IV. Alternative Possibilities in Trade Control Policy

A. Export Controls

1. Techniques and Administration of Controls

In determining a system of export controls, the first decision to be made lies in a choice between a complete embargo and selective denial on the basis of some predetermined standard. In large part the goals of the export control program will determine the choice of the system of controls: that system is most desirable which will administer the program so as most effectively to accomplish its ends. In brief, the purpose of the program determines the best form of administration as well as the number and extent of commodities controlled.

Obviously the imposition of the maximum economic injury by the West on the Bloc via export controls would entail a complete embargo against all sales or shipments of goods and services to the Bloc. The advantages of a complete embargo lie in the fact that it is unambiguous and easy to justify: why contribute at all to the production capacity of a country with which you may one day be at war? In fact, a complete embargo might well arouse less opposition, or less vocal opposition, in the exporting community than a selective system based on broad considerations which are bound to be somewhat equivocol in interpretation. On the other hand a complete embargo would provide excellent ammunition for the propagandists of the Bloc, who could term it unduly restrictive.

A system based on selective denial would entail greater costs of administration that a complete embargo because of the necessity for research and negotiation, the processing of export licenses and such. Export controls based on broadly-defined commodity categories are, in most cases, more efficient in accomplishing the goals of an export control program than a system based on

narrowly defined commodity items, for the possibility of circumventing the intent of the program is smaller. Controls based on broad categories have a more defensible economic justification than controls based on narrowly defined items. Moreover intelligence concerning Bloc supply and requirements is frequently not sufficiently complete to permit fine distinctions. Broad categories, on the other hand, are more likely to be considered an "unreasonable" restriction of trade by commercial circles, and therefore the chance of opposition to and circumvention of controls is greater.

An export control program administered through a system of value-quotas for Free World exports to each Bloc country would not only be expensive of administration and difficult of negotiation, but would accomplish little other than to serve as a warning of the West's awareness of the existence of benefits from trade. It is hard to conceive of a goal or set of goals of a trade control program that would not be better administered by other means.

A system of flexible, shifting controls would probably create more confusion in the Free World than in the Bloc where a basic philosophy of autarky would justify a retreat from trade. The Bloc could, of course, react by placing large orders for goods currently "off the list" which it would shortly cancel. The real costs of such a system to the West would very probably be higher than the injury to the Bloc.

2. Bases for Choosing Specific Exports to be Controlled

Within the objectives of a trade control policy as stated by the NSC and discussed in earlier sections of this report, there are various possible techniques for measuring, and ways of defining, "a significant contribution to the war potential of the Bloc." The only operationally significant definition

of war potential, as earlier paragraphs have pointed out, lies in terms of a measure of the total productive ability of the economy. But even within these terms, a "significant contribution" to total "productive ability" is susceptible of various interpretations.

Trade controls are justified only if they hurt the Bloc more than they hurt the West, both politically and economically. Any program that limits the volume of exchange will impose some loss on the trading partners involved, for trade, in permiting the acquisition of goods with a minimum expenditure of production resources, thereby increases their productivity. The aim of any trade control program, therefore, must involve maximizing the injury or loss imposed on the Bloc with a minimum of loss to the West In this section, we shall be concerned only with the various possibilities for measuring and defining the economic loss to the Bloc resulting from a curtailment of Bloc imports.

As a first approximation, the economic loss, which the cessation of trade in certain items would impose on a country being embargoed, can be defined as the gain which the country had been receiving from trade. The gains from trade can be defined as the difference in the amount of productive resources required for the acquisition of the imported commodities through domestic production as compared with that required for the production of exports to be sold in foreign trade. The cost to the Bloc of its imports from the West is represented by the productive resources it must devote to producing exports sold to the West. If trade is curtailed, the volume of exports required to finance imports will be smaller and the decline in production for exports will release certain productive resources. The amount of resources required to expand the output of the import-

replacing industries however, will be greater than that released by export contraction, the difference in resource requirements representing the gains from trade. If on the other hand, trade has not been motivated by economic considerations, the resource requirements of expanding the import-replacing industries may be less than the released resources of the export industries, the difference indicating the cost of the non-economic gains from trade. Here we shall assume that on the whole Bloc trade has been economically motivated.

The gains from trade, or the burden involved in a loss of trade, can thus be measured in terms of the different amounts of resources required before and after trade to produce the same lists of goods available to the domestic economy. It could also be defined in terms of the different amounts of goods available to the domestic economy from the same quantities of resources before and after trade. In the second case changes in the level of total output (e.g., Gross National Product in constant prices) before and after trade would be measured rather than the quantities of resources required. Both definitions are essentially concerned with the effects of trade on the productivity of productive resources. Thus our first approximation to a definition of the economic loss resulting from trade controls can be amended to refer to the difference in the productivity of the economy's productive resources when used in isolation and when used in international trade.

In the sections that follow we shall be concerned with an attempt to measure the effects of East-West trade in various commodities on Bloc resource requirements, by attempting to answer the question "How much additional resources would the Bloc have to use to produce by itself the commodities which it now imports?"

Ruble-Dollar Ratios

The effectiveness of a program of trade controls can be judged by the economic loss which the cessation of trade would impose on the country being embargoed. This loss can be measured by the difference in the amounts of productive resources required for the acquisition of a given commodity, or list of commodities, through domestic production as compared with the resource requirements for the export of other commodities in foreign trade. These different quantities of resources could be stated as two lists of the different amounts of labor of different types and of various kinds of materials required for the expansion of the import-replacing industry and released by the contraction of the export industry. The comparison of such lists, however, would be difficult and the significance of their differences hard to comprehend. The market value of these resources would provide a convenient and accurate way to summarize the difference in requirements, provided that relative prices in the country reflect relative scarcities of different goods, scarcities in relation to one another and in relation to the demand for them. If the prices of all inputs, labor, capital and materials equal the opportunity cost of the input--that is, the market value of its contribution to output in its best (i.e., most productive) alternative opportunity for employment--and if the prices of all goods equal the total cost of all inputs required to produce one unit of the good, then the use of market values would accurately reflect the differences in quantities of resource requirements in terms of their relative scarcities. With such a system of pricing, costs of production of imports and exports could be used to measure accurately net resource requirements.

Let us assume such a pricing system in each of two countries, A and B. Let us assume that A's values are stated in rubles per unit, that B's values are stated in dollars per unit. If each country A and B, produces two commodities, X and Y under the following costs per unit, then in Country A, Y

	A(R)	B($)	R/$
X	10	2	5:1
Y	30	20	$1\frac{1}{2}$:1

costs three times as much to produce as X, or for every unit of Y given up, A could produce 3 units of X. In country B, Y is 10 times as expensive as X, or for every unit of Y given up 10 units of X could be obtained. Under these conditions it would be to the advantage of A to produce Y and obtain X in exchange; similarly, it would be to B's advantage to produce X and obtain Y in exchange. If in trade Y will exchange for more than 3 X, A would be better off. Since B can get 10 X for every unit of Y given up in domestic production, if B could get more than $\frac{Y}{10}$ in exchange for X in trade, B would be better off. Thus an exchange ratio between Y= 3X and Y= 10X would benefit each country. Ruble costs in A are higher than $ costs in B, but X is 5 times as costly in A as in B, while Y is only $1\frac{1}{2}$ times as costly.

The distribution between countries A and B of the potential gains from trade will be determined by the rate of exchange between their two currencies (the number of R required to purchase one $), or by the terms of the barter agreement by which they trade X for Y. Thus a barter agreement in which Y is exchanged for 6X would result in a fairly even distribution of the gains from trade, while an exchange of 3X for Y would confer on country B all of the benefits from trade.

The Importance of the Price-Cost Ratio

With a knowledge of relative costs, those foreign trade items capable of yielding the trading countries most gain could be determined. The actual gain from trade, however, would depend on the specific conditions of exchange. If domestic prices are proportional to costs in each country (even though they form a different proportion in each), it would be possible to determine the items in which trade is potentially most gainful by comparing prices in the two countries. Thus if prices in country A equal the average total unit cost of each commodity, and if factor prices are equal to the return which each input could get in its next best alternative occupation, then it could confidently be stated that an expansion of the output of X (in the example given above) by one unit with full employment of resources would require a contraction of Y's output by one-third of a unit.

If, however, not all factor prices equal their opportunity costs, and if prices bear a varying relationship to cost in different industries, and as between countries, then the ratio of prices may yield misleading indications of comparative gains from trade. Thus in the US the existence of varying degrees of monopoly among industries and factor markets implies prices in a varying relation to opportunity costs. Similarly government interference with the price system by means of supports, subsidies or taxes can mean that the relation between price and cost is distorted, and by different degrees in different industries. In the USSR, wages and profits are included in costs, but the existence of rent, depletion, and interest (the returns to the state owned factors of production) is denied.

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Thus a simple computation of ruble-dollar price ratios for a list of individual commodities would be subject to distortions of various degrees and direction because of variations in the ratios of prices to costs. Without a thorough study of the relations between Soviet prices and costs together with an adjustment, which would necessarily be arbitrary, for the return to state-owned factors, ruble prices are only of equivocal significance in attempting to measure even the relative gains from trade in different commodities.

Moreover, even with complete knowledge of current costs of production in the USSR and the US, the application of a ruble-dollar cost ratio in an estimate of the gains from trade implies the assumption that domestic output can be expanded at constant costs. In many cases, imports represent such a small proportion of total domestic production in the Bloc that the assumption accords with reality within the relevant ranges of output. In those cases, however, where imports comprise a significant fraction of domestic production, the constant cost assumption requires examination. This is especially true where the necessary expansion of domestic output could only be achieved through an increase in the plant capacity already existing in the industry. The proper cost of production calculation would include only interest and depreciation charges on the increased output in the current period. If, however, the achievement of this expansion is only possible with increased investment, the burden on the economy of replacing this import is larger than that incurred in replacing an import from existing capacity. Thus even with complete knowledge of relative costs, the use of ruble-dollar ratios in an estimate of gains from trade would have to be supplemented by considerations of existing capacity and the nature of costs.

There are certain industries for which the constant cost assumption is more questionable than for others. The extractive and raw material producing industries are likely to become industries of rapidly rising costs if production is pushed sufficiently, just because the natural resources capable of yielding this mineral or crop are of limited quantity. Or again, certain manufacturing industries may experience declining costs with an expansion of output because of the existence of external economies or economies of scale. Some knowledge of these long-run cost conditions in the import-replacing and export industries in necessary if the gains from trade are to be accurately assessed.

Fortunately there is available the technique of inter-industry analysis, which via an input-output table and inverse matrix, permits an examination of the nature of the impact imposed on the economy by the cessation of imports. In indicating the nature and degree of both the direct and indirect effects of an expansion of the import-replacing industry, interindustry analysis would aid in locating the potential short-run bottlenecks, which result from a lack of necessary capacity, and in suggesting the commodities subject to increasing or decreasing long-run costs. This technique can also be used to supplement and test estimates of ruble costs derived from active sources. Within the next six months there will be available for application an input-output table, a coefficient and inverse matrix, which will describe the interindustry relationships among 61 processing and producing sectors into which the total of Soviet economic activity has been classified. Grouping all of economic activity into only 61 industries implies a large amount of aggregation. This further means that very detailed and highly specific definitions of import items cannot be handled. Thus from this matrix it will not be possible to examine the impact on the USSR of a cessation of imports of copper wire,

rather a cessation of imports of all insulated wire and cable would have to be examined, a much broader category. Or again, the effects of an embargo against the movement of jig-borers to the USSR could not be examined; rather it would be necessary to consider the effects of controlling all imports of machine tools and metal working machinery.

Examples of Ruble-Dollar Ratios

A preliminary comparison of 1950 ruble and dollar prices for the same commodities, for example, reveals an average ruble-dollar ratio of 2.5 to 1 for certain machine tool items, of 3 to 1 for agricultural commodities, and from 12 to 1 to 100 to 1 for certain nonferrous metals. On the basis of these relative prices and on the assumption of a constant ratio of price to cost in each country, it would appear that imports of agricultural commodities and certain nonferrous metals would offer most gain to the Soviet Union, and the cost of imports to them would be minimized if they exported machine tools and electrical and electronic equipment (for which available ratios average about 7 to 1) in exchange.

For example, agricultural prices in the US and USSR, when compared, show the following ratios (rubles to one dollar):

Wheat	25
Rye	30
Barley	37
Oats	32
Corn	72
Other grain	108
Rice	103
Cotton (fiber)	15
Wool, grease	5
Potatoes	16
Soy beans	100
Fish	105
Sugar beets	70

The ruble prices on which these ratios are based include the turnover tax, but exclude rental payment. As indicators of relative costs the high ratios for rice and fish are especially suspect. Rice is grown in the USSR under the same conditions as in the US; it is hard to conceive that the Soviet fishermen are 100 times more inefficient than their US counterparts.

Among nonferrous metals the following ratios were found:

Aluminum:	ingot	18
	castings	11
	sheet	16
	rod (3/8")	24
	rod (2-11/16")	16
Cobalt		103
Copper,	electrolytic	16
	sheet	14
	rod, round	17
	rod, square	18
	tubing	10
	wire	15
Mercury		47
Nickel		37

The ruble prices on which these ratios are based exclude depletion and consequently are low.

The lowest ratios are generally found for industrial equipment as the following examples suggest:

Vertical boring and turning mills	4
Surface grinding machines	7
Engine and center lathes	4
Horizontal turret lathes	2
Tractors (100 HP and over)	6

Oil products similarly are relatively cheap:

Auto-tractor oil	5
Diesel motor oil	3
Industrial oils	2

Chemicals relatively expensive:

Tolulene	19
Hydrogen peroxide	23

Again it should be remembered that the raw material costs of these industries do not include rent and depletion payments.

Studies already completed indicate an average ruble-dollar price ratio for the total of Soviet production of approximately 10 to 1. On this basis it can be deduced that any price ratio over 12 to 15 is high, lower than 5 to 7 is low. Still, however, the correlation between prices and costs for ratios within this range is entirely ambiguous. We can, however, at the present state of our knowledge suggest that in the case of extremely high and extremely low ratios a presumption exists that costs too may be extreme, and therefore the Bloc would derive large gains from imports of those commodities bearing very high ratios.

Suggestions for Operations

In the light of the above discussion although it would be most desirable to be able to draw up a detailed list of 600-odd Soviets imports ranked according to the burden which the loss of each would have on the domestic economy, the construction of such a list would require far more price-cost or interindustry relationship information than we now have, or are likely to have in the near future.

Within the range of the feasible, however, two courses of action can be suggested, each of which would require the addition of a new attribute to the existing list. As the entire previous discussion indicates, the criterion of the amount of gain from trade, or the cost incurred upon the cessation of trade, for determining which western products are to be denied to the Bloc is an economically sound and rationally defensible standard. It is therefore suggested that a new attribute be added which states that, with certain specified exceptions, these commodities would be subject to export controls, the loss of imports of which would impose the greatest cost or the most distorting impact as the economy of the Bloc. Such an attribute should be accepted fairly readily by reasonable free-world partners, and once accepted would ease considerably the burden of negotiations.

1. A list could be constructed of 50 or 60 commodity categories ranked according to the cost which the loss of western imports would impose on the domestic economy of the Bloc. The examination of the domestic effects of a cessation of different kinds of imports, aggregated to this degree, will be undertaken in ORR as part of projects already initiated. Moreover within the

next twelve months new ruble price and cost studies will be completed. This additional information, together with price data we already have, will permit us to examine, in terms of ruble-dollar ratios, important sub-categories of imports within the larger groups already investigated as an aggregate. Thus by using both ruble-dollar ratios and interindustry analysis, supplemented by the considerations discussed below, it will be possible to construct a list of commodity categories, more or less broadly defined, ranked according to domestic impact and according to relative costs. The task can be simplified somewhat, and existing information supplemented by the following considerations.

1. Prototypes, by definition, are not domestically produced in the Bloc; there is, therefore, no relative cost or impact information existing on which to judge the gain to the Bloc from importing such items. Because they are not produced, however, they can be assumed to be costly in terms of research and capital resources, and therefore the impact of loosing such imports can be assumed to be large. (see pp. below for a further discussion of the gains from importing prototypes). Thus imports embodying advanced technology would be denied to the Bloc on the basis of the gains from trade criterion.

2. Among the more narrowly defined commodity categories for which we have no ruble price or cost data, certain commodities will be known to be high cost because they are produced according to a method of outdated technology, or because they are produced on a small scale when US experience indicates the existence of sizeable economies of scale. Or again, any commodities known to be scarce in relation to the Soviet demand for them can be assumed to be the source of sizeable gains from trade. The loss of imports of such commodities would have a significant impact on the domestic economy.

Such a list of commodity categories and sub-categories, ranked according to the gains from trade resulting from imports of each, together with supplementary considerations relating to prototypes and relatively scarce commodities must await the completion of studies already underway or planned. Approximately a year will be required.

2. A second course of action, which can be considered as either supplementary to that just discussed, or alternative to it, would lie in the undertaking by ORR to provide ad hoc support as requested by EDAG. Within the terms of reference of the suggested additional attribute, ORR could undertake, upon request, to study the relative costs of a commodity or the interindustry effects of the cessation of imports of a commodity being considered as a subject for trade controls. It findings would be reported as intelligence support.

Other Problems in the Use of the Ruble-Dollar Ratios

Even with complete information on relative costs of production, there are other problems associated with the use of ruble-dollar ratios as a measure of relative gains from trade. The degree of gain a country derives from trade depends not only on relative costs of production but also on the relative costs of transporting the various items from the place where they are produced to the place when they are used. This transport cost in turn depends on relative transport rates and actual geographic locations. It is possible for transport costs to be so high, in relation to relative production costs, as to negate entirely gains from trade. It is also possible for geographic locations to be such that trade is gainful despite negligible differences in relative production costs.

The data and computational problems involved in matching a rate-times-distance for every commodity are obvious. As a first approximation it could be assumed that transport costs do not vary among commodities but bear a constant ratio to cost (price). Transport costs will, of course, be a larger percent of production costs for some commodities than for others; on the whole, however, the ratio of transport to production costs is likely to be about the same for certain commodity groups, especially from the border of one country to the border of the other. For example, transport costs on bulky raw materials are likely to be a larger proportion of production costs than in the case of highly fabricated goods. Thus if within each category of commodities bearing approximately the same ratio of transport to production costs, commodities were ranked according to their cost (price) ratios from high to low, the list would also represent the

exchanges that would be most gainful, ceteris paribus, although the amount of gain from trade (or loss from embargo) could not be determined.

The application of cost ratios to this purpose further assumes that Bloc costs are represented by a given ruble price, and that free world costs are represented by a US price. Use of a USSR price assumes that the Soviet Union is the low cost producer of the item in the Bloc, and that consequently the Bloc's gains from trade implied in the ruble-dollar ratios are maximum gains in terms of the cost of Bloc exports. Similarly use of a US price assumes that this country is the low cost producer in the West and that the West's gains from trade are maximum in terms of the cost of exports. In each case use of ruble-dollar ratios assumes that gains are maximum in terms of the cost of imports. With the exception of certain machinery items produced in the satellites, this assumption about Bloc costs is probably close to reality. Where the nature of intra-Bloc trade or other considerations make the assumption seem inappropriate, additional information on costs in other parts of the Bloc will be sought. The assumption about free world costs, however, is probably less justified. While in the field of manufactured goods, US production costs in general are probably as low as those of any western country, if transportation costs to the Bloc are included, Western Europe may well be a lower priced market than the US. The same is true in the case of raw materials, with the additional complications of government supports for price in many cases, import quotas and other impediments to trade. Again, the cost data will have to be adjusted according to the geographic pattern of East-West trade.

It may be, however, that these locational and transport considerations develop into matters of only minor marginal significance, relevant in the case of a few commodities. Certainly more important in supplementing ruble-dollar ratios as a basis for trade controls is knowledge of relative demand and supply conditions in the Bloc. The ruble-dollar ratio for one commodity may be relatively low, say ½ to 1, and yet the commodity may be produced under such rapidly rising cost conditions that imports are highly important to the Bloc and embargo would do significant injury. Imposing an embargo on commodity such a commodity would thus do far more injury than one on a commodity for which the ruble-dollar ratio is higher, but for which demand and supply conditions in the Bloc are more elastic. Insofar as rising costs are the result of inadequate capacity or limited natural resources, it is hoped that interindustry analysis will call attention to the disparity.

A knowledge of demand and supply conditions implies a knowledge of the degree to which one commodity is substitutable for another in production or use, and the degree to which substitutes are available. Such knowledge is of course infinitely more difficult to obtain than prices, or even cost data. A notion of the relative intensity of Bloc demand in the short-run can be derived from changes in the pattern of Bloc orders for western goods. An increase in Bloc orders for or purchases of a specific commodity, however, may indicate a temporarily short supply of the good; or it may indicate an upward shift in demand

in the face of relatively inelastic supply, or a politically motivated action.

Supplementary Considerations

Economic costs, however, may be greater or smaller than the difference in resources requirements for producing the same list of goods in isolation or in conjunction with foreign trade. Moreover the economic loss may be supplemented or counter balanced by non-economic losses or gains.

Economic costs as they have been defined above, disregard the duration of the effect of trade controls. In the case of some import controls, the USSR would be able to adjust quickly, either by expanding the output of a domestic industry or changing the pattern of final demand. In the case of other controls, however, the adjustment period is likely to be of longer duration, and therefore more costly because of disorganizations which exist during any transition period. The results of applying either ruble-dollar ratios or interindustry analysis would have to be amended by time considerations.

Or again, the cost of mining uranium in the Bloc might be less than in the West, but one would not conclude from this fact that there is no point in denying the Bloc access to western uranium.

The Communist philosophy of autarky makes it appropriate to assume that the USSR is working to attain self-sufficiency in every commodity which it considers strategic. One can also be sure that the Bloc has been working on the development of substitutes for those few raw materials which it does not produce itself, that it has made progress, and that eventually it will be successful in that its war-making ability will not be hampered through the lack of any material. In the meanwhile, however, before substitutes are perfected,

trade controls would impose an economic cost. Such restrictions however, might also promote long-run advantages to the USSR if they serve to stimulate the production of better substitutes. Thus it seems likely that in the Soviet view nearly all commodities are more cheaply attained through domestic production rather than through trade, because there would be included in the cost of imports the cost of foregoing the security advantages of producing the good at home. Thus in the Soviet view, the only gains from trade would be in those commodities for which its own substitutes are still inferior. Through trade they gain time for the research and development of new sources of their own. When, or insofar, as they have succeeded in developing these, from their own view point, trade restrictions can do them no net injury. Considered in this light all losses, with one exception, inflicted on the Bloc through trade controls would be temporary and would be terminated upon the successful development of domestic sources of supply.

An important category of Bloc imports from the West, however, lies in the machine items which serve as prototypes of western technology. So long as Western technological progress continues to be more rapid than that of the Bloc in any specific line, the Bloc can save capital costs by importing prototypes. In this way their effective supply of research ability is enlarged, and the necessity for building pilot plants is eliminated. The loss to them, should they be unable to import prototypes, would be a continuous rather than a temporary loss, for they would have to devote more of their resources to research and development than they now do.

Throughout the entire discussion so far we have treated the USSR and the Bloc as synonomous. It has already been pointed out that lack of data may forces us to consider the USSR the low cost producer in the Bloc for purposes of

determining those commodities in which trade would be most gainful. Our knowledge of interindustry relationships related to the USSR alone. Ideally we should prefer such information relating to the interindustry relationships for the Bloc as a whole, for it is entirely conceivable that the USSR might be able to pass on the burden of the loss from trade controls to some other part of the Bloc. Thus if some other part of the Bloc is producing and using an embargoed commodity which the USSR had obtained from the Soviet Union would probably next, the replace its lost imports from Bloc sources, and thus force the burden of adjustment on to a satellite. But any Bloc sources of commodities considered strategic by the USSR are undoubtedly being exploited already and are probably being shipped to the USSR. The only way the Bloc as a whole could escape the loss would be through the discovery within the Bloc of new sources of supply. Further if the controls applied to the USSR are not applied to the rest of the Bloc, then the measure of the economic loss is meaningless. The only loss involved would be the extra resources (if any) involved in importing from the West via those countries to which the controls do not apply. It seems unlikely, however, that if controls are uniformly applied to the Bloc and effective, the resulting loss which is deduced for the USSR could be avoided by the Bloc as a whole. It also seems likely that the USSR is already getting most, if not all, of the output of strategic items of other parts of the Bloc.

1.c. Regional Application

A free world embargo of shipments of any single item to the Bloc will be successful only if every western country producing the item agrees to enforce the control. Thus a choice of any list of exports to be controlled must consider,

in addition to the economic loss it would impose on the Bloc, the feasability of its being accepted by producing countries. Past experience has indicated that the more economically developed countries are more willing to undertake such a program while the economically underdeveloped countries either will not or cannot.

If the same controls are not applied to the entire Bloc, the appropriate cost calculations are those based on the effects of the least stringent list. That part of the Bloc against which the more stringent controls are aimed can easily obtain through other Bloc partners western goods permitted to the latter.

2. Export Controls

Insofar as Bloc commodities are sold to the West for the purpose of earning foreign exchange to finance Bloc imports, a limitation on Bloc foreign exchange earnings would achieve the broad purpose of control. Control over western imports from the Bloc, however, could only limit the total amount of western currencies available. By themselves such controls would not be able to deny specific western commodities to the Bloc.

If, however, Bloc efforts to evade export controls appeared to be relatively successful - if the Bloc were acquiring significant quantities of embargoed western commodities by paying a sufficient premium in the black market - the export controls could be made more effective by limiting the amounts of convertible currencies available to the Bloc. It seems rather likely that the Bloc agents who circumvent controls and ship embargoed goods to the Bloc insist on payment in convertible currencies (the Canadian or US dollar, the Swiss Franc, and such). Such limitation would require control over foreign-held balances of these currencies, in order that they not be transferred to Bloc ownership, would

require a limitation of all western purchases from the Bloc requiring payments in these currencies, including western purchases of Bloc gold. The administration of such a program would probably be difficult.

In addition, if the West, especially western Europe, refused to purchase Bloc gold, it would deny to itself the advantages of larger gold resources. The increase in internal and international economic stability resulting from larger gold reserves as well as the increase in confidence derived from them is an important debit against the credit of more effective control over trade.