

greater international specialization and division of labor will increase in proportion. If by the time this need becomes urgent American trade policy should prove not flexible enough to cope with it (in part for the reason of not having adopted a policy of assisted adaptation of marginal segments of import-sensitive industries), another foreign-aid program, but of vastly greater dimensions, may have to be devised.

A seemingly unending vicious spiral threatens to emerge as seen from the simplified sequence of measures and conceivable counter-measures which follows: The military buildup in countries friendly to the United States continues for a time, with assistance from this country. A detente with the Soviet bloc is then assumed to set in. Armament industries in countries friendly to the United States then revamp operations and exert pressure for more exports. American trade policy, however, continues unchanged in a moderately restrictive vein (without a policy of assisted adaptation). The friendly countries thereupon retaliate by discriminating against American exports. At the same time they begin suffering from unemployment in their overgrown durable goods industries. One unfavorable development brings forth another. The economies of these countries become unstable, and one more economic aid from the the United States becomes indispensable.⁸ The next move would be up to the Soviet bloc. With a renewed tightening of the international situation, the spiral goes into another turn, and U.S. economic aid once more is supplemented or transformed into military aid and "defense support."⁹ With successful and rapid adaptation to economic change this repetitive succession of events might be prevented.

THE PROBABLE DIMENSION OF TRADE ADJUSTMENT

Available evidence suggests that the extent of the readjustment problem will be much smaller than commonly expected. One reason for this is that the aggregate area of displacement of domestic production by imports is likely to be quite small in comparison with the national economy as a whole.¹⁰

Shifts in production and marketing practices take time.¹¹ Foreign products not only must compete pricewise with domestic products after paying freight and other charges, but must also conform to established tastes, and appropriate channels of distribution must be developed for them. Owing to these requirements, whatever readjustments by domestic producers must be executed can be made gradually, even if rates of duties were reduced more rapidly than, for example, at a rate of 5 percent per year.

Given unimpeded economic progress at home and abroad, there need be no fear lest resources freed by marginal enterprises not be taken up by others, such as business firms benefiting from an expansion in production for exports.¹²

⁸ Changes can be rung on this sequence of developments by varying the assumed relative position of the aid-recipient country vis-a-vis the United States.

⁹ The existence of thermonuclear imbalances and of "missile gaps" adds to the grimness of the prospect.

¹⁰ See Salant, Walter S., and Vaccara, Beatrice N., "Import Liberalization and Employment: The Effects of Unilateral Reductions in United States Import Barriers," Washington, D.C., 1961.

¹¹ In this connection, see the discussion pertaining to Western European integration in Huley, John, "Protect or Compensate," *World Politics*, April 1953, especially pp. 320 sq.

¹² See in this connection, Hinrichs, A. Ford, "Iowa and World Trade: An Economic Analysis of the First Congressional District of Iowa," Washington, D.C., 1954.