III. THE SIGNIFICANCE OF AMERICAN SELLING PRICE

A. The ASP system

I wish to make entirely clear that I am in favor of free trade and the free movement of factors of production. As such I favor tariff reduction and the elimination of ASD. However, one aspect of international economic activity (trade) and only one of its facets (the tariff) cannot be acted upon without careful attention to other elements entering into payments balances. Furthermore, while now is as good a time as any to eliminate ASP, its elimination, as will be argued later, has not been desirably negotiated.

In fairness to the present system it is desirable to dispel some myths and explain my opposition to it. It is sometimes claimed that ASP acts as a variable levy, akin to EEC grain levies, and therefore prevents a foreign producer from landing goods at a cost equal to or below domestic prices. This, it is argued, is made easier by virtue of the fact that a domestic producer can raise the tariff barrier by raising prices rather than competing by lowering prices. Such is simply not the case, at least in theory.[7] In any case where the tariff is less than 100 percent, a rise in the U.S. domestic producer's price will result in only a fractional rise in the foreign producer's landed cost including tariff. That is, if the U.S. producer raises his price by $1.00, with a 50 percent tariff rate the duty will go up by only fifty cents.

As to kinship with the variable levy, there is a substantial difference. The variable levy serves to raise the market price of imports to a specified level whereas ASP only serves, *ceteris paribus*, to move import prices in the same direction as the domestic price for the product.

The principal objection to ASP is that it is different and that it is at least psychologically bad and difficult to defend a system which differs from that applied to the vast majority of U.S. imports and from the system applied by other nations. Secondly, it can be argued that it is economically inequitable with respect to resource allocation. This second argument does not return to the argument dismissed above that it operates as a variable levy. Rather it stems from the fact that the system makes U.S. producers relatively less responsive to production costs abroad than are foreign producers to U.S. production cost charges. Therefore, while domestic producers are not insulated from competition by an ability to raise domestic prices, they receive some insulation from the effects of production economies achieved abroad.

However, if the purpose of the tariff is protection (and revenue production has not been a prime factor at least since 1917 and possibly since 1893[8]), then it would seem that there is virtue in a system which does not reward production economies abroad by an additional margin through automatic tariff reductions. Furthermore, it must be recognized that even if the conversion process had been adequate (an assertion this testimony seeks to refute below), it would work some significant inequities in the degree of tariff reduction received by nations exporting benzenoids to the United States. This is shown in Table V for four benzenoid products imported into the United States in 1966.

TABLE V.—COMPARISONS OF RELATIVE TARIFF REDUCTIONS

	Styrene	Phenol	Phthalic anhydride	Naphthol
Prior to Kennedy round: Duty based on average ASP	$0.0424	$0.0496	$0.0373	$0.2100
After Kennedy round and elimination of ASP:				
Duty based on high export value	$0.0244	$0.0258	$0.0363	$0.0946
Percent change from pre-Kennedy round	42.4	48.0	0.3	55.0
Duty based on low export value	$0.0188	$0.0185	$0.0144	$0.0471
Percent change from pre-Kennedy round	55.7	62.7	61.4	77.6

B. Delaying the elimination of ASP

While it seems to me desirable to move to a common system of tariff valuation and to freer movements of all goods and factors of production, it seems desirable at this time to delay the elimination of ASP for four reasons.

[7] It is possible in practice that domestic selling price "in the marketplace" may be below the price reported as ASP for customs purposes, but this should be easier for U.S. customs officials to detect than "dummy" foreign prices.

[8] See, for example, Asher Isaacs' *International Trade* (R. D. Irwin, 1948), pp. 283–5.