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U.S. Foreign Economic Policy and Our National Interest

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**NAVAL WAR COLLEGE
REVIEW**

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U. S. FOREIGN ECONOMIC POLICY AND OUR NATIONAL SECURITY

A lecture delivered
at the Naval War College
on 27 September 1954 by
Professor Gardner Patterson

Gentlemen :

My assignment, as I understand it, is to discuss the relevance of foreign economic policy to our ability to defend ourselves. This is a broad topic and, with your permission, I shall restrict my remarks primarily to the United States foreign commercial policies: the terms and conditions under which we permit foreigners to sell goods here and our own people to buy goods abroad.

At the outset, let me acknowledge, yes, emphasize, that one such as myself who is not privy to the facts on the development of new weapons assumes a great risk of talking sheer nonsense on the topic I have been given. It is quite conceivable to me — indeed, from some of the reports I read in the papers I should think it may even be probable — that we have now reached a stage in our nuclear energy program which makes any discussion of the relations between foreign economic policy and our national security no longer pertinent. Our power in being may well be so overwhelming that from a national security point of view such matters as allies, sources of materials, industrial potential, and so on, are sheer irrelevancies. What I have to say this morning, then, is based upon the assumption either that prudence demands we plan to protect ourselves by conventional means as well as nuclear devices, or, alternatively, that both we and our potential enemies are each in a position to so completely destroy the other that resort can in fact not be had to these weapons.

It is common practice for academic economists in the United States when arguing for specific foreign trade policies, explicitly

or implicitly to assure that way, or to ignore, the security or military aspects of exports and imports. Similarly, if I read the record correctly, it has been a common practice for senior military authorities in the United States to pay almost no attention in their thinking to our international commercial policies. A striking characteristic of the periodic Congressional hearings on the Reciprocal Trade Agreements Act is the absence of statements from or testimony by officials of the Department of Defense.

I submit that neither of us — neither the academic economists nor those charged with primary responsibility for national security — can any longer afford the luxury of assuming that there is nothing in common between tariffs and survival. Given the Russian threat, an economist, if he is to be responsible, must give attention — indeed, he must give precedence — in his thinking and in his recommendations to security considerations. His first concern in assessing specific foreign trade policies for the United States must be as to their appropriateness to the responsibilities and objectives of a great power in a hostile world. And if, as I hope to show, the ability of the United States to defend herself is in important part a function of the nature and extent of our imports and exports, then the problem of our foreign trade policies is one which you gentlemen also can no longer ignore.

Most economists today argue that from the point of view of national prosperity and the economic welfare of her citizens, the United States should pursue a general policy of substantially reducing the existing restrictions on purchases from and sales to foreigners. For over a century and a half now, the common and fundamental economic justification for permitting people to buy in the cheapest market and to sell in the dearest is that you thus get the advantages of international specialization. Let everybody do what he can do best, it is asserted, and everybody concerned is likely to end up with more goods than he otherwise would. Although the world as we know it today, with its extensive governmental interference in the marketplace, calls for many amendments to

the classical theory of international trade as a guide to current policy, there are still solid grounds for believing that a liberal trade policy is well designed to increase our real national income, even though more international trade may well cause serious damage to certain American producers who cannot successfully compete with foreigners.

But the question of concern to us here today is what happens to this doctrine or policy when precedence is given to national security considerations? Let me emphasize at once that what I have to say on this is with reference to the United States *at this particular time*. I have no suggestions as to what would be good policy for, say, France, or what would have been good policy for the United States a hundred years ago. I am not attempting to develop a general theory; rather, my interest is in analyzing a very specific problem — how best to further the national security interests of the United States in the 1950's.

It may be well at the very outset to dispose of two of the more popular security arguments offered for a greater amount of foreign trade by the United States. There are those who assert — with varying degrees of sophistication — that we ought to have a great deal more trade with the rest of the world because trade results in various peoples of the world knowing each other better and that once everyone knows his neighbors all will be friends and our security problem will thereupon evaporate. This is a pleasant thesis, but I cannot recommend it to you as a convincing one. International trade is essentially a series of business transactions and it would seem that such buying and selling, where, presumably, each party is trying to get the best deal possible, are as likely to be sources of friction as ones of warm and enduring friendships. This is not, it must be emphasized, to say that the sorts of friction resulting from trade are likely to result in armed conflicts. I know of no historical evidence to support such a contention.

Another "security" argument frequently heard which apparently has much emotional appeal to many is that trade makes people richer, that richer people are happier people, and that happier people are less likely to get involved in wars. The evidence seems to me persuasive only on the first casual relationship cited. For the other two, especially the last, surely the gravest skepticism is warranted. In any event, the economic cost of wars being what it is today, only a rich nation (and Russia is a relatively rich nation today, even though the present consumption levels of her people may be low) can be a serious enemy.

There are, however, some potent considerations which add up to an impressive case — on national security grounds — for more international trade by the United States. This morning there is time perhaps to look rather briefly into three of them: first, the effect that larger foreign trade will have on the structure of production in the United States; second, the growing raw material shortages in the United States; and, third, the effect of more United States trade, and the conditions under which this is carried out, on the cohesiveness and strength of our alliances. Let us take up these points in that order.

What effect does international trade have on the pattern of production in the United States and, more specifically, on the ability of our economy to produce the goods needed for defense? There is nothing, so far as I know, in the *general* theory of international trade that tells us very much as to whether larger imports and exports will have a favorable or an unfavorable impact on the ability of a nation to produce the types of goods needed for its defense. But there is, it seems to me, considerable evidence to indicate that more foreign trade would, in the case of the United States, *at this time*, increase our ability to make those sorts of goods most needed by you people in discharging your obligations.

A confident, firm, and detailed answer to the question of the effect foreign trade has on our ability to produce the sorts of

goods needed for an extended period of "cold war," or for a major military effort, would of course demand a detailed analysis of every single commodity we import, every single commodity we export, and every single commodity needed for defense purposes. This, obviously, I do not have time to do. Such tasks are appropriate only for large research organizations. Nonetheless, I am ready to hazard the statement that the major characteristics of our economy and of our international trade clearly show that, over large portions of the relevant areas at least, the United States has impressive competitive advantages over most foreign areas in producing just those goods which are most vital to a defense economy, or to a long war, and in those industries in which productive capacity over and above normal peacetime domestic requirements is most needed in times of war. That is to say, I think it happens, for a series of complex and often interrelated reasons, that the current record shows that international specialization has, by and large, resulted in the United States tending to specialize — and so create human skills and physical plant capacity — in producing those sorts of goods which are likely to be most needed in time of war.

Parenthetically, let me add at once that if this general proposition be valid then it behooves us to encourage larger imports, for it is only by taking more imports that we can make it possible for persons in other nations to buy more of our exports (or indeed to prevent a substantial decline in our exports) and so justify an expansion of our capacity for producing these goods. It should also be noted in this connection that to the extent we refuse to import from other countries when it is cheaper for us to do so than to buy at home, we tend, in many cases, not only to pay the price of buying in a more expensive market but we also divert resources, skills, and productive capacity within the United States to the production of goods of far less strategic importance than those which we might otherwise produce for export.

Perhaps these general statements can be made a little more clear and concrete by looking at the record for 1953 — the last year for which twelve months' data are available. In what types of production was the United States particularly strong as a competitor as evidenced by an ability to enter markets in foreign countries? Of our total exports in 1953, only about fourteen per cent, by value, were in crude materials, of which the largest single item was cotton, followed by tobacco and coal. Certainly our ability to produce cotton and coal efficiently and in large quantities is of indisputable value from the national security point of view. Fourteen per cent of the total was in foodstuffs. And the important thing to note is that these foodstuffs were basic foodstuffs — bread grains account for much of it — the sort of goods for which we need productive capacity in this country beyond our internal peacetime needs if we are to be adequately prepared to carry out a long war. I conclude that the existence of export markets has contributed to the maintenance in this country of a level of investment in both human and material resources for agricultural production which has stood us in good stead in time of trouble in the past and will do so again should the need arise.

Even more significant, perhaps, is that the remaining 73 per cent of our exports were in manufactured goods and that bulking large in this total were automotive equipment, aircraft, chemicals, petroleum products, electrical equipment, and so forth. By and large, this was the output of precisely those sectors of our economy which makes the planes, the tanks, the ships, and the associated products, the high production base for which we have such urgent need in time of war.

Although an *expansion* of our exports would not all take place in exactly the same goods as now leave our shores, it is to be expected that much of any increase would be in those categories of goods in which we have already demonstrated great competitive strength. If this be the case, then it would seem to be in the national security interests of the United States, and very

much in the interest of people such as yourselves who are responsible for planning for the defense of this country, to expand trade so as to increase still more our production of these items.

Let us now look briefly at the *import* side of our foreign trade. For what sort of goods do we rely upon foreign sources? Does our foreign trade result in creating a dangerous dependence on others for strategic goods and so reduce our ability to defend ourselves in a crisis as has sometimes been charged? The record shows that last year (1953), 40 per cent of the total value of our imports were in the form of raw materials. I ask your permission to put this aspect aside for a moment; it is so important that I wish to make my second major point around it. How about the rest? Nearly a third of the total — 31 per cent — was food and drink. But in contrast to our exports of foodstuffs, the imports were largely of items which a garrison economy or a beleaguered nation could do without and suffer little impairment of its capacity to defend itself. Over half of the food imported was coffee. There are obvious difficulties in convincing a group of naval officers that coffee is not an absolutely essential item, but I hold this nation could get along without it if our national security were very seriously threatened. It is not, that is to say, of the same importance as wheat (one of our big exports) from the national security point of view. The bulk of the rest of the food and drink imports were made up of whiskey, sugar (much of this from Cuba — a relatively safe source in wartime), miscellaneous fruits, fine-quality fish, and luxury foods. For people who must calculate not in terms of the demands of lush living but in terms of the brutal minimum requirements of a nation at war over an extended period, a very large part of these food imports are things which they could do without.

The remaining 30 per cent of our imports last year were made up of finished manufactured goods, of which the biggest single item by far was paper. It is difficult to determine how strategic paper is, but two things are obvious: we could make

do with much less than we now consume without seriously threatening our ability to defend ourselves and, in any case, virtually all of this paper comes from Canada — a source almost as strategically “safe” as the United States itself. Textiles also are an important part of our manufactured imports; they tended to be concentrated in the finer qualities and many were not the sort of basic textiles needed to keep military forces and civilians adequately clothed during a period when there is little premium in being chic. There were also some automobiles in this category, but it surely is apparent to all that the United States is not likely to become heavily dependent on foreign sources for its cars. There were, of course, scores of other items, but no large quantities of any one. As I read it, the record strongly suggests that — raw materials excepted — the United States economy has shown virtually no tendency to become alarmingly dependent on foreign sources for strategically important goods.

It is important, however, not to oversimplify this aspect. I do not mean to suggest that if we removed all barriers to imports we would not develop a great dependence on others for producing at least some goods vital to our security. There are, no doubt, some items of great strategic importance to us which could be but would not be made here — because foreigners can make them more cheaply — unless special protection in the form of tariffs, import quotas, subsidies, etc., is given to domestic producers. For some of such commodities, the answer may be stockpiling; at least, that is an answer for the short run for those sorts of commodities which can be stockpiled in peacetime at reasonable cost. But the more difficult case has to do with human skills and here there may be cases where we should restrict imports for security reasons. Will we, by a deeper flow of imports, come to rely upon foreigners to produce certain commodities vital for our defense, the making of which requires high-order human skills which are, because of the imports, no longer possessed by United States residents? It could be — and it may be — but I would urge you to examine with care and skepticism this argument whenever it is advanced.

The "special skills" argument is fast becoming the favorite retreat for American producers who for any reason fear foreign competition. It is common practice now for any producer who wants to receive special protection against imports to raise the cry that the technical skills of his employees are essential to national defense, that such skills are the product of many years of experience, and that if foreigners are permitted to drive his firm out of business by selling comparable goods at lower prices than he can offer, then the nation will be deprived of a resource — high-level skills — essential for maintaining an adequate defense. This thesis has demonstrated a great appeal to members of Congress, who pass the laws on most of these matters. This matter of skills is important. I deeply regret that some very indecent proposals have been made in its name in recent years and, what is more to be deplored, sometimes have been honored.

A particularly disturbing abuse which comes quickly to mind is the notorious "cheese amendment." In 1951, Congress amended the Defense Production Act so as virtually to embargo all cheese and dairy products imports into the United States. Domestic dairy and affiliated interests were instrumental in having the measure introduced in Congress and offered many arguments in support of such an embargo. One of the more important was that foreigners, with "cheap" farm labor, could produce cheese of a given quality more cheaply than the United States dairy industry and that if this foreign cheese were permitted to come in it would result in an alarming decline in the dairy cow population in the United States which could be disastrous if we were to get into another war. I do not object to the dairy people making this proposal — it is in their self-interest and under our system and rules they have every right, indeed obligation, to attempt to advance their interests. But surely it is obvious that this is an exceedingly narrow and twisted view of where the national security interest lies, especially since the embargo caused consternation among our allies, was in direct conflict with the objections of several of our other foreign economic policies, and was in clear violation of certain formal

internationnal obligations which the U. S. Government had voluntarily assumed in previous years.

Take another example. Some pottery manufacturers argue that you and I should not be permitted to buy, say, Italian pottery at the very cheap prices asked and the producers should also pay a very high duty. One of their arguments in support of this is that American pottery manufacturers cannot compete with cheap foreign labor and that if the American producers are driven out of business the nation will not have the skills and facilities for making various types of insulators needed in wartime. These two examples make the point, I trust, that there is scarcely an industry in the United States which cannot say, with truth, that it did during the last war, and can during the next if there be a next, make a contribution to our national defense and so should be protected from foreign competition.

But there are much more difficult and controversial cases than the above two. An example is the watch industry. Most of you doubtless read last summer of President Eisenhower's decision to double the duty on the imports of certain watches and parts, reversing that taken by President Truman in 1952. The arguments offered in support of the action were straightforward defense considerations, namely: it is vitally important from the national security point of view that the United States have available workmen trained to produce precision instruments; watchmakers have these skills which require many years to develop; if the import of inexpensive Swiss watches is not restricted, local watchmakers will be thrown out of employment and there will be no new entrants into the profession. The United States, it is asserted, will then soon find itself in the intolerable position of being dependent on workers living in the center of Europe for the skills needed to produce essential precision tools and appliances.

This is all very impressive. But it is not all there is to be said on the subject. There are other aspects which must be assessed before a decision is taken. We must not lose sight of the

fact that a price must be paid for the advantage of having watch-makers, or pottery-makers, in the United States when they are less efficient than their fellow craftsmen abroad. The price paid by the peacetime consumers of watches seems to me to be heavy and to argue for encouraging imports, but I have restricted myself today to national security considerations. What costs are there on this score?

One of the major ones has already been noted. If we refuse to buy from abroad, then — unless we are prepared to pay the price of giving some of our goods away — foreigners cannot buy our products. And, as we have seen, what foreigners buy from us tends to be concentrated in fields where security considerations make it important that we have capacity beyond our normal peacetime needs. Another cost I wish to touch upon later — the stresses and strains on our alliances. Frequently slighted, or ignored altogether in these discussions — but one which may in some cases be of great importance — is the possibility that the presence of foreign competition promotes and encourages the development and refinement of American skills, rather than destroys them. There is, for example, some evidence that if there had been no Swiss watch competition the American watch manufacturers would have been much slower than they have been in developing the skills required to make shock-proof watches, rust-proof movements, and other improvements. There is also, as another example, some evidence that more foreign competition in the microscope industry would have led both to lower prices and improved quality of the United States product, thus enlarging our productive capacity to produce these sorts of instruments and enhancing the skills of the American workmen.

But all this assumes there is grave danger of foreign competition depriving us of security-needed skills. There are no doubt such instances, but I think it is clear, to our great good fortune, that the problem in most cases of finding required skills in time of national danger is a relatively minor one for the United

States. This follows from the broad and diversified production base in this country with its huge cadre of skilled workers who, with remarkable ease and speed, can adapt their talents to new and highly specialized tasks which may have been performed for us by foreigners in peacetime.

The experiences in World War II in this country and others, especially Germany, showed, I am told, that the important thing in time of war was the *general* level of skills and aptitudes possessed by the people rather than the *particular* skills which these persons were exercising at a given time. Thus, for example, it was found during the last war that while the United States watchmakers were exceedingly good at making mechanical time fuses (and this is one of the major facts cited nowadays for keeping out Swiss watches), the more interesting and important fact was that over four-fifths of the mechanical time fuses produced here during World War II were made by employees of such companies as National Cash Register, Eastman Kodak, Edison, and so on. That is to say, if a nation has highly skilled workers — be they making watches or automobiles, or cameras, or cash registers, or computing machines — these skills apparently can quickly be transferred to making other products requiring high-order skills even though these products may have been made by someone else in peacetime. It should also be noted in passing that the United States has shown much talent and imagination in developing new skills. Some of you, for example, may know about the Army Ordnance project setting up a jewel-bearing pilot plant in a desolate area of North Dakota near an Indian reservation. They have found there that the Indians can be trained in quite a short time to be superb jewel-bearing craftsmen. This pilot plant is turning out only something like five per cent of our total requirements. But it is an experiment indicating that you can create special skills in unlikely places if some imagination is exercised and that defense considerations do not, as a matter of course, dictate that imports must be restricted if they compete with domestic industries making use of war-needed skills.

This casual and quick treatment will, I hope, convince you that one aspect of our foreign economic policy that is of great moment to you is the effect that increased trade will have on the structure of our domestic production. My general conclusion is that more trade — a national policy, that is, of reducing barriers to trade both at home and abroad — will in most, but not necessarily all, instances be an important source of strength from the national security point of view.

A second major consideration I see arguing for more liberal trade policies than we now follow and one we can no longer ignore, except at our great peril, is the raw materials position of the United States. Self-sufficiency is always a much desired goal by all citizens and especially by those such as yourselves who are charged with preparing the defense of the nation. How much easier your task would be and how much more comfortable I would feel if this country were wholly self-sufficient in everything needed to protect it. Unfortunately, if this ever were the case in the United States it is no longer — and it is becoming increasingly less so daily. It is not a question of using up our last barrel of oil tomorrow or of next week digging up the last ton of copper. But the trend for our consumption of industrial raw materials to outpace our production of them is strong and unmistakable.

According to the President's Materials Policy Commission, the United States in 1900 produced some 15 per cent more of all raw materials (except food and gold) than she consumed. By 1950, we were consuming some 9 per cent more than we were producing. And, if the trends of the past twenty years continue, by 1975 (twenty years from now) it is estimated that our consumption will exceed our production by at least 20 per cent. The rate at which we are becoming a "have not" nation in essential raw materials, especially in minerals and metals, is one of the most striking economic changes of this country in our time.

Before World War II (only some fifteen years ago), we were entirely or nearly self-sufficient in all minerals or metals

except tin, nickel, platinum, asbestos, chromite, bauxite, manganese, mercury, mica, and tungsten. Today, 1954, we are self-sufficient in minerals only in coal, sulphur, potash, and molybdenum. A shocking change in less than one generation. All of you on your trips from here to Washington in the last year or so have no doubt noticed the huge Fairless Steel Works that has just been completed between Trenton and Philadelphia. To me, the interesting and highly significant aspect of this is that these facilities will use imported iron ore. Indeed, I am told that the most important reason for locating the plant on the Delaware River rather than in Gary or in Pittsburgh was precisely because we have to rely more and more upon Labrador, Liberia, or Venezuela for iron ore and less and less on, say, northern Minnesota.

This change from a "have" to an increasingly "have not" nation in the sorts of raw materials which we must have to produce the materials necessary to defend ourselves has been due in part to the exhaustion of our resources, but, more importantly, it has been due to the greatly increased United States demand. This in turn has resulted in part from the great increase in population in the United States, the steady and rapid growth in investment, the increased standards of living, and the growing consumption of minerals and metals by the military establishment itself. And all of these continue to rise.

Whatever its causes, it presents us with an urgent and unavoidable security problem. What policies in peacetime can best assure us sufficient supplies of such materials in wartime? For the immediate future we have a large national program of stockpiling some 75 or so strategic and critical materials. There are some difficult problems in stockpiling but they need not detain us today. More important, and interesting, is the question: What should our policy be for the longer run? Clearly, we should seek substitutes, intensify scrap recovery activities, exercise economy in the use of scarce materials, and so on. Far less clear is whether we should also maintain or increase the barriers to imports of

these commodities seeking thereby to expand domestic output or, on the contrary, work toward a lowering of the barriers with the aim of conserving our own supplies and of increasing the productive facilities in friendly foreign countries.

The choice between these two policies is not an easy one and the proper one may well be a mixture, as is our present policy. It is generally the case today that we have no restrictions on imports of minerals and metals of which there is no production in the United States. There is, for example, no duty upon the import of rough industrial diamonds because there is no domestic industry to protect. On the other hand, there are many minerals produced in the United States in amounts inadequate to meet current and prospective demands but which bear heavy import duties. Mercury has many defense uses and we currently import 90 per cent of our consumption, yet there is an import duty of 40 per cent *ad valorem*. That is to say, local producers meet 10 per cent of the total need but are protected by a 40 per cent addition to the cost of mercury produced abroad. We import 75 per cent of our requirements in tungsten and all these imports are burdened with a 41 per cent tariff. One could go on and on citing such specific instances, but our concern today is with basic issues of policy, not a compilation of facts.

What are some of the major considerations which dictate maintaining or increasing the barriers to imports of industrial raw materials? I find three impressive ones. They are obvious and so need merely be listed here. First, to the extent foreign goods are kept out, encouragement is given to the finding of substitutes within our own frontiers. There are doubtless many possibilities for thus reducing our dependence on foreign sources at costs which, while burdensome, may not be crippling. Second, as we impose duties or other restrictions on imports and so raise their cost, conservation of these materials is encouraged. We have become wasteful in our consumption of many scarce materials (look at the chrome on our automobiles, for example) and if re-

stricting imports serves only to eliminate such prodigal practices it will not cut into the fiber of our strength. Third, as imports become more costly and difficult to buy, additional incentives are given to new explorations and, to the extent these are successful, our national security interests are well served.

On the other hand, a policy of erecting, or even maintaining, barriers to imports may have some very unhappy consequences. In most instances it seems likely to lead to a more rapid exhaustion of our own nonreplacable resources and surely a nightmarish situation would be to find ourselves in another war with our own resources of needed raw materials seriously depleted and, at the same time, with no developed and available sources of foreign supply. By the same token, a policy of encouraging imports does tend to conserve such domestic supplies as we may have, leaving them available for times of great crisis. (There is, of course, some danger that their availability may be more apparent than real. A forceful case sometimes can be made that domestic mines which are not actively worked soon flood or cave in or otherwise become unproductive. My own opinion is that in such instances a better case can be made for domestic subsidies to keep such installations in working order than for resort to direct restrictions on imports).

Another major national security consideration arguing in favor of encouraging rather than discouraging imports of these raw materials is that such a policy will stimulate exploration and increase production abroad. This is most clearly in our security interest as it increases the possibility of adequate production being available to us in times of both peace and danger. This in turn hinges on the particular areas where increased production is likely to take place if the United States market is made more accessible to foreigners. I tried to deal with this last year when I talked from this same platform and concluded that it appeared that a large part, but by no means all, of the increased production would be in Latin America and Canada — areas which, I understand, are assumed to be reasonably safe and accessible in time of such wars as we have current cause to fear.

My general conclusion on this second major aspect of my topic — the high and growing consumption in this country of minerals and metals — is that our policy should be a mixture of protection and freer trade, depending in each case upon the specific problems and especially the effects of encouraging imports of individual materials on our own production, exploration, and conservation. But I believe that for the long pull the mixture should be heavily weighted on the side of expanded imports; self-sufficiency in this area is not only very costly but it is almost impossible of achievement.

I come now, in these last few minutes, to the third concern which must be a matter of moment to you people: the influence of our foreign economic policies on our coalitions and alliances. The present foreign policy of the United States is built upon a web of relations which, taken together as a network, amount to an alliance among virtually all the free nations of the world. Through the North Atlantic Treaty Organization, the Australia-New Zealand-United States Security Treaties, the new SEATO arrangements, the Rio Pact, and so on, we have agreed to undertake, with others, to build up the defenses of the free world. I accept it as given that for reasons of defense and national security, if for no other, the United States not only wants, but desperately needs, friends. This, I take to be at the core of our foreign policy.

We must hope, of course, that these alliances are held together by a sense of common destiny, common values, and a common danger. I am sure these are important elements. But, even so, prudent men must recognize that conflict in the economic sphere, or serious inconsiderateness in important economic matters, can only loosen — rather than cement — alliances. More important, military alliances today without firm economic underpinnings must be unreliable and inadequate. With modern techniques of warfare much indeed depends upon the basic industrial strength of the nations involved. This industrial strength in turn is increased as each nation makes the most efficient use of such economic resources

as are available in the whole alliance community. For most of the nations upon whom we now rely as allies, access to the United States markets and to supplies from this country are vital, affecting both their ability and their willingness to contribute to joint defense efforts with us.

Look briefly at this proposition. The United States, as a source of supplies and as a market for others' products, is a giant. With some 5 per cent of the world's population, the United States produces something over 40 per cent of the world's output of goods and services. In 1953, we accounted for something like 20 per cent of the world's exports (by value) and for something like 15 per cent of the world's imports. These are other ways of saying that the economic size of the United States is huge. They mean that we have the power to help, but they also mean that we have the power to hurt. Moreover, we must never lose sight of the fact that it is a very dangerous power which the United States wields because, although we are by all odds the world's biggest importers and by all odds the world's biggest exporters, our imports and exports, relatively speaking, are not so important to us as they are to those with whom we trade. That is, we now account for some 20 per cent of the world's exports but these exports only account for 4 to 5 per cent of the United States national income. Parenthetically, it should also be noted that the United States has accumulated something like 22 billion dollars' worth of gold down in Fort Knox. This has meant that the United States, alone among the nations of the world, can select foreign economic policies without paying any attention at all to their effect upon our international monetary reserves. This increases the area within which it is possible for the United States to behave irresponsibly. When a giant is irresponsible, trouble is very likely to result.

Although one could cite hundreds of instances, a few must suffice to illustrate how important the United States market is to foreign countries and how relatively unimportant the trade is

to the United States. The production of spirits is an important sector of the United Kingdom's economy, representing a heavy capital investment, a lot of employment, and a major source of foreign exchange earnings. One-third of her total production of Scotch whisky is exported to the United States and constitutes, I believe, the biggest single British export to us. Here, obviously, is a matter of great importance to the United Kingdom but it certainly is a minor factor in our national economy. We find it scarcely worth noting that a duty equal to nearly a third of the value of Scotch is levied at our frontiers. But such a tariff is obviously of great importance to Britain, affecting directly as it does her dollar earnings, her employment, and the welfare of a good many of her people. Spain, for another example, sells 75 per cent of her production of pickled olives to the United States. Olives are an important part of the Spanish economy and the market for them has nationwide repercussions on employment and general economic well-being there. Yet they are so unimportant to us that few pay any attention to the conditions under which their import is permitted. And in return for exports to us of items such as these, foreign nations import from us such commodities as wheat, raw cotton, automobiles, machinery, and medicines. This means, whether looked at from the point of view of what we buy or what we sell, that our allies cannot easily live without us and they certainly cannot live comfortably with us unless we are a good and stable trading partner. It is pretty hard, it seems to me, to build up strong political and military loyalties when the atmosphere is charged, as it has sometimes been, with threats from us to foreigners' well-being. We have not always been a stable trading partner.

I suspect that our friends the Danes, for example, find it much harder than they otherwise would to cooperate with us in all respects in NATO when we virtually embargo imports of Danish cheese. As I noted a few minutes ago, it was easy for Congress to decide that national defense interest called for special protection to the American dairy interests. But it also cost something in our defensive strength via its effect on Denmark. To the extent

a loss of the American market means lower prices for cheese and some unemployment in Denmark, it must become just that much more difficult to get military budgets approved there; and the whole notion of cooperating with the United States becomes that much more suspect by many of the people. The exclusion of Roquefort cheese from France gave the Communists there fine material for building their case against cooperation with the United States.

Many Australians have periodic doubts about the reliability of the United States as a partner because we seem always to be threatening to double or triple our tariff on wool. Most people in the United States do not pay much attention to this talk or to such increases, but in Melbourne such discussion, and they were common in Washington just a few months ago, is headline news. I gather from what I read in the papers that we desperately need Japan as a major base in the Far East. But the cooperation which the Japanese give us in these matters is certainly reduced when we urge them not to trade with China, on the one hand, and then threaten, on the other, to embargo tuna fish imports into the United States because we happen to have a tuna fish industry which cannot compete with the Japanese industry unless ours is given special protection. The Greeks have proven themselves fine allies. But alliances are of a necessity fraught with frictions and the unavoidable problems are exacerbated when, as today, we subsidize the export of California raisins to Western Europe. This means that the Greeks find it difficult, or impossible, to sell their sultanas in Europe and when the Greeks in the Peloponnesus lose a major export market for sultanas, the Greek Government is in genuine trouble. When the Greek Government is in trouble the military budget is endangered and the whole problem of cooperative relations with the United States becomes much more difficult.

More important to the Greeks and the Japanese, as well as to the British and the Danes and all our other friends, than these direct political difficulties our actions cause them is that unless we buy from them they cannot buy from us. If they are to mount

the sort of defensive forces we ask, they urgently need a lot of the goods we are especially well qualified to produce. The trade *each* way strengthens the economic foundations of our alliances.

In conclusion, I would only say that you who are charged in the first instance with the defense of this nation must, if you are to do your job well, take more interest than I suspect has been your habit in our international economic policies. These policies have a great impact upon our ability to defend ourselves, for they help determine the structure of production in this country, they affect the amounts available and the prices we pay for essential raw materials, and they can strengthen or weaken our alliances and coalitions.

BIOGRAPHIC SKETCH

Professor Gardner Patterson

Professor Patterson has been Professor of Economics and Director of the International Finance Section at Princeton University since 1949. He received A. B. and M. A. degrees from the University of Michigan and a Ph. D. degree from Harvard University.

At the beginning of World War II, he was a Teaching Fellow and Tutor at Harvard University. From 1942-1946, he was engaged in economic intelligence work, part of the time serving on active duty in the U. S. Navy and the remaining period as U. S. Treasury Representative, with assignments in North Africa, Egypt, England, Belgium, Greece, Yugoslavia, Albania, Bulgaria, and Rumania. At the close of the war he served as U. S. Financial Advisor to General Scobie (British), Commander in Chief of Allied Forces in Greece. Professor Patterson was appointed U. S. member of the International Currency Committee in Greece in March of 1946, after which — in September, 1948 — he accepted a teaching appointment at the University of Michigan.

The present work of Professor Patterson combines teaching and research, the former being entirely in the field of international economic theory and policy. The latter resulted in the publication of his *Survey of United States International Finance*, which has summarized the important issues and facts in the entire range of United States international economic policies and activities.

Last year, he made two trips to Israel, totaling four months, as consultant to the Department of State in connection with the United States aid program to that nation.