barriers. This is good. But location may also be influenced by a desire to escape certain national regulations or tax provisions offensive to the firm. Firms can more readily locate "abroad" and export to the nations with the stiff taxes or regulations.

This process can be seen very clearly within the United States in the late 19th and early 20th centuries, when State regulation of corporate enterprise virtually collapsed because of the freedom of trade and the constitutional obligation to honor contracts made in other States. The ultimate solution, adopted in 1933, was to transfer regulatory responsibility to the Federal level; in a similar vein, further trade liberalization will imply a need to cooperate increasingly closely with other countries on such matters concerning business taxation and regulation.

But I would like here to focus on the balance-of-payments issues. There are two sides to this question. First, tariff changes have potential balance-of-payments effects, and the larger and more sweeping the tariff change, the larger will be the likely balance-of-payments effect. One role of "reciprocity" in tariff negotiations, for having a roughly balanced package of tariff reductions between countries, is that it provides a rough method for neutralizing these balance-of-payments effects and thereby insulates moves to reduce protectionism from a desire to protect the value of the national currency.

The other side of this coin is that tariffs or their equivalent could be used as a measure to help eliminate imbalances in payments. At present that GATT permits derogations from its rules for balance-of-payments reasons, and in particular article XII permits the use of trade restrictions by a country in balance-of-payments deficit. The permitted restrictions cover only restrictions on the quantity or value of trade; they apparently do not include special surcharges on imports. Yet both from an economic point of view and from an administrative point of view there is good reason to prefer surcharges over quantitative restrictions. Surcharges permit highly profitable trade to continue; they permit new entry; they do not require favoring some importers or foreign exporters over others; they yield revenue, and thereby help to damp domestic demand, which in many instances of balance-of-payments deficit is desirable. They can be imposed uniformly over a wide range of goods, and thereby have a minimum impact on the structure of tariffs and hence on the degree of protectionism. By the same token, downward tariff adjustments could be made by countries in surplus, also in the interests of better balance of payments equilibrium.

At present the conventions regarding reciprocity in trade negotiations militate against the unilateral reduction of tariffs even when a country acknowledges that would be in its best interests. Countries fear that they would be weakening their "bargaining position" in future tariff negotiations. Similarly, raising tarffs for balance-of-payments reasons leaves trade partners feeling that they have been cheated. It is ironic that measures taken to depress the domestic demand for balance-of-payments reasons—measures which may have much the same effect on imports from trading partners—do not give rise to such complaints, even though in economic terms they may be far more costly to all the parties concerned.