

You are quite right when you say that there is a trade creating effect and a trade diverted effect, and the United States is threatened with trade diversion. But the facts of trade returns suggest, clearly, I think, that trade diversion has not been as serious as one might have expected.

Mr. BETTS. But the Common Market still continues to be protective.

Mr. KINDLEBERGER. No, I don't think that is a fair reading. In the first place, at the time of the Rome treaty, which was the Dillon round of unilateral reductions, and then the Kennedy round, and then there is their further reduction undertaken on the basis of the U.S. need in the field of the balance of payments to accelerate these reductions.

If you take the tariffs as a whole of the Common Market, the average tariffs have been reduced sharply.

Mr. BETTS. I was thinking of other restrictions outside of tariffs.

Mr. KINDLEBERGER. They haven't been added to. They have been reduced; perhaps not as rapidly as we would like.

Mr. BETTS. The United States hasn't added to it.

Mr. KINDLEBERGER. No; but on the other hand, the United States didn't negotiate a reduction in ASP, for example, a nontariff barrier.

I don't think it is fair to say, either, that we haven't put up any restrictions. We have cut the tourist exception from \$500 to—what is it—\$10 now? That is in two successive steps. We have tied foreign aid. We have put barriers in the interests and equalization tax in the field of finance. We have put restrictions on capital movements. We have, after reducing the buy-American percentage from 25 percent to 10 percent, we now put it back up to 50 percent.

Mr. BETTS. In most of those instances, we—

Mr. KINDLEBERGER. I don't see that.

Mr. BETTS. What sort of first exemptions did other countries have?

Mr. KINDLEBERGER. We have reversed a policy of our own. Other countries have tourist exemptions. Britain, in particular, for balance-of-payments reasons, has increased it. But there have been no increases in the tourist exemptions—

Mr. BETTS. As I understand it, some of these restrictions of other countries have been added since the Kennedy round.

Mr. KINDLEBERGER. In Britain, that is true.

Mr. BETTS. You are not going to tell me that Japan is a free trader.

Mr. KINDLEBERGER. No. I would say that Japan is moving in that direction, with difficulty and some hesitation.

We should create pressure for them to do more.

Mr. BETTS. Free trade is a very nebulous word.

Mr. KINDLEBERGER. I accept that.

Mr. BETTS. They come up with a border tax to protect themselves. And we are told here time after time, witness after witness, that if we do something, there is going to be, maybe not in the same field, but certainly retaliation on the part of our friends.

I think we had better have some understanding that since we have been, as some witnesses called it, in World War II our trade policy was based more on aid than trade, whether that is right or wrong, we are at a point today where we are in trouble.

I would like to ask this question, because I think it relates to the whole basic concept: What happens as far as we are concerned as a country, and the free world is concerned if, as the Chairman of the