

counted. By the same token, we should credit the steel segment of the merchandise balance of trade with all exports of steel-making materials because foreign steel production, which may return to us as imports, or substitute for our exports, is nevertheless providing us with dollars.

Nevertheless, to focus on the steel "balance of trade" is an exercise in futility. International trade, like domestic trade, is exchange, and in the process of exchange individuals, regions, and countries trade one type of commodity or service for another. The undisclosed assumption of those who would calculate the steel "balance of trade" is that the U.S. should export at least as much steel as it imports. Applied to every commodity, this principle would lead to ridiculous results: accountants would never use physicians services, Denmark would never import cotton, and the U.S. would import no iron ore.

From the standpoint of the economy, imports and exports are indissolubly linked, because foreigners can pay for our exports only by exporting to us, over the long run, unless we give or lend them the money to pay. We benefit in real terms by allowing them to pay by imports. Hence, a "deficit" in steel can be regarded as being counterbalanced by a "surplus" in cotton, in construction machinery, or in calculators and computers. Importers of steel in the U.S. are, in effect, paying the exporters of other products. This elementary theorem of international trade is usually forgotten by groups that wish to choke off imports of competitive products. Foreigners have no way of paying for our exports to them, in the normal course of business, *except* through use of dollars obtained by exporting to us, or to some other country that has exported to us. To the extent, therefore, that our restrictive policy reduces the number of dollars paid for imports, our exports are bound to suffer. The fact that, since 1950, our merchandise trade receipts have increased from \$10,117 million to \$30,463 million (*Economic Report of the President*, 1968, p. 306 and *Survey of Current Business*, March 1968, p. 23) is not unrelated to the fact that our imports rose over the same period from \$9,108 million to \$26,980 million. Generous as the American people have been with grants and loans, we would never have supported a comparable level of exports. The exports had to be financed by imports. The alternative would have been to produce here a variety of materials that we could import more cheaply, paying by exports. Nothing in the analysis of the "steel balance of trade" can possibly upset this basic fact of economic life.

On the contrary, we must conclude that attempts, such as those currently underway, to reduce imports, can only result in hurting exports. Foreigners will have fewer dollars to buy our exports; and if the quotas on steel are "successful" there will be an immediate and parallel drop in the purchasing power available not only for U.S. agricultural and machinery products, but also for the purchase of steel products themselves! The *Staff Study* of the Senate Finance Committee was on sound ground when it concluded, with emphasis:

"A restoration of a net export balance in steel trade would be desirable from the point of view of the U.S. balance of payments, but it would not help either the balance of trade or the balance of payments, if a sharp cut-back in the current level of steel imports would result in an equivalent dollar amount of other U.S. merchandise exports being lost by retaliation." (p. 81)

The only point missed by the Study is that regardless of whether there is retaliation, the artificial creation of a net export balance in steel trade could not help but reduce our exports of other commodities. A corollary of the program of quotas, neglected by the steel industry, is that a "favorable" balance must be paid for by exports from the "deficit" country. If, somehow, imposition of quotas left by some of our customer countries with debts owing in dollars, they would be forced to export more either to the U.S. or to third countries that would have to export more to the U.S., in order to pay for our net export of steel. Consequently, some other industry in the U.S. would face an increasing volume of imports. This industry, too, might cry for help; other quotas would be introduced; and the ultimate fate of the level of international trade is not hard to imagine.

The *Staff Study* of the Finance Committee is, therefore, in error when it says, "The growing deficit in the balance of trade in steel products has not only had an adverse effect on the total merchandise balance of trade but has contributed increasingly to the persistent deficit in our balance of payments." (p. 80). As we have just seen, this characterization could be applied to *any* product which shows payments to foreigners in excess of receipts; there is no reason to single out steel. When we consider the deficit in the balance of payments as a whole, the steel deficit is trivial compared with the total out-payments for private capital investment, government loans and grants, and military expenditures. In 1967,