military expenditures totaled $4.3 billion; military grants, $.9 billion; government grants and capital outflows, $5.1 billion (*Survey of Current Business*, March 1968, pp. 17 and 23). Private capital outflows amounted to $5.4 billion. These transactions, all to a greater or lesser degree extraneous to the function of international trade, which is to improve the real income of the participants, have obviously "contributed" much more significantly to the "deficit" in the balance of payments than has the import of steel.

To emphasize the point, we might consider the fact that steel imports at attractive prices make it possible to use resources in the United States for the output of other goods and services, and at the same time enable all users of the imported steel to lower the cost of end products. All of this shift, in response to the imports, increases output and raises the real income of the economy.

The "deficit" in the balance of payments, however, is measured by the amount of claims on the U.S. held by foreigners in short-term form, plus our export of gold. If foreigners hold demand deposits in large amounts, it is not because of steel imports but rather because the government has transferred demand deposits to foreigners, or private corporations have attempted to make long-term investments overseas. The restrictions that were instituted January 1 represent a recognition that the deficit results from outflows of public and private capital, not from trade transactions. And it reflects, also, the realization that to try to restrict imports could only be self-defeating, by reducing the demand for our exports. The outflow of gold is totally unrelated to the import of steel. Foreign central banks have been attempting to build up their gold reserves in order to avoid having all their reserves in the form of short-term or long-term claims in dollar form. This reluctance to commit their fate entirely to the dollar is understandable when U.S. foreign and military commitments have been so large. The remedy is not to destroy international trade, but to cut down on the commitments, a program the Administration is now following. At the same time, the U.S. and other nations are expanding the amount and adding to the type of reserve assistance that can be made available through the IMF, thus relieving nations of the necessity of choosing between two reserve assets: gold and the dollar.

At a time like this, when international monetary cooperation is of the utmost importance, it would be doubly objectionable to have the U.S. initiate measures, illegal under GATT, for the institution of quotas. They would only provoke retaliation, damaging not only our volume of international trade and level of efficiency, but the prospects for achieving a long-run framework for international monetary cooperation.

The claim has been made by the American Iron and Steel Institute that quotas are required to preserve the steel industry for national defense purposes if the steel industry is to remain healthy and progressive. The supporters of quotas are not naive enough to insist that we are now dependent upon imports for the steel that goes into our weapons, tanks, and fighting ships. But they insist that the "health" of the steel industry is endangered by the imports; that it cannot muster the finances required to remain abreast of technological change, nor the will to devise and put them into operation. (AISI, *The Steel Import Problem*, 1967). The argument is so tortured that it is difficult to take it seriously. The U.S. steel industry was at its lethargic worst during the period when it enjoyed freedom from imports. It was during the 1950's that, secure in its domestic and foreign markets, the leaders in the industry failed to develop and install the oxygen converter and continuous casting. It was during the 1950's that it made its most egregious and costly financial errors.

Today, by contrast, under the threat and constant spur of imports, the industry has begun to revise its pricing practices, and is on the road to replacing the open hearth with up-to-date BOFs. In the interest of national defense, therefore, it is important to remove restrictions on steel innovation-stimulating imports, not to intensify them. Buy American laws should be repealed, not buttressed by quotas.

If the thesis of the steel industry were correct, periods of high levels of imports into the United States would be accompanied by unemployment at the lowest peace-time level in our history. In these circumstances, with our major problem inflation, it is most disturbing that, in order to protect their monopoly position, some industries should press for quotas that can only intensify the cost-push element in our economy, further disturb our export markets, and hence adversely affect our balance of payments.

The CHAIRMAN. We thank you again, the three of you, for bringing this information to the committee. I am sure it will be helpful to us.

Are there any questions?