

Yet 1964, with this unusually high trade surplus, was one of the bad deficit years, \$3 billion, and was followed in 1965 by the voluntary restraint program, the renewal of the Interest Equalization Tax, and the withdrawal of the gold cover from Federal Reserve Deposits.

Ever since 1961, expansion of exports to solve the balance of payments problem has been in the forefront of national policy. Organizations of national and regional trade expansion councils, trade missions abroad, trade fairs, trade negotiations—the Dillon Round and the Kennedy Round—have all been held up as the answer to export expansion. In a way they have been successful—commercial exports (excluding aid-financed exports) have soared by \$9.6 billion from 1960 to 1967, almost fifty percent. This is indeed phenomenal.

But imports have increased faster, from \$14.6 billion in 1960–61, to \$26.6 billion in 1967—a \$12 billion increase, or eighty percent in eight years.

We must again confront the question: Is this trend temporary, due to fortuitous, unanticipated circumstances, such as the deficit-induced inflation in the United States or bountiful agricultural crops abroad in 1966 and 1967? Or is it structural and more permanent, reflecting a reallocation of productive functions around the world, where U.S. products are becoming less needed or too expensive and therefore being displaced by other sources?

Frankly, I do not have the answer. Neither, I am afraid, does the U.S. Government with all of its resources. We have a tendency to select political objectives in the economic field and then try to justify them by assumed "facts". This is one area where economic theory had better serve its master well—the national interest. For if we find in the next five to ten years that the policies we have adopted will not give us the surplus on commercial trade account and on investment income, we will have to pull up stakes from many outposts in the world and leave many people bitter and disillusioned, including our own.

I am afraid that the trade problems we confront may be structural and not matters of temporary adjustments. This does not mean that we cannot increase our export sales by the amount needed in 1968 or 1969, by hard sell. Any country that can push out \$1.2 billion worth of military hardware a year to offset military expenditures can certainly do half as much with automobiles, coal, grain and a host of other competitive products we can supply.

The instruments proposed for export expansion, however are not too reassuring. The sum of \$200 million at an annual rate of \$40 million, most of it to be spent abroad, probably on trade fairs and market studies and such, does not touch the real issue—price competitiveness, and ability and willingness of other countries to buy.

For years many Presidential panels have suggested tax incentives for exports. To date there is no proposal on this before Congress.

There is not even a thorough study on the price competitiveness of U.S. exports, product-by-product, country-by-country, to see what the scale of the problem is. Should the tax incentives be 2, 3, 5 or 10 percent to obtain a predictable result? No one knows.

Given the need of the importing country and even price competitiveness, it does not follow that the opportunities for unilateral increase in exports are there without limit or without repercussions. You can group the countries in the world into three categories: the Communist countries, the developing countries, and the developed countries. The Communist countries are not in the market to buy consumer goods, except food in conditions of dire need, and they are not in the position to buy a net surplus from the United States. They like to come as close as possible to a barter basis and equalize imports and exports.

The developing countries do not have the reserves necessary to increase their imports over their exports. They are candidates for foreign aid. The only way we can increase our trade surplus with them is by taking markets away from European and Japanese exporters.

The developed countries may be divided into two groups: the first group is comprised of countries such as the U.K., Canada and Japan which run balance of payments deficits with the United States, sometimes offset by our credits and military expenditures. Bilateral trade with them will increase, but it is unlikely that they will give us a net surplus in trade by increasing their deficits with us.

This leaves the developed countries of Continental Europe, Australia, and South Africa. It should not be impossible, by hard sell at the political level to increase our exports to Continental Free Europe by \$500 million a year. The surplus countries, mainly those in the Common Market, however, will resist this because their trade balance with the United States, on the average, has been \$2