

This is one of the great tax loopholes, and I think something should be done about that.

Senator BUSH. You don't think that is the sole reason that they are attracted to producing in Europe, do you?

Mr. ADAMS. I don't think that is the sole reason; no. But I think it is a very important reason, Senator.

Senator BUSH. We had testimony before this committee last December when the general policy of this new trade bill was being opened up before this committee for a couple of weeks, and the facts came out that wage differentials were a tremendous factor in the manufacture of goods in Europe vis-a-vis the United States and at that time the Department of Commerce showed that the average wage rate in this country for manufacturing was \$2.29 an hour, whereas in the Common Market countries it averaged around 55 cents or something like that, and in Japan 28 cents, I remember, including fringe benefits, and it seemed to me, rightly or wrongly, this was a tremendous inducement for these people, as long as there were no inhibitions about the export of capital, to manufacture over there, to meet the demands in that market.

What is your thought about that? We are talking now about a very important matter which is this question of capital export. What is your observation about that?

Mr. ADAMS. Well, Senator, that wage differential, of course, existed for a long time. It existed in 1948, in 1950, in 1952, and 1954.

Senator BUSH. Yes; but the competition didn't exist.

Mr. ADAMS. If we look at the wage differential we find that it has been narrowing rather than expanding over the years.

It has been narrowing, I can assure you of that.

Senator BUSH. It has been narrowing very slightly, though. I mean ours is still going up, and theirs is going up.

Mr. ADAMS. And Senator, if I may continue, I think this committee is too sophisticated to miss the distinction between high wage rates and high labor costs. There is a difference.

We have always been a high-wage-rate country. This does not mean that our labor costs per unit of output are high. I submit to you, very respectfully, that the highest cost burden borne by American industry today is not high wage rates but the deadly burden of unutilized capacity. It is the overhead cost that is imposed per unit of output by the fact that our steel companies are operating at some 70 percent of capacity. I don't know what the automobile utilization of capacity is, but it certainly isn't full utilization of capacity.

The greatest blow we can strike for cost reduction per unit of output is to increase output and utilize some of the unused capacity in existence today.

Senator BUSH. I agree with you that is highly desirable. But on your point about costs versus wage rates, I mean the National Industrial Conference Board last year made some studies on that and came up with pretty good—I thought convincing—evidence, that while there is a difference between high wage rates and labor costs, that their findings were that in items where you have a high labor content in the cost, that this was definitely a handicap in connection with our export business and with our competitive position vis-a-vis the oversea manufacturers.