distinguished from the governmental, such as administered prices. In many instances these controls, both here and abroad, create an insularity that is impervious to the "benign" forces that work toward international equilibrium. The result is that competitive advantages and disadvantages of variable durability may exist among nations for periods of time long enough to weigh heavily on domestic industries competing with the foreign, and to interfere with their plans for possible expansion in the home market by stirring up uncertainty, presenting disturbing options, and producing discouragement.

The competitive elasticity envisioned by the followers of Adam Smith has, of course, been greatly reduced by rigidities that come from controls. In this country prices are no longer changed or held steady solely by free market forces—far from it. Other considerations of serious and even overriding moment may hold off the market influences. Industries, for example, are not free to reduce prices and wages merely to meet the market competition represented by low-priced imports and must take the consequences in loss of market, unless they are in a position to emulate the radical employment surgery of the coal industry, described later. This is because costs are highly rigid, particularly wages, which, as we shall see, represent the heaviest cost factor, just as they embody the major underpinning of consumer buying.

Differences in wage levels among different countries may persist long beyond the season prescribed by economic thought even when productivity differences are either narrowed or widened. This is because wage rate changes respond de facto to different causes in different countries and run their own course. The causes may be political, organizational (such as labor union power) or even traditional, and need not cross national boundaries.

Wages as the predominant element of cost are highly inelastic in this country as determinants of relative costs of goods. In flexing they are like the elbow, moving only in one direction. The only way by which labor costs may be reduced significantly is by labor displacement through labor-saving equipment, as already said; and this avenue also is open to other countries. Moreover, it reduces effective consumer demand.

That competitive advantages or disadvantages may linger despite the incantations of economists is easily demonstrated—even if specific reasons cannot be assigned.

Example of the Merchant Marine

A prime example is found in the American maritime industry, both with respect to shipbuilding and ship operation. The industry found itself totally unable to compete with its foreign counterparts during the post-World War II period.

It is presented here as a prime example of the persistence of a competitive disadvantage because both shipbuilding and ship operation represent clean instances of competitive impact, since neither is insulated against foreign competition by a tariff. This follows from the industry's performance of a service rather than offering a product or commodity that passes through the custom house. Also, the industry enjoys no insulation against foreign competition such as cushions other industries in the form of inland freight. The upshot is that the maritime industry is pitched competitively against its foreign counterparts in naked fashion. It is a clear case of one level of wages against another because productivity, while demonstrably higher here, is not so far above the foreign to distort relative costs unrecognizably.

The vastly predominant factor from which the American maritime industry's competitive disadvantage flows is unquestionably the wage differential. This is regularly measured by the Federal Government both here and abroad, to determine the margin of subsidization necessary to brige the cost differential both in shipbuilding and ship operation. The differential is calculated from actual wage studies conducted under the provisions of the Merchant Marine Act of 1936. It falls into a magnitude of approximately 50% of our total costs. That is to say, our wage costs in both ship construction and ship operation are roughly double those of the foreign counterparts. This differential is made up by the subsidy which by law may run as high as 55% of our costs or a little above the total foreign costs.

That the ship-construction differential has not only persisted but has widened is supported by the Federal findings. It has indeed broadened about 10% in ten years. From an average of about 47% in 1957 it has moved to an average of approximately 52.4% in 1967. Something different should have been expected if the economists' prescription were taken as the guide. The gap should have been closed or at least greatly narrowed in a movement toward equilibrium.