

In the field of power transformers over 10,000 kilowatts, our sales in these countries were minimal. We recognize well the intense desire of countries to protect such an important industry as equipment which supplies their electric power industry, especially where that industry is nationalized.

However, it is not equitable that they should do this while we open up our opportunities to others to bid and receive orders on American goods.

(b) Special taxes.

Most nations have various kinds of taxes which are placed upon electrical goods, whether in the form of turnover or border taxes, or equalization taxes.

The electrical industry also argues that the various kinds of taxes placed on electrical goods by other countries present a barrier to our sales. They make the point that American producers who wish to sell to countries that have these taxes must not only pay the duty and transportation, but pay a tax, in most cases, on the entire price landed in the importing country. Thus, the tax is compounded. However, the local producers only pay the tax on the cost of production in that country.

They also takes the position that in selling to third countries, the exporter from these other countries, notably in Europe, gets the turnover tax remitted. This enables them to have a 2-price system. Because they do not face serious competition in their own countries, they can have a high price there and can afford to bid low on their exports, thus underbidding American producers.

We are suggesting that this whole field is one in which there should be much more investigation to secure many more hard facts, and vigorous actions should be taken to eliminate any inequities that exist against American producers.

INVESTMENT OF CAPITAL ABROAD BY U.S. FIRMS

Another area which should be of major concern in the development of trade policy is the tremendous expansion abroad of U.S. capital. Attention must be given to the effects of such investment on America's trade position and the U.S. economy also. From a figure of under \$12 billion in 1950, direct investments rose to over \$54 billion in 1966.

In spite of the voluntary restraint program instituted by the Administration the capital outflow in 1966 was \$3½ billion, higher than the previous year. Expectations for 1967 and 1968 are even higher.

This took place when the Administration was asking industry to exercise restraint in the exporting of capital.

The effect of this tremendous influx of American capital into other countries, particularly the highly developed countries of Europe, may have serious consequences for international trade and for the general economic and employment situation, and it may have very important consequences for the relations of the United States with other parts of the world.

The reasons given by industry for this great export of capital to Europe has been the need to get inside the tariff wall of the Common Market or of the EFTA group, and thus be able to sell their products within these expanding economies.

However, the increases in U.S. capital investment in the area that needed it the most—the underdeveloped areas of the world—were relatively modest. While our direct investments in 1966 rose by \$1.6 billion in Canada and by \$1.3 billion in Europe, they rose only by \$500,000,000 in Latin America; by \$160,000,000 in Africa and by approximately \$300,000,000 in Asia—including the Far East and the Middle East.

While American capital investment and the export of "know-how" more fruitfully might be directed to underdeveloped nations rather than to the developed areas of Europe, there ought to be safeguards on such investment to make them socially responsible, to avoid both the exploitation of the peoples of these areas and the creation of economic and political problems for the U.S.

Certainly the negotiation of an International Fair Labor Standards agreement, creating some equitable relationship between the labor element of the cost of production in the various countries, would be a key factor in meeting the need for socially responsible conduct of enterprise by American capital exporters.

We have seen the situation in which large segments of American production have been moved to lower wage countries such as Japan; then moved from Japan to still lower wage countries such as Hong Kong; and then moved from Hong Kong to still lower wage areas such as Formosa and Korea. As wages rise