In a recent investigation concerning the qualitative effect of a conceivable tariff reduction in eight American industries,[13] on the assumption that the reduction would be gradual and would not be undertaken in a period of general unemployment and falling national income, it was found that lower import duties would affect large-scale manufacturers only peripherally. Certain small-scale industries, though, with a high ratio of labor costs to total manufacturing costs, in some cases aggravated by declining markets, appear to be marginal from the standpoint of the American industry as a whole. Within these marginal industries, increased imports would hit marginal firms hardest. But tariff changes in general do not determine whether or not an entire industry will survive or disintegrate; they determine only the dimensions of the industry. And any lowering of tariff duties on commodities which are sensitive to import competition is a selective process in which only the fringes of an industry—the marginal firms—are cut off.

The small dimension of readaptation is matched by its probable low cost in real terms. The real cost of using resources in any given line of production is the return foregone by what these resources would yield in other lines. The real cost to the economy of not shifting resources from marginal firms in import-sensitive industries appears to be substantial. Conversely, the real cost of a readjustment program in terms of production sacrificed because of a reallocation of resources would be comparatively small. Besides, this small cost will be offset and exceeded, after a reasonable period of time, by the multiplier effect inherent in successful readaptation.[14]

To sum up, the case for adjustment assistance in instances of dislocation by increased competitive imports may be restated briefly. Readjustment assistance can be advocated on two grounds: it benefits the economy through freer trade and better allocation of resources, and it solves the short-term problems that such shifts entail. The fact that freer trade benefits the economy is generally accepted. Since readjustment assistance would facilitate acceptance of imports, it would tend to promote removal of trade restrictions. And since assisted readaptation in the face of increased import competition may be expected to reduce opposition to a further lowering of trade barriers, a readjustment program becomes that much more desirable.

Past opposition to assisted readjustment has concentrated on two points: the administrative complications of the program, and its redundancy in the presence of a gradual lowering of tariff duties. It has been held that a readjustment assistance program could not possibly be instituted without very great difficulties of implementation. To this objection it may be replied that a simple program can be devised that would be no more cumbersome than current measures of protection, and possibly much less so.[15]

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[13] Bidwell, Percy W., "What the Tariff Means to American Industries," New York, 1956, pp. 286–288.

[14] On the working of this multiplier, see, for example, Hildebrand, George H., and Mace, Arthur, Jr. "The Employment Multiplier in an Expanding Industrial Market: Los Angeles County, 1940–47," 'Review of Economics and Statistics," vol. XXXII, No. 3 (August 1950), pp. 241–249; Federal Reserve Bank, Kansas City, "The Employment Multiplier in Wichita," its Monthly Review, Sept. 30, 1952, pp. 1–7; and Federal Reserve Bank, Boston, "What Happens When a Community Gains Manufacturing Jobs," its Monthly Review, March 1955, pp. 1–6.

[15] See below; and also Clubb, Bruce E., and Reischer, Otto R., "The Trade Adjustment Bills: Their Purpose and Efficacy," Columbia Law Review, March 1961, pp. 490–503.