basic techniques of economic analysis. For example, how such programs would affect the terms of trade and economic processes involved in capital formation have been given little thought at all.

The Section 550 Program

Disposition of surplus commodities under Section 550 was first thought of in terms of accomplishing dual objectives: (1) to provide a means of disposal for a larger volume of surplus commodities than would otherwise be exported, and (2) to reduce the real cost of foreign aid to the United States. At the same time, the program was not to be thought of in terms of dumping, because commodities were to be sold for local currencies. The objectives have experienced partial fulfillment, but have become in many respects conflicting and mutually exclusive.

A central factor for consideration in the disposal of surpluses under the aid program is whether aid in the form of surpluses comes in addition to the volume of aid that otherwise would be provided. In the 1953 Act it was not in addition to but in substitution for $100 to $250 millions of MSA aid. The 1954 aid program would raise this figure to $500 million with the same stipulation. It is undoubtedly true that a higher level of defense effort could be obtained if countries now receiving aid would be provided with additional aid in the form of surplus commodities. Some countries might also be willing to make additional end items available under an off-shore procurement program with the additional off-shore procurement being paid for by agricultural surpluses.

If surplus agricultural commodities are expected to substitute for dollar aid or other forms of assistance which otherwise would be received, the situation becomes quite different. Increased import of surplus agricultural products would mean decreased import of other commodities or a reduction in exchange reserves. To the extent that the reduction in imports were of a military or technical nature considered vital to the attainment of United States objectives, those objectives would suffer. Surplus food and fiber cannot be substituted for capital equipment, guns, dollar salaries, etc., especially in the short-run.

Substitution of surplus commodities for a portion of an otherwise specified flow of dollar aid or other forms of assistance may deplete the exchange resources of countries involved and result in decreased importation of such commodities or substitutes from still other (third) countries. It may result in a smaller importation of goods not required for investment or military purposes (a change in the pattern of imports). The inconvertibility of currencies presents obstacles to the realization of savings to the United States from such a program. Also displacement of imports from other countries complicates our international relations because of the adverse effect on conditions of employment and balance-of-payments situations in those countries.

In order to currently alter the pattern of trade for the countries concerned in a manner that would substantially increase their importation of surplus commodities, a shift would have to be made from a more desirable to a less desirable use of the aid provided. This is assuming that the officials of the countries involved, including U.S. officials, know what they are now doing and know what they want in the realm of political and military objectives. Some sacrifice of objectives in our aid program would thus be involved in a substitution of surplus commodities for dollars, and foreign countries would likewise be receiving less assistance in real terms. Surpluses would also be less effective than dollars in containing the inflationary implications of expanded defense and investment programs. Whether countries would undertake the same level of defense effort or investment under such circumstances would thus be open to question. It appears likely that countries would be willing to continue such levels only if the current or anticipated level of aid is higher than the minimum necessary to induce them to use resources for the purpose and in the quantities considered essential by the United States.

It is important to examine the use to which the local currencies generated by sale of surpluses are being put. Congress intended that they be spent so as to ultimately result in dollar savings to the United States. The monies have largely been used in Europe for off-shore procurement of military end-items that we would have purchased in Europe for grant to European countries. Savings to the U.S. Treasury have come largely in the form of costs of transportation and the savings on price of surplus commodities which would have been disposed of in some other fashion, including deterioration.

One particular non-military example of positive results of the program relates to the United Kingdom where the increased availability of fats and oils has permitted the elimination of rationing. That the increased availability of foodstuffs permitted the termination of rationing was apparently a sufficient compensation to the United Kingdom for the loss of some direct dollars generated by off-shore procurement. However, it would appear to be difficult to further utilize surplus commodities to add substantial increments to consumption, now that rationing has been suspended.

This suggests that the problem of adhering to the criterion of "safeguarding against the displacement of usual marketings of the United States or friendly countries", will not be so simple in the future, even when disposing of relatively small amounts of the surplus. Moreover, it also suggests that the question of avoiding any disturbance to existing trade patterns will not be so simple either. This will be particularly true when the recipient countries sell, rather than donate, the commodities to their domestic users, as they will probably continue to do. Increased purchases of these commodities, although not at the expense of like commodities, will reduce the ability of consumers to expend on other items--unless their savings decline and/or unless incomes increase simultaneously. 1/

In the administration of the Section 550 program, to date it has proved difficult to arrange for sales which do not substitute for or displace usual marketings of the United States or friendly countries. Even so, in the spring of 1954, programs involving the sale of surplus commodities had been developed with 12 countries for a total of \$211.60 million. Of this total, \$173.95 million were

1/ For an explanation of the latter alternative, see pp. 10-11, this paper.

financed from Mutual Defense Assistance Program funds and the remaining $37.65 million from funds appropriated for purposes of other sections of the Mutual Security Act. 1/ Most of the commodities were purchased and shipped during fiscal year 1954, but a small amount remained to be shipped in fiscal year 1955, due to difficulties in concluding arrangements and the desire for later deliveries.

The impact of this program on mutual defense is not as great as the figure of $173.95 million for use of Mutual Defense Assistance Program funds would seem to imply, since it is expected to be possible to arrange for the use of $74.95 million of the local currency sales proceeds for procurement of military items under the United States MDAP off-shore procurement program. Thus, the net impact of the 1953-54 Section 550 program in reducing the supply of ammunition and equipment to our allies under United States programs may be less than $100 million. Moreover, the use of a large part of the remaining sales proceeds, not used for off-shore procurement, will be used to increase indigenous defense efforts of allied countries and will further reduce the impact of this program on military preparedness.

For the most part, the Section 550 program has been of a bilateral nature, concentrated on European countries which have been heavily involved in regional or commonwealth currency and trade arrangements. In analyzing the effects of the program on free multilateral trade, one has to recognize the state trading entities, bilateral agreements, etc., which already exist. Given these arrangements and the existing patterns of world trade, Section 550 and subsequent legislation could possibly have a substantial bearing on current trading patterns. unless administering forces adhere rigidly to the "no displacement" criterion, notwithstanding the fact that the amount of commodities distributed is only a small fraction of the United States farm surplus. But, this effect would not necessarily be in the direction of making trade more free and multilateral. Indeed, there is no substantial evidence which leads one to believe that a more desirable state of trade exists because of the Program.

The conclusion above differentiates grant aid from straight dollar aid because, in the latter case, there are no restrictions on the use of the funds as far as substitution of expenditures are concerned. For example, under the old ECA arrangements, Western European countries could have used their dollar aid to purchase wheat from the United States that they might have bought from Canada or Australia. If various governmental trading arrangements were assumed away--which would be quite an assumption under present circumstances--a different conclusion may be reached.

Other Current Legislation

Adherents to the "sell more abroad" proposals have not been pleased with the results achieved under Section 550. They claim that because the local currencies which accrued were used principally for military purposes and in countries with high living standards, the concept behind the Section was emasculated. The original concept, they say, is more clearly set forth in the Agricultural Trade Development and Assistance Act of 1954, which places the principal emphasis on expanding markets in underdeveloped countries, but which also contains sections relative to use of surpluses for defense purposes and accelerating the drive for convertibility of currencies.

1/ These figures are as of the middle of April 1954, which are the latest available relative to financing the program. The later figures shown on p. 5 give only commodity and country breakdowns.

Advantages

A good case can be made for the use of surplus commodities in certain instances to obtain the local currency necessary to carry out an expanded investment program and to counter the inflationary aspects of such a program. While there are many qualifications 1/ to such a program, a higher degree of expansion of development may be attained if concurrently with the sale of the surpluses, unemployed workers or underutilized farm and industrial labor are put to work on internal development projects which require little or no foreign capital. Initially, autonomous credit may be created by the importing government to facilitate the program. Most of the new wages paid out would undoubtedly go for food; and wheat and bread may constitute a large part of their purchases. (If the surplus products represent a wide selection of food and textiles, the entire worker's food expenditures may be balanced by the sale of the surplus foods and textiles). A large portion of the expense of the program to the local government may be offset by the current sale of the surpluses, which are imported at no current cost to that government. Total food and fiber consumption will have been increased; and the increased domestic expenditures on development will have been made with little or no internal inflationary effect. This hypothesis rests on the fact that marginal propensities to consume some of the surplus products in underdeveloped areas run rather large. For example, a study of the International Bank for Reconstruction and Development shows that the marginal propensity to consume wheat and cotton in a country like India is about two-thirds.

The crucial condition that must be complied with by the local government in this program is that the additional wage expenditures on development direct and indirect, are made concurrently with the domestic sale of the surplus products, and in proper balance between the two. If this balance is not achieved, the proper results will not be attained. The sale of surplus products, with no corresponding current action to expand consumers' incomes would divert expenditures from other products and so compete with domestic or imported foodstuffs. On the other hand, expenditure of the funds procured by sale of surpluses in one period, in a later period, with no current addition to the supplies of consumers' goods available for consumption, would tend to create domestic inflationary pressures. While some slight improvement might be attained in better physical condition of the people, and their ability to work, the economic difficulties would be so great that only negligible progress would have been made toward increased food consumption, disposition of surpluses, or more rapid economic development. 2/

Even when they violate the "no displacement" principle, the advantages of the "capital via surpluses" programs may outweigh attendant disadvantages. The principal difficulty arises when too much is expected from such programs. Investment and capital accumulation in a poor country is bound to be slow. Income is the source of savings, and where per capita incomes are low, the annual rate of voluntary savings will also be low. A case history of a potential deal with Iran illustrating the limitations for expanding foreign markets for surpluses could be given if time permitted. In any event, it is not clear how the export of surplus agricultural commodities in return for local currencies will expand markets greatly for United States agriculture. Neither is it clear how such a program will expand markets greatly for the importing countries.

1/ For details of these qualifications, see Blau, Gerda "Disposal of Agricultural Surpluses", Monthly Bulletin of Agricultural Economics and Statistics of the F.A.O., Vol. III, No. 5, May 1954.

2/ "Disposal of Agricultural Surpluses", op. cit., p. 14.

In this vein, I should like to interject two examples of what at the outset was called illusory attitudes of policy makers. The first deals with proposals to utilize a portion of the accrued soft currencies for advertising, promotional activities, etc., in backward countries. The idea seems to be if we can just "sell" these foreigners on American surpluses, our problem is over. The second example, akin to the first, relates to the various economic "missions" which were sent out to drum up business to dispose of farm surpluses. As yet, there seems to have been no flood of orders in the offices of CCC. I simply don't believe that we can seek markets for surpluses in the fashion that the Knight sought the Holy Grail. It is hard for one to believe that too much was expected of these missions in the first place.

Obstacle 1: Fundamental Inconvertibility

The sale of surplus commodities for soft-currencies, if made in a way which would avoid a direct or indirect dollar drain on the recipient countries, involves greater difficulties than proponents seem to realize. It has been proposed that the currency obtained from sales be used to make loans available to third countries so that more markets may be developed. How the United States would make such loans or grants, and how this country would purchase materials with these funds without further complicating the trade process is not clear. How would the loans be repaid?

It has been pointed out 1/ that unless the United States can use the inconvertible currencies for purchases which would not otherwise have been made with dollars, sales for inconvertible currencies will ultimately involve the same dollar drain on the countries importing the surpluses as would take place if they were sold for dollars in the first place. The use of currencies for loans to third countries will create a foreign exchange drain for the country whose currency is being loaned. In addition, it will require the borrowing country to assume a dollar obligation to repay a soft-currency loan, unless, of course, the loan is repayable in the same currency. In the latter event, the United States will still be left with the problem of utilizing the soft-currency proceeds in a manner which will not create an indirect dollar drain on the country to whom the original sale of the surplus was made. There seems to be no reason for supposing that demand for a country's exports will expand simply because the U. S. Government holds a larger volume of its currency. Free convertibility may not be quickened by such a policy, but may be delayed, especially insofar as these balances consist of currencies from the Sterling area.

The above analysis does not even consider some of the ill-effects which may come about as a result of the direct drain on a purchasing country's currency position. To the extent that monetary policy in a country is related to fiscal policy and employment, some critical results may be realized when large contractions in its money supply are made.

It is my belief that more progress toward a real solution of the surplus problem can be accomplished per billion dollars through a direct approach to convertibility than through the perpetuation of subsidy or make-shift disposal programs. Because of the exchange position which has been attained in many countries, they are now within reach of the goal. Total dollar and gold assets of foreign countries as of December, 1953, were 23 billions compared to $2\frac{1}{2}$ billions at the end of 1952 and 8 billions in 1949. With a proper dollar stabilization fund they could attain convertibility and be in a position to expand

1/ Staff Papers presented to the Commission on Foreign Economic Policy, February, 1954, p. 172n.

trade in a truly multilateral sense. However, a solution to all trade problems should not be expected from a once-for-all type convertibility. Such an attitude as prevailed when Britain returned to the gold standard in 1925 could be disastrous to the free world. How much better to persuade governments to take the necessary measures first so that convertibility comes as the logical and advantageous conclusion of a policy that is not likely to be reversed.

Any approach to convertibility must take into particular consideration employment conditions in the United States, the problem of blocked sterling balances, and the regional arrangements among Western European countries. Many possible methods suggest themselves: 1/ a stabilization grant or loan by the United States; the use of much enlarged quotas under a revised and reunified International Monetary Fund; an all-round rise in the price of gold; the formation of some instrument in the United States such as a United States equalization fund, whereby, in cooperation with the British and other Exchange Equalization Funds, desirable, temporary support can be given to currencies which are under exceptionally heavy temporary pressure.

Obstacle 2: Administrative Difficulties

Another major obstacle to the implementation of the soft-currency sales program involves the proposed utilization of normal commercial channels and avoiding the displacement of commercial exports of friendly countries. Since ownership of the commodities is vested in a government agency (CCC) and the funds to be used to purchase them are government funds, and since the aid is to be provided on a government-to-government basis, it is necessary to establish rather complex procedures to provide for the transfer of funds to private hands and to insure their use for the purchase of CCC stocks. It is not clear as to how private traders will utilize public funds to consummate trading arrangements, inasmuch as the legal practice has been established that purchases from public agencies be made on a "bid and tender" basis. Nor is it clear as to how the pricing arrangements would be policed if private traders had ultimate jurisdiction with respect to the transactions. Testimony related to the legislation leads one to believe that governmental agencies, namely, the Department of Agriculture and the Foreign Operations Administration, would be given almost complete responsibility for negotiating the necessary agreements relative to sale of surpluses and delegated the responsibility for the use of foreign currencies that accrue.

Attempts to prevent the displacement of normal commercial exports from the United States and friendly countries poses an even greater obstacle. It is first necessary to arrive at a judgment as to what otherwise would have been imported in a particular country, using either a base period approach or a comparison with otherwise planned level of imports, and then to induce the country to continue that level of imports while purchasing more of such commodities in return for payment in local currency. But if the country is already spending all it feels that it can afford for the import of such commodities, the receipt of a larger volume from local currency purchase will create pressure to divert exchange from their commercial ("normal") procurement to the purchase of higher priority items. The tendency thus will be to substitute imports paid for in local currency for normal commercial imports, particularly when purchases of commodities for local currency represents a substitution for expected dollar receipts. Testimony related to this part of the legislation espouses the belief that the prospects for adequate outlets for surpluses "lie in cutting across formal and informal trade preference areas established by other national groups..." 2/ This doesn't sound like

1/ For elaboration on related subject matter see: Meade, J.E., "Bretton Woods, G.A.T.T., and the Balance of Payments - A Second Round?", The Three Banks Review, No. 16, December, 1952, p.13.

2/ Riggle, J.J., Testimony before the House Agriculture Committee, April 28, 1954.

precautionary talk designed to insure no disruption of the trade channels of friendly nations.

Obstacle 3: Conflict with Farm Programs

Many obstacles to surplus disposal will be generated by the fundamental conflict between the aims of the domestic price support programs and programs involving foreign aid and technical assistance. The assistance program is designed to meet deficiencies in resources required to support military and economic programs essential to United States objectives. The domestic agricultural program has as its purpose the maintenance of domestic farm income. The disposal of surplus commodities without interference in United States farm policy objectives, requires an expansion of demand for such commodities. By providing dollars to meet deficiencies in resources, the assistance program would, of course, provide for an increased demand for agricultural products. That result is incidental to its main purpose, however, and once certain minimal levels of consumption are met, its purpose would be to provide resources of the sort required for military and investment programs. At that point, the purposes of the two programs diverge and tend to become mutually exclusive. Of course, if in any case the purpose of the assistance program changes and becomes related to provision of incentives or to other non-economic ends, then the purposes of the two programs may not be quite so mutually exclusive and some expanded use of surplus commodities might be possible.

Obstacle 4: Impediments in U.S. Commercial Policy

The obstacles to a smooth working farm-surplus-for-local-currency program are buttressed by a sluggish United States commercial policy. Our tariff levels are still too high. They are more restrictive than the weighted average ad valorem equivalent would indicate, because the high duties are given a lighter weight than the heavier ones in computing averages. Tariffs are accompanied, moreover, by other measures that hamper and distort a multilateral flow of trade. Included among these are: (1) obstructive methods of customs administration, (2) the "Buy American" Act, (3) subsidies to the United States merchant shipping system, and (4) a reluctant attitude toward renewal of the Reciprocal Trade Act and toward enactment of a new tariff law.

The principle of disposal of surplus United States agricultural commodities for local currencies on a scale sufficient to contribute to solution of the surplus problem is also in conflict with the objective of establishing patterns of world trade and production which will make unnecessary the continuous provision of U. S. assistance. Many believe that the increasing dependence upon the U. S. and other parts of the dollar area for food and other agricultural products which has been developing over a considerable period and which was greatly accelerated and intensified during and after the War is a major factor in the creation of a dollar gap, inconvertibility of currencies, and widespread discriminatory trade practices. As has already been mentioned, the disposal programs are typically bilateral in operation and probably will do little to facilitate a multilateral system of trade.

While probably far from being a sufficient condition to the solution of these problems, the development of a pattern of world trade and production which will permit a greater proportion of requirements for food and agricultural commodities to be met from non-dollar sources is certainly a necessary condition for their solution. The sale of surplus U. S. commodities for local currencies would, however, interfere with the accomplishment of such an objective by establishing trade relationships and consumption habits which run directly counter to the pattern of trade required. Further, such a policy will clearly discourage investment and expansion of agricultural production in those areas in which expansion is required to permit the development of a pattern of trade which provides for a more economic allocation of resources and a decreasing dependence upon U. S. resources for support.

CONCLUSION

During the coming years of adjustment to changing patterns of trade, the most important actions for success will depend on the United States. Example and not retaliation must be the key to United States economic policy. The other free nations must be treated as truly free and independent and should not be asked, as a *quid pro quo* for tariff cuts or other trade adjustments, to alter their plans for industrialization, to abandon their welfare programs, to forswear nationalization, or to forsake economic planning. And, the United States must prepare sympathetically for a continued direct discrimination against dollar imports for several more years, though this discrimination promises to be much milder as of the moment.

Finally, it is my opinion that, instead of being separately evolved and separately exposed to attack, both the agricultural and trade policies of the United States should be dealt with in the context of foreign economic policy as a whole. Proposals relative to price supports, subsidies, commercial policy, convertibility problems, grants, loans, military aid and international political decisions should be woven together as related parts of a common program. Insofar as they are related, these segments should be considered in the same hearings, covered in the same debates, enacted at the same time, included in the same appropriations and administered by the same agency. If dealt with in this way, I am confident that foreign commerce would become more multilateral as well as more free. I am also confident that our objectives would become more clear and definable to ourselves and to our friends.