aries. These presumably would have been greater if the preferential market was larger and less remote, and the exporting nations' independence longer established. The steady growth of United Kingdom-manufactured imports from the preferential area since 1957 supports this latter opinion. Yet much contemporary public discussion ignores this, by stating either that the results would be negligible for the South or difficult for the North.

BALANCE-OF-PAYMENTS EFFECTS

A second point at which the scanty observed results differ from the evidence is in the estimate of what preferences would do to balance of payments. It is claimed that the United States cannot given preferences because they would lead to increased imports, thereby worsening the balance of payments. The problem is analytically quite complex, because increases in U.S. imports from LDC's have a series of effects on the balance of payments.

If the new imports from LDC's substitute for goods previously imported from the North, then the balance-of-payments results will depend on the relative extent to which North and South spend additional foreign exchange earnings in the United States. Obviously, if Northern countries use dollar earnings to build up reserves, while LDC's use them to finance imports, then a switch in the source of supply from North to South benefits the U.S. balance of payments. But the full effects depend not only on the initial disposition of the dollars earned by foreigners, but also on subsequent rounds of spending.

Some research has been carried out in order to measure the balance-of-payments effects of tied aid compared with untied aid. This research indicates that there are sharp differences among LDC's in their marginal propensities to spend additional dollars, tied or untied, in the United States, but that these intercountry differences narrow when additional rounds of respending are taken into consideration.

Two points stand out: (1) during 1960–64, LDC's increased their imports from the United States one-third faster than the growth of LDC exports, while their imports from the rest of the North increased only half as fast as LDC exports; (2) although U.S. exports to the North increased at the same rate as to the South, these increases were smaller than either the rate of Northern trade growth or the growth of Northern exports to the United States.

These data offer some implication therefore, that diversion of U.S. imports from North to South results in an improvement of the U.S. trade balance. Naturally, these aggregative computations offer only an indication. The data for the 1960–64 period also reflect an accentuated U.S. emphasis on tied aid, as introduced under pressure of America's balance-of-payments concerns. For the period under review, this may have been a dominant element in the rapid growth of U.S. exports to LDC's.

Countries that face substantial trade diversion from preferences (such as Japan) are unlikely to recoup fully through these respending effects. But those whose exports are not highly competitive with potential LDC exports may well gain on balance. If, as seems likely, LDC's spend all their additional foreign exchange earnings, the effect for all