

CHAPTER II

ECONOMIC AND PUBLIC POLICY ASPECTS OF TRADE ADJUSTMENT

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

UNASSISTED VERSUS ASSISTED READJUSTMENT

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

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

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

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

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

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

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