

An invisible hand seems to be working in the area of economic policy as well as in the market place. Competition in the market place is alleged to lead to the most efficient allocation of resources. Whatever the merits of this claim, we can be much less confident that competition among policies will be optimal. Governments seek many ends, not the efficient allocation of resources alone; and the process of policy competition can certainly thwart some of those objectives.

Existing rules of international behavior as set forth in GATT and in the IMF Agreement do limit the use of direct and straightforward means of policy competition such as open export subsidies and multiple exchange rates, and they therefore slow the process of policy competition since the more subtle and sophisticated methods—loopholes in GATT and the IMF Agreement—usually involve strong domestic considerations which delay their implementation. But existing rules do not fully accomplish the aim of preventing self-defeating policy competition and of freeing domestic policy measures to pursue largely domestic objectives. Moreover, the pressures on domestic policy are likely to become greater as the world economy becomes more interdependent. Freedom of action in economic policy formation can be lost through the need for each country to compete in policies with its competitors in commerce.

To minimize adverse effects from this competition, countries can coordinate closely their national economic policies, attempting to define and reach an optimum combination of policies for the community as a whole. This route involves extensive "internationalization" of the process of economic policy-making, transferring this governmental function to the larger integrated area.⁴⁰

Alternatively, countries can attempt to remove the major source of pressure on their actions—deleterious effects on their international payments positions—by providing each country with ample liquidity to finance any deficit and allowing it to go its own way. Or this goal can be accomplished by reversing the process of economic integration, artificially breaking down or reducing the numerous economic links between countries. While some movement can be seen on all three of these fronts, actions in the United States and Europe in the mid-sixties seemed dangerously pointed toward the third alternative.

Chairman Boggs. We will be pleased to hear from Mr. Pincus at this time.

You may proceed, sir.

STATEMENT OF JOHN PINCUS, THE RAND CORP.

Mr. PINCUS. Mr. Chairman and gentlemen, after hearing Mr. Cooper's succinct and brilliant paper, I am not sure that it is really necessary for me to say anything. But for the purpose of disagreement, I will say a few words.

I don't look upon the future of U.S. trade policy as being primarily an economic matter. I think that the future of the U.S. international economic policy could most usefully be considered by both the legislative and executive branches against the broader background of U.S. foreign policy objectives.

Now this raises a basic difficulty in recommending or adopting any set of future trade policies in today's perspective, because the U.S. Government has not yet developed a set of international political goals which is consistent with the realities of the emerging world power situation as of today. It is easy enough for all of us to say

⁴⁰ The same is true for regulation and taxation as well as balance of payments policies. A governmental unit spanning a territory which equals or exceeds the locational domain of the firm can make and enforce regulations without inviting socially undesirable relocation of industry. As the locational domains of business firms increase, it is necessary also for the jurisdictions of governments to increase correspondingly—at least in some dimensions—if subsequent "policy competition" among governments is not to result in practices and policies which are socially sub-optimal. Water and air pollution control provide topical examples. It is this, rather than the narrower question of possible misallocation of resources, which suggests that the pressure for "harmonization" of policies—i.e., joint decisions—makes sense.