

total volume of exports, but also in terms of changes in the composition of trade.

An increase in the imports of a highly competitive product into a country where the marginal cost of that product is considerably higher than its marginal cost in the country of export will have the effect, first, of lowering the price of that product in the country of importation and, secondly, of displacing some of that country's marginal production. In turn, this is likely to lead to some unemployment and some impairment of profits in the industry in question. In accordance with the competitive principle underlying the free enterprise system, the result will be transfer of some capital and labor away from the production of the good in question into the production of goods that have a competitive advantage in a foreign market. These continuous transfers of labor and capital away from areas of higher-cost production to areas of lower-cost production serve to keep the international economic accounts in equilibrium.

THE "NO INJURY" PHILOSOPHY

Not since the United Kingdom abandoned free trade at the turn of the 20th century has any important trading country been willing to require that domestic producing interests adjust to highly competitive imports. Most countries have followed the opposite course of protecting individual firms and groups of workers who are hard pressed by foreign competition by restricting such imports. The world is still mercantilistic; governments are much more concerned over the immediate pecuniary welfare of producers than over the long-run welfare of consumers.

Notwithstanding all the fanfare that has accompanied the liberal trade programs initiated by the Reciprocal Trade Agreements Act in 1934, there has been consistent and active concern over the "injury" that might be caused by the increased competitive imports resulting from reductions in tariffs and other trade barriers. Ever since 1942 there has been provision, either in the law itself or by administrative action, authorizing the President to impose barriers against imports whenever the Tariff Commission finds that imports are causing, or threatening to cause, "serious injury" to any domestic producing interest.

Not until the Trade Expansion Act was passed in 1962 was there even the slightest indication in the law that tariffs and other trade barriers should be reduced even though the increased imports resulting from such action might threaten injury to some domestic producers. Title III of the new legislation provided, for the first time, for subsidizing adjustment in those cases where increased imports might injure domestic producers.

As evidence of this change in thinking was a statement of intent by the Kennedy administration, when the trade expansion bill was introduced in Congress in January 1962, to negotiate for across-the-board tariff reductions with a minimum of exceptions. Prior to 1962 tariff negotiating was confined to those tariffs, the reduction of which would not result in increases in imports sufficient to alarm domestic producers. Under the 1962 legislation, if injury should eventuate it would be in the discretion of the President either to increase tariffs