

nificance, future trade negotiations should encompass border tax adjustments and other major nontariff barriers as well as tariffs that remain in order to reduce all kinds of impediments to world trade.

Another problem arises from the harmonization of internal taxes in the European Common Market. This involves Germany and some other countries shifting from a turnover (cascade type) tax to a value added tax such as France presently has. In the case of Germany the shift from the turnover to the value added tax is clearly going to increase border tax levies on imports and rebates on exports. The United States cannot stand by and permit this adverse change to its competitive position. It should request compensating tariff reductions or other equivalent concessions. If such concessions are not granted, it should impose countervailing duties until it receives compensating concessions. This should be a firm stand.

E. International Conventions and Future Trade Legislation

As already indicated in this paper, measures that may constitute non-tariff barriers to trade have to be dealt with in a number of ways. Where the substance or spirit of GATT rules is violated by the practices of other countries, this country should vigorously press complaints for necessary changes. Many non-tariff barriers may be dealt with by the negotiation of international codes or conventions. Government procurement practices, state trading by market economies, and burdensome customs laws and administration may be dealt with in this way, knowing it will take time and involve some difficult negotiations. Furthermore, some changes in American laws will be required.

However, of special importance, future trade legislation should grant the President broad authority and flexibility to negotiate with other countries on border tax adjustments, other nontariff trade barriers, as well as tariffs that remain. The President should be able to negotiate for changes in our practices that other countries consider nontariff barriers in return for concessions in all kinds of restrictions that impede U.S. exports. Such negotiations might go into matters that have been considered as domestic questions in the past, where the effect is to place American goods at a disadvantage in terms of goods produced in foreign countries. I recognize that it will not be easy to accept the principle of such broad negotiations in this country or overseas, but I believe the time has come to initiate such methods of reducing all kinds of barriers to international trade. The problems are many, including those of identifying major barriers, measuring their impact, developing effective negotiating procedures, and balancing packages of concessions against each other. I believe that this is the direction in which we should move.

U.S. EAST-WEST TRADE POLICY

A. The Framework of Policy

United States policy on East-West trade should especially consider the breakdown of monolithic Communism, the establishment of nationalistic communist states, and the economic reforms taking place in Eastern Europe. Countries such as Rumania and Czechoslovakia are striving to achieve greater political and economic independence. Perhaps even of greater importance, the Eastern European countries including the Soviet Union have been moving toward managerial decentralization, incentives to encourage greater productivity, the use of market concepts of costs, demand, prices, and profits, and more consumer oriented economies. The extent of economic reforms varies from country-to-country and it is difficult to foresee how far they will go. It would be rash, however, to expect these states to abandon their centrally-planned economies and state socialism and adopt our system of mixed capitalism. Still the political trends in Eastern Europe may be among the most important developments of our times. They may further diminish Cold War tensions and ideological conflicts and may lead to a closer integration of the economies of COMECON countries with the Western world. Increased trade and other business arrangements should positively encourage such developments.

B. Brief Summary of East-West Trade

While it is frequently maintained that East-West trade has only been a minor part of the total international trade on non-Communist countries—about 4.5% in recent years—it has been of considerable importance to the Western nations most fully involved. Trade of O.E.C.D. countries with Eastern Europe including the U.S.S.R. has about doubled from 1961 to 1967 and reached about nine (9)