During this period Japan moved to the position of the world's leading shipbuilder. This fact might indeed have been expected to increase the differential because of the low Japanee wages. However, that country's wages increased annually more than twice as fast as the American (about 9% and 4%, respectively). Yet in spite of this rapid upward movement of the Japanese wages the absolute differential in hourly wages between this country and Japan widened from about \$2.12 in 1957 to \$2.59 in 1964. In this fact lies a lesson that is often overlooked. A 5% wage increase in this country may be equal to one of 15% to 25% or higher in other parts of the world. Thus the gap in absolute pay may widen even when foreign wages rise more rapidly than here.

The result of the wide differential in cost, i.e., slightly over 50% today, or slightly over 100%, depending on which base is used, means that the American shipbuilder is already as heavily laden with cost when he has assembled at the shipyard all his materials, machinery and equipment that go into a ship as is the foreign shipbuilder when the latter has finished his ship. In other words, the American shipbuilder could compete only if he could put his ship together without hiring a single worker, because of the costs of materials. To date such a miraculous consummation has eluded the American industrial genius. On the same score, a ship operator of an American-built ship could not hope to compete becaue of his higher-cost ship unless he could sail it without a single crew member.

That cost differentials should be reflective of wage differentials when these are not compensated by productivity differentials, follows from the share of total cost of production accounted for by employee compensation. In this country in 1965 employee compensation was 80% of total corporate income. (Statistical Abstract of the United States, 1966, Table 459.)

However, that is not the point. This is that a 100% gap between domestic and foreign costs in an industry as similar as shipbuilding and ship operation has persisted without narrowing over a period of ten years.

The economist will point immediately to the U.S. subsidy as the cause, thus, perhaps unwittingly, proving the thesis of this paper, namely, that governmental controls and interferences prevent the natural economic laws from producing the results that otherwise might properly be expected of them.

We have only to observe that other policies, interferences and rigidities, likewise lying beyond the control of shipbuilders and operators, contributed their share to the competitive incapacity that made the subsidy necessary. For example, what was the cause of the high wage level in this country? It was the result of national economic policies, including labor policies, generally supported by heavy majorities of the electorate and therefore enacted by Congress—policies that were quite strictly American and did not go on statute books in foreign countries. Many of these statutes increased the costs of production in the United States and therefore generated competitive disadvantages of our industries *vis-a-vis* foreign producers, much as the disadvantage suffered by the maritime industry.

Perhaps the subsidy should have been refused to the maritime industry. Such would have been the prescription of the free-trade economists. However, that would have led to denudation of the seas of the American flagships. As it was, the subsidy was limited to a tonnage regarded as meeting the minimal national security needs and no more; and this limit marked the total tonnage of our flag fleet construction (ships built in American yards and employing American crews). This limit is very low. Our flag ships carry a little less than 6% of our total trade. To repeat, so great is the cost differential that our fleet would have been driven from the seas but for the subsidy.

Such economic expulsion would have been justified by free-trade policy on the grounds that our wages are too high in relation to our productivity in building and operating ships. The wages, however, are not out of line with those of similar domestic industries, but are kept at their high level by union power, supported by national legislation. They are therefore beyond the reach of the free market forces of Adam Smith.

That the wages are too high to make the American merchant marine competitive goes without saying; but they are a part of the American system, deeply entrenched in public policy. To make the wages competitive it would be necessary to adopt the lower wage standards of other countries or to displace a shockingly high number of workers by technology.

The American public is hardly aware that the bases of foreign competition may be drastically changed by the side effects of domestic legislative enactments on our industries. These enactments may have a justification of their own in