industrial countries, as a group, is neutral. The question at issue, however, is the country-by-country incidence of that effect. Some industrial countries would benefit, in balance-of-payments terms, while others would lose. The analysis that would help to answer the questions "who?" and "how much?" remains to be performed.

PREDICTING THE TRADE EFFECTS OF GENERAL PREFERENCES

Whatever the likely balance-of-payments effects, or the record of existing preferential systems, they give us no sure guide to the trade effects of the proposed general system. The estimates that have been made so far are not very helpful, because they are based on static analysis, and are defective, even in those terms, because of our ignorance of the relevant supply and demand elasticities. However, they serve some purpose in indicating whether short-run effects are large or small.

One such estimate has been made by Grant L. Reuber.[12] He has made various assumptions about trade effects for LDC's of: (1) reducing MFN tariffs to zero; (2) reducing MFN rates only enough to maintain existing preference margins; (3) maintaining MFN rates for the north and reducing LDC rates to zero. Not surprisingly, he concludes that the South would benefit most from the last alternative. With an average tariff of 12 percent and a demand elasticity of minus 2, he estimates that LDC exports of manufactured products subject to significant tariffs, but not now subject to quantitative controls, would increase by 25 percent (or $250 million), and exports of noncompeting unmanufactured products by 2.4 percent (or $350 million), for a total effect, at 1961 trade levels, of $600 million. If quantitative restrictions were removed from competing goods, he estimates an additional $1.1 billion of imports would result under "optimistic" assumptions. Reuber points out that these effects are negligible compared with current levels of trade and aid.

Johnson has said that Reuber's is too low an estimate because it neglects effective protection. He offers an estimate for increases in manufactured exports alone under free trade of $600 million. Preferential trade results would be correspondingly greater. But if a figure of $600 million is used to adjust Reuber's estimates, the short-run trade effect of preferences becomes about $1 billion, even if existing quantitative restrictions are retained.

As an alternative to this approach, I have estimated the effects on a different set of assumptions, and emerged with a result that is not significantly different. My method was to assume that the developed countries would allow a preferential duty-free tariff quota to the South on a product-by-product basis. There were three additional assumptions: (1) Preferences would not be extended products for which the South is now competitive; (2) tariff quotas would not be effective in stimulating imports of manufactured products either when existing tariffs are below 5 percent ad valorem, or when, no matter what the tariff level, technology and scale problems seem insurmountable; (3) preferential quotas would be set at 5 percent of last year's imports of all products. Using 1962 data for Western Europe, Japan,

[12] "Canada's Interest in the Trade Problems of the Less-Developed Countries," Private Planning Association of Canada, Montreal, 1964, pp. 23–29.