data it is clear that the choice of 1964 as a base was unfortunate. The negotiators will claim, with some justification,[2] that this is indulging in hindsight. Yet in choosing 1964 as their base year the negotiators surely displayed less than 20-20 hindsight, for it was apparent as soon as the figures were available that 1964 was an unusual year. Exports rose in 1964 by $3.2 billion, a feat equalled or exceeded since World War II only in 1947, 1951, and 1960, none of which were ordinary years. The merchandise surplus itself grew by $1.6 billion in 1964, a feat equalled or exceeded on only four other post-World War II occasions, and the size of the surplus, $6.7 was second only to 1947. These facts should have raised questions about the validity of 1964 as a basis for negotiating. The data for 1965, 1966, and 1967 merely confirm that a grievous error was made in ignoring that evidence.

II. IS ASSUMPTION OF EQUALITY OF CONCESSIONS VALID?

It has been strongly asserted by the Office of the Special Representative and others in the Administration that the Kennedy Round resulted in equal concessions.[3] It is also generally assumed in the process of negotiating reciprocal tariff agreements, that the bargaining will result in offsetting (from a trade balance viewpoint) gains and losses. Finally, the Kennedy Round negotiations were carried out under the notion that where equal *tariff* concessions were made there resulted an equality of trade barrier reduction. It is important that these arguments and assumptions be examined.

A. The Measurement of Concessions

The economically desirable way to measure a tariff concession would be to measure its impact on future trade in the item under consideration. This in turn requires a precise and thorough demand analysis and estimates of pricing reactions by domestic producers. This is difficult, but not impossible. At the very least it might be assumed that at the heart of any estimate would be a careful assessment of elasticity of demand and trend of imports. This does not appear to have been the case in the recent Kennedy Round. Taking 1964 as a base (a decision commented upon earlier), concessions were measured in terms of duty collected in 1964 on the item in question. Thus a tariff cut was a large concession if a large amount of duty was collected on imports of that item in 1964. In addition to data on amount of tariff collected, an elasticity factor on a scale from 1 to 5 was included and trend "was taken into account," but primary stress was apparently placed on the 1964 tariff data. That this is the case is not only based on inquiries at the Special Negotiators Office, but also on the tendency of Administration spokesman to apply the overall tariff cut to volume of trade in speaking of comparability of concessions.[4] From this the argument proceeds to assert that a large cut on a smaller volume of trade is equivalent to a small cut on a larger volume of trade.

The approach described above leads to certain non sequiters. For example, take the case of an item which is not imported into the United States at all due to high tariffs. As no tariff was collected and there is no trend in imports, a tariff concession on this item would carry little weight. However, a tariff cut could be all that is needed for a foreign producer to take advantage of lower costs and export to the United States. Clearly, as difficult as it may be to assess, what is of importance is not what import (and export) levels were but what they will be after the concessions. The focus of impact of a tariff reduction is not on goods already imported but on those which did *not* previously enter.

[2] "Some" because 1965 and 1966 data were available prior to the conclusion of the Kennedy Round.

[3] For example: "In overall trade terms and taking both industry and agriculture, the tariff cuts made by the U.S. are in balance with those of other industrialized countries." *The Future of U.S. Foreign Trade Policy,* Hearing before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, Vol. 1, p. 12.

"* * * that we have a reciprocal deal and that we did not give more than we received. . . ." *Ibid.,* p. 17.

[4] "In terms of 1966 trade the United States is giving tariff cuts on about $7½ to $8 billion of industrial and agricultural imports and is obtaining tariff concessions on about the same amount of U.S. exports." *Ibid.,* p. 12.

"These commitments will result in a weighted average duty reduction of 43 percent in United States chemical tariffs * * * [on] $325 million of dutiable imports from the EEC, U.K., Japan, and Switzerland. The combined tariff reduction made by these four countries averages 26 percent on nearly $900 million of U.S. chemical exports * * *," *Ibid.,* p. 13.