FOREIGN TRADE AND TARIFF PROPOSALS

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HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

SECOND SESSION

ON

TARIFF AND TRADE PROPOSALS

JUNE 4, 5, 10, 11, 12, 13, 14, 17, 18, 19, 21, 24, 25, 26, 27, 28;
JULY 1 AND 2, 1968

PART 4

Contains June 14 and 17, 1968

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FOREIGN TRADE AND TARIFF PROPOSALS

FRIDAY, JUNE 14, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

Our first witness this morning is our colleague from Alabama, the Honorable John Buchanan. Is Mr. Buchanan present?

Our next witness is our colleague from Georgia, the Honorable Benjamin Blackburn. Is Mr. Blackburn present?

I see our next colleague is present, the gentleman from Oklahoma Mr. Smith, please come forward. We appreciate having you with us this morning and taking time from your busy schedule to come and advise with us and you are recognized.

STATEMENT OF HON. JAMES V. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. SMITH. Thank you, Mr. Chairman and members of the committee.

I want to express my appreciation to you and the other distinguished members of this committee for the opportunity to testify on the serious situation which exists today in many areas of our economy because of the importation of foreign products into our country.

I feel that I would be shirking my duties as a Member of Congress if I did not present my views concerning the economic damage that is being done to many of the Nation's industries as a result of foreign importation. In my opinion, one of the greatest culprits in the supply-demand situation is the Federal Government's present liberal import policies. Every nation of the world has import barriers directed against us in the form of fees, quotas, and other protective devices for their own products. Indications are that we have been far too intent on making "friends" to protect properly our own basic industry. This must be a two-way road. We should continue to work for lower tariffs everywhere, but they must be on a reciprocal basis. While I realize that many similar bills have been introduced in this body concerning imports, I have, as well, introduced several bills which are presently pending before this distinguished committee. The measures which I have introduced encompass import restrictions which I feel are necessary in the dairy (H.R. 5352), meat (H.R. 9375), oil (H.R. 10699), honey (H.R. 10677) and steel (H.R. 17565) industries.

The Dairy Import Act of 1967 could be one of the most important pieces of dairy legislation to be considered by the Congress in the last 20 years. Since being originally introduced in January of 1967 by my distinguished colleague from California, the Honorable B. F. Sisk, more than 200 other Members of the House and 59 Members of the other body have seen fit to cosponsor the legislation. All who have cosponsored the measure know that unless it is passed, the dairy industry of this country will continue to be severely affected.

Dairy product imports are increasing at an alarming rate, with the U.S. Department of Agriculture estimating that in 1967 more than 3.5 billion pounds of milk equivalent was imported.

The quotas presently in effect are not working. For example, the U.S. quota on butterfat-sugar mixture used in ice cream applies only to imports containing 45 percent or more butterfat and 25 percent or more sugar. Importers have only to cut these ingredients 1 percent below the minimums, and ship in unlimited quantities—which they are doing.

Dairy imports have been limited since 1953 by authority of section 22 of the Agricultural Adjustment Act of 1935. The problem lies in the fact that imports are controlled on specifically defined products such as cheddar cheese, butter, blue mold cheese, Italian type cheese, and other products. There are no limitations on variations of these products.

Effective import controls are necessary so that our dairy farmers will have an opportunity to achieve parity prices for their milk and butterfat. If these imports are allowed to continue, then many dairy farmers will be driven out of business; and consequently, the prices to consumers will increase.

The Presidential proclamation, which was effective in July of 1967, although helpful, has not brought dairy imports under permanent or effective control. Even now, additional commodities are entering the United States through the mechanism of modifications in container sizes and types. Experience in controlling imports under section 22 of the Agricultural Adjustment Act proves conclusively that new legislation is badly needed.

Another great industry in our country, the beef cattle industry, has as well had great difficulties because of excessive imports of meat into our country.

One of the major difficulties experienced by the beef-cattle industry is that the Federal Government has encouraged beef cattle production on acres diverted from other types of crop production. Domestic beef production since 1960 has increased 35 percent. Meanwhile the world beef trade was expanding itself into the American market. This situation was realized in 1964 when the Congress passed Public Law 88–482, which established quantitative limitations on meat imports.

However, there were serious loopholes in the 1964 law. It is incumbent then on this Congress to tighten up the 1964 law in light of several major areas which are easily recognizable as problem areas in the beef production industry.

The industry itself must achieve a level of stability and self-confidence on a broad scale if it is to continue to attract beef producers who will risk personal capital to enter the field.

The encouragement of foreign countries by our Government in building their own cattle industries with the goal of exporting for American dollars is well known to this committee. New legislation needs to be implemented which will cause these countries to gear their exports to an exact, known figure, in order that our own domestic growth will not be impeded.

The Nation's beef cattle industry presently lacks stability because it cannot plan to meet future demands if an unreasonable amount of its beef supply is furnished by foreign peoples over whom we seemingly have little authority or control. What is needed then is a change in the ground rules to enable the domestic beef producing industry to more precisely predict and execute its planning for the future. We must never find ourselves dependent on meat supplies from other shores. We must, therefore, limit and regulate the exporters and some of our own importers.

Mr. Chairman, I originally introduced in the House a bill which would amend the tariff schedules of the United States in regard to honey and honey products. Much has been said about the fact that we are a net exporting country and that imports should not be causing any difficulties. I would like any member of this distinguished committee to explain this to an American beekeeper, whose customers are buying imported honey, or to a beekeeper who has reduced his price to meet the price of foreign competitors. I would ask anyone to explain, if possible, to an American beekeeper that honey imports do not affect our honey price support program, or beekeepers who have been forced to deliver honey to the Commodity Credit Corporation because their buyers are importing honey.

The honey import bill should be passed so that the beekeepers may have an opportunity to achieve the national goal in public policy, clearly set forth in all major agricultural legislation, that they might have an opportunity to achieve parity prices for their honey and wax. A beekeeper should enjoy a level of income commensurate with that received by other segments of our economy; and our Nation should have a thrifty beekeeping industry maintaining sufficient colonies of bees to insure adequate pollination for nearly 90 percent food and fiber products.

We have witnessed in the recent months administrative changes in the mandatory oil import program which have seriously weakened its effectiveness and its integrity, insofar as the petroleum industry is concerned. The petroleum industry in Oklahoma is struggling for its very survival, and various pressures on the oil import program have had substantial impact.

Various factors have brought about congressional interest:

1. Lessened confidence in the American dollar abroad, and our country's chronic balance-of-payments deficit in which oil imports figure as a dominant influence.

2. The two major disruptions in the flow of Arab oil during the last 10 years, which have brought home the folly of unnecessarily extending our country's dependence on foreign oil supplies.

3. A 45-percent drop in domestic exploratory drilling since 1956; a trend which many feel cannot be reversed in the absence of an import program which does not enjoy industry confidence.

The major factor, however, is the erosion of the program by the exemptions and exceptions which have been made over the last 2 years, none of which have reinforced the "national security" aspects of the program, and many serving only to further aggravate our country's dollar outflow.

Since 1965, there has been an increasing number of "exceptions," both within and outside the 12.2-percent limitation standard of the program for Districts I–IV (including all States east of the Rockies) of nonresidual imports of domestic production in that area. These exceptions have included the granting of special quotas within the 12.2-percent ceiling to petrochemical interests, Puerto Rican and Virgin Island projects, Eastern marketers for No. 2 fuel oil, and companies that carried over their 1967 allocation. These exceptions amount to 150,000 barrels daily in 1968.

Canadian imports constitute an overage of 60,000 barrels daily over and above the 12.2 ceiling. Other "exceptions," totaling 180,000 barrels daily of imports in excess of the 12.2 ceiling, included bonded jet fuel and a part of the carryover of 1967 quotas.

These "exceptions" have increased 290,000 barrels a day in just 3 years. These exceptions have resulted in industry's loss of confidence in a program whose integrity is in serious doubt.

As a result, pressure continues to mount on the program, and its stability is in question. By 1972, total allowable imports under the 12.2 limitation can be expected to increase to 1,235,000 barrels daily. The accumulated pressures and proposals that now threaten to increase imports exceeds many times this increase in imports that are allowable.

Other factors which destroy confidence in the program have been the totally inadequate administrative procedures followed by the Department of Interior in taking unilateral actions of great consequences without proper hearings, and without providing an opportunity for interested parties to present their views. The actions recently of the Oil Import Appeals Board in granting import quotas for the first time to oil marketers were taken without hearing, and after denying interested parties the right to be heard in public hearing.

In addition to this accumulation of threats to the stabilization of the program, the completely unauthorized interference into oil pricing, first in the Oklahoma-Kansas crude oil prices in 1966, then in gasoline pricing, and now in asphalt pricing, serve to shatter the confidence in the entire program. These actions serve to only raise the question as to whether imports are to be firmly limited to serve oil security objectives or be maneuvered to keep depressed oil prices even further depressed.

Domestic production and exploration have continued to decline along with operating rigs, drilling completions, footing drilled; and seismic crews have reached new lows in 1966. The additions to our reserve have been inadequate.

In Oklahoma, 1959 and 1966 activity compares as follows:

Total well completions fell from 6,230 to 4,069, a 35-percent decline.

Footage drilled declined from 21,278,000 feet to 18,142,000 a reduction of 15 percent.

Operating rigs were reduced from 226 to 141. In 1967, rig activity has further declined.

While drilling of exploratory wells increased in 1966, the 505 wildcat wells drilled were less than one-half the number drilled in 1959.

Crude oil production increased 11 percent compared to an increase of 18 percent in crude oil imports into districts I through IV.

The only basis for mandatory oil import program is national security, and that basis must be completely reaffirmed. With that overall objective in mind we should:

Commit ourselves to the preservation of the general principles of the current quota system with a reasonable reduction in the overall level of imports.

Include all nonresidual imports in districts I through IV within the prescribed import ratio.

Subject all products moving from offshore chemical plants to the same restrictions that such products would have if moving from foreign sources.

Allow free imports into trade zones only to the extent products are exported and require raw material quota in proportion to the U.S. product imports.

Delay the use of the "discretionary" asphalt import authority at least until the Office of Emergency Planning has completed its study of national security aspects of the importing of both finished asphalt and asphalt content crude.

Continue to recognize the defense contribution of overland crude by exempting these imports from controls but restrict overland import growth to the same rate as the U.S. crude demand growth.

Establish more specific guidelines for the operation of the Oil Import Appeals Board.

These measures will provide long-range stability and insure an ample oil supply to this country in the interest of our national security. The American oil industry has too long suffered from the fourth agency of Government who rules by agency decree. It behooves us to protect our national economy and resources by supporting these measures.

On May 28 I introduced a bill (H.R. 17565) to provide for orderly trade in iron ore, iron and steel mill products. I would like now to provide the committee with additional evidence of the pressing need for this legislation.

The flood of steel imports into the United States has reached alarming proportions. If allowed to continue—and at present there is nothing to stop it—this trend will have disastrous effects not only on our balance of trade but on our national economic welfare and will seriously threaten our national security.

If this seems to be an overstatement, let me cite the figures on steel imports during the past decade:

In 1958, we imported 1.7 million net tons of steel, almost double the 1955 total of 973,000 tons 3 years previous. In 1961 this figure nearly doubled again to 3,160,000 tons. By 1964 we were up to 6.4 million tons. Last year it was 11.5 million. Thus the total has climbed some 10 million tons in 10 years, nearly doubling every 3 years—an incredible growth rate of almost 700 percent.

In dollars, this growth has been from $192 million in 1958 to $1.3 billion in 1967.

I am concerned that this trend shows no sign of abatement. In fact, the American Iron and Steel Institute reports that during the first 4 months there has been a 51-percent increase in the tonnage imported and that imports for this year will reach about 16 million tons. With nothing to interfere with this trend, the industry fully expects this total to reach the intolerable level of 23 million tons by 1970.

The threat to our national security is becoming readily apparent; but as the senior Senator from Indiana pointed out in an article recently printed in the Congressional Record: "If we wait until the national concern is apparent to everyone, it may be too late then to redress the long-term impact on our balance of payments of a steel trade account seriously out of balance. A ratio of steel imports to consumption of 20 percent or 30 percent may permanently impair the ability of the steel industry to respond to a rapid increase in both military and supporting civilian requirements during the time of national emergency."

The Senator points out in his article that, following his steel import hearings of June 1966, the Senate Finance Committee spent 18 months studying worldwide steel competition. Its principal point, he observes, is that a continued rise in steel imports weakening the domestic steel industry would confront the United States with a possible national ordeal.

"What do we mean by 'national ordeal?' Let me make it clear that America's defense is dependent upon preventing subsidized, below-cost foreign steel production from eroding our capability of fulfilling emergency demands in this country.

"I agree with the Finance Committee Steel Report that 'no private enterprise industry can, in the long run, survive in competition with foreign industries that have become instruments of government,' unless its own government lends assistance against subsidized import and against obstacles to exports."

Unless some action is taken to restrain the import of steel into the United States, I strongly fear that the pressures of the expanding capacity of the steel-producing countries in both the Eastern and Western Hemisphere will seriously jeopardize our own industries and, inevitably, our economic position in world trade.

For all of these reasons, I hope that the committee will approve this bill so that the Congress may act favorably on it during this session.

Mr. Chairman, I believe the significance of this situation in regard to the country's economy is dramatically underlined in an article in the June 1968 issue of Fortune magazine. The article, entitled "The Trade Winds—the Competition Position of the United States," states, in part:

"Among the shocks, strains, and insults inflicted on the U.S. economy in recent months, perhaps the most ominous of all has been a drastic turn for the worse in foreign trade. Beyond its unpleasant short-run effects, this sudden deterioration in the U.S. foreign-trade position has grave implications for the Nation's economic future.

"For many years now, the United States has relied on a hefty surplus in merchandise trade with the outside world. This surplus has served to offset, to the extent of several billion dollars a year, the chronic deficits in various other sectors of the U.S. payments ac-

count—capital investment, overseas military costs, foreign aid, tourist traffic, shipping.

"But during the final quarter of 1967 and the first quarter of this year, the once sturdy U.S. trade surplus crumbled.

"What wrecked it was a remarkable surge in imports. Exports have been rising, too, but nowhere near fast enough to maintain their lead over imports. The remaining margin of trade surplus has become so thin and frail that an 11-day dock strike in New York was enough to put U.S. foreign trade in deficit for the month of March. In one sense, moreover, the United States began running a deficit some months prior to the strike. A sizable share of U.S. exports is financed by the U.S. Government under foreign aid or other public programs. (Some of these exports, though, would move out anyway if special Government financing were not available.) Such Government-financed exports now amount to $3.2 billion a year. In the first quarter, the U.S. trade surplus—total merchandise exports minus total merchandise imports—worked out to less than $1 billion, at an annual rate. So apart from the Government-financed slice of exports, U.S. foreign-trade accounts showed a deficit at the rate of more than $2 billion a year.

"Even when it still enjoyed a substantial trade surplus, the United States ran at deficit in its overall balance of payments, and lost a lot of gold as a result. Now, suddenly, the outlook seems much bleaker. The deterioration in the U.S. trade position greatly increases the difficulty of coping with the balance-of-payments deficit."

Mr. Chairman, I again thank the committee for its time.

The CHAIRMAN. Thank you so much.

Mr. SMITH. Thank you.

The CHAIRMAN. I see that our colleague from Alabama is now in the room. Mr. Buchanan, will you come forward, please, sir. We are glad to have you with us this morning, and you are recognized.

STATEMENT OF HON. JOHN BUCHANAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. BUCHANAN. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank the members of this committee for giving me an opportunity to present a statement during the current hearings on tariff and trade proposals.

The problems dealt with in these hearings have a direct and substantive effect upon the State of Alabama and the city of Birmingham, which I represent in the Congress.

This is the impact of the continuing increase in such imports as iron and steel products, and textile products on economic growth and employment opportunity in Alabama, as elsewhere in the Nation.

In 1967, raw steel production in the United States totaled 4,338,000 net tons. Of this U.S. total, Alabama produced 3.4 percent, and ranked eighth among steel-producing States. There were 14 operating steel plants in the State. These plants accounted for an annual payroll in 1966 of $196,383,000, and made State and local tax payments in the amount of $9,274,614.

In the period 1955 through 1965, steel consumption in the United States rose from 82,200,000 net tons to 106,200,000 an increase in con-

sumption of 24 million net tons. Of this increase in steel consumption in the United States on a national scale, 9,700,000 net tons was imported.

The southern market increased in total consumption by 3,300,000 net tons. Southern steel producers share of this increase, however, was only 600,000 net tons while imports accounted for 2,700,000 net tons of the total increased southern market consumption.

In 1965, at the end of this 10-year period, domestic steel produced outside the south and brought into the southern market was 5,300,000 net tons—exactly the same as in 1955.

Hence, nonsouthern domestic producers had no share in the growth of the southern market during this period. Foreign imports of steel into the southern market during the same period rose from 400,000 tons to 3,100,000 tons.

The effect of the continuing increase in steel imports is clear from these figures. Growth in steel consumption in the southern market which could have been met by expanded production by southern and other domestic steel producers was instead supplied through steel imports.

The city of Birmingham, Ala., which I have the privilege to represent in the Congress, is one of the Nation's steel producing centers, and the continuing impact of steel imports is of vital interest to the people of my district.

To give some idea as to the basis for concern over the employment impact which imports can have on the steel industry alone, it has been estimated that 10.8 million tons of steel mill products imported during 1966 were equivalent to employment opportunities in the basic steel industry of 69,000 jobs and in supporting activities of another 14,000 jobs.

Low wages for foreign workers in the steel industry plus the rapid spread of steel technology have given foreign producers substantial labor cost advantages.

As an example in 1966 hourly employment cost in the steel industry was $4.63 as compared with a low of $1.08 for Japan and ranging in between for steel producing countries including West Germany, Belgium, France, Italy, Luxembourg and the Netherlands to a high of $2.08, or a margin ranging between $3.53 to $2.55 in favor of the foreign steel producers.

The difference between the United States, Western Europe and Japan in employment cost in the production of steel is about $25 per ton in the case of Europe and $40 per ton in the case of Japan.

The disparities in hourly employment costs between the steel industries of the United States and the other major producers are so great that steel labor productivity here would have to be 2½ times that of the Europeans and 4½ times that of the Japanese to equalize unit labor costs.

Following World War II, while the American steel industry was still in the process of recovering from the drain upon its resources resulting from the war and the reconstruction abroad, there were fully modern steelmaking plants being constructed overseas, in great part financed by the United States and built with the output of American mills.

In a special report on steel in Business Week of June 1966, it was pointed out that since 1947 the United States had shifted from a net exporter, with an annual export surplus in steel mill products of 6 million tons, to a net importer.

While the United States had net steel exports of about 4 million tons in 1957, by 1965 this had been replaced by net steel imports of 8 million tons. On balance, the total loss to foreign steel amounted to 12 million tons.

The textile industry in the Nation, and in the State of Alabama, has also suffered from the impact of a flood of imported textile products.

It is reported that textile imports in 1966 reached a level of 2.8 billion equivalent square yards. This level of imports amount to some 10 percent of the total U.S. textile market and is displacing the equivalent of 198,681 potential American textile jobs with an estimated annual payroll of $949,099,137.

In Jefferson County, Ala., which includes Birmingham, there are some 1,500 people employed by the textile and apparel industries. These two industries account for about 80,000 employees in Alabama with an annual payroll amounting to $353 million.

Textile mill products are produced in 42 of the State's 67 counties, and Alabama textile mills consumed over a million bales of cotton in 1966, more than twice the 461,000 bales produced by Alabama farmers. The textile payroll is 15 percent of all manufacturing payroll. Alabama accounts for approximately 3.5 percent of the national employment in these two industries.

In testimony before the Special Labor Subcommittee of the House, textile industry spokesmen said that 2.8 billion square yards of textile imports in 1966 displaced the equivalent of 200,000 jobs in the American textile and apparel industries.

Textile imports in January of 1968 reached a record high for any single month in history, according to figures released by the Office of Textiles of the U.S. Department of Commerce.

Imports of cotton, wool, and man-made fiber textile products in January were 291.2 million square yards. The previous high was 280.3 million square yards in September of 1966.

In the past 5 years, it has been reported that U.S. textile imports increased 200 percent while U.S. textile production grew by less than 35 percent.

As is also the case in America's steel industry, the textile industry is faced with competition from foreign countries where wage rates are so low that American manufacturers cannot hope to compete with most imported goods on the American market.

As an example, the American textile worker earns an average of about $2.14 an hour, which will increase to $2.27 in September of this year, as compared to an average of 25 cents an hour in Hong Kong, 36 cents in Japan, 18 cents in Portugal, 14 cents in India, and 8 cents in Korea.

In a 1-month period, almost 63 percent of the cotton textiles imported into the United States came from Japan, Hong Kong, Mexico, India, and Brazil; with much of the remainder from Belgium, Italy, Portugal, Taiwan, Pakistan, the United Kingdom, West Germany, and Korea.

In 1966 Mexico exported to the United States 18.5 million pounds of cotton yarn with Brazil shipping 17.2 million pounds.

To keep pace with technological developments, and the need for modernization and improvement of plant equipment, an estimated $1,180 million was spent by the industry for new plant and equipment in 1966, a figure that was almost double the industry's net earnings.

These expenditures are necessary if the industry is to meet competition of foreign imports in the domestic market. And required levels of such spending may continue to rise.

According to a statement released by the American Textile Manufacturers Institute in March of 1968, completely comparable data on cotton, wool and manmade fiber textile imports are available only since January 1964. Looking at the January 1968 data against comparable figures for January 1964, according to the report, we see that total imports for the month rose from 143 to 291 million square yards.

Wool textile imports jumped from 8 to 12 million—an increase of 50 percent. Cotton textile imports shot up from 110 to 160 million square yards, an increase of 45 percent. Manmade fiber textile imports rocketed up from 25 to 119 million square yards—376 percent.

In the face of this fantastically increasing import competition, the report continues, an increasing number of textile companies are already importing yarn and grey cloth. Many of their competitor companies are vigorously investigating these possibilities.

Some of the industry's apparel customers are already moving overseas and others warn they may be forced to do likewise.

The American textile industry nationwide has plants in 42 States, employing 950,000 people on a payroll of $4.5 billion. The apparel industry employs 1.4 million people in every State at more than $5 billion annually. Manmade fiber producing involves some 90,000 employees who are paid almost $650 million.

Thousands of other Americans in allied industries supplying or serving the textile industry also are affected by the impact of textile imports.

It is obvious that these two major industries, steel and steel products, as well as textiles, which are of vital importance in our national economy must seek relief through protective measures in view of the continuing flood of foreign imports against which they must compete at an obvious production cost disadvantage of such magnitude.

Another factor which enters into the tariff consideration is the nontariff barrier—the extent to which foreign countries are charging fees in addition to straight duty charges which, in fact, provide effective protective barriers from imports.

These nontariff barriers in the past have not received adequate consideration when tariff agreements have been entered into by the United States.

As an example, welded carbon pipe may be imported into the United States from Belgium, France, or West Germany for a duty charge of $12.50. To export the same product from the United States to Belgium results in charges of $30.53; to France charges of $57.32; and to West Germany charges of $30.07.

As another example, carbon plates can be imported into the United States from these three countries for a duty charge of $8. To export this product results in charges per $100 of product of $14.25 to Belgium; $42.07 to France; and $21.08 to West Germany.

The list of nontariff barriers affecting U.S. exports is extensive. To mention a few more, some African countries have a tax on the cost of freight value; Tunisia has a national defense tax; and a production tax; Argentina has customs surcharges and consular fees; Japan a commodity tax; Australia a primage rate; Thailand handling and landing fees; Belgium has stamp tax, transmission tax, turnover tax, and a wharfage fee; Brazil, consumption tax and a custom liquidation tax; France license requirements; and Italy an unloading tax and a compensatory tax.

The American steel and textile workers, along with all Americans, have, through the taxes they have paid to their Government, helped to subsidize their foreign competition through our foreign aid program. That competition is thriving, is using in many instances—by our standards—substandard, low-cost labor, and is competing with our workers who ought to continue to receive wages that are commensurate with what people working in the most prosperous great nation the world has yet known should receive.

This consequently constitutes both strong and unfair foreign competition.

Certainly, at the very least the American worker is entitled to some protection from the consequences of our Government's use of his own tax dollars.

Federal assistance to firms adversely affected by foreign imports and to workers who may become displaced as a result of these imports can provide a measure of relief to specific firms and workers.

But if imports result in curtailment of business expansion and employment opportunities, the community and the Nation will suffer.

The Kennedy round has brought no relevant relief to either the steel and iron industry or the textile industry. In the last Kennedy round steel tariff was even reduced by a small amount. The only action taken regarding textiles was a 3-year extension of the agreement for trade in cotton textiles which represents merely minimal control in this area.

There is no indication in the foreseeable future that the import pressures will lessen in domestic industries affected by the continuing rise in import of many commodities, and also faced with the serious disparity of employment costs.

At the same time many foreign countries have quantitative controls protecting their own industries against import of some commodities.

In steel, on a world basis, foreign governments have a 42-percent financial interest in their own steel industries, and in the countries of Western Europe, a 28-percent financial interest. Resulting government concessions again add to the cost gap between foreign and domestic production cost. In addition, expecting the Soviet bloc, Western Europe and Japan have an excess of 55 million tons in production capacity.

To establish any effective tariff control in the import of steel would require an increase of almost 1,000 percent—obviously not a practical consideration.

Orderly quota controls would provide a fair and flexible method by which a reasonable protection could be established for our domestic iron and steel industry.

With other Members of Congress, I have introduced legislation (H.R. 13839) to establish annual quantitative limitations on U.S.

imports of steel products. Our domestic steel and iron industry is not only one of the most vital to our Nation's economy, but it is essential to our national defense and security.

It must continue necessary research and development to meet the technological advancements of today's world, and it is essential that this industry can expand through fair competition on the domestic market. This will be possible only if imports are subject to adequate quota control.

I cannot too strongly urge the committee to give favorable consideration to the establishment of a system of quota control for the protection of vitally important domestic industry.

I thank the committee for this time.

The CHAIRMAN. We thank you very much for coming.

Any questions?

Thank you.

Mr. BUCHANAN. Thank you.

The CHAIRMAN. Is Mr. Blackburn here? Yes, I see Mr. Blackburn, our colleague from Georgia, Hon. Benjamin B. Blackburn.

Mr. Blackburn, we appreciate having you with us this morning and you are recognized, sir.

STATEMENT OF HON. BENJAMIN B. BLACKBURN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA, ACCOMPANIED BY DR. JOHN H. SADLER, DISTRICT DIRECTOR, ATLANTA KIDNEY CENTER

Mr. BLACKBURN. Mr. Chairman, I want to say in the beginning that I do appreciate your giving me this opportunity to appear and explain my purpose.

The CHAIRMAN. We are glad to have you.

Mr. BLACKBURN. I am appearing before your committee today to discuss H.R. 13419, a bill to amend the tariff schedules of the United States to permit the free entry of a certain cellophane membrane—Cuprophane, the substance that has been distributed to you.

Accompanying me today is Dr. John H. Sadler, director of the Atlanta Artificial Kidney Center which is under the direction of Emory University School of Medicine. It was Dr. Sadler who first brought this matter to my attention and has greatly aided me in my investigation of the whole area of kidney disease.

There are two methods now employed in the United States to meet the problem of chronic kidney disease. One is treatment by artificial kidney machine (hemodialysis) and the other is transplantation of kidneys obtained from living or dead donors (renal hemotransplantation). Although neither means is fully developed, both chronic hemodialysis and renal homotransplantation are capable of prolonging life. Unfortunately, many patients whose lives might be maintained for a significant number of years are now dying because these treatment forms are not generally available. One out of five patients dying from chronic kidney failure (uremia) are medically suitable candidates for treatment by dialysis and transplantation.

Nationally, there will be 7,000 new patients in fiscal year 1968, with chronic uremia who will be medically suitable for treatment by transplantation or hemodialysis. Many of these will die because treatment

by transplantation will be available for approximately 450, and treatment by dialysis for approximately 550. Furthermore 750 patients from previous years will be maintained on chronic dialysis. The dialysis treatment will extend a patient's life as long as 9 years.

Current experience indicates a 15-percent mortality rate during the first year of hemodialysis and a 10-percent rate in subsequent years. Technically, chronic hemodialysis can be accomplished in either the home or in a dialysis center. The recent success and greatly reduced cost of home dialysis means that every possible saving should be granted the patient.

At the present time, there are four types of artificial kidneys using Cuprophane. They are the following (1) Kiil, (2) Klung (and Mini Klung), (3) Dialung and (4) Coil, developed by Extracorporeal Medical Specialities.

Hemodialysis is accomplished with an artificial kidney through which blood is circulated on one side of a cellophane membrane while the other side is bathed by a salt solution. The accumulated toxic products diffuse out of the blood into the bath solution, and the concentration and total amount of water and salts in the body fluids is adjusted by appropriate alteration in composition of the bath fluid. The cellophane membrane may take the form of a long coiled tube similar to a sausage casing (Travenol twin-coil kidney) which is immersed in a tub filled with bathing fluid, or it may be formed in flat sheets as in a sandwich (Kiil Dialung, Klung) with a layer of blood and bathing solution on opposite sides. Dialysis is generally performed two or sometimes three times weekly, and each dialysis period lasts for 6 to 16 hours.

The cost of treatment in various hemodialysis varies greatly. A center with a great deal of experience estimates that its current annual cost to be approximately $10,000 per patient. In order to relieve the heavy workload which is placed on kidney treatment centers, a great deal of work has gone into the development of home kidney centers. The cost of chronic hemodialysis in the home varies widely both for initial capital equipment and for consumable supplies. One center recently reduced the cost of the complete home dialysis outfit from $8,000 to $6,000. They project a further reduction to $5,000 if the prototype of another machine proves satisfactory. Other estimates for initial equipment were $7,500, $13,000 and $4,200—$6,000.

As the members of the committee can very quickly recognize, this is a severe financial drain upon people who are literally on the edge of death, anyway, so I have introduced a measure which would remove the tariff from Cuprophane.

Now, turning specifically to my bill, H.R. 13419, one finds that it places Cuprophane on the list of items to be imported into the United States free of duty.

Cuprophane is manufactured by the J. P. Bemberg Co., Wuppertal, Germany. This company has granted import rights to Mr. Vitalis von Plato, of Springfield, Pa. When entering the United States, Cuprophane has a 23-percent duty placed upon it or 20 percent of the value and 2.5 cents per pound. Mr. von Plato sells the Cuprophane then to either Cobe Laboratories, Inc., of Denver, Colo., or Extracorporeal Medical Specialties, Inc., of Mount Laurel, N.J. These laboratories cut Cuprophane membranes and sell them to hospitals and home patients.

The exact amount of savings to each patient has been very difficult to determine. Mr. Robert Collins, of Cobe Laboratories, has informed me that, "If the tariff was completely eliminated, we would be able to reduce our price from $70 for 500 sheets of Cuprophane to $62.50."

Mr. Charles Jones, of Extracorporeal Medical Specialties, Inc., states:

Our present artificial kidney (Ex–0 1 dialyzer cartridge) sells for as low as $23.63 when purchased by customers in large quantities. We certainly feel that a reduction in the Cuprophane, if passed on to us by your supplier, would be reflected in the sales price of the cartridge. The exact savings to the user is difficult to predict, but I can safely say that it would range between 60 cents per unit and as high as $1.50 per unit, as costs are reduced through increased production.

Last, Dr. John Sadler has informed me that:

In the Klung dialyzer which we use at the Atlanta Artificial Kidney Center, there are 34 sheets of Cuprophane. It usually requires from 36 to 40 sheets to build the dialyzer each time. Some sheets are defective and some may be damaged in assembling and have to be discarded. Thirty-six sheets of Cuprophane cost $1.44. If this could be reduced by approximately one-fourth, this would be a savings of 30 to 35 cents to the patient. This savings would be accomplished with each treatment and twice weekly treatment would be necessary; thus, in the course of a year it would save a patient on maintenance hemodialysis, approximately $36.

Thus far, I have only discussed the effect this bill would have directly on the patient. Hospitals and institutions carry out over 90 percent of the hemodialysis treatments in the United States. Mr. Charles Jones, in his letter, gives a description on how this measure would affect institutions:

This situation must be appraised from the immediate effect and from looking at the picture over a long term. On May 15, I checked with the Veterans' Administration and the U.S. Public Health Service, and found that the Veterans' Administration currently maintaining approximately 250 people on dialysis, and the U.S. Public Health Service was maintaining approximately 450 people. Assuming that each person was treated twice per week for 52 weeks each year, 72,800 dialyses are performed each year. Now assuming that 40 percent of these patients are treated with a coil or cartridge-type dialyzer which utilizes Cuprophane, this would equal 29,120 dialyses, and naturally, a saving of $1.50 per dialysis would result in a total saving of $43,680 by the Federal Government this year. I should mention also that there are another 700 to 1,500 patients being treated by dialysis and supported by sources other than the U.S. Government; this, of course, would quadruple the savings to these dialysis patients.

Looking at this picture over a long term, the U.S. Public Health Service stated that out of the 100,000 people who die from renal disease each year, 10,000 could be saved with dialysis. At the end of the first year, 86 percent are still surviving, at the end of the second year, 75 percent and from the third year on, 70 percent. When this is carried out, assuming that the Government would support all these patients, there would be nearly 48,000 people being dialyzed at the end of the 6-year period, with a count of almost 5 million treatments. Here again, if we assume that 40 percent were on a coil-type dialyzer, this would result in 2 million treatments by this method with a saving—just from the elimination of Cuprophane duty—of $2 each or $3,000 to the Federal Government.

The other 6 percent of treatments which are carried out with other type dialyzers in almost all cases utilize Cuprophane also, with costs ranging up to $2 for the Cuprophane used in each treatment. Here again, if we assume that 3 million dialyses were reduced by 42 cents each or a savings of $1,260,000 again, just from the elimination of what we suspect the duty on Cuprophane to be. Therefore, it is my definite conclusion that this particular product, when imported for use in artificial kidneys, should have its duty elminated completely.

Furthermore, Mr. Robert Collins provides us with additional information concerning the use of Cuprophane by institutions:

Because the Klung kidney uses more, smaller sized sheets, the savings would be greater. During the first 4 months of this year, we sold 31,500 Klung sheets. We project to sell on the order of 100,000 sheets for the next 12 months. The Atlanta Artificial Kidney Center uses 36 sheets of Cuprophane per dialysis for the Klung and 20 to 25 for the Mini Klung. We are estimating that there will be about 50 patients using these two kidneys during the next 12 months. (Both kidneys use the same size cut sheets.) This would indicate 175,000 sheets. Each patient uses about 3,500 sheets per year. The tariff savings would amount to approximately $4 per 500 sheets or $28 per year per patient for a total of $1,400.

Combining the savings to the Kiil and Klung patients for the projected 12-month period, the total would be $8,900. We are not in a position to speak of the projected savings for the Dialung or EMSCO Coil Kidney users. We feel that the $8,900 savings is sufficient reason for pushing for the removal of the U.S. tariff on Cuprophane.

From the information that I have been able to gather, there is not any U.S. firm which is presently producing Cuprophane or a substance that could be used as a substitute for Cuprophane. FMCC Corp., American Viscose Division and DuPont have looked into the development of cellophanes to replace Cuprophane. However, to the best of my knowledge, no substance has been developed by these corporations.

For the information of my colleagues, I would like to insert the following items of correspondence from Dr. James H. Shinaberger, of the Los Angeles Veterans' Administration hospital.

In comparative studies, we have found that the DuPont Co.'s most suitable membranes for dialysis (PD 250 and PD 215) are only about 65 to 75 percent as permeable to urea as Cuprophane. Furthermore, we observed two very unfavorable reactions to PD 215 cellophane when used for dialysis which is in no way to be considered the fault or liability of the DuPont Co. In fact, representatives of the DuPont Co.'s film division were most generous and cooperative with us in performing these studies. They had indicated that should any of their standard membranes prove satisfactory for hemodialysis, they would make it available for this purpose at little or no cost. We deeply appreciate their attitude, but had to conclude that their membranes were not satisfactory for this purpose. The basic premeability of standard PT 150 Cuprophane (Bemberg, West Germany) is so high that no type of dialyzer (artificial kidney) yet developed is in itself efficient enough to fully utilize the full permeability of Cuprophane. This simple fact has made some of us wonder whether the cost of developing under research and contract grants new synthetic membranes for dialysis is really warranted until dialyzer design is advanced to the point of fully utilizing the permeability of the already available and very satisfactory Cuprophane.

We regret that no American cellulosis membrane currently available is as suitable for dialysis as Cuprophane. We use Cuprophane because it reduces dialysis time 15–20 percent, and we feel that in order to make our patients' lives as nearly normal as possible, unnecessary prolongation of dialysis time must be avoided.

Recently, the report of the Tariff Commission was submitted to this committee. In this report, the Commission states there are three technical defects in my bill.

The first objection is concerning the section of the tariff schedule to be amended. I agree wholeheartedly, and desire that the committee make this change in my bill.

However, I must take issue to the other two proposed changes. The Tariff Commission states that Cuprophane is mainly a trade name. I would like to submit to the committee a statement by Mr. Charles Sheldon, acting chief, Science Policy Research Division, Legislative

Reference Service, Library of Congress. In the statement, Mr. Sheldon says, "Cuprophane is the registered name of a cellulose acetate produced by the cuprous method of extrusion." Furthermore, in a letter to Mr. George Hoff of the U.S. Tariff Commission, Mr. Charles P. Jones of Extracoporeal Medical, Inc., gives a detailed chemical breakdown of Cuprophane. He goes on to give the patent numbers of Cuprophane in the United States, Germany, Great Britain and Japan. I feel the chemical composition of Cuprophane as a basic substance has been extremely well documented and is not a trade name applied by an exclusive manufacturer.

Third, the Tariff Commission seems to fear that if the tariff was to be removed on Cuprophane that this cellophane would compete with American-produced cellophane. I must differ very sharply with the Tariff Commission on this point.

Dr. James H. Shinaberger, associate chief of the chronic dialysis Unit at the Wadsworth VA Hospital in Los Angeles, Calif., states in his letter to me:

"From my own knowledge of the relative prices of American cellophane and Cuprophane, I cannot believe that Cuprophane could ever compete for nonmedical purposes with American cellophanes."

Furthermore, Dr. John H. Sadler of the Atlanta Kidney Center states in his statement to the committee: "Cuprophane is four times more expensive than any American-produced cellophane."

The Tariff Commission feels that Cuprophane should be restricted to be sold to institutions only and that we should not remove the tariff across the board. On this point, I must differ with the Commission rather strongly. Again Dr. Shinaberger states:

"I feel that restricting tariff-free entry of Cuprophane for purchase by institutions alone would be a backward step, since most of us feel that home dialysis rather than institutional dialysis is the developmental trend. The provision of a physician's prescription alone to the supplier should be acceptable evidence that a home dialysis patient will purchase Cuprophane for dialysis purposes only."

For this reason, Mr. Chairman, I believe very strongly that these objections are not valid. Cuprophane will not compete with American cellophane and American home dialysis patients badly need to purchase this Cuprophane directly from the laboratories, thereby indicating the shortcomings of the Tariff Commission's objection on this ground. I cannot see any reason why the tariff should not be completely removed from Cuprophane.

It is quite obvious that there will not be any startling reduction in cost by the passage of this legislation. Dr. John H. Sadler stated:

"This is not a large savings, but every small economy over a long period of time is critical to these people. As a matter of principle, it is unconscionable to uselessly add cost to a product which is required only for the medical care of people who would die without it. It would certainly represent an act of high principle on the part of the U.S. Congress in behalf of some otherwise disabled citizens."

In view of the foregoing, I ask that we remove any tariff which in any way hinders the purchase of the critically needed material by patients with chronic kidney disease. For the information of my colleagues, I am inserting the following letters for my colleagues' information.

(The information referred to follows:)

VETERANS' ADMINISTRATION CENTER,
Los Angeles, Calif., June 10, 1968.

Hon. BEN B. BLACKBURN,
House Office Building,
Washington, D.C.

DEAR MR. BLACKBURN: Those of us in the medical profession who are deeply involved with chronic hemodialysis as a means of prolonging life in patients with chronic renal disease are deeply appreciative of your efforts to assist us with H.R. 13419—a bill to remove tariff on Cuprophan, a cellulosic membrane.

I should like to furnish you with the following statements regarding my own experience with nearly 10,000 dialysis procedures.

1. Although intensive efforts are underway at this time to develop new synthetic membranes which are superior for hemodialysis, none appear to me to be at a practical level of development, and most certainly, none are generally available for dialysis.

2. In comparative studies, we have found that the Du Pont company's most suitable membranes for dialysis (PP 250 and PD 215) are only about 65 to 75% as permeable to urea as Cuprophan. Furthermore we observed two very unfavorable reactions to PD 215 cellophane when used for dialysis which is in no way to be considered the fault or liability of the Du Pont Company. In fact, representatives of the Du Pont Company's Film Division were most generous and cooperative with us in performing these studies. They had indicated that should any of their standard membranes prove satisfactory for hemodialysis, they would make it available for this purpose at little or no cost. We deeply appreciate their attitude, but had to conclude that their membranes were not satisfactory for this purpose.

3. The basic permeability of standard PT 150 Cuprophan (Bennberg, West Germany) is so high that no type of dialyzer (artificial kidney) yet developed is in itself efficient enough to fully utilize the full permeability of Cuprophan. This simple fact has made some of us wonder whether the cost of developing under research and contract grants new synthetic membranes for dialysis is really warranted until dialyzer design is advanced to the point of fully utilizing the permeability of the already available and very satisfactory Cuprophan.

4. We regret that no American cellulosic membrane currently available is as suitable for dialysis as Cuprophan. We use Cuprophan because it reduces dialysis time 15–20% and we feel that in order to make our patients' lives as nearly normal as possible, unnecessary prolongation of dialysis time must be avoided.

5. I feel that eliminating the tariff on Cuprophan would substantially reduce the cost of dialysis since it is an ongoing recurrent expense which cannot currently be avoided.

6. From my own knowledge of the relative prices of American cellophane and Cuprophan, I cannot believe that Cuprophan could ever compete for non-medical purposes with American cellophanes.

7. I feel that restricting tariff-free Cuprophan for purchase by institutions alone would be a backward step, since most of us feel that home dialysis rather than institutional dialysis is the developmental trend. The provision of a physician's prescription alone to the supplier should be acceptable evidence that a home dialysis patient will purchase Cuprophan for dialysis purposes only.

I hope that these comments may prove helpful to you. These opinions, of course, are my own and do not in any way represent any official Veterans' Administration policy or opinion.

Best wishes for success in your endeavor,

JAMES H. SHINABERGER, M.D.,
Associate Chief, Chronic Dialysis Unit, Wadsworth VA Hospital.

COBE LABORATORIES, INC.,
Denver, Colo., June 3, 1968.

Congressman BEN BLACKBURN,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN BLACKBURN: We are most gratified to be in a position of supplying additional information which will result in lowering the cost of chronic hemodialysis treatment. We would like to repeat that we will pass along the savings to our customers when our purchase cost reflects the elimination of the tariff. (See Exhibit I).

The savings will vary by type of artificial kidney used. At the present time, we understand there are four artificial kidneys using Cuprophane in clinical use: 1. Kiil; 2. Klung (and Mini Klung); 3. Dialung; and 4. Coil developed by EMSCO. Cobe Laboratories, Inc. supplies Cuprophane for the first two kidneys.

Exhibit II provides a description of the Kiil which is the most commonly used kidney for chronic hemodialysis.

This field of treatment is rapidly expanding. As a result, I have increased our projected sales for the next twelve months to 400,000 Kiil Cuprophane membranes (cut sheets). This amounts to sufficient membranes to support 1,000 patients. This is a conservative figure as our actual sales of Kiil sheets through April were 131,300 sheets. For these 1,000 patients the savings would be approximately $7,500,000 per year or $7.50 individually per year.

Our Kiil Cuprophane customers fall into two classes, medical facilities having hemodialysis units and home patients who have the artificial kidney in their homes. Exhibit III provides a partial list.

Because the Klung kidney uses more, smaller sized sheets, the savings would be greater. During the first 4 months of this year we sold 31,500 Klung sheets. We project to sell on the order of 100,000 sheets for the next 12 months. The Atlanta Artificial Kidney Center uses 36 sheets of Cuprophane per dialysis for the Kung and 20 to 25 for the Mini Klung. We are estimating that there will be about 50 patients using these two kidneys during the next 12 months. (Both kidneys use the same size cut sheets). This would indicate 175,000 sheets. Each patient uses about 3,500 sheets per year. The tariff savings would amount to approximately $4.00 per 500 sheets or $28.00 per year per patient for a total of $1,400.

Combining the savings of the Kiil and Klung patients for the projected 12 month period, the total would be $8,900.00. We are not in a position to speak of the projected savings for the Dialung or EMSCO Coil Kidney users. We feel that the $8,900.00 savings is sufficient reason for pushing for the removal of the U.S. tariff on Cuprophane. We hope that the U.S. Congress sees it the same way as we do.

Yours truly,

ROBERT M. COLLINS, *President.*

EXHIBIT I

PRESENT COBE CUPROPHANE PRICES AND PROJECTED PRICES AFTER TARIFF REMOVAL

Catalog No.—	Description	Current pricing [1]	Tariff removal projected pricing
11-305	100 sterile cuprophane sheets for the Kiil dialyzer	$62.50	$58.50
11-310	1,000 cuprophane sheets and blood ports for the Kiil dialyzer	250.00	240.00
12-300	1,000 cuprophane sheets for the Kiil dialyzer	130.00	120.00
		115.00	110.00
12-301	500 cuprophane sheets for the Kiil dialyzer	70.00	62.50
12-302	100 cuprophane sheets for the Kiil dialyzer	20.00	19.00
		17.50	17.00
11-307	500 cuprophane sheets for the Klung dialyzer	20.00	16.00

[1] Reference Cobe artificial kidney price list III.

EXHIBIT III

PARTIAL LISTING OF COBE CUPROPHANE CUSTOMERS

MEDICAL CENTERS

Touro Infirmary, New Orleans, Louisiana.
Veterans Administration Hospital, Cleveland, Ohio.
Michael Reese Hospital and Medical Center, Chicago, Illinois.
Tulane University, New Orleans, Louisiana.
St. Vincent's Hospital, Los Angeles, California.
Atlanta Artificial Kidney Center, Atlanta, Georgia.
University of California, San Diego and San Francisco, California.
Veterans Administration Center, Los Angeles, California.
University of Washington, Seattle, Washington.
University of Colorado, Denver, Colorado.
Seattle Artificial Kidney Center, Seattle, Washington.

Good Samaritan Hospital, Phoenix, Arizona.
Mayo Foundation, Rochester, Minnesota.
Cedars-Sinai Medical Center, Los Angeles, California.
County of Los Angeles, California.
Dallas County Hospital District, Dallas, Texas.
University of Alabama, Birmingham, Alabama.
Grady Memorial Hospital, Atlanta, Georgia.
Duke University, Durham, North Carolina.
United States Public Health Service Hospital, New Orleans, Louisiana.
Montreal General Hospital, Montreal, Quebec.

We, the undersigned, urge the passage of H.R. 13419, a bill proposing the removal of import tariff on cellophane (Cuprophane) membranes used in kidney dialysis.

GLENNITA SMITH,
Nashville V.H., Dialysis Unit
(and 20 others).

EXTRACORPOREAL MEDICAL SPECIALTIES, INC.,
Mount Laurel Township, N.J., May 21, 1968.

Congressman BENJAMIN B. BLACKBURN,
House Office Building,
Washington, D.C.

DEAR CONGRESSMAN BLACKBURN: At the request of Mr. Drew Tidwell, I am setting forth in this letter the reasons why I believe it would be advantageous to have the import duties eliminated on Cuprophan membrane, which is manufactured by the J. P. Bemberg Company of Wuppertal, Germany. It is imported to be used in the manufacture of dialyzers which are used in the treatment of chronic renal failure.

Very important is the fact that we do not import Cuprophan directly. We use Cuprophan exclusively in our new EX–01 dialyzer cartridge, however, we purchase it from a Mr. Vitalis Von Plato of 497 Maplewood Road, Springfield, Pennsylvania, 19064, and I would like to point out that any reduction in the selling price of our cartridge can only come about if the elimination of duty were to be passed on to us by Mr. Von Plato. Although we have worked with the German Consulate, the U.S. Commerce Department, and directly with the J. P. Bemberg Company, we have no idea what the import charge on Cuprophan is, and we have encountered great difficulty with the Bemberg Company in our attempts to insure adequate supplies at reasonable prices.

Our present artificial kidney (EX–01 dialyzer cartridge) sells for as low as $23.63 when purchased by the customer in large quantities. We certainly feel that a reduction in the duty on Cuprophan, if passed on to us by our supplier, would be reflected in the sales price of the cartridge. The exact saving to the user is difficult to predict, but I can safely say that it would range between $.60 per unit and as high as $1.50 per unit, as costs are reduced through increased production.

What does this mean to the U.S. Government? You must appraise the situation from the immediate effect and from looking at the picture over a long term. On May 15th I checked with the Veterans Administration and the U.S. Public Health Service, and found that the Veterans Administration was currently maintaining approximately 250 people on dialysis, and the U.S. Public Health Service was maintaining approximately 450 people. Assuming that each person was treated twice per week for 52 weeks each year, 72,800 dialyses are performed each year. Now assuming that 40% of these patients are treated with a coil or cartridge type dialyzer which utilizes Cuprophan, this would equal 29,120 dialyses, and naturally, a saving of $1.50 per dialysis would result in a total saving of $43,680 by the Federal Government this year. I should mention also that there are another 700 to 1500 patients being treated by dialysis and supported by sources other than the U.S. Government; this, of course, would quadruple the saving to these dialysis patients.

Looking at this picture over a long term, the U.S. Public Health Service stated that out of the 100,000 people who die from renal disease each year, 10,000 could be saved with dialysis. At the end of the first year, 86% are still surviving, at the end of the second year, 75%, and from the third year on, 70%. When this is carried out, assuming that the Government would support all these patients, there would be nearly 48,000 people being dialyzed at the end of the six year

period, with a count of almost 5,000,000 treatments. Here again, if we assume that 40% were on a coil tye dialyzer, this would result in 2,000,000 treatments by this method, with a saving—just from the elimination of Cuprophan duty—of $2.00 each or $3,000,000 to the Federal Government.

The other 60% of treatments which are carried out with other type dialyzers in almost all cases utilize Cuprophan also, with costs ranging up to $2.00 for the Cuprophan used in each treatment. Here again, if we assume that 3,000,000 dialyses were reduced by $.42 each or a saving of $1.260,000, again, just from the elimination of what we suspect the duty on Cuprophan to be. Therefore, it is my definite conclusion that this particular product, when imported for use in artificial kidneys, should have its duty eliminated completely. I believe this should be done just as soon as possible.

Respectfully submitted,

CHARLES P. JONES, *President.*

EMORY UNIVERSITY SCHOOL OF MEDICINE,
ATLANTA ARTIFICIAL KIDNEY CENTER,
Atlanta, Ga., May 22, 1968.

Hon. BEN B. BLACKBURN,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN BLACKBURN: We appreciate your concern and your efforts and wish you prompt success in obtaining legislative action on the proposal to remove the tariff from cuprophane cellophane.

As we stated before, this cellophane product is imported from Germany for use as hemodialysis (artificial kidney) membrane. It is not used for any other purpose in America. American cellophane products are superior for wrapping packages. This membrane is used in approximately 75% of the hemodialysis treatment given in America. It is the only imported part commonly used for such treatment. The import duty on it is 23%. The supplier, Cobe Laboratories, Denver, Colorado, has written a promise to those of us concerned with this matter that the removal of the tariff will result in a saving to the patient of exactly the amount of the tariff.

The operating physical principal in the artificial kidney is that of osmosis. Osmosis applied to flowing solutions is called dialysis. When one of these solutions is blood, the process is called hemodialysis. In the artificial kidney an idealized solution called dialysate which contains the dissolved chemicals that the patient's blood should contain is passed on one side of a membrane (in this instance, cuprophane) and the blood is passed on the other. The abnormal products from the blood will pass, by osmosis, through the membrane into the dialysate and be discarded. By this means the metabolic poisons and impurities may be removed from a patient's blood. If this is accomplished twice weekly, the patient may be rehabilitated to productive life.

There are currently in the United States an estimated 2000 patients on hemodialysis. The number cannot be established with great certainty, but should be at least this many. The report of the Gottschalk Committee to the Bureau of the Budget estimates there are from 5000 to 7000 people per year who require replacement of kidney function in order to live. Obviously, most of these people are not receiving it. Future expansion of the capability to treat kidney failure will require a greatly increased use of hemodialysis.

In the Klung dialyzer which we use at the Atlanta Artificial Kidney Center, there are 34 sheets of cuprophane. It usually requires from 36 to 40 sheets to build the dialyzer each time. Some sheets are defective and some may be damaged in assembling and have to be discarded. 36 sheets of cuprophane cost $1.44. If this could be reduced by approximately one-fourth, this would be a saving of 30 to 35 cents to the patient. This saving would be accomplished with each treatment and twice weekly treatment would be necessary; thus, in the course of a year it would save a patient on maintenance hemodialysis approximately $36.00. This is not a large saving, but every small economy over a long period of time is critical to these people. As a matter of principle, it is unconscionable to uselessly add cost to a product which is required only for the medical care of people who would die without it.

In this particular Center we accomplish between 1400 and 2000 dialyses per year. It would reduce our cost significantly. We will appreciate anything you

can do to aid us in this matter. I hold myself ready to be of further assistance in any possible way.

Sincerely,

JOHN H. SADLER, *M.D., Director.*

The CHAIRMAN. We appreciate your coming to the committee, and you have with you Dr. John H. Sadler.

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. Dr. Sadler, do you have anything you want to say in supplementation of Mr. Blackburn's very fine statement?

Mr. BLACKBURN. Mr. Chairman, may I excuse myself. Dr. Sadler, I have to catch a plane. This thing has worked out just fine for me. Thank you.

The CHAIRMAN. Thank you. All right, Doctor.

STATEMENT OF JOHN H. SADLER, M.D., DIRECTOR, ATLANTA ARTIFICIAL KIDNEY CENTER

Dr. SADLER. I do have a short prepared statement which I request that you enter into the record.

The CHAIRMAN. All right. It will be entered in the record following your oral statement.

Dr. SADLER. I wish to amplify it just slightly, and testify to the technical applications of the product and cost factors. Artificial kidney treatments, that is hemodialysis—the dialysis process that Congressman Blackburn referred to—is now available to probably about 2,500 people in the United States in about 100 centers located in at least 46 States.

It is a widespread process which is not only allowing people to just survive, but to be rehabilitated. Because the cost in treatment centers such as our own in Atlanta ranges from $9,000 to about $14,000 per year per patient, it is sought to equip these patients with their own machines and let them go home and treat themselves with their family's assistance.

In doing this at home the saving over the cost at our center is approximately $2,000 a year. Therefore, it costs these people about $40 a week just to stay alive. However, if they undertake this treatment they not only remain alive, but remain productive, healthy, and in general, free from any symptoms.

The cost of Cuprophane is only a small part of this total cost and removal of the tariff would initially be a small benefit, but this is a product which has no other usefulness and it seems unnecessary to make these people pay $40 a week to stay alive when they could pay $39.50 if the tariff were removed.

The product, as you see, is not as clear as most American cellophanes. It is not as tough and it costs approximately four times as much. Our correspondence with Du Pont and with other cellophane manufacturers has been to the effect that if they had a product that was as effective as Cuprophane they would be willing to donate it for hemodialysis.

We have tried all their cellophanes which might possibly be useful. Cellophanes prepared by American Viscose and other companies have been tried, but they have been found to have only 70 percent of the efficiency of Cuprophane. Even though Cuprophane can be used commercially in Europe, in the United States the only possible use for

Cuprophane is in hemodialysis. Furthermore, Cuprophane costs four times as much as standard American cellophane. To obtain Cuprophane the patient must present the supplier with a prescription from his doctor stating that the material will be used in kidney machines. This is done because the supplier would be libel for any use which the patient desires to employ Cuprophane in without the issuance of a prescription.

For these reasons I cannot possibly see why there is a need for institutions to be required to distribute Cuprophane as presented in the Tariff Commission report on this bill.

(Dr. Sadler's prepared statement follows:)

STATEMENT OF JOHN H. SADLER, M.D., ASSISTANT PROFESSOR OF MEDICINE (RENAL DISEASE AND INORGANIC METABOLISM), DIRECTOR, ATLANTA ARTIFICIAL KIDNEY CENTER

Mr. Chairman, I am here to provide information regarding Cuprophane cellophane membrane for artificial kidneys and to urge your support for H.R. 13419, introduced by Congressman Ben B. Blackburn to remove the tariff from this product.

The material in question is produced by the Bemberg company of Wuppertal, Germany. It is imported into this country exclusively for use as artificial kidney (hemodialysis) membrane. Currently, a tariff of 23% is imposed on this material.

In the United States there are approximately 100 centers for chronic hemodialysis treatment. The number of patients sustained by these centers is approximately 2500. The goal of this treatment is not only survival but also rehabilitation. Because of this, many centers are training patients to take equipment and carry out this treatment at home. The greater freedom and convenience of this arrangement would recommend it, but the economy of hemodialysis demands that it be developed wherever possible.

For example, at the Atlanta Artificial Kidney Center, our cost per patient for each dialysis is $110,000. Dialysis is required twice weekly, thus the annual cost is $11,400.00. This is considered a comparatively economical center operation. On the other hand, our patients at home, after their initial purchase of hardware at approximately $6,000.00, have an annual cost of about $2,000.00. Of this, $1,600.00 is for disposable materials. Cuprophane represents approximately $160.00 per year. Other developments currenlty under way indicate a great likelihood of reducing the cost of disposable materials to $1,200.00 per year. This would leave cuprophane as the highest cost single item among the disposables used in dialysis.

The membrane is critical to the operation of an artificial kidney. This device, called a dialyzer, passes blood through an envelope of cellophane imersed in a solution, the dialysate, which contains a normal concentration of necessary components of blood and none of the metabolic poisons which accumulate in the blood of people without kidney function. The abnormal products pass through into the dialysate, which is discarded. The ability of the membrane to pass these materials is critical to effective dialysis.

In our Center, using the Klung dialyzer, tests have been carried out, not only on Cuprophane PT–150 membranes but also on DuPont PD–215 and DuPont PUD–0 cellophane. We found that there was a loss of approximately 30% dialyzer performance with the alteration from cuprophane to the PD–215, and a further loss of 10% in proceeding to the PUD–0 membranes. Indeed, untoward reactions in some of our patients caused DuPont to stop selling its membranes where they might be used for hemodialysis. Other centers, using Kiil dialyzers, found a 15–20% increase in transfer of water and larger molecules such as uric acid, when they changed from American Viscose cellophane to cuprophane membranes. So vital is the difference that dialysis would have to be prolonged by at least two hours per treatment if American cellophanes as now available had to be used.

The importer and supplier have promised to pass the reduction in cost directly to the users of cuprophane. The use of the material in medical centers and by patients on prescription only would eliminate any conceivable commercial competition. Cuprophane is three to four times more expensive than American cellophanes, and it is less durable. Thus, there seems to be no reason to wrap packages with it.

In our Klung dialyzer, 36 sheets of cuprophane are used. They cost four cents each. Because of its fragility and possible assembly errors, we calculate cost at forty sheets per dialysis. In our Center, where over 1500 dialyses per year are carried out, 60,000 sheets or more are used. A reduction of cost of even 10% would be significant. To the family which finds itself spending $40.00 per week to keep the breadwinner alive, the reduction to $39.50 is worth while.

Cuprophane membranes are used by at least two-thirds of all patients on maintenance hemodialysis, amounting to a total of about 200,000 square meters of cuprophane per year. It is not used in America for any purpose other than hemodialysis, and its medical use may easily be guaranteed by sale limited to licensed physicians, hospitals, or on a physician's prescription. Suppliers now must have prescriptions for these materials before selling to individual patients; otherwise, they would assume responsibility for the treatment carried out.

With protection from abuse and documentation of need, it seems to me indefensible to sustain this increase in the already high cost of maintaining productive life in an individual who has lost his kidney function.

If the tariff remains, it is unlikely that it alone will prevent treatment of a single patient. However, the attitude that small excesses are unimportant will keep all costs high, and thereby many patients will be kept out. A small evil is no less evil for being small. These people have earned all the assistance we can give them.

The CHAIRMAN. Thank you very much, Dr. Sadler. Are there any questions? Thank you, sir for coming to the committee. We appreciate your doing so.

Dr. SADLER. Thank you, sir.

The CHAIRMAN. Our next witness this morning is the Honorable Clement J. Zablocki, of Wisconsin. You are recognized, sir.

STATEMENT OF HON. CLEMENT J. ZABLOCKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. ZABLOCKI. Mr. Chairman, I want to commend the Ways and Means Committee of the House for conducting these extensive hearings on our tariff and trade problems.

This is a critical period for our domestic economy of adjustment to world market conditions, a period when accurate analysis of the problems of international trade and finance and the formulation of appropriate Government positions relating to these problems are vitally important to the entire Nation.

The difficulties encountered by certain types of our domestic industries are undeniable. Frequently, they are required to compete with a virtually unobstructed flow of foreign goods produced under favorable cost circumstances—sometimes including Government subsidies. The seriousness of some of these cases was recently highlighted by the President's proclamation regarding dairy imports. In accord with this proclamation, certain dairy imports have been completely suspended pending the results of a Tariff Commission study of the effects of these imports on our dairy industry.

Mink ranchers in Wisconsin have expressed to me their concern that the unrestricted flow of low-price mink imports will force many of them out of business.

None of these spokesmen for adversely affected domestic industries is demanding a renewal of the tariff walls and protectionist policy which this country once knew. They are merely asking, and surely deserve, due consideration and appropriate Government assistance in making the transition to the conditions of a greatly expanded world trade.

It is not always an easy task to determine just how a satisfactory balance is to be struck between the requirements of an ultimately mutually beneficial trade among nations on the one hand and the continued welfare of our own domestic producers and workers on the other. Nonetheless, the task is so important that we must devote our best energies to it.

There is a definite need, it seems to me, for increased attention to our domestic trade adjustment problems. An expanded means for determining the true nature of these problems on the part of the executive agencies involved and the conscientious oversight of Congress are, I believe, essential to this effort.

It is my hope, Mr. Chairman, that these hearings will serve to focus attention on these problems and lead to a new understanding of the most effective means to deal with them.

Thank you.

The CHAIRMAN. Are there any questions? If not, then thank you Mr. Zablocki, for sharing your views with us.

Mr. ZABLOCKI. Thank you, Mr. Chairman.

The CHAIRMAN. Our colleague from Tennessee, Mr. Quillen. Please step forward and proceed as you see fit. It is a pleasure to have you here.

STATEMENT OF HON. JAMES H. QUILLEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. QUILLEN. Thank you Mr. Chairman, it is a pleasure to be here.

The Dairy Import Act is needed to stop the flow of unneeded dairy products which are being shipped into this country. This bill would limit imports to the average butterfat and nonfat milk solids shipped in from 1961 through 1965. Also, as the U.S. domestic market grows, the import quotas would be increased in the same ratio.

Basically, this bill is needed to stop the imports of dairy products which are shipped here in evasion of quotas.

For example, imports of evaporated milk grew from 4,000 pounds in 1962 to 1,311,000 pounds in 1967. Sweetened condensed milk imports grew from 69,000 pounds in 1962 to 4,074,000 pounds in 1967.

Chocolate crumb is a so-called new product designed to evade our quotas. In 1960, 54,000 pounds of this product were imported. During 1967, imports of chocolate crumb climbed to 21.5 million pounds.

Total cheese imports in 1967 were about 152 million pounds of which 60.3 million pounds were Cheddar and other American types, principally Colby and during this same period, Commodity Credit Corporation purchased about 180.5 million pounds of Cheddar or American cheese under the price support program.

Imports of butterfat-sugar mixtures jumped from zero in 1961 to 105,626,000 pounds in 1966.

Although some actions have been taken under section 22, these actions were taken after huge amounts of dairy products have been imported. For instance, prior to June 30, 1967, there was no quota on Colby cheese, with the result that ever-increasing quantities were imported. Finally, when action was taken last year a quota of 6,096,600 pounds was granted. In the case of frozen cream, no quotas had been established until last year with the result again of large quantities coming into the United States. When quotas were established, 12,540,000 pounds were permitted.

In other words, we reward countries that ship and develop products in evasion of our quotas by granting them quotas on the very products used to evade our quotas.

Not only are our dairy farmers hurt by these imports, but imports added $131,177,198 of unnecessary cost to the price support program in 1967.

Import controls are necessary to provide dairy farmers a level of income commensurate with that received by other segments of our society. Also they are necessary so that dairy farmers can achieve parity prices for their milk.

The CHAIRMAN. Thank you again Mr. Quillen. Are there any questions?

Our next witness is the Honorable E. S. Johnny Walker of New Mexico. Thank you for coming. Proceed as you wish.

STATEMENT OF HON. E. S. JOHNNY WALKER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW MEXICO

Mr. WALKER. Mr. Chairman, distinguished members of the House Ways and Means Committee, I am filing this statement with the House Ways and Means Committee for inclusion in the hearings on the various import quota bills. Although many among the 750 bills on quotas are duplicates, I am particularly anxious that cognizance be taken of quota proposals on the following: potash, oil, textiles, steel, lead and zinc, and meat.

You will understand that of greatest concern to me are those products which are the major items produced by the workers of the State of New Mexico.

Chief money earner and comprising over 60 percent of the value of all mineral production of New Mexico (over $800 million in 1967) is oil. Although we have an oil import quota for the area east of the Rockies, I am concerned that many oil-importing companies are getting an undue advantage by importing products such as naphtha as part of their chemical requirements. In addition our independent oil producers are also forced to restrict their production to around 45 percent of capacity. On the other hand some domestic producers are also getting the benefit of importing cheaper crude oil—a benefit of $1.25 per barrel. Any restriction on American production coupled with an increased import allowance automatically reduces the profits of independent oil producers in my State as well as reducing the income of our oil workers. Also, we are being forced to restrict the exploration for new oil thereby endangering our national security. Above all our oil producers feel that we should have a firm oil import law rather than one of administrative discretion by the Department of the Interior.

Another commodity whose importation is affecting our New Mexico economy adversely is potash. Although we produce 95 percent of all potash mined in the United States our advantage is being dissipated by excessive imports from Canada, These imports will soon be 50 percent of our total domestic requirements, thereby forcing us to cut our production and retrench on the number of workers we can employ. This industry is being hurt and only an absolute quota can restore our potash industry to the position rightfully belonging to it.

I am concerned about excessive imports of textiles. Forty-five of our States grow cotton or manufacture cotton goods. In 1960 we spent over $500 million for imported textiles. But today the figure is over twice that amount. The welfare of our 2.5 million people employed by the textile industry is being undermined. I wish to express my support for a viable import quota on textiles of all types of fibers—natural or man-made.

The United States is the leading producer of hides and user of leather in the world. I am vitally interested in protecting our leather industry. In scarcely a dozen years our imports of shoes rose from 8 million pairs to around 46 million leather pairs and 26 million pairs of other manufacture in 1967. This is around 24 percent of our American domestic market, an excessive percentage. Too many of our shoe factories are operating at far below their normal capacity. At the utmost, around 10 percent of our yearly consumption should be allocated to foreign shoe products.

Lead and zinc are among our foremost products of the Southwest. Isn't it time that Congress adopt a long-range mineral program, allowing for flexible quotas, particularly when imports threaten our domestic industry? Lead and zinc are vital to our national security. Yet their production here at home seems to hang on the wildly fluctuating prices of world markets. In times of excessive production most overseas producers want to dump their excess stocks on our domestic market, thereby disturbing our regular production and marketing programs. A quota can stop this practice.

The remanufacture of iron and steel products is vital to our economy of New Mexico. Yet national imports have climbed from only 1.2 million tons in 1957 to 13 million tons in 1967. Our domestic steel producers cannot compete because of low wages overseas. Due to competition our own steel producers have less money for modernization or newer processes. Only a quota on imports can stop the ever-increasing injury to our domestic steel industry.

We in New Mexico are also concerned about the excessive imports of beef, veal, and lamb; particularly frozen, boned meats. Excessive imports have drastically reduced our feedlot cattle and also the number of workers in meatpacking plants. Our existing quotas are either too large or are being evaded by imports under different guises. Let us tighten the limits on beef imports by means of a flexible quota based on American consumption.

Among other items which are also of interest to me is broomcorn. We know that consumption of broomcorn is diminishing. This is all the more reason for restricting consumption to corn produced domestically. Yet we find excessive quantities imported from Mexico, beyond the current quota, competing more and more with our own broomcorn. Only a quota, based on consumption, can safeguard this American industry.

Other items also should be reduced by absolute quotas, based on consumption. I feel that congressional sentiment is strong for import quotas, especially if excessive imports threaten to harm a domestic industry producing like or competitive products.

Again, I would like to thank the members of this committee, and Chairman Mills, for this opportunity to express my views on this important subject. I have only touched briefly on the various areas of

concern to my constituents, and I am sure each industry will present testimony which will be more detailed. Thank you.

The CHAIRMAN. Thank you again, Mr. Walker, for your statement. Congressman McClure, our colleague from Idaho, is our next witness. Welcome, Mr. McClure, it is good to have you with us today.

STATEMENT OF HON. JAMES A. McCLURE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO

Mr. MCCLURE. Mr. Chairman, I appreciate the opportunity to submit this statement on trade problems as they affect the First District of Idaho and to congratulate you and the members of your committee for conducting such an exhaustive study on a matter of deep concern to many Americans today.

Trade means many things to many people. It is a diplomatic tool to the State Department official. The economist views it from a theoretical standpoint. To the average citizen it can often be a matter of survival.

In my district, miners, farmers, and ranchers have all felt the sting of foreign competition as well as the hopelessness that an unconcerned government can bring. These people are not advocates of straight protectionist legislation. After all, we know that our State's economy is in part dependent upon a spirit of reciprocity among the nations of the free world. Wheat exports are a good example of this, peas and lentils are another.

At the same time, they know that many citizens have had a lifetime's productivity completely wiped out because of unrestricted imports. My district is made up of a series of small towns. When miners and farmers feel the pinch of foreign competition, it is usually felt by one and all.

And so, on their behalf, I appeal to you to review the trade policies of our Nation—not from a selfish, one-way street approach, but rather from the vantage point of correcting the injustices that cause the imperfections in an otherwise flourishing economy.

Historically, the lead and zinc mining industry has been one of the major bulwarks in Idaho's economic structure, and my district ranks third in domestic lead production, fourth in zinc. It would be inaccurate to say that lead-zinc producers in my State have not participated in the prosperity enjoyed by the rest of the Nation over the years. However, we must remember that during the steel strike, imports increased. We thought that they would decline after the strike was over. But they didn't and prices were cut $20 per ton. Lead imports in 1967 increased 60 percent over the previous year, and it now appears that they will increase another 60 percent during 1968.

The future for zinc is equally gloomy, because of the increase in the number of smelters in Japan and Europe. World productive capacity is increasing faster than world consumption. And those nations will, of course, look to the United States for their markets.

As Al Teske, secretary of the Idaho Mining Association, said in a letter to the Senate Finance Committee last fall:

> It is obvious that excess world supplies are again seeking and finding an outlet in the domestic market. Lower foreign prices have exerted and are continuing to exert heavy pressure on the domestic price * * *. The situation today is dis-

turbingly reminiscent of the 1950's when the domestic lead-zinc industry was literally driven to the wall by the adverse impact of excessive imports, while endeavoring over more than a decade to utilize any and every administrative remedy that was supposedly available.

Pending before your committee are a number of bills to set up a flexible quota system for lead and zinc. I think the industry is to be congratulated for having taken the initiative in proposing a solution that is fair to American and foreign producers alike.

Turning to agriculture, a few segments of our economy have been so hard hit by the influx of imports as the farm community.

The fears of dairy farmers have actually been enhanced by the administration's actions in this regard. By the middle of 1967, imports had risen to an annual rate of 4 billion pounds and Secretary Freeman was forced to buy over 8 billion pounds of milk equivalent to maintain the support price. Farm organizations were protesting by calling for milk-holding actions, and many of us wondered just how serious the situation would have to get before the administration acted.

Paradoxically, the Attorney General was able to get a Federal restraining order against certain aspects of the milk-holding action 1 day after filing suit, while Secretary Freeman waited months before urging the President to take steps. The President asked the Tariff Commission to study the problem and then imposed an import quota of 1 billion pounds per year. Of course, by then the damage was done, and it was noted by one of our colleagues that dairy imports were equivalent to the production of 6,000 dairy farms with 50 cows each. It just so happens that during this period 6,000 domestic dairy farms went out of existence.

The President's quota did not solve the import problem and so a few days ago, he imposed temporary import quotas on condensed and evaporated milk and cream. While welcome, the President's proclamation just doesn't have the force of law. That which is a "temporary restriction" at the end of June may well be a "terminated restriction" at the end of November. Dairy farmers know this better than anyone else, so they continue to write the Congress begging for help.

In my district, Joe Hall, manager of the Idaho Dairymen's Association says:

> Action by the President during 1967 to curb runaway dairy product importing was badly needed and apparently effective as far as it goes; however, this action falls far short of what is needed. Effective control of the quantity and quality of dairy products imported into this country can only come about through passage of the Dairy Import Act.

And C. M. Carlson, general manager of the Dairymen's Creamery Association, in Caldwell, recently wrote to me as follows:

> We feel it would be most helpful if you would indicate to the Ways and Means Committee that dairy farming and dairy processing are very important to the economy of your district as well as to the entire State of Idaho; and unneeded imports are harmful to this important industry and are adding millions of dollars of unnecessary cost to the price support program as well as draining millions of dollars out of this country at a time when our balance of payments is already in a precarious condition. Existing import controls have been characterized by repeated and flagrant evasion. In order to stop this from continuing, it is indeed very important that the proposed Dairy Import Act be enacted into law.

Those are just two examples of the many letters I have received recently on dairy problems. It is much the same with meat imports.

During 1966 893 million pounds of beef were imported into this country last year the figure rose to 979 million pounds. In the first 4 months of 1968 beef imports rose more than 16 percent over the comparable period in 1967.

Mr. Tom Hovenden has supplied me with a statement by Richard D. Blincoe, president of the Idaho Cattle Feeders Association, in which he says that meat import legislation is necessary in order to "bring economic stability to a basic domestic commodity production program that is essential to the overall prosperity of the United States." His full statement is already before your committee, and I urge that it be read.

George L. Hays, a member of the Idaho Cattlemen's Association, puts the blame squarely on Congress for "failing to put forth enough effort to get the job done." He adds that the cattlemen can no longer endure "24 cent beef calves, 8 percent money, and empty promises."

Mink ranchers have also felt the pinch of foreign imports. Recently I received a petition from hundreds of these ranchers in my district pleading for congressional relief. Their petition reads:

Since mink ranching is an integral part of the agricultural economy of the District and the State, and since the industry has been seriously hurt by excessive imports, we request that you actively support legislation which assures that we will not lose any more of our domestic market to foreign ranchers who pay no taxes here, pay no labor here, contributed nothing to the area, and elect no public officials here, but do take a free ride on the extensive market development which our own ranchers have provided for the past many years.

We are disturbed about the manner in which Congress has allowed our agricultural economy to be sacrificed to obtain concessions from other countries of the world for American industrial products.

They know whereof they speak, for we imported 5,346,551 undressed mink pelts in 1967. By May of 1968, mink imports had risen above the number of pelts imported during the first 5 months last year.

You have before you a statement from the Idaho Beekeepers Association which shows that honey production, like so many other segments of the agricultural community, is in serious trouble, and like the others, most of the problem is directly traceable to foreign competition.

Honey imports come primarily from Central and South America where beekeepers' helpers are paid wages averaging 30 cents a day. The comparable figure in Idaho is around $16 per day.

It may surprise you to learn that many other agricultural crops depend upon honey bees for pollination, and Grant Blake, president of the Idaho Beekeepers Association, predicts that in the foreseeable future there will not be enough honey bees available for this purpose.

Then, there is the matter of textiles. You have heard endless testimony from representatives of this industry, so I need not recite again the struggle for survival that they face today. Woolgrowers in my district share their concern.

The Parma Wool Pool Association, of Parma, Idaho, speaking for 250 woolgrowers, wrote recently.

The economic situation for domestic wool producers is growing more serious each year, with a good part of the reason being the relatively unrestricted wool

imports allowed * * *. Many of our members are being forced out of the wool and lamb business * * *. We appeal to you to enlist your support in further restricting wool imports and in setting up higher tariffs.

Right or wrong, it is Congress that is being taken to task for letting our trade policies literally destroy many American industries. The letters I have quoted are representative of hundreds of others that have come into my office during the past year. Recently, they have taken on a tone of despair, of the hopelessness that comes when a just cause has been abandoned. Let me quote from one more letter which arrived in my office only 3 weeks ago. It is from a farmer who lives near Weiser, Idaho. This is what he says:

I attended a meeting at Ontario, Oregon, when a government panel was holding meetings to get opinions from farmers as to what's wrong with family farming. Well, there was lots of suggestions as what could be done to help and what the true facts are. But I don't hear about anything being done by my Government. You see, Mr. McClure, I must face the fact that the government that is supposed to represent me, has gone by the wayside. My government is not interested in the well being of a family farmer. Now, if I was too lazy to work and wouldn't try to help myself, then the Government would help me. Or if I was a poor farmer in some far and distant land, then Uncle Sam would be concerned and want to help * * *. I'm asking for only one thing, and that is a fair chance.

No one as of now knows what the solution to the farm problem really is. But surely we can agree that the best beginning toward finding that solution lies in restoring the confidence of the farmer in his Government. If the administration won't take the necessary steps, then certainly Congress must.

Without meaning to unduly embarrass you, Mr. Chairman, I recall that it has been said you are the second most powerful man in the country today. While there are those who feel such statements actually underestimate your capacities, let me say that you and your committee have an opportunity that is not available to even the most powerful man, the President. For you are in a position to correct his mistakes.

Surely a policy that drives the farmer off of his farm, that puts the miner on the relief rolls, must be a policy that is wrong. An answer must be found that is neither protectionist nor self-defeating. Flexible quotas, in tune to current domestic economic conditions, can and must be drawn, or else the sense of hopelessness that eats into the heart of an Idaho farmer will eventually eat into the hearts of all of us.

The CHAIRMAN. Mr. McClure, thank you for sharing your views with us; any questions?

Our next witness then is Mr. Arthur K. Watson, Chairman of the Emergency Committee for American Trade.

Mr. Watson, we are indeed gratified this morning that you are taking time from what I know is a very busy schedule as the head of a great American corporation to come to us and discuss this matter. We appreciate your doing it and if you will identify those at the table with you we will be glad to recognize you.

STATEMENT OF ARTHUR K. WATSON, CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE; ACCOMPANIED BY WILLIAM BLACKIE, CHAIRMAN, CATERPILLAR TRACTOR CO.; T. A. WILSON, PRESIDENT, BOEING AIRCRAFT; AND ROBERT PURCELL, FINANCE COMMITTEE CHAIRMAN, INTERNATIONAL BASIC ECONOMIC CORP. (IBEC)

Mr. WATSON. Thank you very much, Chairman Mills, for the opportunity for our Emergency Committee for American Trade to appear before your committee. I am backed by a team here of Mr. Robert Purcell on the left, chairman of IBEC, Mr. T. A. Wilson, chairman of the Boeing Co., and Mr. William Blackie, chairman of the Caterpillar Tractor Co., all of whom, if we may, sir, would like to say a word after my statement.

Having introduced my colleagues I think I should say that we have previously submitted a formal statement and would appreciate, Mr. Chairman, your including that statement along with our oral testimony in the record.

The CHAIRMAN. At the conclusion of your oral statements, without objection, they will be included.

Mr. WATSON. Yes, sir. Let me point out, as I did in the formal testimony, that we have not had the opportunity to check our statement with all 53 members of the Emergency Committee for American Trade. A few of our members might take exception to particular portions of it, but I am confident that all concur in its advocacy of freer trade as a policy for the United States and the vast majority in its specific provisions.

Our committee was formed hurriedly last fall when it became apparent that the United States might be tempted to turn its back on commitments so recently made in the Kennedy round and impose restrictions of one kind or another on imports.

The decision to join this committee was not taken lightly nor made casually by any member. Joining meant taking issues with good friends and valued customers in other industries.

Yet in a few months' time 53 companies have come together. Their aggregate exports run into the billions of dollars and these exports provide a substantial number of American jobs.

Furthermore, the income from our foreign investments as well as these exports contribute greatly to our balance of payments. We are, true enough, an association of big companies. Yet if you were to add the thousands of smaller firms who are our suppliers and dealers I think you would find we represent a very broad spectrum of American business. It is worth noting that we continue to expand our membership as others become concerned with the challenge.

What this signifies, I believe, is deep-seated support for the liberal trade policies the United States has pursued successfully for over 30 years. Why jeopardize American jobs, American exports, and overseas earnings which are the results of this policy?

Perhaps our feelings are best summarized in the words of former President Eisenhower who drafted the foreword in a booklet the emergency committee will be distributing shortly. Here is what Gen-

eral Eisenhower wrote just a few days before his recent illness, and I quote:

> United States foreign trade policy since World War II has been successful and consistent. It has succeeded in helping Western Europe, Japan, and North America achieve new levels of prosperity. It is consistent with our confidence in the private enterprise system and in cooperation among nations.
>
> This policy of trade expansion under international rules has also contributed to our goal of a safer, more orderly and more humane world. Trade expansion has made it possible for Western Europe to move toward unity and for poorer nations to benefit from a growing world economy.
>
> All this has been accomplished to the detriment of no nation and to the disadvantage of only a few producers hurt by changes that are familiar and inevitable in a dynamic economy.

Now, despite a commitment to the principle of freer trade, we are not appearing here as freer trade theorists, and I use the term "freer" rather than "free" deliberately.

I am under no illusion that trade can be totally free, nor would I argue that it should be. We are businessmen, not theorists, and we want to deal so far as we can in specifics.

Certainly we are well aware that some American producers are injured by competition from imports and that some of these imports may represent unfair competition. We also know that our own exports are sometimes discriminated against abroad, and I suspect that every member of the emergency committee could name specific examples where the exports of his own company were unfairly treated.

All this, notwithstanding the worldwide movement toward freer trade, has served us well and its reversal, we have not the slightest doubt, would injure us. We testify in our own self-interest, but we believe this self-interest is synonymous with that of the general public.

I want to emphasize this point of injury. Over the course of these hearings you will hear complaints of American manufacturers who feel they are hurt by imports and they will ask for protection of one kind or another. These cases can be made to appear very specific. Dollar figures can be assigned and jobs totaled. In a partial answer to them I want to report some of the general views of an international constituency.

Over the past year I have been president of the International Chamber of Commerce and have traveled over the world meeting with businessmen from other countries. Again and again I have had two things pointed out to me. Businessmen in the developing countries, the same countries we are trying to help with foreign aid, tell me they must have some reasonable access to this vast American market if they are to pay for the myriad of products they want to buy from us.

They need access for products they know how to make. You cannot manufacture a computer or a jet airplane in a small developing country. You may be able to manufacture products that do not require a great deal of capital or technology.

If we now decide to put up more barriers against this type of import we will be undercutting with one hand what our aid program and foreign policy is doing with the other.

There was a second point these businessmen abroad made to me. They told me as politely as they could that any trade barrier we erected would be met with retaliation from their own governments.

Thus, when your committee hears of alleged injury suffered by

American firms because of imports I think it must mentally offset this against the exports we will lose if we reverse our trading policy.

We would be deluding ourselves to think we can raise trade barriers unilaterally without paying a price. I know something of the sentiment of businessmen abroad. They are not going to stand by silently while we build more fences around the American market.

There is a danger, I recognize, in overreacting to foreign sentiment.

Nevertheless, we are dealing now with more than isolated quota legislation or temporary border taxes. We are dealing with the combustible elements of a trade war. Protectionism is not an isolated phenomenon. Business all over the world must now digest the effects of the tariff cuts made during the Kennedy round. There are adjustments and the unknown foreign rival is always more worrisome than the known domestic competitor.

Apprehension is international and it would not take much to tilt the delicate balance against liberal trade. It would not take much more to renew the panicky, mindless wave of protectionism we saw in the 1930's.

If this should ever happen we must recognize that the economic consequences would be bad but the political consequences might be disastrous.

The International Chamber of Commerce has a slogan. It is "World Peace Through World Trade." Like all slogans, it oversimplifies. Yet there is a truth in those words. We cannot confine our thoughts solely to the technicalities of trade or reckon its balance too narrow. Trade certainly is also a technical subject.

In our formal statement we tried to comment on the issues which this distinguished committee must consider. On page 5 of that testimony we have dealt with the question of import taxes, border taxes, and their like. On page 9 we addressed ourselves to the so-called orderly marketing legislation and on page 11 to various quota bills.

I won't repeat those specific comments. Let me just say that our membership carefully considered what the effect of all these measures might be. We considered them carefully because they are advanced by serious men who believe they would be helped by such measures and by many others who believe such legislation would benefit the Nation.

We also considered them carefully in the hope that we could find somewhere through some plan a scheme that would make it possible to reduce imports without paying for that reduction in low exports.

We had to conclude that this panacea has not yet been found. The most enthusiastic exponent of these ideas cannot guarantee you that they won't be met with retaliation. In my considered judgment, based on the conversations with foreign businessmen, they will be met by retaliation.

They will, furthermore, add to our domestic inflation and reduce the competitiveness of American industry abroad, and this we are sure of.

One of my associates will address this issue specifically.

Now, if we are right in our assessment of the situation, the United States does not have the choice of restricting imports and thus helping

the balance of payments, or of expanding exports. We can only point toward expanding exports and the issue, as our committee sees it, is how do we do this.

An important first step is passage of the administration's new trade bill. By giving the President limited negotiating authority on tariffs we will be in a safer bargaining position than we are in today.

By getting rid of the outmoded American selling price system we will have removed what to foreigners is the stock symbol of American protectionism. ASP abroad is like a red flag to a bull. Foreign businessmen, who haven't the slightest idea what ASP is or does, inevitably use it to defend nontariff barriers in their own country.

I am advised that our Kennedy round negotiators received valuable concessions in exchange for ASP. The concessions would not only help our chemical industry export more abroad, but would also give us reductions in nontariff barriers to the export of our automobiles, tobacco, and certain agricultural products.

Now, in further inducement, the Common Market has offered accelerated tariff cuts if we abolish ASP. In Europe, let me admit, I have told businessmen that the Common Market's offer should have been made without strings. It is a time when America could have expected a magnanimous offer without haggling over details.

Instead we have a business proposition—something for something. Here at home I would add that we do have an offer from them and something is better than nothing. We had better do some hard thinking before we let it go by default.

Unfortunately, your hearings occur when our country finds itself uniquely pressured by events. A booming economy at home and a costly war abroad have combined to stimulate imports, to depress the growth of exports, and drain dollars through military expenditures. It is these events rather than any development in the trade picture which give your hearings their special urgency.

For the very same reason I think it is unrealistic to attach too much importance to our trade performance over recent months. If, as we urged in our submitted testimony, the United States controls domestic inflation through spending cuts and tax increases, the pressure we now feel will be relaxed.

This country, let me assure you, has a vigorous and competitive economy. We are competing successfully now. We will continue to compete successfully in the future.

Furthermore, we will compete most effectively with our brains. We will compete with a high wage and a highly educated work force that cannot be matched in this century by any other nation.

I have absolute faith in American business because I have seen both at home and abroad what it can do. Our experience in world markets, however, leads us to the firm recommendation that we begin now to lay the foundations for a fair competition policy that would achieve a substantial degree of commonness in an environment in which intertional business is transacted.

The objective of this policy should be to create a code or series of codes that would establish common norms and standards. Its achievement would allow U.S. industry to further increase its potential in overseas markets.

Let me sum up. We are not here to ask for special favors. We do not want protection for our businesses. We do not want subsidies for our exports. All we need is a sound domestic economy and access to foreign markets. Keep that door open and we can do the rest.

Now let me turn to the other members of the Emergency Committee who are joining me in this testimony, and first of all I would like to introduce Mr. T. A. Wilson, president of the Boeing Co. Mr. Wilson.

STATEMENT OF T. A. WILSON, PRESIDENT, BOEING AIRCRAFT

Mr. WILSON. Thank you, Mr. Watson. Gentlemen of the committee, we appreciate the opportunity to appear before this committee to express the Boeing Co.'s belief in the importance of freer world trade, not just its importance to the commercial jet transport industry, but more importantly to the trade balance of the United States.

We view the expansion of world trade as being vital to the economic well-being of this Nation. Unilateral or more severe import restrictions in our view would invite retaliatory trade restrictions which could seriously injure the United States, its consumers, the economy, and business and labor generally.

With respect to labor, in his statement to this committee on June 4, Secretary Wirtz estimated that 60,000 jobs in the aircraft industry result directly from export business. In our company alone today we conservatively estimate that our foreign sales account for 15,000 of our employees.

Since we subcontract approximately one-half of our work, a comparable number of people would be employed by our subconstractors.

Now, gentlemen, despite foreign government monopolies, subsidies, and other competitive advantages the U.S. commercial jet transport manufacturing industry has sold and delivered to foreign consumers one-third of its total output since the beginning of the jet age in 1958.

Since 1958 these exports have averaged more than $300 million annually. For the last 3 calendar years the average has been more than $500 million annually. The immediate future looks even better. Market forecasters are estimating a foreign market for commercial jet transports averaging $1 billion a year during the next decade.

Conversely, total imports by the U.S. airlines of jet aircraft have totaled $200 million since 1958 to the present time. A remarkable penetration of the world market has been achieved with U.S. manufacturers capturing about 70 percent of the total sales of jets to foreign airlines.

However, the imposition of additional U.S. import barriers could reduce the demand for our products. In the long run such action might further encourage certain foreign countries to support their airplane manufacturing industries in the development of competitive products that could reduce significantly the U.S. share of the world market.

The demand for U.S. jet transports by the world airlines is directly affected by the extend and trend of world trade. It is generally accepted that the ease of long-range travel created by jet aircraft has stimulated and in turn is stimulated by international trade.

Because of the critical status of the country's balance-of-payments position a U.S. Government position reaffirming its support of freer world trade is considered to be most important.

We believe that the United States should continue its lead in demonstrating to the world that free trade is the cornerstone of the economies of free nations. Certainly no country has more to lose from pursuing the dangerous policy of restricting trade than the United States of America.

The simple, yet essential truth, gentlemen, is that companies in the forefront technologically need world markets to remain competitive. Sales in world markets are frequently the difference between high unit cost production of smaller quantities and production sufficient to permit large-quantity economies, and therefore markedly lower costs.

By the same token, this dependence on foreign export markets makes our industry extremely vulnerable to retaliation. Our 60 foreign customers include government and government-controlled entities. As an example, three of the largest are British Overseas Airways Corp., Air France, Lufthansa of West Germany. The first two, BOAC and Air France, are wholly government owned and the third, Lufthansa, is about 75 percent government owned.

In light of such government-airline relationships it would seem likely that should the United States institute trade restrictive actions the governments of the countries affected might be inclined to further support foreign airplane companies whose products presently are not generally competitive with those in the United States.

Thank you, gentlemen, for the opportunity to express our views to this committee.

Mr. WATSON. Now, if I may, gentlemen, I would like to present Mr. William Blackie, chairman of the Caterpillar Tractor Co.

STATEMENT OF WILLIAM BLACKIE, CHAIRMAN, CATERPILLAR TRACTOR CO.

Mr. BLACKIE. Good morning, gentlemen. I would like to support the position of the Emergency Committee by appealing for protection, protection of the jobs of millions of Americans who earn their living through all the U.S. manufacturing and commercial processes involved in exportation.

In total, I am informed that such employees far exceed any number that could possibly be harmed by any increase in imports, and I presume that one of the important objectives of our trade policy should be net advantage to us in terms of employment.

Using my own employer, Caterpillar Tractor Co., only for pragmatic illustrative purposes, we expect our exports this year to exceed $500 million and hopefully to make a contribution of about that amount to the U.S. balance of payments.

That will be about one-third of our total sales. On the basis of U.S. employment of more than 48,000 we estimate that about 15,000 of our American people owe their jobs to these exports. I might perhaps interject here the information that the greater proportion of our work force is engaged in Illinois, and it is no coincidence that Caterpillar is both the largest employer and the largest exporter in that State.

Other employment is located at our plants in California, Iowa, Ohio, Pennsylvania, and Wisconsin. In a footnote digression it might not be wholly inappropriate to mention that $500 million is roughly one-half of the adverse balance of trade for the entire U.S. steel industry.

When that industry decries the paucity of its exports it generally seems to overlook the fact that Caterpillar, and steel users like it, are in effect its export department. These results have been attained gradually over a number of years and we believe we can carry them forward, provided that in addition to the hazards at home we are not handicapped by a reduction of opportunity to sell to other countries by reason of restrictions imposed by their governments.

In every developed country, just as in ours, there are industries that would rather operate under the shelter of some form of protection than face up to the rigors of open competition, and again just as in our country, these industries are looking for every possible opportunity to justify a claim for protection from their external competitors.

Not unexpectedly the arguments offered in support of their claims are not the same as those advanced here—full employment, defense essentiality, balance-of-payments betterment, et cetera. To be sure, none can claim harm from cheap American labor.

Instead they claim to be the suffering victims of the technological gap between U.S. industry and theirs.

They want, in effect, to be protected from our skills, from those proficiencies which have made it possible for American industry to pay higher wages and still be competitively effective in world markets.

Among the opportunities which could be created for such claims by foreign industries and for responsive actions by their governments would be any action on the part of our Government to restrict their imports into this country.

After years of multilateral reciprocity and a progressive expansion of international trade we would be faced with a variety of unilateral retaliatory measures leading to a regressive restriction of both international trade and international competition.

In the beginning, the battle would be fought on the ground of price. But price is only one of the elements in the competitive discipline. In the long run, it is likely to be superseded by the more important element of innovation, of invention, of ideas. Could it be entirely accident or coincidence that in American industry today those exports which are contributing so gratifyingly to our balance of trade and payments are for the most part being made by industries which, on the one hand, have had little or no protection from foreign competition and, on the other hand, have produced a disproportionately large contribution of innovation and enterprise?

Gentlemen, in any competitive situation the way of wisdom is to avoid creation of conditions under which one would lose.

In my judgment, we cannot retreat our way out of our present predicaments. With your help we can continue to move forward expanding our employment, increasing our tax base, strengthening the value of our dollar, and contributing more than ever to the welfare of this troubled world in which we hold such a responsible leadership position.

I thank you.

Mr. WATSON. Now, I would like to introduce once again Mr. Robert Purcell, chairman of the International Basic Economy Corp.; since some of your earlier witnesses have attached special importance to the question of job displacement, Mr. Purcell wants especially to address this topic.

STATEMENT OF ROBERT PURCELL, CHAIRMAN, INTERNATIONAL BASIC ECONOMY CORP.

Mr. PURCELL. Mr. Chairman, my name is Robert Purcell. I am a member of the Emergency Committee for American Trade. In the past several years I have been officially connected with the International Basic Economy Corp., successively as president, chairman of the board, and most recently chairman of the finance committee.

This corporation is engaged in a number of business activities specifically designed in part to contribute to the economic development of less-developed countries on a private enterprise basis.

To that end we have business activities in some 18 countries which are classified as less developed and, therefore, support the objective of aid in line with our Government's official foreign policy.

Through this network of business organizations we are in close contact with these countries' business leaders, professional men, political leaders, and others engaged in all walks of life. The first point I wish to make this morning is that the people in these less-developed countries view with great alarm any move by the Government of the United States which will tend to decrease world trade and the ability of these countries to participate in it.

They frankly fail to comprehend any policy of the United States which, while giving financial aid to them on the one hand will, on the other, impair their ability to export their products through world trading channels to the United States.

They point out that when other industrialized countries retaliate against U.S. protectionism by erecting trade barriers of their own, then their export trade would be adversely affected elsewhere in the world.

I submit, Mr. Chairman, that the adoption here of protectionist measures would be a sad step backward in our continuing endeavors to maintain good relations between this country and the developing nations of the world.

The second and final point I wish to make this morning, Mr. Chairman, relates to the question that is frequently used to arouse the emotions; namely, the effect of imports on jobs.

It has been argued frequently and vigorously that American industry needs protection against imports so that our people will not lose their jobs. We all understand the seriousness of such a charge, but I must say that this argument sounds a bit strange today considering that the national unemployment rate is now down to 3½ percent, that experienced wage and salary workers have an unemployment rate of 3.2 percent, and that unemployment among married men is down to the extremely low level of 1.6 percent.

We have, in fact, a situation that has edged beyond full employment toward one of overemployment, and the resulting labor shortages are a significant force behind the current inflationary problem. This is not to deny that high-unemployment rates continue to exist in certain areas and among certain groups in our economy.

Everyone is aware that there is considerable unemployment among the young, among Negroes, in depressed areas, and in the ghettos. The question at issue, however, is whether or not import quotas or similar devices will actually improve the employment situation for these people.

We find no evidence that it will. If we are to solve the unemployment problem that now exists in various pockets in our economy, the tools used are going to have to be the kind that can be applied directly to the problem where it exists.

General tools like import quotas covering entire industries will not do this job and will give us more inflation.

Furthermore, it is erroneous to think that industries or even particular enterprises protected by quotas will provide real solutions to the problems of unemployment and poverty.

What they would do is trap people in low-paying jobs and virtually guarantee continuation of their status as low-wage workers.

In 1966, in testimony presented to a subcommittee of the House Education and Labor Committee, the job displacement argument was offered in a slightly different form by the Trade Relations Council.

It was based on a computer analysis of data on employment, imports, and exports for certain U.S. industries. A key table in that analysis covered 35 industries, all of them at the relatively small four-digit standard industrial classification code level.

The 35 industries were allegedly labor intensive. All 35 showed a decline in employment from the average for 1958–60 to 1964, and all showed an increase in net imports over those same years.

The implication was plain. Imports were presumedly causing the decline in employment and the decline was said to be particularly bad because labor-intensive industries offer many of the beginning jobs for people with low skills. The 35 industries involved had lost a little over 200,000 jobs over the period invôlved.

About three-fourths of this loss was concentrated in nine of the 35 industries. Our economists examined these nine industries. Our analysis showed that most of the jobs involved were lost because of rising productivity in the industries involved. Imports had nothing to do with the loss of most of these jobs.

It is true that imports exceeded exports by a greater margin in 1964 than in the base period 1958 to 1960 in every one of the nine industries examined, but the rise in net imports accounted for only a small fraction of the actual decline in jobs.

In footwear, where the job decline due to imports was greatest, 3,450 out of 12,764 production-worker jobs lost could be traced to imports. However, in sawmills and planing mills only 2,053 out of 42,133 could be traced to imports, and in bakery products only 117 production worker jobs out of a total of 18,713 jobs lost could be attributed to imports.

The implication that imports caused most of the job loss is erroneous. While the loss of even one job can be a personal tragedy, even this must be offset against the 2.9 million American jobs based on exports which are a hazard when we consider restrictive trade legislation and the retaliation it would provoke.

One last point is worth making about the nine industries that were analyzed. Bringing the statistics up to date so that they apply to the period 1964 to 1966, six of these industries actually showed employment increases and the others showed a reduced rate of job loss. Details of our analyses are available if the committee would like to pursue this question further.

I wish to thank you for this opportunity to present my views.

The CHAIRMAN. You will make the analysis available to the committee, will you please, sir?

Mr. PURCELL. Yes, indeed, Mr. Chairman.

(The material referred to follows:)

A CRITIQUE OF THE TRADE RELATIONS COUNCIL'S ANALYSIS OF CERTAIN 1958/60–1964 DECLINES IN EMPLOYMENT

INTRODUCTION

On October 12, 1966 a statement was submitted to the General Subcommittee on Labor, House of Representatives reporting the results of a computerized study of the impact of imports on employment. The study involved was made under the auspices of the Trade Relations Council of the U.S. Table 15 of the submitted statement was the critical one, showing as it did a 208,700 decline in employment in 35 manufacturing industries between 1958/60 and 1964. The 35 industries involved are labor-intensive in character, and it was inferred that they are as a consequence particularly subject to declines in employment due to rising imports.

Since 9 of the 35 industries involved in the Trade Relations Council's study accounted for the bulk of the reported decline in employment (87%), an analysis was made of the causes of the decrease in jobs in these 9 industries. This analysis indicates that practically all of the declines were due to a rise in productivity between 1958/60 and 1964, and only a minor portion to a rise in net imports. Furthermore, the experience of these industries between 1964 and 1966 (the latest year for which the necessary data are available), was also analyzed. During those years, 6 of these industries showed an increase in employment. These increases were largely due to the fact that increases in total values added, principally because of sales increases, were more than sufficient to offset the effects of rising productivity.

THE ANALYSIS

A set of tables is attached. The tables contain the raw materials for the analysis.

Table 1 compares the employment losses reported in the Trade Relations Council's analysis which was based on preliminary data. This critique uses the final data released by the Census Bureau. The general pattern remains the same.

Table 2 compares the revised data on total job losses for the nine industries we have analyzed with the losses in production worker jobs. Since production workers account for such a large percentage of total workers in these industries, any conclusions reached about the loss in production worker jobs would apply as well to total employment decreases. This is important because our analysis of job loss due to productivity gains had to be done for production workers only. Data are not available to do the analysis for all employees.

Table 3 is the focal one of the critique. It shows the real decrease in production worker jobs due to a net rise in imports 1958/60–1964, and how much of the decrease was actually due to rising productivity. The job loss due to the rise in net imports was computed as follows:

(a) For each industry exports were subtracted from imports for 1958/60 and 1964. The result is net imports. The increase from 1958/60 to 1964 is the rise in net imports. (Data for this computation was drawn from Table 15 of the statement submitted to the House General Subcommittee on Labor.)

(b) The ratio of shipments to value added by manufacture in 1964 was computed. This ratio was applied to the rise in net imports to get the implied value added. (The rise in net imports in effect replaced a similar amount of domestic shipments. This has to be converted into the equivalent value added because the number of jobs involved is a function of the amount of value added involved.)

(c) Using hours worked per year by production workers in 1964, and production worker value added per man-hour in 1964, the value added equivalent of the rise in net imports was converted into the number of production worker jobs involved.

Table 4 carries the analysis from 1964 through 1966. Generally it shows a much brighter job picture in this more recent period. In 6 industries total value added rose by more than enough to offset the effects of rising productivity and the change in annual hours worked. These industries showed employment in-

creases. In the other industries, the job losses were small relative to those in 1958/60–1964. The general strong expansion of the economy during 1964–66 is undoubtedly a large part of the explanation.

CONCLUSION

The statement submitted to the House General Subcommittee on Labor on October 12, 1966 incorrectly implies that the job losses in the 9 industries we have analyzed were largely due to import increases. Productivity increases were mainly responsible. Moreovver, the 1964–66 rise in the economy improved the employment situation in all nine industries.

TABLE 1.—COMPARISON OF EMPLOYMENT LOSS DATA, 1958–60 TO 1964

[In thousands]

Industry	Stewart document	Latest data
Sawmills, planing mills	−49.6	−44.9
Hats and caps	−9.0	−8.8
Electron tubes	−16.8	−16.7
Footwear	−15.6	−15.3
Cotton broad fabrics	−38.4	−42.4
Wooden containers	−9.3	−8.0
Hosiery	−12.3	−12.3
Bakery products	−23.8	−27.2
Bricks, structural clay products	−6.2	−6.3
Total	[1]−181.0	−181.9

[1] Represents 87 percent of the employment loss of 208,700 reported for 35 industries, table 15, of statement submitted by the Trade Relations Council to the House General Subcommittee on Labor, Oct. 12, 1966.

TABLE 2.—TOTAL EMPLOYMENT LOSS VERSUS PRODUCTION WORKER EMPLOYMENT LOSS, 1958–60 TO 1964

Industry	Total	Production worker	Production worker as percent of total
Sawmills, planing mills	−44,892	−42,133	94
Hats and caps	−8,845	−8,299	94
Electron tubes	−16,715	−14,494	87
Footwear	−15,311	−12,764	83
Cotton broad fabrics	−42,414	−39,442	93
Wooden containers	−8,025	−6,986	87
Hosiery	−12,329	−11,308	92
Bakery products	−27,151	−18,713	69
Bricks, structural clay products	−6,278	−6,032	96

TABLE 3.—ANALYSIS OF DECLINE IN PRODUCTION WORKER JOBS, 1958–60 TO 1964

Industry	Total decline in production worker jobs	Decline due to rising productivity, change in annual hours of work	Decline due to rise in net imports
Sawmills, planing mills	−42,133	−40,080	−2,053
Hats and caps	−8,299	−7,753	−546
Electron tubes	−14,494	−14,095	−399
Footwear	−12,764	−9,314	−3,450
Cotton broad fabrics	−39,442	−38,004	−1,438
Wooden containers	−6,986	−6,847	−139
Hosiery	−11,308	−11,111	−197
Bakery products	−18,713	−18,596	−117
Bricks, structural clay products	−6,032	−5,921	−111

TABLE 4.—THE EFFECT ON PRODUCTION WORKER JOBS OF CHANGING PRODUCTIVITY[1] AND TOTAL VALUE ADDED, 1964–66

Industry	Loss of production worker jobs due to higher value added per man-hour and change in hours worked per year, 1964–66	Change in jobs due to change in total value added	Total change in number of production worker jobs
Sawmills, planing mills	−7,433	+6,433	−1,000
Hats and caps	+1,631	−6,831	−5,200
Electron tubes	−5,644	+22,771	+17,127
Footwear	−13,327	+18,189	+4,862
Cotton broad fabrics	−35,877	+32,961	−2,916
Wooden containers	−4,760	+6,577	+1,817
Hosiery	−9,455	+13,445	+3,990
Bakery products	−9,511	+10,708	+1,197
Bricks, structural clay products	−512	+603	+91

[1] Based upon value added per production worker man-hour.

APPENDIX

Table 5 of this appendix shows the rise in value added per production worker man-hour 1958/60—1964 (productivity). It also shows the decrease in production worker jobs caused by this rise in productivity plus any change that occurred in annual hours worked. This decrease was *larger* than the actual job loss in 6 of the industries. These industries had a rise in *total* value added. In those industries with a fall in total value added the job loss was made even greater. (The job losses shown in the middle column of Table 5 represent the decreased number of workers needed to produce 1958/60 value added using 1964 production worker value added and average number of hours worked per year.)

The final column in Table 5 is the actual job loss. It is explained by the job loss due to rising productivity (middle column), plus the job change caused by the increase or decrease in total value added.

Tables 6, 7, and 8 provide some additional information on changes in value added and job lossess due to imports for the 9 industries we have analyzed.

TABLE 5.—THE EFFECT OF THE RISE IN VALUE ADDED PER PRODUCTION WORKER MAN-HOUR (PRODUCTIVITY) ON PRODUCTION WORKER EMPLOYMENT 1958–60 AND 1964

Industry	Value added per production worker man-hour		Loss of production worker jobs due to higher value added per man-hour and change in hours, worker per year	Change in jobs due to change in total value added	Total change in number of jobs
	1958–60	1964			
Sawmills, planing mills	$3.09	$4.12	−68,728	+26,595	−42,133
Hats and caps	3.51	3.87	−3,780	−4,519	−8,299
Electron tubes	5.85	7.62	−13,682	−812	−14,494
Footwear	3.22	3.85	−38,722	+25,958	−12,764
Cotton broad fabrics	2.89	3.62	−65,400	+25,958	−39,442
Wooden containers	2.73	3.24	−5,640	−1,346	−6,986
Hosiery	2.80	3.25	−15,516	+4,208	−11,308
Bakery products	7.51	9.27	−38,818	+20,105	−18,713
Bricks, structural clay products	3.89	5.06	−11,075	+5,043	−6,032

TABLE 6.—VALUE ADDED BY MANUFACTURE

[In millions of dollars]

Industry	1958–60	1964	1966
Sawmills, planing mills	1,472.7	1,693.0	1,748.3
Hats and caps	211.7	179.4	133.6
Electron tubes	569.1	556.7	968.1
Footwear	1,205.9	1,392.4	1,532.8
Cotton broad fabrics	1,556.7	1,757.1	2,059.2
Wooden containers	182.9	174.2	225.9
Hosiery	488.8	514.4	606.5
Bakery products	2,754.5	3,148.2	3,371.1
Bricks, structural clay products	316.7	371.1	377.7

TABLE 7.—VALUE ADDED PER PRODUCTION WORKER MAN-HOUR

Industry	1958–60	1964	1966
Sawmills, planing mills	$3.09	$4.12	$4.32
Hats and caps	3.51	3.87	3.71
Electron tubes	5.85	7.62	8.77
Footwear	3.22	3.85	4.13
Cotton broad fabrics	2.89	3.59	4.23
Wooden containers	2.73	3.24	3.82
Hosiery	2.80	3.25	3.63
Bakery products	7.51	9.27	10.11
Bricks, structural clay products	3.89	5.06	5.20

TABLE 8.—PRODUCTION WORKER JOB LOSS DUE TO RISE IN NET IMPORTS 1958/60 TO 1964

[Dollar amounts in millions]

	Change in net imports	Implied change in value added per production worker	Implied loss in production worker jobs [1]
Sawmills, planing mills	−$37.4	−$17.0	−2,053
Hats and caps	−7.0	−3.9	−546
Electron tubes	−9.4	−6.1	−399
Footwear	−44.6	−24.8	−3,450
Cotton broad fabrics	−26.0	−11.1	−1,438
Wooden containers	−2.2	−0.9	−139
Hosiery	−2.6	−1.2	−197
Bakery products	−4.2	−2.3	−117
Bricks, structural clay products	−1.8	−1.2	−111

[1] The value added amounts implied by the rise in net imports were computed using the ratio of total value added to total shipments in each industry. These value added amounts were converted into production worker employment as follows: (1) 1964 production worker value added per man-hour was multiplied by the average annual number of man-hours per production workers in 1964. This gave value added per production worker per year in 1964. (2) The value added implied in the rise in net imports was divided by the resulting value added per production worker per year in 1964. This gave the number of production workers needed in 1964 to produce the value added implied by the rise in net imports.

The CHAIRMAN. Would it be possible for you to give us the names of the nine industries you refer to?

Mr. PURCELL. Yes, indeed.

The CHAIRMAN. It is in the statement?

Mr. PURCELL. Yes. The nine industries are sawmills and planing mills, hats and caps, electron tubes, footwear, cotton broad fabrics, wooden containers, hosiery, bakery products, and bricks and structural clay products.

Frankly, I am a little mystified, Mr. Chairman, how many bricks we import because we can't carry bricks too far before the transportation cost makes importation or transportation uneconomic, but that is one of the industries which it is claimed is affected by imports.

(Mr. Watson's prepared statement follows:)

STATEMENT OF ARTHUR K. WATSON, CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Chairman Mills and members of the Committee, my colleagues and I are pleased to testify here today on behalf of the Emergency Committee for American Trade. With me are Mr. William Blackie, Chairman of the Caterpillar Tractor Company, Mr. T. I. Wilson, President of Boeing Aircraft, and Mr. Robert Purcell, Chairman of the International Basic Economy Corporation. I am Chairman of the Board of IBM World Trade Corporation and am speaking today also as Chairman of the Emergency Committee, and I am also currently serving as President of the International Chamber of Commerce.

As its name suggests, the Emergency Committee was formed in response to the serious threat which has recently been posed to the 34-year-old reciprocal trade agreements program. Our 53 members represent major segments of the manufacturing, banking, merchandising and publishing sectors of the American economy. We did not have time enough to obtain the approval of every member for this statement. We do believe that the views expressed herein accurately express the consensus of our Committee. They are based on public statements agreed to by members and on continuing communications with them.

We have joined together in the Emergency Committee—and we are here today—because of our conviction, as businessmen, that a substantial and growing volume of two-way trade, based on reciprocity, is essential to the economic health of the United States. We are not free trade theorists. We recognize that some American producers may be facing unfair competition from imports and that some American exporters, including members of the Emergency Committee, are being discriminated against in foreign markets. We recognize also that the Ways and Means Committee is concerned, properly so, about the decline in the U.S. trade balance.

We hope to deal with these and related issues straightforwardly and practically. We believe that they can be resolved within the tested framework of a multilateral trading system and an expanding world economy.

I want to make it clear at the outset that our companies have a tangible economic stake, amounting to many billions of dollars annually, in this system. We believe that for American industry trade means increased sales, profits, and lower unit costs . . . that it means job opportunities for our workers, who are among the best-paid in the United States and therefore in the world . . . that trade is a spur to the technological advancement on which America's economic progress so heavily depends.

While we are here frankly to defend our own economic interests, we believe that the national interest is likewise identified with a liberal trade policy. Parenthetically, I might say that it is regrettable in some respects that the reciprocal trade agreements program has come to be known as a "liberal" trade policy. This is an adjective that may lose as many votes as it wins. The important thing is that the reciprocal trade agreements program is entirely consistent with the principles of the Free Enterprise market economy, and it should commend itself to the economic conservative no less than to the political liberal.

The members of the Emergency Committee are convinced, on the basis of practical experience, that two-way international trade is a powerful engine of economic growth. We have witnessed the effect in our own companies and industries.

For example, among the members of the Emergency Committee are the nation's largest aircraft makers. Boeing, McDonnell, Douglas, Lockheed and United Aircraft. One member company, Lockheed Aircraft Corporation, exported $249.3 million worth of products in 1967 and imported only $13 million. It employed an estimated 8,000 to 10,000 employees in export business that year.

Overall, jet aircraft and parts are one of the nation's largest exports, totaling $921 million in 1967, up from the total of $226 million of five years earlier. In his statement to this Committee on June 4, Secretary Wirtz estimated that 60,000 jobs in the aircraft industry result from this export business.

The simple yet essential truth, Mr. Chairman, is that for many major industries sales in the world market are frequently the difference between high cost production and production sufficient to permit achievement of scale economies, and, therefore, markedly lower costs. The aircraft industry is but one example of an industry that would be unable to achieve economies of scale without access to international markets.

By the same token, however, this dependence on foreign export markets makes their industry very vulnerable to retailiation. Our customers are often governments or government-controlled entities. If we damage our trading partners, they can turn elsewhere for their purchases.

My own corporation has a vital stake in world trade. IBM exported $222.9 million worth of products in 1967, compared to $84.9 million in 1963. IBM's total net contribution to the U.S. balance of payments was $353.6 million in 1967. It is very difficult to estimate the employment resulting from these exports. But we do export parts and equipment from plants in all parts of the country.

THE BALANCE OF PAYMENTS AND TRADE POLICY

As businessmen and responsible citizens, we are greatly concerned with the weakening trade balance and with our recurrent balance of payments deficits.

An essential question for public policy is whether in light of a declining trade surplus we should continue the trade policy that seeks liberalization of barriers to trade, or whether we should reverse that policy by imposing import restrictions such as the quota proposals before the Congress, or special import taxes.

The business community firmly believes that the most feasible answer to the balance of trade problem is reduction of the size of the federal deficit, both by cutting expenditures and by raising taxes. These steps are fundamental if we are to control domestic inflation and thus temper the economic forces that on the one hand have made imports more attractive to consumers and more necessary for the economy, and on the other hand have made U.S. exports less competitive in the world market.

We believe that an overwhelming majority of the nation's businessmen want enactment of the expenditure cut/tax increase package fashioned by the House-Senate conference. It is *the* essential step needed to help restore our trade surplus, help restore confidence in the dollar, and improve international monetary stability.

Domestic price stability is clearly important if U.S. industry is to remain competitive world-wide.

SPECIAL IMPORT TAXES

Direct measures have been suggested as necessary to improve the payments balance by improving the balance of trade. Some advocate that the United States impose special restrictions on imports. Others have recommended a special import surcharge—some a border tax on imports with a corresponding rebate on exports.

The proposal most widely discussed as a "corrective" for a payments deficit is a flat percentage surcharge on imports. The surcharge level most frequently discussed is 10 percentage points. Thus, if the duty on commodity X is currently 5%, a 10% tariff surcharge would bring the total duty up to 15%—an increase of major significance.

The overwhelming majority of the Emergency Committee for American Trade is opposed to a tariff surcharge. An important reason is the harmful economic effect of raising costs in an economy that is striving to remain internationally competitive. Exports would fall because of higher component costs. Ironically, there is also the possibility of increased imports of products made with cheaper foreign raw materials. A surcharge would also mean higher prices to U.S. consumers at a time when many American families are already suffering the effects of inflation.

Finally, there is the problem of foreign countermeasures. It is very likely that other countries would follow with their own special import taxes, thereby lowering the level of international trade but with no net advantage to the U.S. trade account.

Many of the same disadvantages would attach to a 2% border tax/export rebate, which has also been suggested as a balance of payments remedy and, more particularly, as a basis from which the United States could begin to negotiate removal of other countries' border taxes.

This is a most complex issue, having to do with theories of taxation and the rules of the GATT. As this Committee knows, GATT rules permit indirect turnover taxes on domestic production to be rebated when goods are exported, and permit an equivalent tax to be levied on imported goods. Under these same GATT rules, the U.S. uses the same border tax and rebate system to reflect our own manufacturers' excise taxes, such as those on tires and tubes at our border.

When the border tax system was conceived in 1947, it was considered an "equalization" tax, based on a theory that indirect taxes are passed on to consumers. The theory of taxation on which the border tax system was based is now widely challenged. It appears obvious that indirect taxes are not all passed to the consumer. In whole or part they may be absorbed by sellers. It appears equally obvious that direct corporate taxes, on which the U.S. heavily relies, are not completely absorbed by corporations, as the theory held, but may to varying degrees be passed on to consumers in higher prices.

U.S. negotiators have recently opened talks in GATT to obtain changes in the border tax. We believe this is the best course of action at this time. It is difficult to expect that a 2% charge on imports and a 2% rebate on exports, such as had reportedly been proposed within the Treasury, would produce any real impact on our balance of trade. Although a program of rebate would mean cash in hand to our members, we understand that many of our major trading partners could legally justify additional border taxes should the U.S. choose this course of action. Such a course, even though to our own immediate advantage, would in the end be self-defeating.

Neither do we think that a border tax or a tariff surcharge are needed for bargaining reasons, even were our trading partners to accept such measures without retaliation. There are existing remedies in U.S. law for inequities against some American firms and industries. The countervailing duty law provides protection against foreign imports that are subsidized. Section 337 of the Tariff Act of 1930 is intended to provide a recourse for those firms that suffer because foreign firms and their U.S. agents or distributors are violating our anti-trust laws. We have treaties of Friendship, Commerce and Navigation with most countries, treaties that provide that unfair trade practices, and discrimination in other matters such as investment, shall be removed. We have an anti-dumping law designed to curb the selling of foreign goods in this market at prices below those in the home market of the exporter. A national security provision in the 1962 trade act provides for an investigative procedure and special import protection when a sound case of national defense essentially is made. We further have in the 1962 trade act an escape clause and adjustment assistance procedure. Finally, we have the provisions of the General Agreement on Tariffs and Trade, rules that give us rights to take action against foreign trade practices that violates our rights. No doubt these mechanisms can and should be employed more vigorously. But we submit, Mr. Chairman, that they provide a very strong basis for protecting ourselves from injurious foreign practices that are felt by our businessmen both here and abroad.

Mr. Chairman, what concerns us as businessmen about both types of special import charge is not only the likely harmful impact on our trade, but, equally, the impact of an international trade "war" on U.S. business operations overseas. It is vitally important to this country that the climate for U.S. foreign investments be as healthy as possible.

The profits of American owned businesses abroad strengthen American firms and the American economy. These foreign business operations are in a sense the hostages of foreign governments. They operate under host country laws, and they depend on a favorable business climate in those countries. Foreign hostility toward American firms would be one of the first results of a trade war started by this country. There are a number of ways in which this hostility could be expressed—none of which would be helpful. I have in mind such devices as government taxes and licensing policies that could be used to discriminate against existing and prospective U.S. investments.

The diminishing strength of the balance of trade is a serious problem. Putting our own domestic economy in order is the overriding corrective measure. Other measures such as vigorous diplomatic representations on behalf of U.S. interests are in order. The offer of sixteen of our major trading partners to accelerate their Kennedy Round tariff cuts has been encouraged by our Committee in direct contacts with overseas business organizations. While the present offer is conditional on certain U.S. actions that may prove unacceptable, it is in the right direction of multilateral solutions to domestic problems.

"ORDERLY MARKETING" AND "EQUITABLE TRADE"

The nation's balance of payments problem and the weakness of the trade account have been used by the proponents of trade restriction as a compelling reason for the more usual types of trade restriction. In a time of balance of payments crisis, national economic policy should help create a more competitive domestic economy. Proposals for import "ceilings" and quotas are inherently anti-competitive devices, the opposite of the type of measure that should be taken.

For these general reasons, the Emergency Committee for American Trade objects very strongly to the restrictive trade formulae in what are called "orderly marketing" or "equitable trade" bills. A notable example of these, H.R. 16936, would automatically impose quantitative import limitations on the basis of simple arithmetic formulae. In effect, this "omnibus" approach to import restriction employs the quota device, but in a disguised form. Without prior proof of injury to domestic industry, import ceilings would be imposed based on rates of growth of imports, variously calculated, over varying time periods, and in different regional markets.

The application of these formulae would be an administrative nightmare. Experience with the operation of present import quotas, on cotton, textiles, oil and sugar, and the like has proved the difficulty of administering an import quota program and the impossibility of fairly allocating the quota among different domestic consumers and foreign suppliers.

Perhaps the greatest danger of the "omnibus" quota, or "equitable" trade approach is its rhetorical appeal. Its proponents argue that, in contrast to an inflexible quota, the "ceiling" approach would permit imports an assured growth as rapid as that of domestic consumption of particular products. They would hope to put aside the possibility of foreign retaliation by claiming that the ceilings would not actually "cut back" imports, but that they would merely allow "equitable" growth in tune with the rest of the market.

These arguments on their face sound reasonable and fair. But such market control devices have no precedent in the domestic economy, and they should not. As American businessmen, we believe that the so called orderly trade approach to competition and the marketplace is the antithesis of the competitive philosophy and attitudes that have made this economy the richest and most progressive in the world.

QUOTAS

A major concern of the Emergency Committee are the many quota proposals now before Congress. It is not possible to explore here the problems of each commodity for which there is a quota proposed. Invariably, each case for protection from foreign competition has different characteristics and causes.

Some firms or even industries may have some major problems which make them vulnerable to import competition. We do not ignore factors that make import competition unfair and disruptive. Our purpose is to find ways to make adjustment to competition easier, and to remove unfair trade practices, either through the application of existing statutes, the creation of new statutes, or by changes in, or creation of, new international rules.

The Emergency Committee's view is that quotas are a negative, self-defeating form of response both to problems of competition and to problems of unfair trade practices. By their nature, quotas reduce incentives to modernize, to cut costs, to increase productivity and output—the essential underpinnings of our high standard of living and wages. These forces would be weakened behind a shield of government restrictions which operate as subsidies. In the long run, our economic growth and high standards of living depend on the ability of efficient industries to compete in our own and in world markets, and we believe that trade legislation and policy should be directed to this objective.

Mr. Chairman, I have visited Europe several times in recent months, as well as Latin America. The leading businessmen I talked to in each country are all concerned with our balance of payments problem and with the prospect of trade restrictions here. To a man, however, they believe that restrictive actions by the United States would initiate a competitive series of restrictions in their own countries, with everyone a loser and no one a winner.

LOW-WAGE IMPORTS

Let me touch on employment. Some sophisticated exponents of import protection, using a computer analysis, have attempted to demonstrate a direct causal

relationship between imports and labor displacement between 1958/60 and 1964, particularly in what are called low-wage industries. At this point in our statement I will state only that our own analysis shows that rising productivity was a much more important cause of the loss of jobs in these industries than was the rise in net imports. Furthermore, from 1964 to 1966 six of the nine industries which are claimed to have suffered most from import competition actually showed increases in employment because of a vigorous rise in their sales.

We are prepared to discuss this in more detail.

OBJECTIVES FOR AMERICAN TRADE POLICY

As a general objective, we believe that the continuing thrust of U.S. trade policy must be reciprocally and progressively to reduce trade barriers of all kinds. Though the Kennedy Round succeeded in reducing the average tariff levels of most major industrial countries to quite low levels, many high rates remain to be dismantled.

But tariff reductions should no longer be the principal objective of trade policy. That objective must be a new effort to document and progressively eliminate "other-than-tariff" barriers to trade. These barriers, along with the traditional tariffs and quotas, can both impede trade and greatly distort trade patterns.

FAIR COMPETITION POLICY

Our experience in world markets leads us to the firm recommendation that we begin now to lay the foundations for a "fair competition policy" that would achieve a substantial degree of commonness in the environment in which international business is transacted. The objective of this policy should be to create a code or series of codes that would establish common norms and standards.

The new International Antidumping Code is an example of the type of international agreement that I have in mind. Without attempting to judge the technical question of whether or not the U.S. antidumping law and the International Code are in conflict, we believe that the Code is a positive step forward and indicates the direction towards which policy should aim.

STRENGTHENING THE CONDUCT OF U.S. FOREIGN ECONOMIC POLICY

If the United States is to cope fully with trade problems and is to be able to effectively encourage creation of a world program for fair economic competition, thought should be given to improved administrative mechanisms for the conduct of trade and related foreign economic policies. A minimum requirement is to make permanent the Office of the Special Representative for Trade Negotiations and to strengthen its ability to handle the many complex foreign trade and commercial issues that daily confront it. Beyond this, we suggest that this country begin to plan for eventual creation of a foreign economic policy agency with Cabinet status.

We suggest that the Ways and Means Committee give thought to this proposal in framing new legislation.

ADMINISTRATION TRADE BILL

The proposed 1968 Trade Expansion Act is necessary at this time for a number of reasons. The so-called "housekeeping" authority it contains will simply allow the President to use the tariff cutting authority left over from the 1962 Trade Expansion Act to conduct properly the nation's commercial relations. It would also give the President the bargaining power he might need to conduct negotiations to correct special problems arising between the United States and one or several of its trading partners. It is our understanding that the Administration has no intentions or plans to enter into any broad-scale tariff negotiations should the housekeeping authority be granted.

A major problem of the Kennedy Round was the American Selling Price (ASP) system of customs valuation, a system which permits duties on four kinds of imports to be based on the U.S. price of the competitive product, rather than the actual price of the import itself. Though essentially it is a technical problem of import valuation, ASP is a choice example of a non-tariff barrier to trade. Administration spokesmen have discussed at length the nature of the ASP system, and spokesmen for those who oppose change in the present system will no doubt exhaustively explore the technical aspects of this method of customs valuation in days to come.

We can only make some general observations here. First, in my post as President of the International Chamber of Commerce, I talk regularly with business men abroad. I have been deeply impressed by the extent to which foreign businessmen see the American Selling Price system as a major impediment to trade relations, as a symbol of the difficulty of competing in the American market. I am convinced that the American Selling Price, unless modified to conform to the standard methods of valuing imports, will impede further meaningful progress in removing foreign non-tariff barriers, and creating conditions of fair competition in world trade by eliminating restrictive business practices.

It is very difficult for one group of businessmen to suggest remedies for another. We do not wish to be in that position, and would merely rest our comments about ASP on these thoughts: uniformity of commercial practice is a particularly desirable objective in international business; the ASP system itself has outlived the conditions that made it desirable in 1922 as a measure to encourage development of the then "infant" benzenoid chemical industry; ASP stands in the way of really meaningful future liberalization of world trade through removal of the other-than-tariff restrictive trade practices of other countries.

The proposed trade bill would also authorize annual appropriations to finance the U.S. contribution to the budget of the General Agreement on Tariffs and Trade. We support this proposal, because we believe that in any meaningful effort to establish uniform world competition rules the General Agreement on Tariffs and Trade would likely be the principal instrument through which to achieve this objective.

CONCLUSION

We have tried to demonstrate the nature of our economic stake in a freer trade policy. We believe that restrictions such as quotas and orderly marketing ceilings are unwarranted and inconsistent with a free enterprise economic system. We believe that the balance of trade problem must be met by fundamental U.S. economic policy measures, rather than by measures of external control. We are convinced that any advantage the United States attempts to gain through restrictionist schemes will be more than wiped out by retaliation from our trading partners.

For the future, we recommend that a policy of fair competition in world trade be formulated and implemented appropriately, and that primarily in this way problems of unfair foreign trade practices be corrected. The President's trade proposals would be a first step forward.

The CHAIRMAN. Mr. Watson, does that conclude your testimony?

Mr. WATSON. Yes, Mr. Chairman, that does conclude our testimony and we thank you, sir, for your attention.

The CHAIRMAN. We thank all of you for taking time from your busy schedules to come and advise with us on this matter. Are there any questions of the group?

Mr. BUSH. Mr. Chairman.

The CHAIRMAN. Mr. Bush.

Mr. BUSH. Mr. Watson, in the testimony given, you talk about fear of retaliation. Many feel that there has already been retaliation. I know Mr. Blackie's company well. I used to be in the offshore drilling business and I bought many of those big expensive cats, the two-thirds that come from the people that are buying your products at home, and my company would go overseas to try to do business. We did a lot of business overseas. We are competing because of the uniqueness of our know-how and suddenly we find great barriers overseas to our participation.

I have to sell a half interest to someone who wants to do business.

By the way, I am no longer in the offshore drilling business.

My question is aren't we correct in assuming that, if you can sell a Ford Falcon in Japan for $5,700 and a Toyota sells in Japan for $1,700 there already is retaliation and aren't we trying to adjust?

Isn't the problem now to adjust for the retaliation that has already taken place?

Mr. WATSON. Yes, Congressman Bush, I think we have to face the fact that—I don't like to call it retaliation. I would rather say there are barriers, and the particular country you spoke about has definite barriers. They have barriers in my industry and they have barriers in every industry.

It is further complicated by the fact that they will also export a comparable automobile, say, from Japan to Venezuela as an example, a car comparable to a Ford Falcon or Chevy II, let's say, and inevitably they will undersell the competition by $500.

In this case, in my own judgment, I believe you have to go to Japan on a very high level in a face-to-face encounter, government to government, and just point out the problem clearly, and ask for solutions. We in our committee have had, within the last several weeks, meetings with the leading Japanese business association. We pointed out very clearly that they can't any longer have those barriers that have been in existence for Lord knows how long.

Mr. BUSH. What have they done about it?

Mr. WATSON. I think now they are waking up. I think there was a period when they wanted to get their economy going. That period is probably over, and I think the GATT rules can certainly be one way to begin correcting these practices.

I think we have to face these problems and face them squarely. These things exist, but I think we, in our positions as businessmen engaged in international business, feel we have to attack them, and when we fail we have to call on the Government to help us; but we are fighting very hard, and I think we are having some success.

Mr. BUSH. One more question, Mr. Chairman. In the conclusion of your formal printed statement you said that the answer lies not in our retaliation or not in duties or imports controls, something like that, but rather in fundamental U.S. economic policy measures.

One of you gentlemen referred to the tax bill and the spending. I believe you did, Mr. Watson. What other fundamental U.S. economic policy measures were you referring to in your statement on page 17?

Mr. WATSON. I think our main emphasis there was on generally sound fiscal and monetary policies. That is what we were referring to, primarily.

Mr. BUSH. And you would consider this legislation that we will consider next week on taxes and spending cuts as a fundamental part of this.

Mr. WATSON. Absolutely. We could knock some of these barriers down, particularly those in Europe, if the Europeans suddenly saw we meant business insofar as controlling our inflation and getting back to some fundamental principles.

Mr. BUSH. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Watson, there is equal concern abroad too, that we improve our balance-of-payments situation, I am told. Is that right?

Mr. WATSON. Yes, sir, there certainly is, and I think that again goes to the tax spending cuts situation and that is why we who are engaged in both manufacturing abroad and exporting abroad are so anxious to keep the barriers here down so we can push these exports.

I don't like to quote my own company's figures but I am proud of the fact that in the last 5 years we have contributed over a billion dol-

lars to the net improvement in the balance of payments and I hope if everything goes all right this year that we are going to end up by having close to $400 million.

We are sort of having a neck and neck race with Bill Blackie. Some day we hope to catch up with him.

The CHAIRMAN. I wouldn't rely too confidently upon just the package that we will consider in the House next week as a cureall for our balance-of-payments problem. I hope you don't put too much confidence in it.

I think other things will have to be done as well.

Mr. WATSON. No question, sir, and I think that one of the other things to be done is that we simply have to push our exports all we can. I think the recent narrowing of the gap in the trade balance is a worrisome thing. Yet given the opportunity, and if more barriers go up, I think the international business community of the United States can do the job.

The CHAIRMAN. But there must be some reevaluation and reassessment by Government itself if it is to make a major contribution to the balance-of-payments problem as I see it.

Would you agree?

Mr. WATSON. I would, sir.

The CHAIRMAN. It takes all you can do in American business and all we can do in every sector except Government to offset the damage that is done by Government in our balance of payments.

Would you agree?

Mr. WATSON. I couldn't agree with you more.

The CHAIRMAN. That is why I feel we need to make some basic reevaluation of some of our existing commitments.

Mr. WATSON. If I may, Mr. Chairman, as a private citizen, one of the real reevaluations that has always seemed to me should have a high priority—and I know that I am treading on dangerous ground and that one can get into trouble for saying this, but I believe it—is I think we ought to reexamine what we are doing in Europe.

I don't think we can carry the whole world on our backs continually. It seems to me that a policy of having occupying troops abroad more than 25 years after the end of hostilities, in an entirely new ballgame, needs reassessment.

The CHAIRMAN. Off the record completely.

(Discussion off the record.)

The CHAIRMAN. Mr. Bush.

Mr. BUSH. Mr. Watson, does your committee feel that we ought to have a favorable balance or do you feel that we ought to have a balance in our international trade? On the statement you made earlier, you have to buy to sell, you know, this is fundamental and I think we all agree with it, but if you were calling all the shots and you three or four gentlemen could mold it in any way in a utopian fashion would you want a favorable balance in this country or would you want a balance of trade?

Mr. WATSON. I would like to get the balance first. Then our own objective, of course, is to have a favorable balance, and I think we have the ability to do it.

Mr. BUSH. But your committee would be united in that we ought to sell more abroad than we get in from them? That would be the national goal and the national purpose?

Mr. WATSON. Well, I can't really speak for our 53 members.

Mr. BUSH. No; I understand.

Mr. WATSON. I can speak for myself and I hope, and I think, they would agree with me. I think the real matter is that this whole question of balance is tied up with competition. It is my fundamental belief, and I have seen it happen, that the United State of America is a high quality manufacturing outfit. We are second to none in our skills. Therefore, given the right trade climate, and given a continuation of this interchange between ourselves and our trading partners, with the quality of our products we can get to a favorable balance, and we aim to get there.

The CHAIRMAN. Any further questions?

Again we thank you, gentlemen, all of you, for coming to the committee.

Mr. WATSON. Thank you very much.

(The following material was received by the committee:)

MEMORANDUM FROM REPRESENTATIVE THOMAS B. CURTIS, OF MISSOURI, TO THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

The table cited by Mr. Abel in his testimony to the Committee was drawn from the Senate Finance Committee's *Steel Import Study*, page 69, table 31. Table 31 attempts to more accurately measure total steel export-import trade by *including the value of steel exported and imported in the form of end-use items.* The total trade balance presented by this table, which was compiled by the American Iron and Steel Institute, shows a deficit of $496 million in total direct and indirect steel trade.

But I wondered if this table should be qualified by factors explained in the *Steel Import Study* itself. For example, in addition to inserting with his testimony table 31, Mr. Abel might have for completeness included reference to the chart shown on the following page of the Senate Finance Study which follows as Appendix L. This chart, Chart 32 on page 70, reveals a $6 billion surplus (in 1966) in trade of end-use items containing steel. Thus, if the adverse balance of trade in direct steel products alone of $1 billion (this figure includes an additional 10% added to the value of imports to represent cost, insurance, and freight and subtracts from exports the amount of AID-financed steel shipments) was combined with the $6 billion favorable balance resulting from trade in products containing steel, the result is a favorable balance of trade in 1966 for steel and products made from steel of $5 billion.

I wondered also if the value of the direct steel imports might not have been overvalued by 10% to represent the c.i.f. costs (the standard measurement of value of U.S. imports is the "export value", which does not include these costs), and if by eliminating AID-financed exports the Table presented by Mr. Abel might be incomplete.

The Senate Finance Committee Report itself qualified the information in the Table presented by Mr. Abel, noting the difficulty of estimating the steel content of end products made of steel. According to the *Steel Import Study*, page 68, "the data on foreign trade are not well adapted to the job of estimating steel content; there are vast categories of machinery and equipment items represented only by value data and with no corresponding unit figures. Even if unit data were available, the average steel content is unknown without a bill of material for each type of machinery." Furthermore, shipping weights of such manufactured items are not necessarily representative of steel content. An automobile contains hundreds of pounds of other materials.

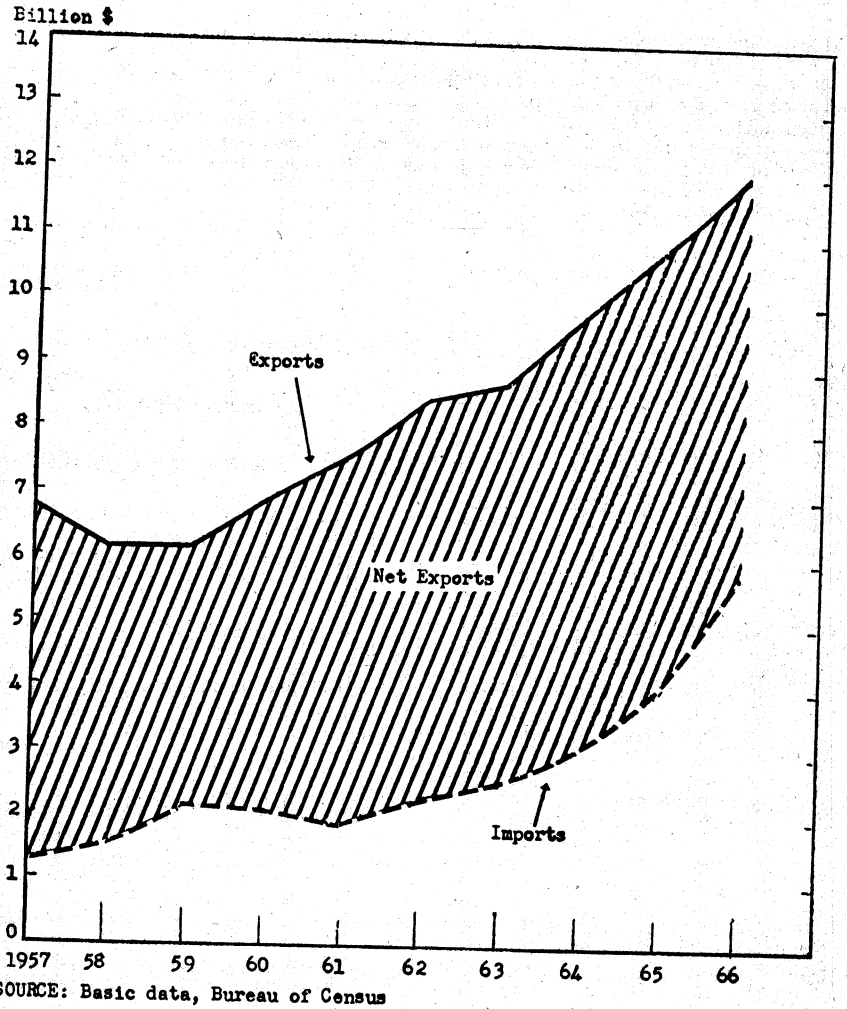
Finally I feel it is very difficult to measure the *value* of the steel contained in these exports. For example, one large exporter informs me that they pay considerably more than the average steel price used in the estimates presented in Mr. Abel's Table. This is because their machinery exports contain many forgings and castings, special alloys and heat treated steel, as well as special sections, non-standard specifications, and special sizes. Thus the value assigned to the steel in Mr. Abel's table would seem to be too low at least for one major type of steel exporting industry.

I wonder if it is not also appropriate to give special consideration here to the fact that end-use items made from steel—such as machinery, transport equip-

ment, and many kinds of fabricated metal products—which make up the backbone of our exports of manufactured goods, contain a great deal of additional American labor in high wage industries. Some of these workers in fact are members of the United States Steel Workers of America.

Finally, I wonder if the Table presented by Mr. Abel doesn't have problems in its attempt to calculate a balance of trade simply for the steel contained in end-use products. This is because no business is transacted in the *steel* contained in end-use items. Obviously, it is the end-use items themselves which flow in world trade. In selling these items, too, much more is sold than the steel contained in them. Perhaps more importantly, United States exporters of steel-containing end-use items sell value added by labor—high skill, high wage labor—engineering, research and development and very high amounts of human capital in the form of management and marketing skills.

Value of U. S. Foreign Trade in End-Use Items Containing Steel, 1957-1966



SOURCE: Basic data, Bureau of Census
U.S. Department of Commerce, Office of Business Economics

CHART 32

PROBLEMS OF MEASURING STEEL EXPORT-IMPORT TRADE

COMMENTS OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE ON QUESTIONS AND COMMENTS BY MR. CURTIS

1. Why is the value of imports adjusted from an f.o.b. to a c.i.f. basis on the indirect import and export table published in Dr. Weidenhammer's report, page 69?

The value of imports should not be adjusted to reflect c.i.f. costs. We are not measuring the cost to the economy of imported steel mill products, instead we are trying to measure the value of the imported steel itself. To include c.i.f. costs distorts the value of the imports, so that the comparison of the imports with the value of steel exports is an unequal comparison, a comparison as it were of apples and pears.

2. Why are steel product exports shown less AID-financed exports?

AID-financed exports are probably mostly non-competitive exports. They might not all exist without AID financing. Nonetheless the American steel industry is paid for these sales to overseas users. These sales represent jobs and income, they are not a gift. For this reason they should probably be included in a balance of trade statistic for steel.

3. Why was $150 per ton used as the average price in estimating the value of steel contained in indirect exports?

Estimating the actual value of the steel contained in indirect steel exports is probably impossible to do accurately. The market assigns value to the *product*, not simply to the amount of steel contained in it. Nonetheless, it is clear that the steel in most of steel-containing exports is highly up-valued by additional processing and labor, both at the steel mill and by subsequent fabricators and processors. Such up-valuing can take many forms. But the cost of the steel in the finished export surely does not equal a mill steel cost of the basic steel. After it leaves the mill it is, whether ordinary carbon steel or very highly upgraded specialty steel, not used in its ex-mill form, but considerably increased in value, perhaps by independent processors or by the final users themselves.

(The following letter was received, for the record, by the committee:)

LINCOLN & STEWART,
Washington, D.C., July 12, 1968.

Hon. WILBUR D. MILLS,
Chairman, Ways and Means Committee, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. MILLS: On June 14, 1968, Messrs. Arthur K. Watson and Robert W. Purcell testified before the Committee on Ways and Means on behalf of "The Emergency Committee for American Trade." Mr. Purcell referred in his testimony to information presented by me to the General Subcommittee on Labor, Committee on Education and Labor, House of Representatives, in 1966 concerning bills to amend Section 4(e) of the Fair Labor Standards Act.

Unfortunately, Mr. Purcell's reference to my testimony in his statement, and an accompanying memorandum entitled "A Critique of the Trade Relations Council's Analysis of Certain 1958/60–1964 Declines in Employment," which he stated he made available to the Committee, are seriously misleading. In the interests of having the record of your hearing clear on the point raised by Mr. Purcell, I make this response and ask that it be placed into the record of your Committee's hearings immediately following Mr. Purcell's testimony.

As the printed hearings of the General Subcommittee on Labor, referred to above, clearly show, I presented a series of 15 tables of data in support of my testimony before that Subcommittee. In addition, we presented to that Subcommittee a voluminous report entitled *Employment, Output, and Foreign Trade of U.S. Manufacturing Industries, 1958–1964/65* which contained nearly 400 pages of tables and analyses. Because of the size of that study, it was not possible for it to be reprinted in the record of the hearings of the Subcommittee, but it is part of the official file of the Subcommittee.

These tables and the analysis which accompanied them were concerned with an examination from a variety of points of view of the economic trends in employment, output, and foreign trade of American industries. The technique employed was to group selected industries at the 4-digit level of the Standard Industrial Classification in accordance with various selection criteria and to offer the results of the tabulations of such selected groupings as possibly contributing to an understanding of the overall foreign trade problems affecting American industries.

Mr. Purcell chose to select one of this large group of tables for comment in his testimony. It was the last (Table 15) of the tables submitted for the record in support of my testimony. It presented data for industries that had sustained both an absolute loss of employment and an absolute decline in balance of trade during the period 1958–1960 compared with 1964.

In presenting the table, I called attention to the rapid rise of imports (44.7%), the slight increase in exports (6.2%), the sharp decline in the balance of trade (88.8%), compared with the slender growth in the domestic market over that span of years (7.2%).

One of the consequences of the relatively static growth in the domestic market was an absolute loss of some 209,000 jobs for the 35 industries included in the group being analyzed. The disproportionate increase of imports versus exports was a contributing factor to this decline, but I certainly never claimed that the entire job loss was due to the import rise. Nevertheless, Mr. Purcell sought in his testimony before your Committee to put such a claim in my mouth retroactively, stating that "imports were presumably causing the decline in employment." Mr. Purcell's memorandum of analysis submitted to the Committee stated that this one table "was the critical one," though no claim or representation to that effect was made by me.

The superficiality of Mr. Purcell's analysis is shown by the fact that in another table submitted to the General Subcommittee on Labor in support of my testimony I did indeed undertake directly to measure the job loss due to adverse foreign trade trends in selected manufacturing industries. This presentation is made in Table 1, the first of the series of 15 tables presented by me.

Table 1 includes some but not all of the industries which are the subject of the entirely separate analysis presented in Table 15. Had Mr. Purcell desired to evaluate the true extent of the representations which I made as to actual or potential job loss due to adverse foreign trade developments on manufacturing industries, he should have used Table 1 which dealt with that subject rather than Table 15 which did not.

In point of fact, my estimates of job loss were not greatly different from those reached by Mr. Purcell for those particular industries which he lifted out of my Table 15 or his further analysis. As an example, for the "footwear" industry (SIC 3141, 3142) the results of my analysis presented in Table 1 of my testimony to the General Subcommittee on Labor indicated that the job equivalent of the foreign trade shift in the products of that industry was a —4,460. Mr. Purcell's analysis concedes that the decline due to the rise in net imports was 3,450 jobs.

Another example is the industry producing wooden containers (SIC 2441, 2442, 2443, 2445) in which my Table 1, undertaking a direct measurement of the job equivalent of the adverse foreign trade shift, indicates a net job loss of 195 compared to Mr. Purcell's estimate of 139.

A third example is the hosiery industry (SIC 2251, 2252). Table 1 supporting my testimony to the General Subcommittee on Labor measured the job equivalent of the foreign trade shift in that industry as —265 jobs. Mr. Purcell's analysis shows a decline in jobs due to the rise in net imports of 197.

The point of this discussion is that Mr. Purcell chose for his so-called "analysis" a table which had nothing whatever to do with a direct measurement of job loss due to adverse foreign trade trends, and, therefore, that his analysis proves nothing. Had he wished to present a critique of my methods of measuring direct job losses due to adverse foreign trade developments, the testimony which he used as his misdirected example did in fact include as the very first table (Table 1) precisely this type of analysis, which he chose to ignore. I can only conclude that he ignored it because the measurement of job loss which I made in Table 1 is in the same general "ball park" of the measurement of the job losses which his own methodology showed for those industries which fortuitously were included in both Table 15 and Table 1.

Mr. Purcell enjoyed nationwide publicity for his attack on the data of the Trade Relations Council, as the attached clipping from the front page of the *Journal of Commerce* for June 20, 1968, evidences. It is most unfortunate that Mr. Purcell's unfair and misleading analysis would have gained such national attention, being directed to testimony and data which were not even before your Committee and misrepresenting the significance of the data and failing to deal directly with the subject matter which he purported to analyze as well.

So that the members of your Committee and the Committee's staff and others who choose to use the printed record of your hearings may have both sides of the issues raised by Mr. Purcell, I respectfully request that this letter be included in the record of your hearings.

In the testimony presented to your Committee on behalf of the Trade Relations Council by Mr. James M. Ashley, the Chairman of its Board, there was provided at Appendix Table X a measurement of the net employment effect of foreign trade developments affecting 144 U.S. manufacturing industries with a balance of trade deficit in the year 1966. At Appendix Table XI, a similar measurement was presented for selected industries with special potential for employment of the poverty-stricken.

The methodology used in making these measurements is similar to that which Mr. Purcell employs in his so-called "critique" and "analysis." The significant matter from the Committee's point of view is that Mr. Purcell made no attempt to address his analysis directly to that portion of the Trade Relations Council's data which was concerned with a direct measurement of job loss due to foreign trade, either as submitted to the Committee on Ways and Means (and, previously on May 13, 1968, to the Trade Information Committee of the Executive Branch), or as submitted two years ago to the General Subcommittee on Labor.

Mr. Purcell's "critique" serves only to confirm the validity of the general methodology which I employed in those tables which I have presented on the public record undertaking a direct measurement of the loss of jobs due to foreign trade. I trust that this letter will serve to set the record straight.

Sincerely yours,

EUGENE L. STEWART.

[From Journal of Commerce, June 20, 1968]

WORLD TRADE—DEBATE OVER JOB LOSS AND IMPORTS GROWS AS FREE TRADE GROUP CHALENGES PROTECTIONIST THEORIES

WASHINGTON.—The emotional issue of jobs and imports figures very large in the great trade debate now going on in the House Ways and Means Committee.

It has a new dimension today because of the country's social unrest, as "poor people" march for employment opportunity. It has a direct relation to the daily headlines and a personal impact as none other in international trade discussions.

Nearly two years ago, the Trade Relations Council—an apparently well-heeled business group which leans toward the notion that a number of our industries need a lot more import protection—unveiled a mammoth statistical study relating imports to employment.

The central conclusion was that imports are hitting hardest those industries with the largest number of workers per output—the so-called labor intensive sectors. Now, the question is being asked, how can the government help provide the millions of new jobs economists say must be created, if our policy is to invite in more foreign goods.

COUNTER ANALYSIS

But along comes the Emergency Committee for American Trade (ECAT), which seems at least able to match TRC's resources. ECAT, numbering such as IBM and GM, carries the banner for fairer, but also freer, international trade.

It put a team of economists to work on the TRC computerized study. The result was a slightly astounding reinterpretation of the original conclusion.

Rising productivity, not imports, was by far the bigger factor in those job losses TRC cited, says ECAT.

The counter-analysis is done in four short pages, plus eight relatively simple statistical tables. It focuses on the nine industries which TRC had said suffered the largest job losses from foreign competition.

They are saw mills, hats and caps, electron tubes, footwear, cotton broad fabrics, wooden containers, hosiery, bakery products, and bricks and structural clay products.

TRC's study, done at Georgetown University, showed how in 1964 employment was down from the 1958–60 average. The declines were heaviest in saw mills (39.6 percent), cotton broad fabrics (38.4 percent). bakery products (23.8 percent) and electron tubes (16.7 percent).

STUDY LIMITED

The ECAT team, for lack of complete data, limits its analysis to production workers, but it probably can be assumed that this is where the overwhelming job loss occurred.

In any event, this is a sample of what was found. In the saw-mills, less than 5 percent of production worker layoffs were due to imports, and over 95 percent ascribed to productivity gains and working hour changes. Approximately the same was true in cotton broad fabrics.

Among bakery producers, imports were even less of a factor—about 1 percent. They were only a 3 percent factor in job displacement in the electron tube industry.

Footwear, of the nine sectors, was where imports had the biggest impact. ECAT's analysts report that while rising productivity brought about 75 percent of the industry's layoffs, imports contributed 25 percent, or one out of every four jobs lost.

Changes in the hours worked had only minor effect, ECAT notes.

ONE STEP FURTHER

The international business group went one step further, updating employment data in the nine industries through 1966. It reveals that jobs in six of the nine increased since 1964, the comparison year TRC used. The most marked expansion was in electron tubes with good gains in footwear and hosiery. The three industries showing further jobs declines were sawmills, hats and caps, and cotton broad fabrics.

But frankly, both studies leave us wondering. What about factors like market growth and competition from other domestic products? Don't they also influence the job equation?

This January, President Johnson asked for a few hundred thousaind dollars to make a comprehensive study on the effect of foreign trade (both imports and exports) on U.S. employment. It seems unlikely, however, he will get the funds. The House has slashed the special trade representative's budget too deeply.

It's a shame. Obviously, this study is sorely needed to provide the best answers possible to this perhaps most important of foreign trade policy issues, especially at a time when U.S. policy is being put under the microscope.

The CHAIRMAN. Mr. Mundt. Mr. Mundt, if you will identify yourself for our record we will be glad to recognize you, sir.

STATEMENT OF JOHN C. MUNDT, VICE CHAIRMAN, CEMENT INDUSTRY ANTIDUMPING COMMITTEE, ACCOMPANIED BY DONALD HISS, COUNSEL

Mr. MUNDT. My name is John C. Mundt. I am vice chairman of the Cement Industry Antidumping Committee and senior vice president, marketing and public affairs, for the Lone Star Cement Corp.

I should like to introduce Mr. Donald Hiss, a partner of Covington & Burling, counsel to our committee, Mr. Chairman.

The CHAIRMAN. We appreciate having both of you with us this morning and if you have to omit any parts of your statement, Mr. Mundt, in cooperating with our schedule, do so with the knowledge that all of the statement will appear in the record.

Mr. MUNDT. We intend to proceed in that way, Mr. Chairman. There will not be time to read a 30-page statement and we will discuss the pertinent portions of the statement with you.

Our committee represents 90 percent of the rated cement capacity in the United States. It consists of 34 companies producing portland cement in this country. We have had some very bad experience, Mr. Chairman, in the past with dumped cement from other countries. In the period from 1958 to 1965 members of our industry were compelled to file 19 complaints under the Antidumping Act of 1921.

The Treasury found reason to suspect dumping in 14 of these cases and in four of them antidumping duties were actually imposed on cement from Sweden, Belgium, Portugal, and the Dominican Repub-

lic. We are concerned that when the Vietnam war is over and ocean bottoms become more available and demand increases with the construction activities that must take place these foreign countries will again attempt to dump their excess capacity of cement in this country.

So it is against this past history of established cement dumping and with this future ahead of us that a new problem appears and gives us great concern and that is the International Antidumping Code.

As you know, the code has been negotiated by the executive branch. Congress has not been asked to nor has it given its consent or concurrence. The code and the new regulations are scheduled to go into effect on July 1.

The CHAIRMAN. Let me interrupt you at that point. I don't normally do this, but I hope you will discuss with us whether there is in your opinion existing statutory authority for our country to engage in a multilateral agreement involving antidumping and a program such as that to which you are speaking.

Mr. MUNDT. I think we will come to that, Mr. Chairman. We do think that there is authority, provided Congress consents, because there is the Antidumping Act of 1921 now on the statute books.

The CHAIRMAN. Is there any place in law authority for the executive department to engage in an agreement involving antidumping which is contrary to the act of 1921?

Mr. MUNDT. I would like Mr. Hiss to answer that.

Mr. HISS. Mr. Chairman, there is so such authority.

The CHAIRMAN. I hadn't found it. Go ahead.

Mr. MUNDT. We are convinced that under this International Antidumping Code it is going to be easier to introduce dumped cement into this country, so it is because of this concern that we are here today and have filed this 30-page statement with you.

The statement consists of nine very thorough sections. These are listed on page 2 of our statement. Because of this July 1 deadline, Mr. Chairman and members of the committee, we are suggesting and asking that this statement of ours be placed pretty high on your reading list.

We also want to suggest that if you have not done so you request a copy of the report of the Tariff Commission recently to the Senate Finance Committee and we believe that a reading of our statement and report of the Tariff Commission will indicate the urgency of action by this committee and the Congress on this subject.

There are two matters that I would like to just mention briefly as preliminary points and that do not go to the thrust of our main argument.

The first point concerns the relationship of this subject of dumping to the negotiations that were concluded. At page 4 of our statement I will read just a few sentences:

> The cement industry's position in the trade area is concerned only with the unfair trade practice of dumping and has no impact or relation to the Kennedy round tariff concessions.
>
> The cement industry's position does not involve any pending quota or tariff proposals. The cement industry does not seek increased tariffs on cement, nor does it seek quota relief. In fact, the industry has never sought to restrict the entry of imports into this market.
>
> The industry's concern with the unfair trade practice of dumping is only to insure that import competition is subject to the same standards of fair trade that are observed by U.S. industries under the antitrust laws.

The second point I would like to make is that we don't see that there would be any real problem if this July 1 date is postponed insofar as our relationship is concerned with the other trading nations and the nations with whom we recently negotiated.

Canada has not yet approved this International Antdumping Code either. We have no information of any bill that has been presented to the Canadian Parliament providing for such approval. The Canadian Parliament is now dissolved pending elections later this month. So we don't feel that there would be any embarrassment to the United States if the July 1 date is postponed.

To introduce the matters about which we are fundamentally concerned here, let me just read the conclusion of our statement submitted today.

The cement industry antidumping committee strongly urges that this committee take positive action to postpone the July 1 effective date of the International Antidumping Code, and to report out favorably House Concurrent Resolution 447. The code is in fundamental conflict with the Antidumping Act of 1921, and would severely weaken and emasculate the act.

I am reading from page 29 in case any of you are following it.

The cement industry, which has suffered serious injury from dumping in the past, would be effectively barred from relief under the code. Moreover, the implementation of the code in this country would constitute an usurpation of congressional authority by the executive. Implementation would also lead to administrative chaos as the Treasury and the Tariff Commission have taken contradictory positions.

Hence, action by this committee is vital if U.S. industries are to be able to compete free of the unfair trade practice of dumping—a practice condemned by Congress for over 50 years and condemned by all major trading nations as well.

Now, permit me to acquaint you with these matters in more detail. It is the position of the cement industry that there is a serious and vital substantive conflict between the code and the act requiring congressional approval of the code before it is permitted to go into effect.

This was also the conclusion of the Tariff Commission in the report to the Senate Finance Committee and you will recall one sentence in that report. "The code," and I am quoting from the Tariff Commission, "no matter what are the obligations undertaken by the United States thereunder, internationally cannot, standing alone without legislative implementation, alter the provisions of the Antidumping Act."

Of the many areas of difference between the act of 1921 and the proposed code let me review three of the basic areas of conflict.

The first area of conflict involves the injury standards under the code and under the act. Here close attention to just a few words in both of these documents is important.

The injury provisions of the act under which we have been operating require the Tariff Commission to determine, and I am now quoting, "whether an industry in the United States is being or is likely to be injured."

The injury provisions of the code require a showing, and I am quoting again, "that the dumped imports are demonstrably the principal cause of material injury."

So you see that the code requires a different and much higher standard of proof.

Now, there has been testimony before this committee already regarding the major cause test for adjustment assistance under the Trade Expansion Act of 1962. The President himself in his message to Congress has described this major cause test as too rigid, too technical, and too complicated.

In this connection I would like to read another short excerpt from our statement at page 16.

In his statement on July 11, 1967, to the Subcommittee on Foreign Economic Policy of the Joint Economic Committee of Congress, Ambassador William Roth described the difficulties of the "major cause" test of the 1962 act as follows, and I am now quoting from Ambassador Roth:

> Unfortunately, however, the adjustment assistance provisions have not had the expected beneficial effect, because in practice the present test of eligibility to apply for the assistance has proved too strict. In fact, in no case brought under the act have any firms or workers been able to prove eligibility.
>
> The present test of eligibility requires (1) that tariff concessions be shown to be the major cause of increased imports and (2) that such increased imports be shown to be the major cause of injury to the petitioner.
>
> In the complex environment of our modern economy, a variety of factors affect the productive capacity and competitiveness of American producers, making it virtually impossible to single out increased imports as the major cause of injury.

Mr. Chairman, we submit that if the major cause test is too rigid under the Trade Expansion Act the principal cause test is too rigid under the Antidumping Code. Consider the practical application for just a minute of these words in the market place.

In the northeastern cement dumping cases there were several factors that affected the declining prices. One was a widening gap between supply and demand. Another was the actual decrease in the consumption of cement. The Tariff Commission took judicial notice of these factors but it found that dumped cement was nevertheless an important contributing cause to the price break in the northeast that followed 1960.

Under the act the cement industry in these cases was able to obtain relief but under the code we would have had to show and would have been unable to show that the dumped cement import from Sweden, Belgium, Portugal, and the Dominican Republic were demonstrably the principal cause of material injury, so we object to this code since as a practical matter of proof it would deprive us of a just remedy.

The second area of conflict between the act and the code we wish to mention involves industry standards.

Under the act the Tariff Commission has used definitions of "market" on a regional basis where appropriate and it has also used as a basis large metropolitan seaboard markets. This accords with the realities of the cement business because we are a series of regional markets.

There is no such thing as a national market for cement because of transportation costs. Under the code regional markets may be considered only in exceptional circumstances and are very narrowly defined.

The code permits consideration of a regional market only where the producers within such a market sell "all or almost all" of their production in that market and there is injury to "all or almost all" of the producers in the regional market, and I was quoting from the code.

As a marketing man I can't think of a single import area in the United States that would meet the code's definition of a regional market for the future.

Now consider the application of these words again to the cement marketplace. In the Belgian case one of the markets under consideration was the southeast Florida market consisting of Palm Beach and Broward County together with metropolitan Miami.

Neither of the two domestic cement producers in that case sold all or almost all of their production in southeast Florida. They had plants elsewhere in the United States.

Under the code they would not have been entitled to relief even though the dumped Belgian cement accounted for as much as 13 percent of the market at one point.

The code simply doesn't take into account the facts of the marketplace.

The third area of conflict involves the question of Treasury versus Tariff Commission functions. In 1954 Congress amended the Antidumping Act in order to transfer the injury determination exclusively over to the Tariff Commission.

The code by executive agreement would give the Treasury certain responsibilities now to make certain injury determinations. It boils down to this.

The administration seeks by unilateral action to take responsibilities from an arm of the legislative branch, the Tariff Commission, and give them to an arm of the executive branch, the Treasury.

Congress has not consented to this change. Yet this will become operative July 1 unless the committee or the Congress stops it. These are, we feel, major and substantive areas of conflict between the code and the act.

In the report of the Tariff Commission it was stated very clearly that in the four cases in which we obtained antidumping duties under the act had the code been in effect the results of the cases would have been otherwise.

I might say that our counsel, Covington & Burling, have reviewed this report. They concur with the report and tell us that we would not have obtained relief in these cases had the code been in effect.

A paragraph at page 24 of our statement summarizes our concern at this point and I will just read that paragraph.

It is reasonable to assume that once it becomes known that the cement industry will be unable to deter dumped cement under the Antidumping Code, foreign producers will resume dumping in this market. The dumping of cement during the period 1958–64 was consistent and involved at least 15 countries.

The industry's diligent prosecution of these dumping violations and the pendency of legislation to strengthen the act have no doubt deterred dumping in recent years. The implementation of the Antidumping Code will remove such deterrents, and it is very likely that the dumping of excess cement capacity will be resumed.

Under these circumstances, the cement industry believes strongly that full deliberation and consideration of the Antidumping Code by Congress is essential.

I might say, Mr. Chairman, that our industry is in no position economically to cope with dumped imports. Within the past month the National Industrial Conference Board has issued tables indicating that of 41 manufacturing industries in the United States the cement industry is at the very bottom, No. 41, in aftertax return on net worth, so we are in no position to confront dumped imports.

In conclusion, we would say this to your committee. There are serious and inevitable conflicts between the Antidumping Code and the Antidumping Act of 1921. The code will weaken and in fact emasculate the act. The cement industry would not be able to obtain relief from dumping under the international Antidumping Code.

The implementation of this code without congressional approval will constitute a dangerous precedent of usurpation of congressional authority by the Executive.

There is a serious prospect of administrative chaos in view of the contrary positions taken by the Tariff Commission and the Treasury. In view of this we urge approval of House Concurrent Resolution 447 which would express the sense of Congress that the Antidumping Code is in conflict with the act and therefore can be implemented only by congressional action.

We urge you to ask the President to delay implementation of this code, postpone the July 1 date, until the present hearings of this committee are completed and you have an opportunity to form congressional judgment on these matters.

Finally, we would urge you to review and approve proposals before the House of Representatives such as H.R. 1075 to amend and strengthen the Antidumping Act of 1921.

In this connection we want to thank members of this committee for their past interest in this subject. Many of the members of your committee have submitted bills on these points. We would like to request permission, Mr. Chairman, to file a supplementary statement on those matters. (See p. 1384.)

The CHAIRMAN. You have that permission.

Mr. MUNDT. Thank you for the privilege of appearing before you. We would be glad to answer any questions you might have.

(Mr. Mundt's prepared statement follows:)

STATEMENT OF JOHN C. MUNDT, VICE CHAIRMAN, CEMENT INDUSTRY ANTIDUMPING COMMITTEE

My name is John C. Mundt,* Vice Chairman of the Cement Industry Antidumping Committee. Seated on my right is Mr. Donald Hiss of Covington & Burling, counsel to the Cement Industry Committee.

Our Committee consists of thrity-four companies in the Cement Industry which account for approximately 90 percent of the total rated cement capacity in the United States. There is attached as Appendix A a list of these thirty-four companies.

The Cement Industry Committee is appearing before this Committee to support House Concurrent Resolution 447, which would express the sense of Congress that the International Antidumping Code may not become effective without specific Congressional approval, and to urge this Committee to take action to

*Senior Vice President, Marketing and Public Affairs, Lone Star Cement Corporation.

postpone the July 1 effective date for the Code. A summary of the points that will be covered in support of this position is as follows:

I. Introduction—The Cement Industry's concern with the unfair trade practice of dumping. (Page 3.)

II. The Cement Industry's position on the International Antidumping Code is unrelated to the Kennedy Round concessions or any pending quota proposals, and is concerned only with the unfair trade practice of dumping. (Page 4.)

III. Ways and Means Committee action on the International Antidumping Code is urgently required before July 1, 1968. (Page 5.)

IV. The implementation of the Antidumping Code without Congressional approval will constitute a dangerous precedent of usurpation of Congressional authority by the Executive. (Page 7.)

V. As concluded by the Tariff Commission, there is serious and inevitable conflict between the International Antidumping Code and the Antidumping Act of 1921. (Page 9.)

VI. The International Antidumping Code will weaken and emasculate the Antidumping Act of 1921. (Page 14.)

VII. The Cement Industry would not be able to obtain any relief from dumping under the International Antidumping Code. (Page 20.)

VIII. There is a serious prospect of administrative chaos in the administration of the International Antidumping Code. (Page 25.)

IX. Canada, a key signatory, cannot provide reciprocal concessions under the International Antidumping Code by the July 1 effective date. (Page 27.)

I. Introduction—The Cement Industry's concern with the unfair trade practice of dumping

The Cement Industry has been vitally interested for the past ten years in United States policy concerning the unfair trade practice of dumping. The Cement Industry has had substantial experience under the Antidumping Act of 1921. As set forth in Appendix B, the Cement Industry during the period 1958–1965 was forced to file nineteen complaints under the Antidumping Act. The dumping during this period was on a continuing basis, with importers shifting from country to country as the complaints were filed against their sources of supply. The formal proceedings involved cement imports from fifteen different nations. That the industry suffered serious injury was borne out by the antidumping proceedings, in which the Treasury Department found reason to suspect dumping in fourteen cases. A number of these proceedings were discontinued by Treasury on assurances by foreign exporters that there would be no further dumping. In four cases the Tariff Commission made affirmative determinations of injury and special dumping duties were imposed on dumped cement imports from four countries (Sweden, Belgium, Portugal and the Dominican Republic), which continue in effect.

Because of the injury sustained from dumping, and because of its inability to obtain effective relief under the Antidumping Act of 1921, the industry has since 1963 supported legislation to amend the Act. The primary purpose of this legislation is to provide meaningful relief to domestic industries injured by dumping. H.R. 1075 and other identical bills pending before your Committee provide such relief. The Cement Industry wishes to make clear to the Committee that it continues to support this legislation fully, and it intends to file a separate statement for the record in support.

II. The Cement Industry's position on the International Antidumping Code is unrelated to the Kennedy Round concessions or any pending quota proposals, and is concerned only with the unfair trade practice of dumping

The Cement Industry's position in the trade area is concerned only with the unfair trade practice of dumping and has no impact on or relation to the Kennedy Round tariff concessions. The Code was negotiated separately and is in no way tied to the Kennedy Round agreements. Although cement tariffs will be virtually eliminated pursuant to the Kennedy Round,[1] the industry does not object to the Geneva results. On the contrary, the industry's only concern is that imports that arrive in this country are legitimate, and are not sold unfairly at dumped prices. This has been the policy of the United States Congress

[1] The duties on Gray Portland Cement and Gray Clinker were completely eliminated. The duties on White Portland Cement and White Clinker were reduced by the maximum of 50 percent.

for over fifty years, and dumping has been universally condemned as an unfair trade practice, as affirmed in the General Agreement on Tariffs and Trade.

Similarly, the Cement Industry's position does not involve any pending quota or tariff proposals. The Cement Industry does not seek increased tariffs on cement, nor does it seek quota relief. In fact, the industry has never sought to restrict the entry of imports into this market. The industry's concern with the unfair trade practice of dumping is only to ensure that import competition is subject to the same standards of fair trade that are observed by U.S. industries under the antitrust laws.

III. Ways and Means Committee action on the International Antidumping Code is urgently required before July 1, 1968

The International Antidumping Code is scheduled to become effective on July 1, 1968. The Code will be implemented in this country by means of substantial amendments of the Treasury regulations, which were published on June 1, to become effective on July 1. As described more fully below, these new regulations have been promulgated by Treasury despite their conflict with the Antidumping Act. Furthermore, although Treasury intends fully to implement the Code, a recent Report of the Tariff Commission suggests that that agency does not intend to be bound by the Code in the numerous areas of conflict. Therefore, among other repercussions if the Code is permitted to become effective, there will be administrative chaos in the administration of the Antidumping Act.

Under these circumstances, it is essential for the Ways and Means Committee immediately to urge the President to postpone the implementation of the Code until these hearings on trade policy are concluded. This will enable the Committee to consider fully and render its judgment on the Code, H. Con. Res. 447, and other pending antidumping proposals.

Postponement of the effective date of the Code would have no impact on the United States' obligations or its trading partners' obligations under the Kennedy Round. Furthermore, there would be no need for embarrassment on the part of the President, since Canada, one of the key signatories of the Code, definitely will not implement it by the scheduled July 1 effective date. The significant implications of Canada's failure to implement the Code are reviewed more fully in Section IX below.

IV. The implementation of the Antidumping Code without Congressional approval will constitute a dangerous precedent of usurpation of Congressional authority by the Executive

If the Antidumping Code is permitted to become effective without Congressional approval, this will constitute a dangerous precedent of usurpation by the executive of Congressional authority. This would necessarily be a result because the Code, in the form of an international agreement, amends and revises substantially the Antidumping Act of 1921 without any Congressional action. The extent to which the Code amends and conflicts with the Antidumping Act is covered in Sections V and VI below.

The Antidumping Act of 1921 is a domestic trade law and an integral part of the unfair trade laws of the U.S. The Act was clearly intended to apply the domestic antitrust laws to imported goods in competition with domestic products. That this was the intention of the Congress is clear from the legislative history of the Antidumping Act.

". . . the purpose of the proposed bill (forerunner of the Antidumping Act) is to prevent the stifling of domestic industries by the dumping of foreign merchandise . . . . Over 20 years ago, by the enactment of the Sherman Antitrust Law, Congress recognized the necessity of legislation to prevent unfair methods of competition and monopoly within the United States, but effective legislation to prevent discriminations and unfair practices from abroad, to destroy competition and control prices, has not been enacted." H.R. Rep. No. 479, 66th Cong., 1st Sess., 1 (1919).

Like other unfair trade laws, the Antidumping Act can be revised only through the Congressional process. As the Tariff Commission concluded in its recent Report to the Senate Finance Committee on Senate Concurrent Resolution 38—the Senate counterpart to H. Con. Res. 447—"The Code, no matter what are the obligations undertaken by the United States thereunder internationally, cannot, standing alone without legislative implementation, alter the provisions of the Antidumping Act." The amendment of this legislation by an international agree-

ment is indistinguishable from an effort, for example, of the Executive to change through such an agreement the standards of the Sherman Antitrust Act, Similarly, the Executive could just as well sign an international criminal code purporting to cover crimes committed by importers. It is unquestionable that such actions would be considered by Congress and the States as clearly interfering with their legislative prerogatives.

If Congress fails to act to prevent the Executive Branch from revising both the standards and procedure of a statute passed nearly fifty years ago to protect American industry from an unfair trade practice, then there should be little to deter the Executive in the future from negotiating revisions of other trade legislation, such as the countervailing duty statute, or even legislation outside the trade field.

The Cement Industry Committee respectfully submits that it is in Congress' own interest to express its sense that the International Antidumping Code should not become effective unless and until it has been specificaly approved by the Congress. It is our position that in the first instance the issue of the Code is one of the balance of power and Congress' constitutional mandate in the area of domestic unfair trade legislation.

V. *As concluded by the Tariff Commission, there is serious and inevitable conflict between the International Antidumping Code and the Antidumping Act of 1921*

The Cement Industry Committee takes the position that the proposed provisions of the International Antidumping Code would amend and conflict with the Antidumping Act of 1921. A majority of the Tariff Commission in its recent Report submitted to the Senate Finance Committee confirmed that the Code is in serious and inevitable conflict with the Act. This conclusion was reached in a 3–2 decision in which two dissenting Commissioners took the position that conflicts between the Code and the Act should be determined only on a case-by-case basis.

The Tariff Commission majority found in almost every instance that the Code is in conflict with or in some manner alters the Act. This statement will concentrate on the three basic areas of conflict between the Code and the Act found by the Commission.

A. Injury Standards

The Tariff Commission Report emphasizes that the injury provisions of the Code require a showing "that the dumped imports are demonstrably the principal cause of material injury or of threat of material injury to a domestic industry", whereas the Act requires only that the Commission determine "whether an industry in the United States is being, or is likely to be injured". The Commission majority emphasizes that the Act does not require a determination that dumped imports cause an adverse effect to a greater degree than any other factor adversely affecting an industry before there can be a finding of injury, as is required by the Code.

B. Industry Standards

Similarly, the Commission majority concludes that the industry concept of the Code differs substantially from that of the Act. The Code permits consideration of a regional industry only where the producers within such a market "sell all or almost all of their production" in that market, and there is injury to "all or almost all" of the producers in the regional market. The Commission majority concludes that this concept is "so narrowly defined" that four out of five prior injury determinations of the Commission under the U.S. Act would have been reversed under the Code, and that the Code's permissible circumstances for regional industry consideration "rarely exist".

C. Treasury Versus Tariff Commission Functions

The Commission majority also concludes that the Code conflicts with the division of functions between the Treasury Department and the Tariff Commission under the Antidumping Act. The majority states that the Code's requirements of simultaneous consideration of dumping and injury creates "an anomalous result", and that effective simultaneity under the Act is "not procedurally feasible or logical". Furthermore, the Code's requirement that a dumping complaint must be rejected (by Treasury) if there is not sufficient evidence of injury is in conflict with the U.S. Act, which vests sole authority in the Commission to make

injury determinations. Moreover, the Code prohibits the imposition of any provisional measures until there is "sufficient evidence" of injury. Under the U.S. Act, the Treasury Department must automatically issue a withholding of appraisement notice on the product in question once it has reason to suspect dumping. Since Treasury has no authority under the Act to make any determination of injury. The Commission majority concludes that compliance with the "sufficient evidence" provision of the Code would preclude use of the withholding notice required by the Act.

Notwithstanding these findings of the Tariff Commission, the new Treasury regulations will implement the Code. To accomplish this, however, Treasury proposes to ignore a specific decision of Congress. In 1954, Congress amended the Antidumping Act in order to transfer completely the injury determination to the Tariff Commission. Under Section 53.27(e) of the new regulations, a dumping complaint is required to show evidence of injury and thus Treasury will make some kind of injury determination. There is no indication of whether this injury determination will be based on the onerous standards of the Code, described above, as distinguished from the more reasonable injury standard of the U.S. Act. Whatever standard Treasury in fact adopts violates the Congressional mandate that the Tariff Commission alone should make determinations of injury.

Similarly, Sections 53.38 and 53.39 of the new regulations effectively would authorize simultaneous consideration of injury by the Tariff Commission and reconsideration of dumping and injury by Treasury, in clear defiance of the Act's requirement that the injury determination is to be made only after the dumping investigation has been concluded. Section 53.34 of the regulations would once more inject Treasury into the injury arena, by requiring that there be evidence of injury before the provisional measure of withholding of appraisement is imposed. This is designed to comply with the Code requirement that there be sufficient evidence of injury before provisional measures are imposed, and will eviscerate one of the basic protections against dumping afforded under the present statute.

After reviewing these three major areas of conflict and other serious conflicts between the Code and the Act, many of which have been reflected in the new Treasury regulations, the Tariff Commission concludes that such an alteration of domestic law cannot be accomplished without Congressional action. As already quoted above, the majority states that "The Code, no matter what are the obligations undertaken by the United States thereunder internationally, cannot, standing alone without legislative implementation, alter the provisions of the Antidumping Act". In additional comments, Commissioner Clubb states that the majority's position is that the Commission is "powerless" to apply the Code until it is implemented or approved by Congress.

H. Con. Res. 447 would express the sense of Congress that the Antidumping Code is in conflict with the Antidumping Act and therefore can be implemented only with Congressional action. This was the conclusion of the Tariff Commission—the agency directed to enforce the main provision of the Antidumping Act. If there is any need for further support for H. Con. Res. 447, it is readily available in the fact that the Code not only conflicts with the existing Act but would weaken it so severely as to effectively repeal it. This is covered by the next section.

VI. The International Antidumping Code will weaken and emasculate the Antidumping Act of 1921

If the International Antidumping Code is permitted to become effective, the Antidumping Act will inevitably be weakened. In fact, the emasculation of the Act by the Code will effectively repeal it. Domestic industries have not been able to obtain meaningful and effective relief from dumping under the Act, but under the Code it would be extremely difficult, if not impossible, to obtain any kind of relief. The specific problems the Cement Industry would encounter under the Code are covered in Section VII below.

While the Antidumping Code weakens the Act in many respects, the revision of the industry and injury standards required by the Code will have the greatest impact. It has already been explained above that the Code would require a showing that the dumped imports are "demonstrably the principal cause of material injury or of threat of material injury". This rigid burden of proof is in marked contrast to the Antidumping Act which simply requires the showing that an industry "is being or is likely to be injured." The Code's injury standards severely restrict the Tariff Commission's ability to make an affirmative finding of injury.

For example, in the Tariff Commission's recent 2–2 affirmative finding of in-

jury in Cast Iron Soil Pipe From Poland, the two Commissioners finding injury under the Act applied standards which clearly would not satisfy the Code. Commissioner Clubb applied a test of causality that required merely that price fluctuations were "at least in part" due to dumping. He concluded that a finding of injury is required when there is anything more than "immaterial" injury. Commissioner Sutton concluded that any injury in excess of *de minimis* requires an affirmative determination.

The onerous burden of the "demonstrably principal cause" test is amply verified by recent experience with the adjustment assistance provisions of the Trade Expansion Act of 1962. Under these provisions adjustment assistance relief is available to domestic industries or workers where increased imports from tariff concessions are shown to be the "major cause" of injury to an industry. No industry or labor group has been able to sustain this difficult burden, and all petitions filed under this provision since 1962 have been unsuccessful. It is for this reason that the Administration has proposed that the Trade Expansion Act be amended to require a showing only that increased imports are "a substantial cause" of injury. In his trade message on May 28, 1968, to the Congress, President Johnson described the "major cause" test as "too rigid, too technical, and too complicated." In his statement on July 11, 1967, to the Subcommittee on Foreign Economic Policy of the Joint Economic Committee of Congress, Ambassador Wiliam Roth described the difficulties of the "major cause" test as follows:

"Unfortunately, however, the adjustment assistance provisions have not had the expected beneficial effect, because in practice the present test of eligibility to apply for the assistance has proved too strict. In fact, in no case brought under the act have any firms or workers been able to prove eligibility.

"The present test of eligibility requires (1) that tariff concessions be shown to be *the major cause* of increased imports and (2) that such increased imports be shown to be *the major cause* of injury to the petitioner.

"In the complex environment of our modern economy, a great variety of factors affect the productive capacity and competitiveness of American producers, making it virtually impossible to single out increased imports as *the* major cause of injury. In fact, it has usually been impossible to prove that tariff concessions were *the* major cause of increased imports."

Despite the Administration's clearly articulated position that a "major cause" test is far too difficult for domestic industry to meet under the Trade Expansion Act, the same Administration would require domestic industries under the Antidumping Code to carry an equally onerous burden. There is language in the Antidumping Code that suggests that the "principal cause" is that which outweighs the combined importance of other causes. Although one might debate the semantic distinctions between principal and major, it is clear that the principal cause test under the Code is no less strict than the major cause test that has been employed under the Trade Expansion Act. Surely, in the words of Ambassador Roth quoted above, it is virtually impossible in the "complex environment of our modern economy" to show "demonstrably" that dumped imports are the "principal cause" of injury.

It is difficult for the Cement Industry to understand why the Administration is convinced that liberalization of the adjustment assistance provisions is needed while at the same time it advocates a severe restriction of this nation's law prohibiting dumping. After all, the adjustment assistance provisions are a form of protection of industry from legitimate competition, not an unfair trade practice like dumping. One can only surmise that in the bargaining in Geneva the U.S. negotiators—in order to obtain concessions from other countries which are of doubtful value—were willing to bargain away any real substance that the Antidumping Act contains.

The Antidumping Code also would weaken severely the industry provisions of the Antidumping Act. The next section will describe how this revision of the Act will preclude any relief to the Cement Industry. The Code defines the term "domestic industry" so as to encompass all producers of a particular product which is "like" the dumped product under consideration. Only in very "exceptional circumstances" is the Tariff Commission permitted under the Code to consider a regional market as the area affected. Furthermore, as the Tariff Commission concluded in its Report, a regional industry can be considered only where producers in the region sell "all or almost all" of their product in the limited market area, and there is a finding of injury to "all or almost all" of such producers. In contrast, the Antidumping Act does not restrict the Tariff Commission in its determination of what constitutes "an industry in the U.S.". Under the Act,

the Commission has concluded in many cases, and particularly in cement cases, that the industry may be appropriately defined as a regional competitive market, without requirements that producers sell virtually all of their production in the market and that virtually all of the producers are injured.

The rigid standards of the regional industry provision of the Code are thus so restrictive as essentially to preclude any consideration of a regional market where the companies involved operate in more than one market area. This has a particular impact on industries like cement, where the product is expensive to transport and the impact of imports is not likely to be felt much beyond the immediate port area. It is for this reason, as discussed in the next section, that the Tariff Commission concluded that it would have been forced to reach an opposite result in four cement dumping cases under the present Act if it had been required to apply the restrictive regional industry concept contained in the Code.

There are many other provisions of the Code which would weaken the Antidumping Act. It has already been pointed out that the withholding of appraisement provisions of the Act would be severely curtailed by the requirement that there be evidence of injury before provisional measures can be imposed. Similarly, the injection of the Treasury Department back into the injury determination further restricts the function of the Tariff Commission in antidumping proceedings.

The Cement Industry Committee submits that in addition to the usurpation of Congressional authority and the severe conflict with the Antidumping Act involved, the Code should not be permitted to become effective because it effectively repeals the Antidumping Act of 1921. It is manifest that only Congress can approve and implement an international agreement that substantially amends and revises an act of Congress.

VII. The Cement Industry would not be able to obtain any relief from dumping under the International Antidumping Code

As was noted at the outset, the Cement Industry has suffered serious injury in the past from the unfair trade practice of dumping. During the period 1958–1965, the Treasury Department found reason to suspect dumping in fourteen out of nineteen cases filed by the industry. A number of these cases were dismissed by Treasury on assurances of discontinuance of dumping and for other reasons, as described in Appendix B. There were four cases in which the Tariff Commission made an affirmative finding of injury and the industry obtained the maximum relief in the form of special dumping duties on cement imports from Sweden, Belgium, Portugal and the Dominican Republic. At the time of the cases, imports from these countries were entering New England, New York, New Jersey and Florida. Under the Antidumping Act these special duties continue in effect any time that cement imports are found to be dumped in this country.

In these four cases, the Tariff Commission found that the Cement Industry had been injured and relief was warranted. Yet, such a finding and such relief would have been completely barred if the Antidumping Code had been in effect. As set forth above, the Tariff Commission reached this conclusion in its recent Report to the Senate Finance Committee. Covington & Burling was counsel to the Cement Industry in each of the four cases, and has advised that in its judgment the Tariff Commission majority is correct that an opposite outcome would have resulted under the Code. In the first place, the Cement Industry under the Code would have been required to show "demonstrably" that the dumped imports were "the principal cause" of material injury. The extreme burden of proof required by this standard has already been discussed in Section VI above. It is sufficient to say here that it is doubtful that the Cement Industry would have been able to sustain this burden under the Code, although the Commission found the requisite injury under the Act in each of the four cases. For example, the Commission in the four cases found that there were economic factors other than dumping that contributed to the injury to the cement companies involved. Under these circumstances, it would have been exceedingly difficult, if not impossible, to show that the dumping demonstrably was the "principal cause" of material injury.

It is absolutely clear that, as the Tariff Commission concluded, the restrictive concept of regional industry in the Code would have prevented the Commission from finding injury to "an industry in the United States" in the four cement cases. It may be helpful to consider two of the cases as examples. In the case of

Portland Cement from Sweden, the Tariff Commission determined that the "competitive market area" consisted of a limited number of cement plants, supplying Rhode Island, Eastern Massachusetts and Eastern Connecticut. This group of producers sold in the designated regional market area only between 6.1 and 27.2 percent of their total domestic production. Hence, this limited group of producers clearly failed to satisfy "exceptional circumstances" necessary for consideration of a regional industry under the Code. They sold considerably less than "all or almost all" of their production in the limited New England market. It is also extremely doubtful that it could have been "demonstrably" shown that the dumped Swedish imports injured "all or almost all" of the producers in the market.

Similarly, in the case of Portland Cement from Belgium, one of the market areas involved the Southeast Florida market, where two new cement plants came on stream in the Miami area in 1958. Both companies involved had cement plants in other markets, totally unrelated to Southeast Florida. They did not "sell all or almost all of their production" in Southeast Florida; under the Code they would, therefore, not have been entitled to relief.

Thus, the Report of the Tariff Commission, and the application above of the Code's regional injury standards to two of the prior cement cases, support fully the proposition that the Cement Industry will be effectively precluded from obtaining any relief under the Antidumping Code. The Cement Industry consists of a series of regional markets. As noted earlier, the effective impact of dumped cement imports is limited because of the high cost of transporting the cement inland from the port of entry. The total area of competitive impact will always remain confined to limited geographic markets. Putting to one side the rigid injury tests of the Code, it is obvious that a cement company or group of companies cannot show material injury if the test is based on the entire national market, as required under the Code.

It is reasonable to assume that once it becomes known that the Cement Industry will be unable to deter dumped cement under the Antidumping Code, foreign producers will resume dumping in this market. The dumping of cement during the period 1958–1965 was consistent and involved at least fifteen countries. The industry's diligent prosecution of these dumping violations and the pendency of legislation to strengthen the Act have no doubt deterred dumping in recent years. The implementation of the Antidumping Code will remove such deterrents, and it is very likely that the dumping of excess cement capacity will be resumed. Under these circumstances, the Cement Industry belives strongly that full deliberation and consideration of the Antidumping Code by Congress is essential.

VIII. There is a serious prospect of administrative chaos in the administration of the International Antidumping Code

If the International Antidumping Code is allowed to become effective in the U.S., it appears inevitable that there will be confusion bordering on chaos in the administration of the Antidumping Act. This is because of the contrary positions of the Treasury Department and the Tariff Commission, which have been outlined above and need only be briefly referred to again.

The new regulations promulgated by the Treasury Department, which become effective on July 1, will implement the Code within those areas encompassed by the Treasury function. Under the Antidumping Act, Treasury is charged only with the responsibility of making the determination of whether dumping has occurred; the Tariff Commision has the sole responsibility of making the determination of whether injury has resulted from the dumping. Under the new regulations, however, the Treasury Department will now consider injury. As previously pointed out, it is not clear what standard of injury will be used—the restrictive standards of the Code or the less strict standard of the Act. In any event, the new Treasury regulations are designed to follow the Code to the letter.

On the other hand, a majority of the Tariff Commission has made abundantly clear that it will not be able to apply the Code unless and until it has been approved by the Congress. Furthermore, the Commission has indicated its disagreement with Treasury as to the functions which are normally administered by Treasury under the Act. With respect to injury, there is a strong possibility that Treasury may be using the Code standard of injury whereas the Commission will apply the Act's standard. It must be emphasized that no dumping case can reach the Tariff Commission unless it is referred there by Treasury. The contrasting positions of Treasury and the Commission concerning the Code suggest the inevitability of different interpretations of many sections of the Act. This situa-

tion would preclude any prospect of certainty and predictability for businessmen—both importers and domestic producers—in evaluating their status under the Antidumping Act.

Although there are sufficient other reasons for Congress to express its sense that it should consider the Antidumping Code, the prospect of Administrative chaos in the administration of a Congressional unfair trade statute provides an additional practical reason for such consideration. Congress specifically directed in 1954 that the functions under the Act be separated as between Treasury and the Tariff Commission. Unless action is taken to clarify the status of the Code, this division of functions will be obliterated, and the two agencies will differ markedly in their interpretation and administration of the Act.

IX. Canada, a key signatory, cannot provide reciprocal concessions under the International Antidumping Code by the July 1 effective date

At the time of the announcement of the conclusion of the negotiation of the International Antidumping Code, the Administration emphasized that meaningful concessions had been obtained from other countries in order to encourage U.S. exports. Ambassador Roth has already emphasized this point in testimony before this Committee. In particular, stress has been placed by the Administration in the past on the fact that Canada had signed the Code and thereby agreed to require a finding of injury as a prerequisite to the imposition of dumping duties. Under present Canadian law, a determination of dumping automatically results in the imposition of such duties.

Canada, however, along with many other countries—in inexplicable contrast to the United States' position—made clear that its signature on the Code was not binding since Parliamentary approval and legislation were required. Notwithstanding this, the United States negotiators represented that they viewed the Code as final and binding on the United States, evidently without regard as to whether other countries took steps to implement the Code.

As might well have been expected, the significant concessions purportedly obtained from Canada have so far proven illusory. No Canadian legislation has been adopted to implement the Code, and the Parliament has been dissolved for the elections later this month. The newly elected Parliament is not expected to convene until after July 1, the date by which Canada agreed to implement the Code. Moreover, there has been no real indication that Canada will ultimately enact the required legislation to make the Code effective there. It is our information that no bill has actually been introduced in Parliament, and that the Code has met with substantial opposition from a number of important Canadian industries.

Canada's failure to implement the Code by the effective date has no direct bearing on the Code's many legal defects from this country's standpoint. On the other hand, the lack of assurance that the concessions supposedly obtained to benefit U.S. exports will actually be forthcoming is yet another factor strongly mitigating against hasty implementation of the Code in this country, without Congressional consideration. Moreover, the failure of a major trading partner of the United States to implement the Code by July 1 provides an appropriate opening for the United States to take action to postpone the implementation of the Code here. If there is any concern about embarrassment—and there should not be where the Executive branch has acted beyond its authority—the Canadian situation does provide a valid reason for reconsideration of the Code by the United States.

CONCLUSION

The Cement Industry Antidumping Committee strongly urges that this Committee take positive action to postpone the July 1 effective date of the International Antidumping Code, and to report out favorably House Concurrent Resolution 447. The Code is in fundamental conflict with the Antidumping Act of 1921, and would severely weaken and emasculate the Act. The Cement Industry, which has suffered serious injury from dumping in the past, would be effectively barred from relief under the Code. Moreover, the implementation of the Code in this country would constitute an usurpation of Congressional authority by the Executive. Implementation would also lead to administrative chaos as the Treasury and the Tariff Commission have taken contradictory positions. Hence, action by this Committee is vital if United States industries are to be able to compete free of the unfair trade practice of dumping—a practice condemned by Congress for over 50 years and condemned by all major trading nations as well.

APPENDIX A

THE CEMENT INDUSTRY ANTIDUMPING COMMITTEE

Allentown Portland Cement Company
Alpha Portland Cement Company
American Cement Corporation
Ash Grove Lime and Portland Cement Company
Atlantic Cement Company, Inc.
California Portland Cement Company
Coplay Cement Manufacturing Company
The Flintkote Company
General Portland Cement Company
Giant Portland Cement Company
Gulf Coast Portland Cement Company
Huron Cement Company
Ideal Basic Industries
Kaiser Cement and Gypsum Corporation
Keystone Portland Cement Company
Lehigh Portland Cement Company
Lone Star Cement Corporation
Marquette Cement Manufacturing Company
Martin Marietta Corporation
Medusa Portland Cement Company
Missouri Portland Cement Company
National Cement Company
The National Portland Cement Company
Nazareth Cement Company
Northwestern States Portland Cement Company
OKC Corporation
Oregon Portland Cement Company
Penn-Dixie Cement Corporation
Puerto Rican Cement Company
San Antonio Portland Cement Company
Southwestern Portland Cement Company
The Whitehall Cement Manufacturing Company
Wyandotte Chemicals Corporation

APPENDIX B

Country of exportation	Date of formal complaint	Treasury initial finding of reason to believe or suspect dumping	Nature of final determination by Treasury Department or Tariff Commission
Belgium	Oct. 2, 1959	Yes	Treasury found dumping and Tariff found injury to the domestic industry.
Canada	May 28, 1959	Yes	Treasury found dumping but Tariff found no injury to the domestic industry in part because continuation of dumped sales seemed unlikely.
Colombia	Sept. 25, 1959	No	Treasury found no dumping.
Denmark	Apr. 28, 1960	Yes	Treasury found dumping but did not refer it to Tariff partly because of cessation of shipments.
Dominican Republic	Aug. 19, 1961	Yes	Treasury found dumping but Tariff found no injury at the time to the domestic industry.
	May 4, 1962	Yes	Treasury found dumping and Tariff found injury to the domestic industry.
Israel	July 21, 1959	Yes	Treasury found no dumping partly because of a non-cost-justified quantity discount allowance.
Italy	June 7, 1962	No	Treasury found no dumping.
Japan	Dec. 1, 1961	None	Treasury found dumping but did not refer to Tariff partly because of assurances by the producer that dumping would not be resumed.
	Feb. 5, 1963	Yes	Treasury found dumping, but Tariff found no inury to the domestic industry.
	Aug. 26, 1965	No	Treasury found no dumping.
Norway	Sept. 15, 1958	Yes	Treasury fund no dumping solely because of a non-cost-justified quantity discount allowance.
	Dec. 27, 1961	Yes	Do.
Poland	Dec. 29, 1960	Yes	Treasury found no dumping, but used a 3d country price and not Polish as home market price.
Portugal	June 9, 1960	Yes	Treasury found dumping and Tariff found injury to the domestic industry.
Sweden	Nov. 25, 1958	Yes	Do.
Tunisia	Sept. 13, 1960	No	Treasury found dumping but did not refer it to Tariff on assurances by the producers that dumping would not be resumed.
West Germany	Aug. 13, 1959	Yes	Do.
Yugoslavia	Aug. 28, 1961	Yes	Do.

(The following supplementary statement was received by the committee:)

SUPPLEMENTAL STATEMENT SUBMITTED ON BEHALF OF CEMENT INDUSTRY ANTIDUMPING COMMITTEE

On June 14, 1968, Mr. John Mundt testified before the Ways and Means Committee on behalf of the Cement Industry Antidumping Committee. Mr. Mundt's oral testimony and his prepared statement were directed only to the Cement Industry's position on the International Antidumping Code. During his testimony, Mr. Mundt requested and was granted permission by the Chairman to file a supplemental statement for the record, reaffirming the Cement Industry's support for pending legislation to strengthen the Antidumping Act of 1921. Accordingly, this supplemental statement will set forth the reasons for the Industry's continuing support of this legislation.

The pending legislation to strengthen the Antidumping Act includes H.R. 1075 and other similar bills now pending before the Ways and Means Committee. This legislation has a counterpart in the Senate which has the sponsorship of forty-one Senators (S. 1726). The primary purpose of the legislation is to amend the Antidumping Act to ensure that it will provide meaningful and effective relief to domestic industries injured by the unfair trade practice of dumping. This statement will explain both the need for this legislation and the significance of its main provisions. The discussion will cover the following points:

I. The Need for an Effective Antidumping Act.
II. Provision for Time Limitation on Treasury Investigations.
III. Provisions for Procedural Safeguards in Treasury Investigations.
IV. Elaboration of Injury and Industry Standards for Guidance of the Tariff Commission.
V. The Antidumping Act Under the Proposed Legislation Would Remain an Integral Part of the Unfair Trade Practice Laws.

I. THE NEED FOR AN EFFECTIVE ANTIDUMPING ACT

The Cement Industry has, of necessity, had more experience with the inadequacies of the present Antidumping Act than any other industry. For the past ten years there has been widespread dumping of foreign cement at unfair prices,[1] and the industry has suffered extensively from this unfair trade practice. Nineteen times the industry has been forced to invoke the machinery of the Act by filing formal complaints involving cement imports from fifteen different countries. The limited relief afforded in these proceedings has been wholly inadequate. These proceedings are summarized in Appendix B of the Cement Industry's statement filed with the Committee on June 14, 1968.

The good faith of the domestic Cement Industry in filing these complaints is demonstrated by the fact that in fourteen of the nineteen cases the Treasury Department found "reason to believe or suspect" that dumping was taking place. In five of these cases Treasury made a finding of dumping, but did not refer the matter to the Tariff Commission upon assurances by the importers involved that the dumping would be discontinued.[2] In several instances an initial finding of dumping was later excused because of quantity discount allowances which were not cost-justified. While this was Treasury's policy at the time, non-cost-justified quantity discount allowances are no longer recognized by Treasury unless the foreign producers actually use such a discount schedule in their home markets as well. In another seven cases a final determination of dumping was made, and the case was referred to the Commission for a determination whether the dumping was causing injury to the domestic Cement Industry. In four of these cases (Sweden, Belgium, Portugal and the Dominican Republic) the Commission found the requisite injury, and special dumping duties were imposed. These duties are still in effect.

It should be kept in mind in assessing this record that dumping has been condemned by Congress as an unfair trade practice for over fifty years. The

[1] See Table II entitled "Dumped or 'Tainted' Cement Imports, 1958–1967 (BBLS)" in the statement filed with this Committee by the United Cement, Lime & Gypsum Workers' International Union, AFL–CIO.

[2] The dismissal of complaints even though dumping has been found—because of price revisions—is a Treasury practice which is not permitted under the Antidumping Act. The Act requires that once dumping has been found the case must be automatically referred to the Tariff Commission for an injury determination.

sole purpose of the Antidumping Act is to prevent this practice and the resulting injury to domestic industry by requiring foreign manufacturers who export to this market to observe the same standards of fair competition that competing domestic sellers must observe under the U.S. unfair trade practice and antitrust laws. Furthermore, the only relief available under the Antidumping Act is the imposition of a dumping duty which is intended to eliminate the unfair competitive advantage obtained through the dumping. The domestic industry, therefore, even when successful in obtaining the maximum relief under the Antidumping Act, gains no competitive advantage over the foreign industry. The only result is that the foreign manufacturer must surrender the unfair advantage which it has gained through dumping, and fair competition is restored.

The injury suffered by the domestic Cement Industry through foreign dumping has been extensive. *First*, there have been sales lost directly to dumped imports. These have been sizable because of the drastic competitive effect in the cement market of the price cutting which illegal international price discrimination makes possible. Since cement is a homogeneous, non-differentiated product made to standard specifications, no brand can claim any consumer loyalty or any price premium. Thus, if dumping makes possible a price for imports only a few cents below the domestic product, the dumped cement will be purchased at the expense of competing domestic products. *Second*, lost sales by the U.S. Cement Industry are immediately and directly reflected in lost jobs and wages for American workers.[3] *Third*, the dumped imports have a depressing effect on general cement prices in all areas where domestic cement must constantly compete for sales with the lower-cost dumped imports. Thus, the American producers have been able to maintain their sales which are not taken over by dumped imports only at prices which have been forced substantially downward by the dumped imports.

Fourth, the dumped imports have contributed to keeping the domestic Cement Industry operating far below capacity. This results in higher domestic costs because of the inefficient use of the productive assets which the industry purchased in proper anticipation of a tremendous growth in all types of construction in the United States during the 1960's. *Fifth*, through a "ripple" effect the dumped imports result in an extension of the lower domestic price, reduced in order to meet the dumped price of the importers, to other areas which the importers do not reach. Contractors in areas not served by the importers often compete with contractors within this area who are purchasing cement at the lower domestic price, forced down by the dumped imports. These companies, in turn, demand that the domestic cement producers extend the lower price to them to permit them to compete on equal terms with the contractors within the area served by the importers. Thus, dumped imports force the price of domestic cement downward in some areas beyond the area served by dumped imports. *Finally*, experience shows that, once the price is reduced by the domestic companies as a result of the dumped imports, it becomes impractical to return to the higher price after dumped imports have been counteracted by the imposition of the special dumping duties.

The Cement Industry has suffered considerable injury from the unfair trade practice of dumping. Its attempts to obtain relief under the Antidumping Act have met with, at best, limited success. The industry feels that it is imperative that the Act be revised to provide more effective relief and to bring it more in line with U.S. unfair trade practice and antitrust laws. The pending antidumping legislation has been introduced to accomplish these objectives. The main features of this legislation and the inadequacies of the present Act which they are intended to remedy will be discussed below.

II. PROVISION FOR TIME LIMITATION ON TREASURY INVESTIGATIONS

It is essential that a time limit be place upon the Treasury Department's investigation and determination of whether dumping has occurred. Final determinations have been inordinately delayed in the past. This uncertainty has injured importers while the provisional measure of withholding of appraisement was in effect. Treasury investigations of Cement Industry dumping complaints,

[3] See Tables IV and V entitled "Man-Hours Lost" and "Equivalent Wages Lost" from dumped cement, in the statement filed with this Committee by the United Cement, Lime & Gypsum Workers' International Union, AFL–CIO.

for example, have averaged seventeen months, and one lasted more than three years after the filing of the complaint. The proposed legislation would establish a six-month time limit for such investigations, with a "safety valve" to permit additional time if needed. If exceptional circumstances require more than six months, the Secretary of the Treasury would advise the Chairman of the House Ways and Means Committee and the Chairman of the Senate Finance Committee of the reasons why a longer period was required. This proposed six-month time limit for the dumping determination is twice as long as the period which Congress set in 1958 for the Tariff Commission to make its injury determination under the Act—an issue of at least equal complexity.

III. PROVISION FOR PROCEDURAL SAFEGUARDS IN TREASURY INVESTIGATIONS

The proposed legislation would also ensure that the safeguards of the Administrative Procedure Act would be provided in connection with Treasury dumping investigations. In keeping with the best tradition of the common law, the right to a fair and open hearing, including the right to counsel, to present evidence, and to confront and cross-examine, would be guaranteed. Moreover, both the importer and the domestic industry would have the right to seek judicial review of an adverse determination by Treasury or by the Tariff Commission—a right not only required by the Administrative Procedure Act but inherent in our system of government. At present such review is available only to importers. Full reports would be published containing the facts and reasoning relied upon by Treasury and by the Commission in their deliberations. In this way, judicial review would be facilitated, and a body of law would be developed to guide the business decisions of importers as well as domestic industry. Finally, proposed determinations would be published to give interested parties an opportunity to correct any fallacies and to supply additional pertinent information.

IV. ELABORATION OF INJURY AND INDUSTRY STANDARDS FOR GUIDANCE OF THE TARIFF COMMISSION

A primary purpose of the proposed legislation is the elaboration and prescription of standards to guide the Tariff Commission in its determination of whether dumping has caused injury to a domestic industry. Such standards are necessary to prevent repetition of the unduly varying injury determinations made in the past under the very broad and vague standards now contained in the Antidumping Act. These determinations have often been the product of the individual economic views of the members of the Commission, rather than of an established Congressional policy.

A. *Industry Standards.*—The Act provides no industry standard beyond directing the Tariff Commission to determine whether there has been injury to "an industry in the United States". The proposed legislation borrows from established antitrust principles in defining the domestic industry, the geographical market, and the product market, and directs the Tariff Commission to consider the effects of dumping in a competitive market area. The definitions of industry and of geographical market are designed to focus attention precisely upon the area of "competitive overlap" between dumped imports and competing domestic goods, and to preclude the Tariff Commission from considering a nationwide market when the facts show, to the contrary, a fragmentation of markets along regional lines. Similarly, the definition of a "class or kind of merchandise", delineating as it does the boundaries of a product market, is designed to relate the determination of injury to a particular line of commerce in which a domestic industry may be engaged. Other lines of commerce in which one or more members of a domestic industry may be engaged, but which are outside the scope of competition with dumped imports, would not be considered by the Tariff Commission in weighing the impact of dumping upon a domestic industry.

These "industry" guidelines are necessary for an effective law prohibiting dumping. Dumped imports frequently cause serious injury to U.S. producers of competing products in specific regions or local markets, although they may not be a competitive threat to the country's entire domestic industry because the characteristics of the commodities make their distribution over wide geographical areas uneconomical. For example, the impact of dumped cement is normally confined to the geographical area surrounding the port of entry, due to the high cost of transporting the imported cement inland. This is the area in which the dumped cement and the cement produced by one or more domestic producers

are directly competitive. Moreover, if dumped imports which injure certain local or regional markets of an industry are not checked, because of an unduly broad definition of the industry involved, the importer will be able to use his unfair sales advantage to capture additional regional markets one by one.

Similarly, a foreign manufacturer dumping in this country can, when competing with a multi-product domestic industry, make serious inroads on a product-by-product basis. If in each instance the impact were measured only against the total output of the industry concerned, even though this output included products which were not competitive with each other, the domestic industry would have no remedy until the point when the dumping was about to drive it out of business. Thus, the product line under the pending legislation would embrace only those products "reasonably interchangeable" with the dumped imports.

B. *Injury Standards.*—With the assistance of the industry definitions, described above, the proposed legislation sets forth various tests and standards for determining whether the dumping has resulted or is likely to result in material injury to the domestic industry. The first test is whether dumped imports have reached at least 5 percent of the sales for consumption in the competitive market area. This 5 percent figure is a reasonable one, drawn from antitrust cases dealing with partial foreclosure of regional markets. The basic concept of a casual connection between the dumping and the injury finding has been preserved. This concept is evident not only in the requirement that a stated minimum share of the market be seized by dumped imports before injury will be deemed to exist, but also in the defense made available to the importer if he can show that the domestic industry would not have supplied that share of the market even if no dumping had occurred.

The remaining injury tests, like the 5 percent test, similarly require a casual connection between the unfair trade practice of dumping and the resulting injury to a domestic industry. The second test of injury is whether dumped imports have caused a price break affecting 50 percent or more of sales in the competitive market area. The third test recognizes that the interests of domestic labor cannot be separated from those of domestic industry in the face of dumped imports, and makes a 5 percent decline in wages or employment a cognizable index of injury under the Act.

The fourth injury test is in part a catchall, and in part designed to recognize certain distinct consequences of dumping as a sufficient basis for a determination of injury. For instance, if dumped imports help to drive a domestic competitor from the market, thereby reducing the number of domestic sources of supply, a finding of anti-dumping effects giving rise to injury should be made.

The second, third and fourth tests of injury, outlined above, require that the dumping of foreign merchandise be a contributing cause of the stated effects. The Tariff Commission has on occasion refused to recognize injury when its occurrence might have been explained in part by causes other than dumping, in spite of the fact that it is rarely the case that any event is the sole or even the predominant cause of any other event, especially in the complex field of economic cause and effect. The proposed legislation would make it clear that, if dumping is a contributing cause, the presence of concurrent causes may not be used to avoid a finding of injury.

Even if actual injury is not found to exist under any of the enumerated tests, the proposed legislation would direct the Tariff Commission to find a likelihood of injury when there is a reasonable likelihood of events, in consequence of dumping, that will satisfy one or more of those tests. In administering the Antidumping Act, the Commission has on occasion used escape clause standards and equated likelihood of injury under the Antidumping Act with imminence of injury, with the effect of rendering the likelihood clause practically inoperative. The standard of reasonable likelihood, drawn from antitrust cases, would require a more sensible and more flexible approach in administering that clause.

V. THE ANTIDUMPING ACT UNDER THE PROPOSED LEGISLATION WOULD REMAIN AN INTEGRAL PART OF THE UNFAIR TRADE PRACTICE LAWS

By amending the Antidumping Act as proposed by the pending bills, the Congress would assure that foreign producers selling their products in the U.S. market in competition with domestic producers would be subject to the same standards of fair trade that the domestic producers must observe. One of these

standards forbids a domestic seller to discriminate in price between different purchasers of comparable merchandise when the result of such discrimination is to cause injury of competition. The Antidumping Act extends this principle to foreign sellers in the U.S. market by forbidding such sellers to charge a lower price in this market than is charged in their own home markets, when the result is to cause injury to a domestic industry. The Antidumping Act of 1921 was enacted by the Congress as an integral part of the unfair trade practice laws of this country,[4] and the proposed legislation to strengthen the Act has the same purpose in mind. This purpose would in no way impede or restrict legitimate imports free of the taint of dumping. The proposed legislation cannot be categorized intelligently as providing protection to any domestic industry against legitimate competition, or as depriving any foreign industry of any fair competitive advantage which it might otherwise have. It merely forecloses to the foreign supplier any unfair advantage which he might derive from dumping, a practice which has been recognized as an unfair trade practice in this country for over fifty years and which has been universally condemned.

The U.S. unfair trade practice laws prohibit domestic producers from certain unfair competitive conduct. The proposed amendments to the Antidumping Act would do no more than impose a similar prohibition against such unfair practices when they are engaged in by foreign competitors.

The CHAIRMAN. Thank you, Mr. Mundt, and Mr. Hiss, for coming to the committee. Are there any questions? We thank you.

Mr. HISS. Mr. Chairman, in answer to your question about lack of authority, if you would like we would be very glad to file a statement on that.

The CHAIRMAN. I meant to ask you to do that, if you would.

Mr. HISS. Fine, very well.

The CHAIRMAN. It will appear in the record when received.

Mr. HISS. Thank you.

(The following memorandum was received by the committee:)

MEMORANDUM ON THE LEGAL AUTHORITY OF THE EXECUTIVE BRANCH TO NEGOTIATE THE INTERNATIONAL ANTIDUMPING CODE

On June 14, 1968, during the testimony of Mr. John C. Mundt, spokesman for the Cement Industry Antidumping Committee, before the Ways & Means Committee, Chairman Wilbur Mills inquired as to whether the Cement Industry Committee had looked into the question of the legal authority of the Executive Branch to negotiate the International Antidumping Code, which is inconsistent with and would supersede various sections of the Antidumping Act of 1921. The response to the Chairman's question by Donald Hiss of this firm, as counsel to the Cement Industry Committee, was that there is no such legal authority. At the conclusion of Mr. Mundt's testimony it was suggested and agreed that the Cement Industry Committee should file a memorandum on this point. This memorandum has been prepared and is being filed with the Ways & Means Committee in accordance with that arrangement.

The authority of the office of the Special Representative for Trade Negotiations, which negotiated the International Antidumping Code, derives solely from the Trade Expansion Act of 1962. The Office of the Special Representative was created by Congress in that Act. Under the Trade Expansion Act, the President, through the Special Trade Representative, was given specifically limited authority to negotiate trade agreements concerning "existing duties or other import restrictions." The Act and its legislative history make it clear that this authority concerns *only* tariff duties or other import restrictions (such as quotas) relating to specific articles of merchandise. There was no authority to negotiate trade agreements with respect to nontariff legislation, such as the Antidumping Act of 1921, which is not a tariff act and which does not relate to specific articles of merchandise.

The Antidumping Act is an integral part of the unfair trade laws of the United States. It is not designed to impose tariff duties upon specific articles of

[4] See pp. 7–8 of the Cement Industry Committee's statement filed with this Committee on June 14, 1968.

merchandise but rather to prevent unfair price discrimination by foreign sellers in their exports to the United States. As early as 1916 the Congress of the United States recognized that the "dumping" of goods in this market was an unfair trade practice, and made the practice punishable by criminal penalties and the subject of civil treble damage actions. 15 U.S.C. § 72.

The International Antidumping Code necessarily requires extensive modification and revision of the Antidumping Act of 1921, as fully documented in the Cement Industry Committee's full statement of June 14, 1968, filed with the Ways & Means Committee. The legislative history of the 1962 Trade Expansion Act understandably is meager on the relationship of that statute to the Antidumping Act since the latter clearly deals with matters of domestic economic regulation of unfair competition that fall beyond the purview of the former. The Antidumping Act was clearly intended to apply the domestic antitrust laws to imported goods in competition with domestic products.

". . . the purpose of the proposed bill (forerunner of the Antidumping Act) is to prevent the stifling of domestic industries by the dumping of foreign merchandise. . . . Over 20 years ago, by the enactment of the Sherman Antitrust Law, Congress recognized the necessity of legislation to prevent unfair methods of competition and monopoly within the United States, but effective legislation to prevent discriminations and unfair practices from abroad, to destroy competition and control prices, has not been enacted." H.R. Rep. No. 479, 66th Cong., 1st Sess., 1 (1919).

However, the references in the legislative history of the Trade Expansion Act that do appear demonstrate conclusively that Congress did not delegate to the Executive any authority to revise the Antidumping Act, or to negotiate an international antidumping code. The Senate Finance Committee Report specifically stated:

"Section 257(h) provides that section 22 of the Agricultural Adjustment Act and import restrictions imposed thereunder shall be unaffected by the bill. *Other laws not to be affected include the Antidumping Act* and section 303 of the Tariff Act of 1930, which relates to countervailing duties." (S. Rep. No. 2059, 87th Cong., 2d Sess., 19 (1962)). (Emphasis added.)

It thus becomes clear that "special dumping duties" imposed pursuant to the Antidumping Act are not comprehended within the phrase "duty or other import restriction" found throughout the Trade Expansion Act.

An exchange between Secretary of Treasury Dillon and Congressman Utt in the Hearings Before the House Committee on Ways and Means considering the proposed 1962 Act reinforces the view that, in the contemplation both of the Administration which proposed the bill, and of the Congress which enacted it into law, the Trade Expansion Act did not in any way touch upon the Antidumping Act:

"Secretary DILLON. Treasury is responsible for carrying out antidumping activities. I do not think this bill affects the antidumping legislation at all.

"Mr. UTT. I was wondering if you could point out to me where the antidumping legislation is still in force?

"Secretary DILLON. I think that is a totally separate piece of legislation. It never was part of the trade agreements legislation. It is a separate piece.

"Mr. UTT. We have several sections entitled 'Repeals.' I am wondering if any of those sections on antidumping are repealed by reference?

"Secretary DILLON. So far as I know, nothing is. I cannot give you a positive answer, but as far as I am informed, it is my understanding there is no change at all in the antidumping procedures so far as this bill is concerned."

Hearings on H.R. 9900 Before the House Committee on Ways and Means, 87th Cong., 2d Sess., pt. 2, at 897–98 (1962).

Another Administration spokesman, Secretary of Commerce Luther H. Hodges, gave broad assurances that the government would not act under the 1962 legislation so as to undermine other statutory protection against unfair foreign competition:

"And I am resolved that the Government shall take no action in the field of tariff policy that will work undue hardship to U.S. industry, workers, and farmers through *unfair foreign competition*." Hearing on H.R. 9900 Before the House Committee on Ways and Means, 87th Cong., 2d Sess., pt. 1, at 81 (1962). (Emphasis added.)

Section 201 of the 1962 Act confers authority upon the President to modify "other import restrictions" as well as duties under specified circumstances but the legislative history suggests that the term "other import restrictions" refers primarily to quotas:

"He [the President] can also impose additional import restrictions (*e.g.*, quotas)." H.R. Rep. No. 1818, 87th Cong., 2d Sess. 2 (1962).

"The basic grant of authority also permits the modification of existing import restrictions other than duties, while at the same time authorizing the imposition of additional import restrictions (*e.g.*, quotas)." *Id.* at 14.

Although there are occasional instances within the legislative history of efforts to expand the term "other import restrictions" beyond mere quotas, it is significant that no such effort can be found which alludes to antidumping regulations:

"What are they [other import restrictions]? Embargoes, quotas, import licenses, currency manipulations, quarantines, and a decision that goods must be delivered within 5 days after they are manufactured." 108 Cong. Rec. 18674 (daily ed. Sept. 18, 1962) (remarks of Senator Curtis).

A memorandum on the 1962 Act prepared by the Tariff Commission and submitted to the House Ways and Means Committee suggests a very limited delegation of authority to the President to modify duties or other import restrictions. This limited authority is inconsistent with the bald assertion of power by the office of the Special Representative for Trade Negotiations in revising and amending the Antidumping Act of 1921, even if some justification could conceivably be found for treating antidumping regulations as coming within the scope of "duty or other import restrictions:"

"The existing authority to proclaim modifications of existing duties is apparently intended to permit the President to make rate and classification changes *within and subordinate to the statutory structure* of the tariff classification schedules, and not permit him to change the scope of *any statutory provisions*. In any event, whatever the President's ultimate authority under section 350 (a) (1) may be, he has so confined his proclaimed 'modifications.' It is assumed that there would be no departure from past practice in exercising the authority under the new legislation." Hearings on H.R. 9900 Before the House Committee on Ways and Means, 87th Cong., 2d Sess., pt. 2, at 923 (1962). (Emphasis added.)

The United States Senate reaffirmed, by its adoption in 1966, of Senate Concurrent Resolution 100 that there was no authority in the Trade Expansion Act of 1962 for any negotiations concerning antidumping. The Resolution stated that it was the sense of the Congress that no trade agreement or other arrangement under the Trade Expansion Act of 1962 should be entered into except in accordance with legislative authority specifically delegated by Congress. The report filed by the Senate Finance Committee, recommending adoption of the Resolution, concluded as follows:

"The Committee on Finance has been disturbed over reports that the current Kennedy Round of tariff negotiations may be broadened to include U.S. offers of concessions with respect to matters for which there is no existing delegated authority. . . .

"It has been reported that one area in which our negotiators may offer concessions concerns the American selling price method of evaluation. . . .

"*Another area may involve the treatment of 'dumped' goods by the country in which the dumping occurs. This problem concerns unfair trade practices in a domestic economy and it is difficult for us to understand why Congress should be bypassed at the crucial policymaking stages, and permitted to participate only after policy has been frozen in an international trade agreement.*" (Emphasis added.)

It is thus clear that the negotiation of the International Antidumping Code was without legal authority and in clear defiance of a Senate Resolution. The substantive revisions and amendments of the Antidumping Act of 1921 which would be required by the International Antidumping Code can be legally accomplished only by the Congress.

It is for this reason that the Ways and Means Committee should report out favorably H. Con. Res. 447 which would express the sense of the Congress that the International Antidumping Code may not become effective without specific Congressional approval, and take action to postpone the July 1 effective date for the Code.

COVINGTON & BURLING,
Counsel to Cement Industry Antidumping Committee.

The CHAIRMAN. Mr. Harr. Mr. Harr, if you will identify yourself for the record and identify those associates with you at the table we will be glad to recognize you, sir.

STATEMENT OF KARL G. HARR, JR., PRESIDENT, AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, ACCOMPANIED BY ROBERT G. McCUNE, CHAIRMAN, INTERNATIONAL COMMITTEE, AND MARSHALL J. GARRETT

Mr. HARR. Mr. Chairman, members of the commitee, I am Karl G. Harr, Jr., president of the Aerospace Industries Association of America.

With me are Mr. Robert G. McCune of Lockheed Aircraft Corp., who is the chairman of our international committee and Mr. Marshall J. Garrett, who works on our IAA staff in charge of our international committee activities.

The CHAIRMAN. Mr. Harr, if it is necessary for you to omit any parts of your prepared statement in order to comply with our situation, do so with the knowledge that the entire statement and the materials appended to it will appear in the record.

Mr. HARR. Yes, it is a fairly brief statement we prepared. I welcome this opportunity to express the aerospace industry's views on tariffs and trade proposals. This association includes the major manufacturers of aircraft, powerplants, their components, and accessory equipment; guided missiles, space vehicles, and their propulsion systems; navigation and communications systems; and the various parts and materials used in the construction, operation, and maintenance of aerospace products, both commercial and military.

The aerospace industry's gross sales in 1967 were $27.2 billion, of which a record $2.2 billion or 8.3 percent of the total were exported, making it one of the Nation's principal manufacturing exporters. This industry last year accounted for more than 40 percent of the Nation's merchandise trade surplus. Its revenue from international sales annually has exceeded $1 billion in 10 of the last 12 years.

Currently, commercial exports deliveries alone are generating a return of $3,000 per minute of every hour of every day. This is an impressive amount and takes on added significance when compared with last year's performance. Total first quarter commercial and military aerospace exports this year rose to $713.3 million from $506.8 million, a 44.3-percent increase above the same period in 1967.

Major aerospace manufacturers report that the export backlog of commercial aircraft alone exceeds $2.6 billion. These orders include only transport aircraft in commercial use today. Not far down the line of air transport developments are the DC–10, L–1011, the 747, and the supersonic transport, all of which are, or undoubtedly will be bought by foreign air carriers. In fact, a recent study published by Dillon, Read & Co., of New York, forecasts that export sales of U.S. commercial jet transports over the next decade will exceed $13 billion, an anticipated gain of 300 percent over the $3.2 billion in commercial transport sales during the past decade. These facts and figures clearly demonstrate the present and future capability of the aerospace industry to contribute to the Nation's economy and assist in reducing the balance-of-payment deficit.

I would like to point out that any measures taken by the Government to create international trade greatly affects the general aviation, utility, and helicopter categories of the aerospace industry.

For example, the total export figures previously mentioned includes 3,000 units of general aviation or utility aircraft exports valued at

$91.2 million in 1967. Annually, 20 percent of the total sales of the general aviation industry have been made abroad.

At present the general aviation industry is projecting a $1-billion level of sales to be reached by 1973 with exports accounting for $200 million of this total and a consequent benefit to our balance of trade.

A more modest growth pattern is emerging in the helicopter category. In calendar 1967 its civil export sales were 220 units at a value of $27.3 million. These sales have grown at a rate of 146-percent increase during 5 years and this trend is predicted to continue.

These forecasts are significant only as long as industry can freely compete in the international marketplace unencumbered by artificially erected barriers. The aerospace industry is understandably concerned that its export market will suffer severely if our Nation assumes a protectionist trade role.

I would like now to comment briefly on H.R. 17551.

The aerospace industry favors the provisions of H.R. 17551, the Trade Expansion Act of 1968. Our members actively supported the 1962 act and provided detailed information on the aerospace industry export position to the U.S. special representative for trade negotiations for use in the Kennedy round of deliberations in Geneva. AIA continues to support legislation which embodies the principles of free trade on a fair and equitable basis for all nations.

Section 201, title II of the proposed act, which would extend the authority of the President to enter into trade agreements, reaffirms to our traditional trading partners that the United States continues to promote equitable trade practices.

Because of the substantial level of aerospace industry exports, we have no experience in adjustment assistance to firms and workers as proposed in section 301 of title III. We recognize certain sectors of the national economy might suffer from unemployment or underemployment because of imports, and do not oppose liberalization of the criteria of eligibility for adjustment assistance to firms and workers.

For many decades the United States has been involved in a technological revolution that has recorded many shifts in labor patterns. We have learned that technological advances create new industries and new jobs and result in an expanded and more prosperous total labor force. While recognizing that governmental assistance may be necessary in certain instances, we suggest that commercial aerospace export sales alone will generate an additional 30,000 jobs per year over the next 10 years, and that this industry has a demonstrated capability to train new employees to meet its requirements. For example, in the 1939–41 period the aircraft manufacturing industry multiplied its labor force by five times.

The aerospace industry supports elimination of the American selling price system of determining the value of certain imports for establishing tariffs. To the best of our knowledge, that system has long since served its purpose. We support its elimination since, by so doing, we erase one U.S. nontariff barrier and support our position in recent trade negotiations to eliminate all nontariff barriers.

Briefly, the aerospace industry considers this new act adequate to carry forward America's position in world trade for the immediate future.

The aerospace industry is keenly aware of the increasing exposure of its exports which are keeping pace with the rapid rate of growth

of the world's air carrier industry. It is no accident that the United States supplies more than 72 percent of the transport aircraft in airline use throughout the free world. Even though the United States lagged behind the British in operating jet transports on international routes, the industry arrived at its present position much the same way as other elements of the U.S. economy. World markets have been won by designing and building products that are safe, reliable, economical, easy to maintain, and backed by a vast network of manufacturers' service organizations.

It is the belief of aerospace exporters that, in the event import quota legislation of any kind enters the pattern of U.S. foreign trade policy, our overseas aerospace sales would present an obvious target for retaliation. Even though the aerospace industry makes no effort to restrict aerospace imports, retaliation would not be drawn on an item-by-item basis. We believe we would be hit and hit hard for at least one very substantial reason. Formidable competition in Europe and the Far East can meet the requirements of foreign air carriers worldwide on a model-by-model basis from the SST to business and utility airplanes, helicopters, and military aircraft.

It has been the experience of our transport aircraft exporters that loss of any one major market for any reason has involved an approximately 10-year recovery cycle before U.S. equipment can be reintroduced.

Not only has the aerospace industry become the largest manufacturing employer in the United States, but of 1.4 million direct employees, approximately 100,000 are directly involved in export work.

The aerospace industry has no way of determining to any precise degree how many export orders would be canceled or lost or what the reduction in direct and indirect labor forces would be should this Nation follow the course of protectionism. But if import quotas were imposed on U.S. aerospace exports and foreign competition moved in on our traditional markets, the loss to the U.S. economy would be incalculable.

Foreign aerospace interests are either wholly or partially government owned and, in most cases, government controlled. The first time a U.S. import quota proposal is successful, the aerospace industry could be the first target for harmful countermeasures.

Our industry support Government programs which seek to expand international trade for all elements of the U.S. economy. We have established an effective rapport with the appropriate Government agencies and have benefited from their assistance. For example, we have worked with the Office of International Trade Promotion of the Department of Commerce in their presentation of U.S. trade center exhibits in the world's major cities. These exhibits have produced a continuing record of sales successes for aerospace products just as they have for other commodity groups.

We endorse the announced objective of the administration to induce more firms to enter the export field, especially the smaller manufacturers. Many firms in this category have an export potential, but are unable to afford the cost of developing export markets. We suggest that offering a form of tax incentives for export trade promotion might prove sufficient inducement to attract larger numbers of such companies to enter the international marketplace.

While the subject of export financing may not be within the purview of this committee, we believe the Congress should express its endorsement of competitive U.S. source financing as a key element in the future foreign trade policy of the United States.

In summary, I believe I have described the magnitude of the aerospace industry's annual business and its broad potential to increase the Nation's favorable balance of trade. In our view, a realistic free trade attitude expressed by the Congress, precluding protectionist legislation, will bolster the Nation's present and future position in world markets.

Our position in support of a free trade policy by the United States dates back many years, and as recently as May 21 we responded to another opportunity to express the industry's collective views on matters of tariffs and trade before the U.S. Trade Information Committee. I would like to submit a brief prepared for that committee, entitled "U.S. Trade Policy and the Aerospace Industry" for inclusion in the record.

The industry is convinced that the balance-of-payments problem will not be solved by any short-term measures which may restrain our free enterprise system from pursuing international markets. Nor will it ever be solved in this decade if import quota legislation in any form is adopted as a national expression of trade policy. If we were to do so, we could promptly and rightly expect retaliation that would make a shambles of any free trade concepts and an end to trade expansion.

We must work toward reciprocal elimination, not only of tariffs, but also of the multiplicity of varied nontariff barriers.

In short, for the aerospace industry to make a maximum contribution to our national trade surplus requires only a reaffirmation and extension of existing policy and practice.

Thank you very much.

(The brief referred to follows:)

U.S. TRADE POLICY RECOMMENDATIONS BY THE AEROSPACE INDUSTRY FOR THE U.S. TRADE INFORMATION COMMITTEE

Position Paper of the Aerospace Industries Association of America, Inc.

"FUTURE OF U.S. FOREIGN TRADE POLICY"

This paper is submitted under the provisions of the Notice of Public Hearings, "Future of U.S. Foreign Trade Policy" appearing in the Federal Register of December 15, 1967. (Docket 67–4)

Spokesmen for the industry are:	
Karl G. Harr, Jr., President, Aerospace Industries Association, Inc.	Introduction.
Ronald C. Cox, Treasurer, Douglas Aircraft Company and, Assistant Treasurer, McDonnell Douglas Corporation.	Export Financing.
Frank E. Hedrick, President, Beech Aircraft Corporation.	General Aviation Aircraft.
G. W. Taylor, Area Director—International Sales, The Boeing Company.	Transport Aircraft.
Robert G. McCune, Director, U.S. Government Programs, Eastern Region, Lockheed Aircraft Corporation.	Military Exports.
Arthur J. Burrows, Assistant to Vice President, Avco Lycoming Division.	Competitive Trends.

Introduction

The Aerospace Industries Association of America, Incorporated, represents 58 manufacturing companies which in 1967 produced over 80 percent of the total U.S.-manufactured aerospace products. The U.S. aerospace industry includes the major U.S. manufacturers of aircraft for passenger transport, cargo, general aviation and executive travel, helicopters, related power plant components and accessories equipment, guided missiles, space vehicles, propulsion systems, navigation and communication systems and various parts and materials, used in the construction, operation and maintenance of aerospace products, both commercial and military.

The total U.S. aerospace sales during 1967 were $27.2 billion of which $2.2 billion were exported. The aerospace industry is one of the nation's principal manufacturing export industries and its export revenues have annually exceeded $1 billion in 10 of the past 12 years. In 1967 the aerospace industry trade balance amounted to 44 percent of the U.S. merchandise trade surplus!

In the period between 1958 and 1967, aerospace industry export sales have risen from $1,398 million to $2,248 million, an increase of 61 percent. These sales in 1967 represented 7.2 percent of all U.S. exports. In the same year, aerospace exports represented 8.3 percent of the industry's total sales. The aerospace industry has significantly contributed to our nation's export trade and balance of payments position.

This Association, formed in 1919, has played an active role in the progressive development of U.S. aerospace exports, and emphasizes the reciprocal concept in the removal of trade barriers to the greatest practical extent. A liberal but realistic policy concerning international trade is the fundamental position of the U.S. aerospace industry.

The U.S. duty on "Aircraft and Parts" is recorded and projected as follows:

	Percent		*Percent*
1930	30	1963	10
1948	15	1968	9
1956	14	1969	8
1957	13	1970	7
1958	12	1971	6
1962	11	1972	5

It is interesting to note that extensive foreign licensing programs by aerospace firms, including joint ventures, bring to the nation an additional dollar income, beyond that earned by direct exports.

Competitive trends

In the past several years, there have been a number of subtle changes in the world market conditions, resulting in greater competition in international markets.

The British aerospace industry has combined a number of companies so that the few remaining corporations represent the hard core of their technology.

The same phenomenon is visible in the continental European countries, where mergers or close working relationships are producing formidable competitors in France, Germany and Benelux. Close collaboration among the Japanese aerospace companies is also helping their competitive capability.

In most industrialized countries governments endeavour to strengthen their aerospace industry. Consolidations and rationalization between aerospace companies within one country have essentially eliminated internal competition. The export of aerospace hardware is openly supported by the respective governments. This support can take two ominous forms:

(*a*) Direct financial support of exports, either through subsidization of the hardware program, or through favorable financing arrangements for export orders.

(b) Use of political power in facilitating a sale, such as bilateral trade agreements between governments, concerning other products not necessarily related to the aerospace industry.

Another shift in the competitive environment is caused by collaboration between the industries of two or more countries. In the commercial field the prime example of this is the Concorde, but the same technique is being used in developing the F.28, VFW.614, and the European Airbus (A.300). Examples in the

military field are even more abundant—the Jaguar strike fighter, the SA.340 and WG.13 helicopters, the Milan and HOT anti-tank missiles.

France, with half of its aerospace industry government-owned and all of it government-controlled, has moved into the international field. It has sold the Mirage fighters in the Near East and South America (Peru and Brazil). The same aircraft is being produced in Australia for their air force and also in Switzerland. Belgium has just announced plans to manufacture it. In all these cases the Northrop F5 was in contention but the French offered special inducements which the U.S. company could not match. The French also have sold fourteen hundred Alouette helicopters to fifty-five countries in the world.

Japan is another contender in the world marketplace. It has sold their YS11 to airlines in the United States, Southeast Asia and South America. Since it is not a member of the Berne Union Agreement, it is not restricted by the agreement in granting unusual credit terms.

But the competition which, in the long run, offers the greatest problems to U.S. aerospace industry comes from the Soviet Union. Its aircraft industry is second in size only to that of the United States. While its reputation among the aircraft-exporting nations of the world is considerably lower than its size would warrant, there are indications that this situation is very likely to change in the foreseeable future.

In the past, Russia has sold largely to Bloc countries and to developing African nations. Dissatisfaction with their equipment has centered around low utilization, excessive ton-mile costs, high depreciation, scarcity and extremely high costs of spare parts and engines, shortness of engine life and the Soviet Union's reluctance to release performance and operating data. Another significant deterrent has been the lack of service facilities outside the U.S.S.R., making it necessary in many cases to return equipment to the Soviet Union for major overhauls and repairs.

More recently they have taken steps to correct these shortcomings and study the methods of the world's airlines. The Soviet Union and Britain have signed a five-year agreement to share technology and scientific capabilities. Activities during the first year are centered around the exchange of statistics on Soviet and British engine service life and operational failures. Reports also indicate that the Russians have signed an agreement with the French to advise them on service and maintenance of their commercial aircraft. These agreements should assist them materially in avoiding complaints about their commercial products.

It appears that the Soviet Union's promotion of aircraft exports is a means to achieve political ends, and various strategems are employed to stimulate export sales. Generous terms are offered to prospective customers, terms usually more favorable than those proffered by Western firms. A concrete example of this has been experienced by the Fairchild Hiller company in Brazil. There the Soviet Antonov–24 aircraft was offered in competition with Fairchild Hiller at approximately one-half of the price of U.S., British and Japanese aircraft. Interest rates as low as 3½ percent were quoted. Obviously, no U.S. company could long stay in business if it tried to match these terms and conditions. And the Soviets have only begun their attempts to penetrate the Western commercial markets.

The U.S. aerospace industry sees these challenges clearly and intends to overcome them. Its competitors now are to a degree state-owned monopolies, especially in France and Russia. Therefore, competitive conditions of sale can be expected to be influenced by political considerations. Therefore, prices, terms and conditions may have no correlation to costs.

It is difficult for private industry to compete with nationalized foreign companies. When these competitors combine to challenge the U.S. aerospace leadership, the confrontation becomes formidable. Technology is more widely spread and competition more intense. For all these reasons the continued cooperation of U.S. government with the aerospace industry, within the framework of free enterprise, is imperative.

A.1 Export Tax Incentives

Specific export tax incentives should be examined by the Trade Information Committee. There is ample precedence of tax rebate or reduction programs in other countries equally interested in export expansion. The recognition that export earnings strengthen the financial posture of the country promoting such incentives makes it mandatory for the industry to give the matter close attention. The response of U.S. industry to the availability of an investment tax credit

demonstrates that fiscal measures can be an effective tool in stimulating greater effort towards a particular goal. The same response can be expected from an emphasis on exports through a well conceived tax incentive program. The AIA will lend its fullest cooperation to the development of export stimulation through tax incentives.

A.2 Revision of Aerospace Tariff Nomenclature

In the past, parts, components, accessories, subassemblies, and instruments pertaining to a complete operating aircraft have generally been given customs treatment equal to that of the complete aircraft. At times, however, certain parts, instruments or components have been applied tariff rates pertaining to their generic classification. Such variations in customs treatment may be precluded by revising the aerospace tariff nomenclature and classification to avoid ambiguities.

Most European countries have adopted the Brussels nomenclature classifying aircraft products as follows:

ex 88.02 Aircraft (airplanes, helicopters, etc.):
- A. Operating without motors (e.g. gliders).
- B. Operating with a propulsion machine:
  - I. Helicopters, with empty weight of:
    - a. 2,000 Kg. or less.
    - b. More than 2,000 Kg.
  - II. Others, with an empty weight of:
    - a. 2,000 Kg. or less.
    - b. From 2,000 Kg. to 15,000 Kg.
    - c. From 15,000 Kg. to 35,000 Kg.
    - d. More than 35,000 Kg.

ex 88.03 Separate parts and accessories of aircraft.

In the U.S. tariff, "aircraft and parts" is one basket item. This has presented difficulties during negotiations. It is true that the item can be split into as many sub-classifications as necessary, but when time is short and simplified procedures like the linear method of negotiation are adopted, sub-classifying has not been restored to. This results in unequal, uneven exchange of concessions.

For statistical purposes, the TSUS classifies aircraft and parts as follows:

Airplanes, all	TSUS 694.40
Airplanes, military, all types	TSUS 694.40–10
Airplanes, nonmilitary, used or rebuilt, all types	TSUS 694.40–20
Airplanes, nonmilitary, rotary wing, all types, new	TSUS 694.40–30
Airplanes, nonmilitary, new (not rotary wing) less than 10,000 lbs., empty weight	TSUS 694.40–40
Airplanes, nonmilitary, new (not rotary wing) 10,000 to 30,000 lbs., empty weight	TSUS 694.40–50
Airplanes, nonmilitary, new (not rotary wing) over 33,000 lbs., empty weight	TSUS 694.40–60
Parts, aircraft and spacecraft	TSUS 694.60

This classification was worked out with industry cooperation. There is a need for either of the following alternatives:

(1) Bring into harmony the U.S. and European classifications (not necessarily rates), or

(2) Adopt one of the two classifications for all countries concerned.

A.3 Amending Customs procedure legislation to allow certain innocuous substitutions of aerospace components, under Temporary Import Bond

Imported components are brought in under bond which are released when the component temporarily imported is reexported. However, it sometimes occurs that a component intended for a foreign customer is shifted to a domestic customer with the result that the component temporarily imported and intended for reexport is used for domestic aircraft and vice-versa. To obtain release of the bond on the component retained in the domestic aircraft, the identical numbered component would have to be removed and replaced—a rather prohibitive exercise. If substitution could be permitted of identically the same component differing only in serial number, this difficulty could be removed.

A.4 Inclusion of senior aerospace executive in future negotiations vital to industry

In any major international negotiation involving vital interests of the aerospace industries in which the U.S. Government participates whether on the subject of tariffs, taxation, or any other tariff-trade factor, there should be

as part of the U.S. official delegation a senior aerospace industry executive to support and advise the U.S. Government officials. Whether the industry representative goes as a mere observer or as an integral member of the delegation, he will be technically qualified and supported in this position by AIA as well as any company involved in the subject matter of the negotiations.

A.5 Method for future trade negotiations. **(Ref. item (d) in notice of public hearing.)**

The interests of the aerospace industries can best be served only by item-by-item negotiations because of the many peculiar and unique but important considerations. The aerospace industries of the European Economic Community must have come to the same conclusion when in the Rome Treaty aeronautical products were placed under List G. Also, concurrently with the signing of that Treaty, the member states signed Protocol XVII providing for transitory adjustment in the customs treatment of large air transports for public transportation.

The experience of the aerospace industries with linear negotiations as conducted during the Kennedy Round was not at all an improvement over the same method used during the Dillon Round. We do not recommend the linear method for aerospace products.

Sectoral or commodity group negotiations could be meaningful if the commodity grouping is such that items grouped are actually conformed to business practice with identical markets and trading problems. However, when aerospace products are lumped in a "steel sector," the dilution of impact on each item results in a meaningless simplification. We do not recommend this method for aerospace products, unless the items are so grouped as to accommodate the special needs of each participant.

Neither do we believe in harmonization of tariffs unless the industries whose tariffs are to be harmonized are all under one soverign authority. Varying situations require different tariff rates even to achieve equal degrees of protection.

Any free trade area involvement of the aerospace industries should be very carefully studied in advance for possible implications in each specific instance.

We subscribe to the emphasis on non-tariff barriers because this is the area where it is felt tangible improvements in the export potential of aerospace exports can be realized if negotiated intelligently and realistically. This is covered more specifically in sections B. and C. below.

A.6 Trade Policies Particularly Affecting Developing Countries. **(Ref. item (e) of Notice of Public Hearing.)**

The aerospace industries could benefit if the developing countries were aided in their economic development by tariff preferences, not necessarily in aerospace products which they do not produce but in products which they are uniquely suited to produce effectively and efficiently.

Developing countries dependent upon exports of a few primary commodities can be aided through commodity agreements which would improve their terms of trade.

Very careful consideration should be given to giving U.S. support and sanction to regional integration aimed at geopolitical objectives where the economic and trade consequences to the United States may be costly in terms of trade loss, diversion or distortion without any assured stimulation, either immediate or prospective.

A.7 Problems of Adjustment. **(Ref. item (f) in Notice of Public Hearing.)**

The adjustment assistance concept of the Trade Expansion Act of 1962 assumes acceptance of the idea of a U.S. industry being considered "expendable." It may be conceivable that this approach would be justified in certain small industries; however, it is difficult to conceive of its applicability to the aerospace industries because of their defense orientation and of the magnitude of adjustment assistance funding which would be required in the event that such assistance were applied.

A.8 U.S. Government Investment Controls

Aeorspace, per se, as compared with other commodity groups, is not as hampered by the new regulations which curtail future overseas investments and call for heavier returns of earnings from abroad. However, some members of our Association have a wide spectrum of products covering many industries and are, therefore, significantly affected by the regulations. It is recognized that the

situation is quite complex and that there are no easy solutions to this aspect of the balance of payments problem. Nonetheless, the problems must be evaluated in light of the fact that U.S. private enterprise is not only the largest but also a growing source of dollars earned abroad. The total contribution of earnings to the balance of payments has risen from $17.4 billion in 1966 to $19.8 billion in 1967.

Some of the basic problems include discouragement of repatriation of earnings by foreign governments, the difficutly in controlling repatriation where U.S. firms hold a minority intrest and the reduction of profitability of foreign subsidiaries—which in the long run could worsen the balance of payments problems. These issues become magnified by the fact that companies which have cooperated in the voluntary program are now penalized more heavily than those which cooperated to a lesser degree.

B.1 Export Financing

Effective export development of aerospace industry products hinges to a very large extent upon adequate financing: availability, timing, costs, and interest rates, and tailoring of terms to specific situations, especially in the growing markets of developing countries. Flexibility demands that existing operational procedures of financing institutions and regulatory bodies allow them to carry out the main objective of promoting aerospace exports. Provisions should be made for (1) Export-Import Bank guarantees on national interest non-military credits in developing countries, or for (2) a fully adequate and dependable export rediscount facility, or for (3) reduced interest rates to match foreign competition.

Financing aerospace exports involves large sums, because of the magnitude of commercial aircraft prices. By the same token, the contribution of aerospace exports to the U.S. trade surplus is exceptionally large (See Table A attached).

A recent study made by a leading aircraft manufacturer showed that the average annual exports of commercial aircraft during four periods (1947–58, 1959–68, 1969–75, 1976–85) have risen or will rise at the ratio of 1 : 6 : 10 : 20. This includes piston airplanes, current subsonic jets (707, DC–8, etc.), high-capacity jets (747, stretched DC–8, airbus) and supersonic jets.

Recommendations Regarding Export Financing.—a. To implement the President's New York's message on the balance of payments by allocating $500 million of Export-Import Bank resources for liberalized credits to developing countries. This is similar to what the Export Credits Guarantee Department (ECGD) of the United Kingdom has allocated for "national interest" export credits. Applied to the aerospace industries, this facility will enable the Export-Import Bank to match competitive financing terms hitherto impossible.

b. To enlarge the sources of export financing by enabling institutional investors, not now able to do so, to finance aircraft exports beyond the current 7-year term. This includes providing Eximbank guarantees (or alternative type of government guaranty as may be necessary) to loans by such institutional investors over the extended repayment period. If applicable, such guaranty should also be made available to non-U.S. financial institutions, e.g., to Euro-dollar transactions involving U.S. exports.

c. To provide through the Export-Import Bank fully adequate rediscount facilities for export papers as recommended by the President in his New Year's message. Such facilities will stimulate exports which are often delayed or impossible for no other reason than export financing.

d. To modify the practice of securing manufacturer's participation in export financing by the Export-Import Bank where private credits backed by government guaranty clearly indicate that such participation is unnecessary. The exporter's participation is usually required to ensure his continued support to the transaction after completion of sale. In the commercial aircraft industry, the exporter's involvement after sale is an inherent necessity. In fact, there are few if any other industries which practice post-sale servicing to the same degree.

e. To make available the benefits of Export-Import Bank guarantees to manufacturers participating in guaranty or loan transactions in a manner enabling them to dispose of such participation without severe interest penalty. These guarantees can be made available after due "seasoning" of the credit.

f. To provide, when necessary, government assistance in the form of adequate guarantees relating to repossession, expropriation, inconvertibility, and war risk and insurrection in those instances where leasing of aircraft from a U.S. source cannot be executed due to lack of adequate protection from political

risks. Such guarantee may also be desirable in cases of direct financing of an aircraft sale.

g. To develop adequate support by private and governmental sources to provide effective export financing programs applicable to used aircraft sold abroad directly by U.S. airlines without involvement of the aircraft manufacturer in the transaction.

h. To remove the 103% Federal Reserve limitation from any export of specific aerospace products clearly identifiable with a transaction involving a qualified developing country.

B.2 Proposed Travel Restrictions

The industry, through this Association, submitted written testimony earlier this year to the Ways and Means Committee, U.S. House of Representatives, opposing the imposition of a tax on travel expenditures abroad as proposed by the Administration. Our belief is, to quote from our paper, that—"We are concerned that unintended effects of a Travel Tax Program may have an adverse impact not only on expected gains in balance of payments, but on other economic considerations as well, substantially outweighing any benefit that may arise from its enactment into law."

What we now add to that is a further thought for this Committee. Apart from what we believed then would be a severe loss of international orders for U.S. aircraft as an aftermath of travel curtailment, new trade policy of the United States might be the proper vehicle to make it abundantly clear to the world of free trade that increased travel is encouraged—that denying it from our side is no less an undisguised form of protectionism.

We make reference to this issue because of our understanding that the Chairman of the House Ways and Means Committee, although temporarily suspending consideration of the travel expenditure tax, has indicated that it might be reassessed, conditioned on future actions of the Administration on matters that do not bear on trade policy but are directly related to the balance of payments deficit.

B.3 Nontariff barriers

General Remarks.—In actual competition with the United Kingdom and France for export sales in third markets, U.S. manufacturers of commercial air transports have generally found nontariff barriers more bothersome than tariff duties. On a long term basis, the most significant such nontariff barriers to our sales efforts are:

a. Unpredictability of customs treatment.
b. Subsidies of various types.
c. Export rebates.
d. Use of government pressure in case prospect intends to buy U.S. aircraft.

B.3a Unpredictability of customs treatment—Waivers

The United Kingdom, Canada and EEC apply certain customs treatment to transport aircraft in an unpredictable manner. Neither the exporting manufacturer nor his potential customer can be sure if duties will be invoked. Therefore, the actual cost of acquisition remains in question. Under these circumstances, it is necessary to figure cautiously, i.e., on the high side—a practice which seriously damages the competitive position of the U.S. exporter. This should be contrasted to the ruling as it is followed in France, where any transport aircraft for public use is exempt from duty.

The damaging effect of unpredictability cannot be alleviated by tariff reductions alone if even the reduced tariff is waived by one partner to the agreement, but not by the other. The reduction from an applied 10% to an applied 5% is too high a price to pay in exchange for a reduction from a nominal 10% to a nominal 5%, which through waiving becomes in effect 0%.

In the absence of specific authority on the part of the President to negotiate certain nontariff barriers, the U.S. negotiating team accepted the above described unequal exchange of concessions. It is recommended that in the future the President be given authority to modify or bind existing customs regulations and practices.

B.3b Subsidies of various types

The aerospace industry is a fertile field for the application of many different subsidies:

(1) Direct export subsidies and export finance subsidies.
(2) Direct production subsidies.

(3) Direct development subsidies.
(4) Military orders for commercial aircraft or joint civil/military development.
(5) Major system development, including funding for engines, electronics, and so forth, or direct subsidy for components or materials.
(6) Subsidized technological development in such areas as aerodynamics, structures, propulsion and systems.
(7) Government risk reduction programs including guaranteed sales and financing.
(8) Deficit write-off in government-owned manufacturing plants or special credits for social benefits.
(9) Special tax treatment for exports.

The interpretation of the term "subsidy" is a broad one and subsidies cannot be evaluated or exchanged on a one-for-one basis. In the face of this inequality, it may be necessary to invoke countervailing duties as an equalizing factor. Under U.S. customs law, this is possible only where duties exist. It is, therefore, recommended that duties which can be applied as offsetting measures to the subsidies be not completely abolished, and further that the industry itself be given an opportunity to analyze, categorize, and evaluate the subsidies with which it is faced.

The limitation of the application of countervailing duties to items still dutiable (excluding those already in the free list) would appear to be based on the assumption that if an industry has allowed its import tariff to be eliminated, it must have no need whatsoever for tariff protection.

We are not in a position to ascertain how sacrosanct Section 303 of the U.S. Tariff Act of 1930 is, which provides this limitation. But if legislation can be modified to provide proper safeguards against contingent subsidized foreign competition, future trade negotiating teams would have more leverage to apply.

B.3c Export Rebates

Up to April 1, 1968, exports of aircraft and other aerospace products from the United Kingdom were entitled to rebates of at least one and one-half percent of value as a direct incentive. The withdrawal of this rebate was negotiated as part of the terms and conditions under which the United Kingdom was given time and support by the international monetary authorities to redress her balance of payments deficit at the time of the devaluation of the pound sterling last November. Considering the range of transport aircraft prices from three to ten million dollars each, this one and one-half percent rebate varied from $45,000 to $150,000 per airplane.

B.3d Government Pressures

The following are examples of government pressures:

Aerolineas Argentinas considered ordering U.S. flight equipment when the U.K. Minister of Aviation entered the negotiations and used the fact that England is a heavy importer of Argentina's meat, grain, wool and other products. When New Zealand was about to buy U.S. aircraft, it was asked to apply the full duty of 5% in consideration of the fact that it benefited from the British Commonwealth preferential agreement. In addition, veiled threats were made which put New Zealand's exports of butter and meat products to the U.K. in jeopardy. In another case South Africa planned the purchase of U.S. helicopters. The French representative made it known at that time that his government may review its imports of wines from South Africa.

There is no specific recommendation for redress on the part of the industry, beyond a request that the situation be studied and possible countermeasures be evaluated. The situation is particularly complicated by the fact that any governmental policy in the United States would have to take into account the free competition between U.S. aircraft manufacturers, while in the foreign countries mentioned internal competition is practically nonexistent.

General aviation exports

It is important to stress the diversified capability of general aviation aircraft by stating that it represents much more than routine capital goods in the transportation equipment category. Utility aircraft of the less than 20,000 lb. class are used in crop spraying dusting, aerial fertilizing, as well as seeding, fish restocking, pipeline surveillance, forest surveys, water bombing of remote fires, geographical and geological surveys, aerial ambulance, police work border pa-

trol—and, of course, the transport of many different types of cargo, and, obviously, personnel. No only has this type of transportation become essential to the industrial nations of the world but its value to the developing nations is even more immediate. A small grass landing strip hacked out of a jungle provides trade and communication links with the outside world.

The general aviation aircraft manufacturers have exported an average of 20% of total production during the period 1963 through 1967.

Approximately fifty different models of U.S.-manufactured general aviation aircraft totaling over 3000 units were exported in 1967 to 67 nations in the free world for a net billing amount totaling $91.2 million.

In recent years many millions have been spent to expand the worldwide sales and service organizations of the U.S. utility aircraft manufacturers. Because of this, we feel that it is significant that approximately 90% of the free world's general aviation fleet is made up of U.S.-manufactured aircraft. Constant state-of-the-art improvements in manufacturing techniques, coupled with strict operational controls, have helped the American utility aircraft to earn its stature as a reliable product. For this reason, we believe we can reliably predict exports of 3500 airplanes at an estimated manufacturers net billing of $100 million by the end of calendar 1968.

Strongly supporting the "free trade" concept, U.S. utility aircraft manufacturers call for reciprocal "zero in—zero out" trade in respect to tariffs, taxes and other nontariff barriers. The unrestricted marketplace, both foreign and domestic, will provide the appropriate and equitable sales environment for substantial growth. General aviation sales are expected to double in the next five years, to reach this $1 billion mark at the end of the five year period. These exports are projected to continue to remain 20% of total annual sales during this time.

To insure the competitive posture of U.S. general aviation producers in free world markets, we recommend appropriate U.S. Government action in the following specific areas.

C.1 Export financing—General aviation aircraft

Financing is the principal factor affecting the export sales of U.S.-manufactured utility aircraft. Whereas traditional commercial banking institutions have progressively recognized the industry's need for increased financing for aircraft, there exists a gap which has been reasonably well met by the acceptance corporations of the general aircraft manufacturers. We do not believe that the industry's capability to continue export financing can grow at the same rate as projected export sales.

The Eximbank, in cooperation with the Foreign Credit Insurance Association, has responded to export credit requirements for general aviation aircraft. However, these organizations have rather extensive procedures which require in some cases lengthy processing time for general aviation airplane loan applications. There has been some improvement in loan applications processing time but much more should be accomplished in this regard to insure our competitive position and provide reasonable reaction time to interested customers.

A realistic system of export insurance competitive to that in effect in other highly industrialized countries should have priority consideration.

C.2 Foreign import tax inequities

Value added taxes and border taxes which are levied by Western European nations on imports result in a device which effectively increase the cost of U.S.-manufactured general aviation aircraft. Germany in 1968 has adopted the system of added value taxes. France has traditionally levied the added value tax. Similar taxes continue to be a problem in Mexico, Argentina and Chile.

C.3 Tariff negotiations—Utility aircraft

* "Within EEC, no reductions were made on light aircraft and helicopters (under 2,000 kilograms), which remain dutiable at 12% and 15%, respectively. Both of these rates are bound. Duties had been temporarily suspended on aircraft over 15,000 kilograms and parts for such aircraft. The duty reductions established bound ceiling levels for rates on these products."

Consequently the common external tariff on 85% of the models of U.S.-manufactured utility aircraft still remains at 12% while the U.S. duty on all aircraft is being lowered from 10% to 5% by January 1, 1972. The U.S. duty is 9% at this

*Quote from General Agreement on Tariffs and Trade, Volume 1, Part 3, Office of the Special Representative for Trade Negotiations.

writing. In the EEC, obviously one of our principal market areas, the cost of the American airplane is increased.

We stress the importance of bringing these EEC duties down to the U.S. 5% level on a reciprocal basis prior to negotiations which finally reduce the U.S. duty to zero.

C.4 Special nontariff barrier

Differences in U.S. and British formula for arriving at general aviation aircraft airworthiness acceptance has created an artificial trade barrier of an unusual sort. The British Air Registration Board, the Federal Aviation Administration and members of the aerospace industry have consulted on the alleged differences in certification procedures. More assistance from Government will be necessary prior to final resolution to this problem.

D.1 Military exports

Member companies of this Association manufacture most of the military aircraft and related weapons systems exported either directly or through sales generated by the Department of Defense and the Military Services. This type of business, as stated previously, is not without brisk competition from abroad. It should be noted that our industry pursues this market only when a member of the family of free nations expresses a valid military requirement, has the economic capability of payment, and only when such sales are approved by the U.S. Department of State.

The chart which follows gives a ten year history of *sales* in military aerospace exports. These figures exclude grant aid shipments.

10-YEAR MILITARY EXPORT

[In millions of dollars]

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Complete aircraft	267.4	122.7	219.4	246.1	310.6	226.7	241.4	304.1	221.7	323.8
Engines	29.1	20.5	12.8	17.9	19.2	34.6	30.0	30.1	31.2	26.4
Parts, accessories, and equipment, including spares	379.7	290.7	291.4	413.2	578.3	541.1	475.4	287.6	250.4	308.8
Rockets, guided missiles, and parts	36.2	122.8	113.8	97.6	105.1	92.7	97.3	141.8	134.2	208.6
Total, military	712.4	556.7	637.4	778.8	1,013.2	895.1	844.1	763.6	637.5	876.6

Source: U.S. Bureau of the Census, Aerospace Industries Association.

What appears most significant to the aerospace industry is the restraint which the Department of Defense imposes not just on the manufacturers but on itself in measuring the propriety of selling military hardware in response to requests from abroad. The Department has stated that it determines favorably on an average of only one of every three cases of requests for purchase from overseas. The basic criteria of balance of power considerations, the economic dependability for purchase *and* long term capability of maintenance of expensive equipment, political stability—these criteria all come well ahead of balance of payments consideration. It is well they should and if these facts were to be more clearly illuminated, the outmoded allegation would vanish.

The aerospace industry takes a sophisticated interest in international military sales, recognizing their necessity for the mutual defense of the free world. It is aware of and abides by the controls, the governing rules and regulations and recognizes the need for them. Yet the industry believes it stands to lose the percentage of this market which is normally available to it unless the Legislative Branch of Government fully understands that our industry is more attuned to national interest and less to dollar return in this area.

The Congress is currently studying in Executive Session the recently introduced Foreign Military Sales Act of 1968. In separating military export sales from the Foreign Assistance Act, and calling for liberal reporting of activities in this field, the new Act tends to preclude and clear away the objections of the Congress which were surfaced last year. Certainly, there is no cloak of secrecy surrounding any industry sale of military equipment made direct to a foreign buyer. All such sales become a matter of public record at the time industry requests Government approval to negotiate with the customer.

It is the view of our industry that controls over its attempts to satisfy valid foreign military requirements are becoming more restrictive than before for other than the usual and normal considerations of national security. All other elements being equal, such as balance of power considerations in which industry has no voice, free nations having a valid concern with the defense of their people and property will buy modern equipment for that purpose wherever good equipment can be purchased. European competition is fast closing on the U.S. lead in airborne defense articles. Thus, if government-to-government sales are eventually to be the way these sales are made, we in turn support the proposed Foreign Military Sales Act.

Here, again, export sales of aerospace defense equipment normally entail a large dollar flow. It is recommended, therefore, that the Government be responsive to the necessity for adequate financing when such sales are declared a dependable undertaking by the proper approving agency.

TABLE A.—EXPORTS OF U.S. CIVILIAN AEROSPACE PRODUCTS[1], 1958 TO DATE

[Millions of dollars]

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
CIVILIAN										
Complete aircraft:										
Transports, new	228.9	143.7	480.1	262.5	259.2	190.9	211.1	352.8	420.8	611.4
General aviation, new	12.1	14.4	23.6	27.5	23.1	26.9	33.3	68.8	89.1	91.2
Rotary wing, new	9.5	8.1	7.7	6.9	8.8	9.8	14.6	16.2	11.6	25.3
Other, including used	35.9	22.7	25.7	37.9	36.7	16.5	28.1	39.4	30.9	61.4
Total	286.4	188.9	537.1	334.8	327.8	244.1	287.1	477.2	552.4	789.3
Engines:										
Jet and gas turbine	8.0	18.6	47.5	53.6	44.8	25.7	25.0	38.8	49.3	69.6
Internal combustion	40.3	25.1	23.2	21.7	18.2	19.4	21.7	17.4	27.7	31.6
Total	48.3	43.7	70.7	75.3	63.0	45.1	46.7	56.2	77.0	101.2
Parts, accessories, and equipment for aircraft, including spares:										
Engine spares and accessories	70.5	69.3	101.1	104.2	112.2	101.3	87.7	92.6	116.9	132.1
Other spares and equipment	280.1	236.6	379.8	363.7	406.8	341.4	342.3	228.5	288.8	357.9
Total	350.6	305.9	480.9	467.9	519.0	442.7	430.0	321.1	405.7	490.0
Total, civilian	685.3	538.5	1,088.7	878.0	909.8	731.9	763.8	854.5	1,035.1	1,308.5

[1] Revised.

Note: Total civilian aerospace exports, 1958–67: $8,900,000,000.

Source: U.S. Bureau of the Census, Aerospace Industries Association.

The CHAIRMAN. We thank you and those at the table with you for coming to the committee, Mr. Harr, and giving us the views of your organization.

Any questions?

If not, we thank you, sir.

Mr. HARR. Thank you.

The CHAIRMAN. The next witness is Mr. Edward H. Selonick of the American Retail Federation. If you will identify yourself for our record by giving us your name and capacity in which you appear and also identify those at the table with you we will be glad to recognize you, sir.

STATEMENTS OF EDWARD H. SELONICK AND VINCENT SAVONA, AMERICAN RETAIL FEDERATION

Mr. SELONICK. Good morning, Chairman Mills and gentlemen. We are not trying to sell you anything here this morning. We just thought you might like to see some random samples of department store and

chain store imports to which we will be addressing ourselves this morning.

My name is Edward H. Selonick, president of the Hecht Co., with stores in the District of Columbia, Virginia, and Maryland, and vice president of the May Department Stores, operator of 78 stores in 10 States and the District of Columbia.

I am representing the American Retail Federation, a federation of 48 States and 26 national retail associations and member retail companies. It is a privilege to appear before the Ways and Means Committee in support of the administration's Trade Expansion Act of 1968, and to have this opportunity to explain to you why the retail community believes in and supports a free trade program for the benefit of the American and world economy, the workingman, the businessman, and the consumer, and to explain to you why we must oppose restrictive import quotas concerning textiles, apparels, and other consumer products.

FEDERATION SUPPORTS TRADE EXPANSION ACT OF 1968

I would like to speak first about the three major purposes of the Trade Expansion Act of 1968. The first purpose of the act is to continue and strengthen the trade agreements program of the United States. History proves to us that America will thrive on an expanded trade program and will suffer irreparable harm from any step backwards in our position of responsible leadership in world trade. America has been the recognized world leader in the international trade system since the first Trade Agreements Act passed the Congress in 1934. In 1962 the Congress, through recognizing that our existing trade policy had served us well for nearly 30 years, was aware of a vastly and rapidly changing world economy and passed the Trade Expansion Act, which established a bold, far-reaching trade program that has already or eventually will benefit every person in the United States. Through the Kennedy round negotiations which resulted from the negotiating authority in the 1962 Trade Expansion Act, tariff barriers everywhere are falling, resulting in more jobs, lower prices, and other savings to consumers, and expanded world markets for American manufacturers.

America cannot rest for a moment in our efforts to face the problems of the changing world economic and trade situation, and retailing, therefore, urges that the Congress enable the administration to continue and strengthen the trade agreements program of the United States by extending the President's authority to negotiate settlement of trade problems and disputes as requested in the trade bill.

TRADE POLICY AND ADJUSTMENT ASSISTANCE

The second purpose of the Trade Expansion Act of 1968 is to establish a viable program of adjustment assistance for firms and workers affected by imports. The administration, and certainly retailing, recognize the special and distressing problems of certain industries, firms, and workers who have had difficulty in meeting foreign competition. Retailing supports the administration's proposal to make the adjustment assistance program in the Trade Expansion Act fairer

and more workable. Secretary of Labor Wirtz has earlier expressed to you his views on employment and our foreign trade policies, so I will not dwell very long on this provision of the administration's bill. There are facts to prove that far more jobs would be lost and far more industries hurt by raising world trade barriers than by expanding world trade. To quote Secretary Wirtz, "In recent years, expended trade and high employment have gone hand in hand."

There are, however, instances where firms, especially smaller firms whose output is limited to one single commodity of the same price range, are unable to compete with increased imports. I would like to quote from an extensive Tariff Commission study which was completed on January 15, 1968, which supports this "smaller firm" theory in the area of textiles and apparel:

> Thus, the effects of the imports of apparel, like imports of fabrics, vary greatly. Imported cotton shirts selling for low prices may have a considerable impact upon a small concern whose output is limited to shirts of the same price range, but have little or no effect upon that of a large, multiproduct producer whose shirts sell at substantially higher prices.

There should be adjustment assistance as provided for in the Administration's bill, available to firms and workers when increased imports have been a substantial cause of injury. This is the fair way to help those who need help and will not serve as a "bonus" to entire industries, particularly those segments which remain competitive and thriving, as would be the case should across-the-board quotas be enacted.

TRADE POLICY AND NONTARIFF BARRIERS

The third purpose of the Trade Expansion Act of 1968 is to promote the reduction or elimination of nontariff barriers to trade. America does hold a position of responsible leadership in world trade, and while we realize that many U.S. exporters are hurt by nontariff barriers such as border taxes, export subsidies and rebates, quotas, and others which exist in foreign countries, we feel that great progress can be made toward the removal of these restrictions if the administration's efforts are not impeded by restrictive barriers such as the quotas provided for in bills now before this committee: We feel that the administration should be given specific authority to negotiate with other countries concerning the elimination or reduction of nontariff barriers.

TRADE POLICY AND THE RETAILER

The majority of retailing has been historically free-trade minded and antiprotectionist. This does not mean that a majority of the merchandise sold in retail establishments in this country is foreign produced—far to the contrary. Our research shows that in 1966 imported consumer goods, including food, were valued at approximately $7½ billion while retail sales in the same areas were approximately $150 billion. Our own survey of a cross section of the larger retail operations indicates that between 5 and 10 percent of sales are derived from imported goods. Federal Government figures indicate that when all retail sales are considered, the percentage stays very close to a low 5 percent.

This leaves the domestic suppliers of the other 90 percent of our merchandise at a definite advantage and well able to compete—even the textile and apparel industries, with a few exceptions. A free-trade policy does, however, give retailing a bargaining tool to keep prices down, for we are able to shop the world over to stock our shelves with the items our customers want at prices they find attractive.

TRADE POLICY AND THE CONSUMER

Retailing is concerned with the entire scope of world trade—imports and exports. I must, however, narrow my scope for a moment and address myself to this committee about retailing's indispensable role—that of the "purchasing agent for the consumer." As a final link in the chain of distribution, it is the retailer who has a face-to-face relationship with the consumer, our boss. In fact, the consumer interest and the retail interest are the same. The consumer wants—and we want to give to her—the widest selection and the broadest assortment of merchandise at the lowest possible price.

She wants value. She wants freedom of choice. She wants style and creativity. It is obvious that any restrictions of trade that insulate American manufacturers from competition also restrict her choice in the marketplace. The aforementioned 10 percent of sales of imported goods is of enormous significance for this Nation's consumers. It adds abundance to the American marketplace, and this abundance, though it provides uniqueness and novelty for many, provides real dollar value for many more.

At this time when Congress is:

1. On the verge of passing a tax increase to fight rising inflation and prices and,

2. Faced with the problems of the poor, it is important that trade restrictions which would inevitably lead to higher prices be turned aside. I refer again to the previously mentioned Tariff Commission study which supports a significant point:

> With regard to apparel, the increasing level of imports in recent years reflects in great part the active efforts of both retail and wholesale institutions in the United States to broaden the variety of their product lines and the price ranges at which they are sold. A large but unknown portion of this merchandise is comparable to the domestic product both in terms of price and quality. A substantial proportion of the total volume and value of the imported merchandise appears to be made up of products which are of low price and are marketed principally in retail outlets which promote and sell these products mainly on the basis of price; such products appear to be sold principally to lower income groups or to others for whom cost is a major consideration.

There are millions of families subsisting on below-average incomes to whom the opportunity to purchase quality merchandise at low prices is a matter of vital concern.

Thus, for retailers and consumers, restrictions on free trade would raise many problems:

1. With restricted supply, and increased dependence upon domestic sources, it can be expected that prices would be increased to retail establishments. It is not only in the finished imported items that price to the retailer would be affected, but also in products of domestic manufacturers who would experience higher costs for imported raw materials or semimanufactures. Increased prices could, of course, seriously affect the profit margins of retailers.

2. Retail establishments would find it more difficult to meet consumer demands for fashion, style, variety, and novelty found in imports or stimulated by imports.

3. Quota systems result in disruptions in established sources of supply. It is not only that quotas would be administered by countries, but within each country, systems would have to be set up to allocate quotas among individual manufacturers. Experience under the cotton arrangement has been a competitive search for an available quota. This is disruptive of established overseas sources.

4. Foreign competitors have challenged domestic producers on prices and productive efficiency and have stimulated them to increased ingenuity and inventiveness. The result has been both direct and indirect savings to the consumer, because the availability of imports has had an effect far exceeding their dollar volume.

5. An overwhelming proportion of retail sales comes from domestic production. Therefore, any influence on the price retailers must pay for domestic products is a matter of immediate concern. A most beneficial aspect of imports is their competitive influence on U.S. manufacturers.

6. At a time when the private sector and the National Government are deeply concerned about inflation, profit squeezes, and price increases, one cannot ignore the potential inflationary effects of a reduction in the supply of imports and resultant higher costs for domestically produced goods.

7. If the United States seeks to impose import quotas, either unilaterally or by coercion, the danger of retaliation by our foreign trading partners is very real. The United States then would face the difficult question of what concessions in other commodity areas would be made to compensate for the special protective measures benefiting special segments of domestic industry. There are many indications that our trading partners, as a matter of principle, would pick U.S. export areas which would hurt American industry most. U.S. exports subject to retaliation would likely include: all agricultural products, machinery, chemicals, automotive equipment, and raw cotton.

SUMMARY OF RETAILING'S POSITION ON TRADE POLICY

Retailing supports the Trade Expansion Act of 1968 and its three purposes:

1. To continue and strengthen the trade agreements program of the United States.

2. To establish a viable program of adjustment assistance for firms and workers affected by imports.

3. To promote the reduction or elimination of nontariff barriers to trade.

Retailing opposes import quotas, which decrease the supply of imported products; and have inflationary economic effect; are disruptive of trade relations with our allies; and have destructive effects flowing from the administration of quota systems.

Retailing supports a trade policy in keeping with our private enterprise system—which offers the American consumer value and choice among goods available at reasonable prices.

To sum up, I believe that the Congress should continue its policy of promoting the free flow of merchandise across national boundaries and of upholding the right of our citizens to have access to the widest

assortment of merchandise at the lowest possible cost. I believe that the welfare of all of our people should always take precedent over the limited interests of the few. We must preserve the freedom of the marketplace.

Our manufacturers must be provided with an equal opportunity to compete—neither protecting them from foreign ingenuity nor penalizing them for observing American standards of wages, hours, and working conditions.

And last, we must cherish, by word and deed, that tradition of welcome for foreign peoples and foreign ideas that has so enriched us all.

Let's solve our problem—but not by closing doors, locking gates, or by setting up new maginot lines that are supposed to protect, but never do more than stultify.

Now I would like to introduce my colleague, Mr. Vincent Savona, the import manager of the New York office of Montgomery Ward & Co.

STATEMENT OF VINCENT SAVONA

Mr. SAVONA. My name is Vincent Savona. I am import manager of the New York office of Montgomery Ward & Co. I am here today on behalf of the American Retail Federation.

RETAILING EXPERIENCE WITH QUOTA SYSTEMS

In the experience of the retailer, import quotas are the most onerous form of trade control. The retailer as purchasing agent for America's mass consumer market, must provide complete coverage of the U.S. market as well as world markets—to provide the consumer the greatest choice in styles, price, and product characteristics.

Import quotas, which set absolute limits on imports in any one year, present numerous problems with regard to advance planning, seasonal orders, advance promotions, and compliance with the technicalities of quota systems which control exports from various nations to the United States.

QUOTA SYSTEMS WORK

The quota system problems are especially acute for those product areas which are in greatest demand by the American consumer. The long-term cotton textile quota arrangement was negotiated in 1962 to expire in 1967, when it was renegotiated for 3 more years. In the absence of a "voluntary" export restraint, an importing country may refuse to accept imports from an exporting country. Bilateral agreements have been negotiated by the United States with many additional countries, to set import levels on cotton products in terms of the previous base period. The quota system on cotton textiles and apparel sets up particular quantitative limits for 64 distinct categories of cotton textiles and apparel products. Because there are particular controls on each of these categories, not only is the total volume of cotton product imports controlled, but there are also specific controls on those categories of products which are most popular. In addition to the 64 regular categories, I might add, there are frequently additional controls on subcategories within the 64 groups.

Such governments as Japan and Hong Kong have discretion in administering their quota controls on exports of cotton products to the

United States. In such cases there is competitive search for unused quota since shares of quotas are divided up among individual trading companies in the case of Japan, or among individual manufacturers in the case of Taiwan and Hong Kong, by industry organizations or by industry-goverment consultation. In some cases the governments initially hold back a portion of the quota to guard against accidental overshipments and the risk that goods ordered by the retailer will be embargoed on arrival in the United States.

But in most other countries such as Brazil, Korea, Poland, Portugal, Republic of China, and Yugoslavia, shipments are directly controlled by the United States at ports of entry. Permission for entry must be granted for each shipment. In the case of these shipments, the retailer faces the prospect of embargo of his goods and the impossibility of filling orders as planned. This happens if, unknown to the retailer, the quota in a particular category of cotton products allotted to a country is suddenly filled before the end of a year.

What problems arise for the retailer in a situation such as this? In most cases he will have surveyed consumer preferences, made buying trips, or covered all the various markets, planned his offerings for an up-coming selling season, and placed his orders far in advance. In some cases he will have issued printed promotions, with the expectation that goods he has ordered will be shipped and will be in demand by the consumer. If, during that considerable time, the quota for a category of cotton products allocated to an exporting country has become filled, and the goods have been shipped, what happens? The retailer finds that his order is embargoed by the Customs Bureau at the port of entry. He has already incurred the cost of shipping the goods. He now must pay storage fees to the Government for goods embargoed. If they cannot be transshipped, they must sit in storage until quota reopens. Having already promoted the goods to the public, in expectation of offering them, the retailer must now search quickly for some domestic source of replacements, usually at increased costs. Finally, when the embargoed products are released, they may well be obsolete in a rapidly changing, seasonal fashion market.

Since there is only an absolute amount of quota available for each product category with minimal flexibility, it is almost a rule of thumb that the more popular an item, the more difficult it is for competing retailers to purchase sufficient imports to justify marketing the product, and satisfy customer demand.

PROJECTED PROBLEMS IF NEW QUOTAS WERE ADOPTED

Adoption of quotas on additional consumer product imports into the United States would carry over many administrative difficulties into the full range of products now available to the American consumer.

Quota systems tend to freeze the relative proportion of imports of broad product areas as well as individual types of products in terms of a past-base period.

Therefore, if there is a particular market trend toward fashion products of manmade fibers, as an example, and if apparel of manmade fiber is subjected to quota restrictions, the retailer would be faced with one of two choices:

(1) Cut short the supply of such items offered to the consumer, or

(2) Seek out substitute products from domestic resources at the going price.

The retailer as he looks to the future will be facing a more and more sophisticated, better educated, and more selective consuming public. This means (*a*) more interest in creativity, style originality, the widest possible range of products from which to choose, and (*b*) greater consciousness of price and product value.

It is the merchandising function to shop America and the world to provide the consumer this choice as part of our private enterprise system.

If you take a look at the counters of America's retail outlets, you can see graphically the infinite variety of our consumer markets—how there is a place for the high-fashion mink coat, as well as the medium-priced suit, and budget shirt. We sincerely hope that the decisions on the mix of products, the price ranges and the style assortments will, in the United States, be made not by restrictions on trade, but on the basis of consumer choice and the competitive market—a choice which should preserve the vigor of U.S. innovation and productive capacity, and the freshness of a worldwide reciprocal trade system. And by reciprocal we mean a truly bilateral give and take in international trade which, by its own nature, obviates the likelihood of unilateral retaliatory action.

CONCLUSION

We believe that while there is real merit in providing the adjustment assistance for American firms and workers, import quota restrictions are not only not the answer, but hold out the prospect of great damage to the American consumer, the retailer, and producers, that strikes at the heart of the chain of distribution, which has traditionally brought the American consumer the widest selection in consumer goods in the world, at prices subject to market discipline. We believe from our own standpoint and that of the consumer that an open trade policy free of unreasonable restrictions is in the ultimate interest of all.

The CHAIRMAN. We thank you gentlemen for bringing to us the views of the American Retail Federation.

Are there any questions?

Thank you very much.

Mr. SELONICK. Thank you.

The CHAIRMAN. The Soybean Council of America's representative. If you will identify yourself for our record by giving us your name, address, and capacity in which you appear, we will be glad to recognize you.

STATEMENT OF GLENN H. POGELER, PRESIDENT, SOYBEAN COUNCIL OF AMERICA, INC.

Mr. POGELER. Mr. Chairman and members of the Committee on Ways and Means, I appreciate this opportunity to present this statement on the general subject of the balance of trade between the United States and foreign nations.

My name is Glenn H. Pogeler. I am president of the Soybean Council of America, Inc., with executive offices in Arlington, Va.

The CHAIRMAN. Mr. Pogeler, if you have to omit any parts of your statement in order to comply with our situation this morning, do so with the knowledge that the entire statement and material appended to it will appear in the record.

Mr. POGELER. Thank you.

The Soybean Council is devoted to the expansion of markets for U.S. soybeans, soybean products, and related items around the world. The organization is supported by soybean producers, processors, handlers, exporters, and others interested in soybeans and products.

The list of our members is as follows:

American Soybean Association.
National Soybean Processors Association.
Allied Mills, Inc.
Archer-Daniels-Midland Co.
Arkansas Grain Corporation.
Big 4 Cooperative Processing Asso.
Boone Valley Cooperative Processing Asso.
Buckeye Cellulose Corporation.
Bunge Corporation.
Cargill, Inc.
Central Cotton Oil Company.
Central Iowa Bean Mill.
Central Soya Company.
Continental Grain Company.
Delta Cotton Oil and Fertilizer Company.
Farmers Union Cooperative Marketing Asso.
Farmers Cooperative Association.
Farmers Grain Dealers Asso.
Fremont Cake and Meal Co.
General Vegetable Oil Co.
Gooch Milling and Elevator Co.
Hess Terminals.
Honeymead Products Co.
Illinois Grain Corp.
Grain Div., Indiana Farm Bureau Co-op. Assn., Inc.
Kansas Soya Products Co.
Lauhoff Grain Co.
M.F.A. Grain Div., Missouri Farmers Asso.
Marshall Mills Co.
Minnesota Linseed Oil Co.
Mississippi Cottonseed Products Co.
North American Export Grain Asso.
Owensboro Grain Company.
Paymaster Oil Mill Co., Div. of Anderson, Clayton and Co.
A. W. Perdue and Son, Inc.
Plains Cooperative Oil Mill.
Planters Industries, Inc.
Planters of Pine Bluff.
Planters Manufacturing Co.
Quincy Soyban Co.
Ralston Purina Co.
Riverside Industries.
A. E. Staley Manufacturing Co.
Southern Cotton Oil, Inc.
Southern Soy Corp.
Southern Soya Corp. of Cameron.
Swifth and Company.
Thionville Laboratories, Inc.
Townsends, Inc.
Tri-County Cooperative Soybean Asso.
West Bend Elevator Company.
West Tennessee Soya Mill, Inc.
Wilson Soya Company.
Yazoo Valley Oil Mill, Inc.

Today I wish to point out the importance of exports of soybeans and products to the dollar-earning potential of U.S. agriculture and their contribution to our balance of trade. Soybeans, as one of the top dollar earners in U.S. agriculture, are presently utilizing approximately 42 million acres of U.S. farmland for this most important crop.

We wish to comment on proposals relative to the expansion of quotas.

We also wish to comment on the subject of East European-West trade.

Attached to this statement is a chart illustrating the expansion of the exports of soybeans, soybean oil, and soybean meal over the last 18 years. This chart clearly demonstrates the rapid growth which exports of soybeans and products have made and their importance to American agriculture.

The efficiency of the U.S. soybean industry to produce effectively and efficiently in quantity and quality have made it possible for it to meet our domestic needs and supply an expanding market overseas.

The American Soybean Association and the National Soybean Processors Association have both appeared before your committee prior to my testimony and, therefore, there may be some overlapping of the subjects covered by me because of the inability to coordinate our material due to the shortage of time. We hope that we will not bore you with repetition.

SOYBEAN AND PRODUCT EXPORTS

Soybean and product exports during 1966–67 continued their upward trend but, because of increasing competition from foreign producers of other oilseeds, proteins and fats and oils, the sharp increase in exports which we have seen in the past began to level off. The United States presently supplies to the world markets over 90 percent of the total soybeans traded in the world. Exports for the present marketing year are expected to total 270 million bushels compared to last year's exports of almost 262 million bushels.

Exports of soybean meal last year rose to an alltime high of 2,656,000 short tons and this year are estimated at 2.8 million short tons.

Soybean oil exports during 1966–67 totaled approximately 1 billion pounds. This was considerably below the peak reached in 1964–65 when 1.3 billion pounds moved overseas, but up from the exports in 1965–66 of 920 million pounds which were the result of a smaller soybean crop in 1965.

The total value of U.S. exports of soybeans, soybean oil, and soybean meal set a new record in 1966–67 of $1.149 billion compared with $1.1 billion in 1965–66.

Approximately 40 percent of the total U.S. soybean crops moves into world trade in the form of soybeans, soybean oil, or soybean meal.

To maintain its competitive position with other crops, the U.S. soybean industry and the U.S. Department of Agriculture are investing increasing funds in research aimed at increasing yields per acre and improving the quality of the products made from the soybean.

The rapid expansion of the production and consumption of red meat and poultry in the European markets has created a rapidly growing demand for soybean meal. The demand for soybeans for processing in Europe has continued to expand at a rapid rate until just recently.

Subject to the availability of convertible currency, or the use of other credit arrangements, the market for fats and oils in the low-per-capita consuming areas of North Africa, the Middle East, and Asia offer a large market for additional utilization of fats and oils.

Increasing competition from sunflower seed and sunflower oil from Russia and the southeastern European producing nations, at prices considerably under current soybean oil and soybean prices, has made a serious inroad in sales of U.S. soybean oil in the dollar markets of Europe and Iran.

Rapeseed production, which is subsidized in the Common Market, has been increased at a rapid rate and offers stiff competition to soybeans.

Fishmeal and fish oil from Peru, in expanding quantities, has also taken its place in the consumption patterns of Western Europe for protein and fats and oils.

IMPORT QUOTAS

The Soybean Council fears that an expansion of import quotas will eventually result in retaliatory action from present customers of the United States now buying our agricultural commodities. All segments of the U.S. soybean industry will suffer as a result of retaliatory action, if taken, since this action would reduce or limit the total volume of exports of U.S. agricultural commodities.

We have consistently favored moving in the direction of free trade so that commodities produced efficiently and economically will move into world markets on the basis of efficiency of production. We fully realize that actions taken to introduce goods into world trade on this basis will be time consuming and very difficult to obtain, but we believe that goal is worthwhile.

INCREASING EXPORTS

The Soybean Council of America receives its funds from the U.S. soybean industry and contracts with the Foreign Agricultural Service of the U.S. Department of Agriculture to provide additional foreign currencies for use overseas in market development projects. We believe that this program has been of great assistance and value in the expansion of foreign markets for soybeans and products.

Market development work is a must and the programs should be expanded and intensified if we are to meet the challenges of new competitors, such as the sunflower, rapeseed, and fish products which are currently offering heavy competition. The U.S. soybean industry is presently developing a program to acquire an additional source of dollar funds so that market development activities overseas may be further expanded.

It is necessary that prices for U.S. soybeans and products remain competitive in the world markets if we are to capture our share of the present markets and expand tonnage in the years ahead.

INTERNATIONAL AGREEMENT

Recently some foreign processors have indicated an interest in negotiating an international agreement on fats and oils. At a recent meeting of the Fats and Oils Committee of FAO, this subject was again brought up. The Soybean Council feels the United States should not

enter into an international fats and oils agreement and feels that any such arrangement would ultimately tend to work to the disadvantage of the U.S. soybean industry, as far as the competitive situation in the world oilseeds, protein and fats and oils markets are concerned. We believe that our industry can compete very well in the world markets provided we are able to compete based on efficiency and quality.

EAST EUROPEAN-WEST TRADE

The Soybean Council has not officially taken a position on East European and West trade, but is aware of the fact that considerable business on soybean meal is being done through the market channels of Western Europe to the East. Private business, for dollars, is also expanding. We believe that market opportunities exist in the East European areas for substantial quantities of soybean meal. The rapid expansion in poultry and livestock production and better feeding practices have, in our opinion, created a potential demand which we believe is substantial.

We recognize that our trade policies must be compatible with national interest and an expansion of exports of soybean meal to this area would be of value to the U.S. soybean industry and will return additional dollars to the United States.

As I indicated, we have a table attached which gives the exports since 1950, to this statement. I think it is a magnificent story and we are happy to tell it wherever we have the opportunity.

I might add one more bit of information. In six countries in Eastern Europe last year we exported 285,200 tons of soybean meal, which represents about 10 percent of our total exports last year. This is a significant amount of business. It is being done, I believe, quietly and I was surprised myself to see the total figure as it was put together last year.

Thank you, Mr. Chairman. It is a pleasure to be here.

(The table referred to follows:)

TABLE 1.—U.S. EXPORTS

	Soybeans (bushels)	Soybean oil (pounds)	Soybean meal (short tons)
1966–67 [1]	261,591,000	1,076,271,000	2,656,618
1965–66 [1]	250,591,000	922,647,000	2,601,048
1964–65	212,175,000	1,339,683,000	2,036,000
1963–64	187,201,000	1,106,000,000	1,478,500
1962–63	180,463,000	1,165,000,000	1,475,700
1961–62	149,420,000	1,308,000,000	1,063,700
1960–61	134,760,000	721,000,000	589,700
1955–56	68,580,000	556,000,000	400,400
1950–51	27,934,000	490,000,000	181,100

[1] Preliminary.

Source: U.S. Department of Agriculture.

The CHAIRMAN. Mr. Pogeler, we appreciate your bringing to us this information and the views of your organization. Are there any questions?

Thank you, sir.

Mr. Harris? Mr. Harris, chairman of Countersurge.

The Honorable Hugh J. Addonizio, our former colleague, the mayor of the city of Newark. (See p. 1473.)

Mr. James G. Miles, vice president of Marketing Development. Mr. Miles.

STATEMENT OF HUGH P. DONAGHUE, ASSISTANT TO THE PRESIDENT, CONTROL DATA CORP.

Mr. DONAGHUE. Mr. Donaghue.

The CHAIRMAN. All right, Mr. Donaghue. We would appreciate you identifying yourself. You represent the Marketing Development?

Mr. DONAGHUE. I am Hugh Donaghue, assistant to the president, Control Data, sir, and we have submitted a fairly lengthy brief on the subject.

Today I would just like to highlight a couple of the areas.

The CHAIRMAN. All right, with the understanding that your entire statement will appear in the record.

Mr. DONAGHUE. Yes, sir. Control Data is a major computer manufacturer of the United States with an annual sales volume in excess of $350 million. Control Data and its subsidiaries operate principally in the United States, but also in over 25 other countries, with about 30 percent of Control Data's business currently being outside the United States.

We enforce and support the underlying principles of GATT, that is, the lowering of tariff barriers and the removal of quantitative restrictions among all countries. We endorse and support the extension of the President's trade agreement authority under the Trade Expansion Act.

We believe and recommend that it will be in the U.S. long-term interests to attain and permit the freest possible international trade. We believe that any restrictive quotas and/or tariffs will deleteriously affect both the United States and U.S. trade as well as world trade.

We believe and recommend that there is no need for protective tariff barriers and/or restrictive quotas against the import of computers and/or their related component into the United States.

For foreign trade-balance purposes it will be in the U.S. short-term as well as long-term interests to utilize in a maximum way those of its industries which have worldwide preeminence in technology, design, and manufacturing. And here again we point out the computer field as an example of this.

We recommend minimal tariffs because U.S.-proposed tariffs invite other countries to impose retaliatory tariffs against U.S.-made products making them less competitive in the marketplace.

Following the Kennedy round the U.S. exports of computers and related components have continued to increase. The Kennedy round agreement should not be abrogated or diluted. Due to certain trade restrictions in the area of export controls imposed by the U.S. computer trade will potentially be diverted to foreign countries who are being compelled to establish their own national consortia to manufacture computers, which will have the effect of diluting U.S. participation in the world markets.

I would just like to read our conclusions as stated in our brief, sir. It is only just about a page. There is a growing and increasingly com-

petent competition in the world computer market. Although the United States still hoards a 90-percent share of the world market, it stands to decline as foreign competition increases, particularly with heavy sponsorship of foreign governments.

The U.S. response will best be to help create an environment where its computer manufacturers can freely operate with as few restrictions as possible. Thus, and only thus, can the dynamics of U.S. business and technology continue to prevail in the world marketplace.

It is a corollary that any inhibitions, restrictions, tariffs, quotas, and retaliations that the United States imposes against other countries directly inhibits their sales to U.S. customers, the building of their economies, and the availability of dollars to them with which they can, in turn, purchase goods from the United States.

It is seen that, presently, U.S.-computer firms' foreign sales income is at the rate of $2.3 billion per year, and increasing at the compound rate of over 20 percent per year. At this rate, without restrictions, it is thus possible that U.S.-foreign computer business could reach $5 billion per annum by 1971 and $10 billion by 1975.

This compares with the $7 billion worth of quotas and restrictions in proposals now pending before the Congress, as cited in President Johnson's May 28, 1968, message to the Congress on greater prosperity through expanded world trade, in conjunction with the proposed Trade Expansion Act of 1968.

In considering protections for other elements of U.S. industry, Congress should consider their relative monetary, balance of payments, and employment impacts in relationship to the tremendous and increasing potential of the United States outstanding computer industry and should weight the considerations accordingly.

Thank you.

(Mr. Donaghue's prepared statement follows:)

STATEMENT OF HUGH P. DONAGHUE, ASSISTANT TO THE PRESIDENT, CONTROL DATA CORPORATION

PREFACE

Qualifications of Control Data Corporation

Control Data Corporation is a major computer manufacturer of the United States with annualized sales volume in excess of $350 million. Control Data Corporation and its subsidiaries operate principally in the United States, but also in over 25 other countries, with about 30% of Control Data's business currently being outside the United States.

GENERAL BACKGROUND RE U.S. COMPUTER INDUSTRY

It is estimated that total revenues from the sale and lease of computers manufactured by U.S. firms amounted to about $7.5 billion in 1967, of which about $2.3 billion value was due to foreign revenues, most of which were in hard currencies. Computers are one of few commodities for which foreign countries are willing to pay hard currencies including, specifically U.S. dollars where the U.S. manufacturer so requests.

CDC believes that, under proper U.S. foreign trade policies, these dollar volumes, balance of payments contributions and U.S. employment levels can be significantly increased in future years.

The following data points up the fact that U.S. computer business is a significant proportion of total U.S. foreign trade volume, and that U.S. employment re computers for foreign trade is significant:

The first commercial computers were delivered in the early 1950s and by the end of 1967, U.S. manufacturers had cumulatively delivered over 58,000 com-

puting systems world-wide, valued at approximately $19.0 billion. Approximately 28% of these computers, valued at $5.7 billion, are of U.S. manufacture, but installed outside the United States, although some of these had been manufactured outside of the United States by subsidiaries of U.S. firms.

The total cumulative computer installations made by other free world manufacturers (primarily in France, United Kingdom, West Germany, Italy, Denmark, Sweden, Holland, and Japan), by the end of 1967, was valued at approximately $2. billion.

The value of equipment installed is growing at a compound annual rate estimated conservatively at 19%, world-wide. Purchases of computers by foreign nations exhibit a growth rate of between 20% and 22% per year. It is generally expected that these growth trends will continue into the foreseeable future.

During 1967 alone, nearly $6 billion worth of general purpose computers were delivered by American manufacturers to U.S. and foreign customers.

At the end of 1967, U.S. companies continue to supply over 90% of the computers made in the Western World and probably over 90% of computers made in the entire world (East and West).

The U.S. computer industry is seen to be subject to foreign competitive pressures which take into account restrictive trade policies of the United States.

A large share of the world computer market, and many billions of dollars of business annually, and the related employment of hundreds of thousands of personnel by U.S. computer manufacturers is currently at stake. World-wide direct employment by U.S. manufacturers and their subsidiaries re computer sales and services stood at more than 300,000 at the end of 1967, of which approximately 200,000 were employed in the United States and 100,000 abroad. These figures do not include the services of hundreds of large and small subcontractors and suppliers who indirectly provide labor, components, subassemblies, etc., utilized in and required in conjunction with computer manufacture and services.

In addition, most foreign companies manufacture exclusively or almost exclusively, under patents and/or designs licensed by United States firms. The amounts of licensing income from these ventures is not known; but these ventures are known to involve, concomitantly, the export of considerable U.S. manufactured components, parts and subsystems to the foreign licensee/manufacturers for inclusion in their systems.

CDC and its subsidiaries operate principally in the United States, but also in over 25 other countries, with about 30 percent of Control Data's business currently being outside the United States.

CDC currently employs about 20,000 people, worldwide, about 17,000 of whom are in the United States. Almost all Control Data computers installed abroad are manufactured in the United States (exception: about $1 million tape transports manufactured by Electrofact, Control Data subsidiary in Holland). Thus, proportionally, of Control Data's 17,000 U.S. employees, approximately 30%, or 5,000 employees, are directly engaged re CDC's export business. In addition, CDC employs the services of hundreds of large and small U.S. subcontractors and suppliers who indirectly provide labor, components, subassemblies, etc., for incorporation into computers that CDC ships abroad.

CDC'S COMMENTS AND RECOMMENDATIONS

1. (a) The Extension of the President's Trade Agreement Authority under the Trade Expansion Act

Control Data Corporation endorses and supports the underlying principles of GATT, i.e., the lowering of tariff barriers and the removal of quantitative restrictions among all countries.

CDC endorses and supports the extension of the President's trade agreement authority under the Trade Expansion Act.

CDC believes and recommends that there is no need for protective tariff barriers and/or restrictive quotas against the import of computers and/or related components into the United States.

However, CDC notes that the European Economic Committee (EEC) granted no tariff reductions for five categories of electronic products including computers. CDC recommends that in future GATT negotiations, the United States should seek to obtain tariff reductions by EEC members in order to enhance the competitive position of U.S. computer manufacturers vis-a-vis foreign manufacturers.

CDC recommends, however, against the imposition of import tariffs by the United States.

2. Proposal Relative to Imposition of Quotas

CDC believes and recommends that it will be in the United States' long term interest to attain and permit the freest possible international trade. CDC believes that any restrictive quotas and/or tariffs will deleteriously affect both United States trade and world trade.

President Johnson said in his Message to Congress, May 28, 1968 entitled *Greater Prosperity Through Expanded World Trade* (page 5):

> "In a world of expanding trade, such restrictions would be self-defeating. Under international rules of trade, a nation restricts imports only at the risk of its own exports. Restriction begets restriction.
>
> "In reality, 'protectionist' measures do not protect any of us:
>
> "They do not protect the American working man. If world markets shrink, there will be fewer jobs.
>
> "They do not protect the American businessman. In the long run, smaller markets will mean smaller profits.
>
> "They do not protect the American consumer. He will pay more for the goods he buys.
>
> "The fact is that every American—directly or indirectly—has a stake in the growth and vitality of an open economic system."

The U.S. should be exceedingly beneficient in all respects re trade policies and tariff procedures with respect to all countries, and particularly toward the underdeveloped and developing countries.

Every country has only a limited amount of U.S. dollars (primarily derived from their exports to the U.S.) with which to purchase, in turn, U.S. commodities. They prefer to spend these precious dollars, insofar as possible, for goods and services of advanced technology (including computers) which they believe they can apply to advance the economic health and development of their countries.

To the extent that U.S. tariff structures inhibit exports from the developing countries, these same inhibitors, therefore, also directly inhibit those countries from buying with dollars the tools they most need to build their industrial capabilities and their attendant selling and purchasing powers. U.S. trade contracts; the developing country is whipsawed and is injured proportionally more.

These countries say that they are motivated, alternatively, to acquire advanced commodities from other Western countries (England, France, etc.) who apply less-discriminatory tariffs against them, and who therefore afford them foreign exchange. Sales are thus lost to the U.S., along with the opportunity to help right the U.S. balance of payments.

In fact, lacking MFN, at least one East European country, in retaliation, has recently raised its tariffs against the import of U.S.-made computers to be higher than their tariffs applicable to computers made in other countries (England, France, etc.), which has the effect that U.S.-made computers are now unfavorably priced (including tariffs) in competition with English and French, etc. made computers.

3. Proposals for Increasing United States' Exports

It is said that some U.S. industries are not competitive vis-a-vis foreign sources due to high U.S. labor costs, etc. To improve their competitiveness, these U.S. industries should try to improve their management and manufacturing efficiency by using the most advanced techniques.

In other industries, particularly its strong multi-billion dollar computer industry, the U.S. leads the world, U.S. manufacturers having installed over 90% of the computers in the world today.

For foreign trade-balance purposes, and as an offset to those U.S. industries which are not so competitive, it will be in the United States' short-term and long-term interests to make maximum foreign trade utilization of those of its industries which have worldwide preeminence in technology, design, manufacturing and marketing (e.g. computers, aircraft, etc.).

One of the current U.S. programs that mitigates against the increase of computer and other heavy capital equipment exports is the *Foreign Direct Investment Program.*

In his message to the Nation on the Balance of Payments, January 1, 1968, President Johnson said: "American exports provide an important source of earnings for our businessmen and jobs for our workers. *They are the cornerstone* of our balance of payments. . . ."

CDC agrees. To limit—indeed, prevent—export sales can hardly be stated as the purpose of the Foreign Direct Investment Program. Yet in the case of CDC

this tends to be its effect. Under the Regulations (33 Fed. Reg. 15 CFR Sec. 1000 et Seq.), CDC's export sales and leases are viewed as *investments*. To the extent that the Regulations are so construed, the very success of U.S. sellers in obtaining orders mitigates against the sellers. A significant portion of U.S. computer export-orders are in the form of leases.

Congress faced this problem in excluding export sales and leases from the Interest Equalization Tax (Int. Rev. Code of 1954, Sec. 4911). Lease transactions should similarly be excluded from the Foreign Direct Investment Program.

A bona fide export sale, whether it be made through a wholly owned foreign subsidiary or directly to a foreign buyer, will have the same long-term beneficial effect on the U.S. balance of payments, *and that effect can never be negative*. To view one transaction as an "investment" and the other as a "sale" is not realistic.

We do not suggest that the Regulation should be amended in a manner which would permit foreign subsidiaries of U.S. exporters to sequester funds abroad. By the same token, CDC believes that bona fide exports should not be considered "foreign investments made with U.S. dollars." What is needed is a reasonable standard against which the *performance* of exporters of heavy capital equipment may be *measured*. Such a standard would appear to be the *normal* terms of financing provided by the Export-Import Bank and similar foreign institutions (Hermes, Coface, ECGD) to capital equipment manufacturers for the purpose of stimulating exports. Such terms, agreed to by members of the Berne Union, and adhered to by Eximbank, are the international norm for such transactions. To the extent the U.S. exporters' performance exceeds that norm (meanwhile relieving Eximbank of the burden of financing), the export sales should not mitigate against the exporter.

If there is no change in the Regulations, or their interpretations, there will be created a negative effect in the exports of products of capital equipment manufacturers, particularly those that are contracted on lease.

CDC supports the below-mentioned changes proposed by the Machine and Allied Products Institute, as reported in its newsletter of April 5, 1968:

> "An exemption from "transfer of capital" restrictions of those open trade accounts from and between affiliated foreign subsidiaries covering goods, services, royalties and fees which are not outstanding for less than 180 days.
>
> "Where it can be shown by an established custom of the trade that such items are normally carried on open account for a longer period of time than 180 days, then such items should also be exempted upon a paper showing of pertinent facts and circumstances to the Secretary of Commerce."

4. Proposals Relative to Antidumping, Countervailing Duties, and Related Matters

CDC has no comments.

5. Proposals on Tariff Matters Generally

CDC recommends for minimal or zero tariffs because U.S.-imposed tariffs invite other countries to impose retaliatory tariffs against U.S.-made products, thus making our products less competitive at the marketplace.

As noted in the Background Section (pages 1–3 supra), although U.S. computer manufacturers and their wholly-owned foreign subsidiaries have installed about $5.7 billion worth of computers outside the U.S. by the end of 1967, nevertheless there is competent and growing foreign competition, to wit:

Foreign free world manufacturers have installed approximately $2 billion worth of computers primarily outside of the United States. These computers are located primarily in France, United Kingdom, West Germany, Italy, Denmark, Sweden, Holland and Japan.

There is a large untapped market in Eastern Europe, and these competitors have launched particularly strong marketing efforts in Eastern Europe where they are operating with much greater permissiveness of their governments re export controls than are U.S. manufacturers.

France, under its national *PLAN CALCUL*, has in the past two years established a national computer consortium, *Compagnie Internationale pour l'Informatique (CII)*, specifically to meet France's own national computer requirements, and to market competitively both inside and outside of France against U.S. firms. CII has initiated a heavy marketing effort in Eastern Europe.

Similarly, the Government of the United Kindom has, in the past six months blessed the merger of its two principal computer companies into the new *Inter-*

national Computers Ltd. to provide greater national competitive strength vis-a-vis U.S. computer manufacturers. A heavy marketing effort is underway in East Europe and underdeveloped countries.

Bilateral Trade Agreements.—Many of the countries strong in computers (e.g., France, United Kingdom, West Germany, Italy, Denmark, Sweden, Holland and Japan) have worked out extensive bilateral trade agreements with the countries of East Europe, and have lowered their tariffs and quotas to East Europe (steps that the United States has not taken). The result is that the East Europe countries are thus able to find easier markets for their goods in France, United Kingdom, West Germany, Japan, etc., than in the United States. The East Europe countries are thus able to obtain hard currencies in these same countries with which, in turn, they can turn around and purchase from these same countries heavy capital equipments including computers, and other commodities in far greater volumes than from the United States who maintains much higher tariffs against them.

Long-Term Credits.—Also, to facilitate trade with East European countries, the United Kingdom, France, etc., have made available long term credits for purchases of heavy capital equipments including computers. The result has been increased foreign trade for the countries involved, at the expense of U.S. business. CDC believes and recommends that, as soon as possible, the United States should take similar steps. The arguments are similar to those relating to the *Foreign Direct Investment Program* (pages 7–9, supra).

CDC has been repeatedly told by top political officers of several East European countries that unless and until the United States will work out trade agreements with them, and drop other discriminatory trade practices including tariffs against them, their products cannot be sold competitively in the United States, and that therefore they cannot obtain dollars with which to purchase our products. These East European officials further point out that, although they would *prefer* to deal with U.S. firms, they can obtain adequate products from France, United Kingdom, West Germany, Japan, etc., with the moneys and credits available. They further say that they should remain loyal to the countries with whom they have been able to work out trading agreement, vis-a-vis the United States.

They go further to say until the United States lowers its prohibitive and discriminatory tariffs against them, they will as a matter of political "necessity", maintain significantly higher tariffs vis-a-vis U.S.-made goods than they apply against goods made in the United Kingdom, France, West Germany, Japan, etc., who apply low tariffs as a part of their trade agreements. U.S.-made goods being considered for import are thus, when import tariffs are added, priced out of the market. U.S. manufacturers are thus caught in an involute cycle which will require a turn-around in U.S. policy to correct.

CDC recommends that, to correct the aforementioned problems, with their attendant trade and balance-of-trade preclusions, the United States should cease its discriminatory trade practices and tariffs against all countries, and should enter into trade agreements with as many countries as feasible. CDC believes that the United States will achieve tremendous trade and balance-of-trade and balance-of-payments benefits by being much more open-handed in its trade policies. CDC believes that, simultaneously, and as an important side effect, the United States would be the recipient of much political goodwill from the countries thus relieved of these trade discriminations.

6. Results of Kennedy Round Agreeement

Following the "Kennedy Round," United States exports of computers and related components have continued to increase. CDC strongly believes and recommends that the Kennedy Round agreements should not be abrogated or diluted.

As previously cited (p. 4) the subject of computers and some other electronic components was not covered by the Kennedy Round in 1967. CDC recommends that to further expand exports of computers in the face of increasing competent competition abroad, in future negotiations the United States should press for other countries to lower their import tariffs against U.S.-made computers. Meanwhile, the United States should leave its import tariffs re computers and related components at zero, and the United States should generally reduce its tariffs on all commodities for reasons set forth elsewhere in this brief.

7. *Measures Directed at Maintaining Our Favorable Balance of Trade and Other Matters Related to the Balance of Trade in the Context of Our Balance of Payments Problems*

Export Controls.—Due to certain trade restrictions (export controls) imposed by the United States, computer trade will potentially be diverted to foreign coun-

tries who are being compelled (partially by U.S. export controls) to establish their own national consortia to manufacture computers, which will have the effect of diluting U.S. participation in world computer markets.

Countries specifically affected are France and Eastern Europe. Aggressively seeking to fill the vacuum are computer manufacturers in the United Kingdom, France, East Germany, Japan, etc.

Typical of East European Reaction.—East German Government officials have specifically told CDC personnel that, if they cannot acquire U.S. computers, they will certainly acquire computers of non-U.S. origin. They said that they would prefer *not* to apply East German resources to the development of capabilities to manufacture big computers in their country, but they made it clear that if they must, they will spare no expense to do so, because they believe that big computers for business and industrial management and control is the key to their ultimate goal to become a successful modern industrial nation.

CDC has prepared and submitted on 13 June 1968 a separate brief on this subject to the International Finance Subcommittee, Committee on Banking and Currency, U.S. Senate in conjunction with its Hearings re *Joint Resolution SJ Res. 169, East-West Trade Resolution.*

There is no question that the U.S. companies today dominate the world computer industry in all its aspects . . . technology, hardware design and manufacture, wide scope of software and applications, the quantity and quality of our personnel, the effectiveness of our marketing, and the financial resources available. The preeminence of American computer companies is, in fact, so great. and U.S. technology is moving so rapidly, that most other countries simply will not be able to marshal the resources required to catch up, let alone keep up with such a rapidly moving target. CDC believes that the United States really has nothing to fear re the export of computers for peaceful purposes.

However, no nation, whether fully developed, emerging, or underdeveloped, East or West, can long afford to be without computers. A nation with little or no significant computer technology of its own is forced to consider three alternatives: it can tap U.S. know-how through purchase or lease from a U.S. manufacturer or its overseas affiliate; it can purchase its computers from non-U.S. manufacturers; or it can commit vast national resources to developing, or accelerating the development of its own computer industry.

Balance of Payments and MFN

Each of the East European countries has only a limited amount of U.S. dollars, (primarily derived from their exports to the U.S.) with which, in turn, to purchase U.S. commodities. Several East European countries not now granted MFN treatment by the U.S., have asked that CDC personnel transmit their requests to the U.S. Government, that they be granted MFN treatment, and the favored tariffs that it affords, so that they can more favorably export their goods to the U.S. in order to obtain more dollars with which to acquire, in turn, advanced commodities including computers.

These same countries say that they are motivated, lacking MFN treatment, to alternatively acquire advanced commodities from other Western countries (England, France, etc.) who apply less-discriminatory tariffs against them, and who therefore afford them foreign exchange. Lacking MFN, sales are thus lost to the U.S., along with the opportunity to help right the U.S. balance of payments, in fact, lacking MFN, at least one East European country in retaliation has recently raised its tariffs against the import of U.S. made computers to be higher than their tariffs applicable to computers made in other countries (England, France. etc.), which has the effect that U.S. made computers are now unfavorably priced (including tariffs) in competition with (English and French, etc.) made computers.

Trade Policies Particularly Affecting the Developing Countries

The world is rapidly becoming a single interdependent economic unit with each nation ever-more acutely reliant on other nations to supply its total requirements. This is true whether a nation is relatively fully developed, emerging, or underdeveloped. The less developed the nation, the more acute the problem.

It is CDC's belief and recommendation that the United States should establish objectives, laws and policies to *encourage American business and industry* to become more initiative to assist in the economic development of all countries, particularly the emerging or underdeveloped countries. By this means the United States could achieve many desirable objectives without so much spending abroad of Federal funds of the U.S.

To encourage this CDC recommends that the U.S. should re-evaluate and change many aspects of its policies and practices re AID, Alliance for Progress, etc., and re export controls, and international trading and financial policies. Tax credits should be considered as inducements to participating businesses to encourage greater initiative.

Supporting Arguments and Evidence

The United States is recently awakening to problems within our own country where ghettos of underprivileged people are suddenly found to be excessively cut-off or isolated from the so-called "power structure". The response of the underprivileged has been riots approaching revolution. The answer, as recently reported by President Johnson's National Advisory Commission on Civil Disorders can only be alleviation of the basic causes of the problem.

Similarly, it has recently been predicted that there is a danger that wide parts of the world, including even some moderately-developed nations may in a few years become relative-deserts of backwardness vis-a-vis the "have" nations, unless the affluent nations immediately take all possible steps to help the less affluent nations upgrade themselves, including, particularly, heavy exports of technology, know-how, and advanced tools, and the means for overcoming illiteracy and its concommitant bondage. The U.S. is certainly the nation that has the most to give, and the U.S. will therefore be most the target of their frustrations and anger if we are not generous enough to help them improve their plights.

Some people believe that advanced technological developments, including such as computers, may be responsible for preempting jobs. Due to the rapid growth of the computer industry to date, it would appear that this industry has, to date, created more jobs than it has destroyed; but there has admittedly not been enough history since the beginning of the computer age (mid 1950's) to tell for certain if computers will make more jobs than they will preempt. CDC believes that the pattern will be like the transportation industry whose statistics reveal that there is a greater percentage of the population employed in the United States today, in jobs related to transportation, than there were in horse and buggy days; although some jobs were displaced, increasing demands and advancing technologies created far more jobs than were destroyed, and simultaneously created a higher standard of living.

Whatever the outcome, time will not turn back; computers are a fact of life from today forward. And just as the industrial or business concern that makes good utilizations of computers and other advanced technologies can outperform its competitors, making it so that the competitors must also have access to and utilize the same tools to remain competitive, so it is with the nations that are making good utilizations of computers and advanced technologies. They will outperform those nations that do not have them . . . and the gaps will continue to widen between the developed and the underdeveloped nations unless the developed nations become much more effective in helping the developing nations reach parity.

It is the concensus that for any nation the overall advantages that will come from computers will probably far outweigh any disadvantages. The optimizations that can come from the use of computers in many fields will make them worth more than their "price" in any country . . . optimizations in the input/output econometrics of the country as a whole . . . financial optimizations . . . optimizations in the utilizations of basic commodites, as steel, so that more structures can be built with the limited amounts available . . . optimizations in the utilizations of manpower, and many more. Also computers will be of wide value in rendering better educations, health care, better banking and accounting practices, better communications, and in many additional areas.

CONCLUSION

It is seen that there is a growing and increasingly-competent competition in the world computer market. The United States still holds 90% share of world market, but stands to decline as the foreign competition increases, particularly with the heavy sponsorship of foreign governments.

The United States' response will best be to help create an environment where its computer manufacturers can freely operate with as few restrictions as possible. Thus, and only thus, can the dynamics of U.S. business and technology continue to prevail in the world marketplace.

It is a corollary that any inhibitions, restrictions, tariffs, quotas and retaliations that the United States imposes against other countries directly inhibits their sales to U.S. customers, the building of their economies, and the availability of dollars to them with which they can, in turn, purchase goods from the United States.

It is seen that, presently, U.S. computer firms' foreign sales income is at the rate of $2.3 billion per year, and increasing at the compound rate of over 20% per year. At this rate, without restrictions, it is thus possible that U.S. foreign computer business could reach $5 billion per annum by 1971 and $10 billion by 1975. This compares with the $7 billion worth of quotas and restrictions in proposals now pending before the Congress, as cited in President Johnson's May 28, 1968, Message to the Congress on *Greater Prosperity Through Expanded World Trade*, in conjunction with the proposed "Trade Expansion Act of 1968".

In considering protections for other elements of U.S. industry, Congress should consider their relative monetary, balance of payments and employment impacts in relationship to the tremendous and increasing potential of the United States' outstanding computer industry, and should weight the considerations accordingly.

Mr. BURKE (presiding). Are there any questions?

Thank you very much, Mr. Donaghue.

Our next witness is Mayor Edward J. Griswold, City of Conneaut, Ohio.

Will you identify yourself for the record?

STATEMENT OF MAYOR EDWARD J. GRISWOLD, CITY OF CONNEAUT, OHIO, AND ON BEHALF OF THE CONNEAUT PORT AUTHORITY

Mayor GRISWOLD. Yes, Mr. Chairman. I, Edward J. Griswold, mayor of the city of Conneaut, Ohio, appear here representing the city of Conneaut, Ohio, and the Conneaut Port Authority. I am here to testify against the proposed Trade Expansion Act of 1968, a program designed to expand U.S. trade abroad.

The officials and citizens of my area ask your support of a piece of legislation to establish quotas limiting the importation of foreign pig iron, steel and other commodities into the United States.

Foreign-made pig iron and steel is streaming into the United States is recordbreaking and ever-increasing quantities, last year reaching more than a half-million and 11½ million tons respectively, representing some 12 to 13 percent of the total amount used in this country, and approximating the potential output of 85,000 American steelworkers.

Ohio, the Nation's second greatest producer and consumer of steel and products of steel, employ some 90,000 who earn their livelihood directly from the steel industry which channels more than $700 million in wages and salaries and $60 million in State and local taxes into Ohio's economy each year.

Several of the city of Conneaut's major employers and taxpayers are directly involved in the receipt, storage, and shipment of raw materials used in the manufacture of iron and steel and products of iron and steel. This is of primate importance to the economic health of our small community of 16,000 people.

A continued rise in foreign steel imports along with other imports, would steadily weaken our industries and erode their capabilities to fulfill current and any future demands as concerns national defense.

Governments in other steel-producing nations are constantly intensifying their support of their domestic steel industries.

There comes a day when we have to draw a line on imports and think of our own industries and manufacturers. Maybe it would be better for the American people to pay 2 to 3 cents per pound more for hamburger, or 2 cents per pound more for frankfurters and still have a job and be able to purchase these much needed foods than to be without employment.

We, the officials of the city of Conneaut, Ohio, and the Conneaut Port Authority, support fully the Iron and Steel Orderly Trade Act of 1967 (Senate 2537) and the House of Representatives (H.R. 14120) which will, if enacted, help preserve the economic well-being of the Nation, the State of Ohio, the city of Conneaut, and provide for national security through a system of fairly established quotas limiting the quantities of foreign pig iron and steel that can be brought into the United States which is the main concern of the citizens of the city of Conneaut, Ohio. But we, the citizens of the United States, should be concerned about all imports into the United States, and how they can affect the economic well-being of the Nation.

We strongly urge your honorable body to take all the time necessary and weigh all facts before coming to any decision on this very important issue, not only to the city of Conneaut, but to all of us in this great country of ours.

The proposed act contains no mention of the restrictive import and export subsidies needed to help correct the United States balance of payments.

We ask for your consideration and approval and that of the Congress of the United States on the Steel Orderly Act of 1967.

I have tried to keep this testimony short and to the point. I wish to express my thanks and that of the citizens and officials of the city of Conneaut, for allowing us this opportunity to appear here before your honorable body and present our views on this very important matter.

Thank you.

The CHAIRMAN. We appreciate your taking time from your busy schedule to be with us.

Are there any questions?

Thank you, sir.

Mayor GRISWOLD. Thank you.

The CHAIRMAN. Mr. Palmer, president of the Tobacco Associates.

Mr. Palmer, we are pleased to have you with us today, sir, and, if you will identify yourself for our record, we will be glad to recognize you.

STATEMENT OF JOHN D. PALMER, PRESIDENT, TOBACCO ASSOCIATES, INC.

Mr. PALMER. Thank you very much, Mr. Chairman, for this privilege of appearing before your committee.

My name is John D. Palmer. I am president of Tobacco Associates, Inc., a nonprofit association supported by some 200,000 growers of Flue-cured tobacco in Virginia, the Carolinas, Georgia, and Florida, as well as by banks, merchants, fertilizer manufacturers, and other interests related to tobacco in these States. Its primary function is to protect and to expand foreign markets for Flue-cured tobacco.

Mr. Chairman, in addition to the organizations which are shown and who are associating themselves with my statement is also the Tobacco Institute of Washington, D.C.

Two other tobacco organizations are filing separate statements, but have asked to be associated with ours:

Leaf Tobacco Exporters Association, Inc.

Tobacco Association of United States.

The Leaf Tobacco Exporters Association comprises processors and exporters of unmanufactured tobacco. The Tobacco Association of United States includes in its membership manufacturers, processors and exporters, banks, shipping companies, and the like.

I requested permission to appear before this committee because no agricultural commodity is more intimately involved in worldwide trade than tobacco. The action by the Congress on two sections of the Trade Expansion Act of 1968 will have important and lasting effects on the thousands of our farmers who grow tobacco. One section is the Geneva agreement on chemicals, and the other the continuance of negotiating authority to deal with trade problems and disputes. I shall deal with these separately in the course of this statement.

The extent to which tobacco is directly and vitally affected by tariff and trade proposals is brought into sharp focus by two figures. The first is approximately $500 million and represents U.S. exports of unmanufactured tobacco of all types in 1967. The second is $140 million and represents the value of commercial exports of manufactured tobacco products in 1967. This is a total of nearly two-thirds of a billion dollars, the greater part of which by far were dollar sales—I would say approaching 90 percent is for cash and not under AID programs—and as such made an important contribution to our favorable trade balance as well as in diminishing the balance-of-payments deficit.

Such being the case, Mr. Chairman, I know you will agree with my statement that tobacco is directly and vitally affected by tariff and trade matters. As America's first and most important agricultural export 350 years ago, and as one of the top five today, it deserves the most careful attention and consideration when we are dealing with our international commerce. I say so because our overseas trade in tobacco is particularly sensitive and vulnerable. We have no monopoly. Tobacco is a weed. It grows and flourishes in many latitudes throughout the entire world. Production is substantial in places as remote from each other as Canada and Argentina. Since World War II, output of Flue-cured abroad has increased from less than 500 million pounds annually to nearly 2,500 million in 1967, an increment of 500 percent.

Now, I want to emphasize for purposes of comparison and for the record that while our own Flue-cured production in 1967 was only about 50 percent greater than prewar, we have periodically reduced import duties by two-thirds—from 35 cents a pound a number of years ago to 11½ cents during the Kennedy round.

We use imported oriental leaf, principally from Greece and Turkey, for blending purposes. The oriental content of most cigarettes is in excess of 10 percent. On the face of it, therefore, Flue-cured growers should be here howling to the Congress for import quotas and for increased, rather than decreased, duties. To the contrary, they take a

far broader, long-range view. They recognize that American smokers are entitled to buy whatever type cigarettes they prefer and it so happens that they prefer those having this foreign content. They recognize and accept the fact that it is a basic component of the American cigarette. They recognize also that the oriental content contributed in large measure to demand abroad for the 24 billion cigarettes that we exported last year. More fundamentally, growers have always been stanch supporters of freest possible international commerce for the simple and sound reason that despite the enormous production increases abroad, we still export 30 to 40 percent of annual Flue-cured production. As our largest buyer is the United Kingdom to whom the American selling price system is particularly repugnant, I address myself now to this section of the Trade Expansion Act of 1968.

I would like to comment here, Mr. Chairman, that Mr. Watson and a good many others who have appeared before you have made reference to tobacco and the ASP during the Kennedy round, the British Government offered to reduce by 25 percent the preferential duty rate accorded to tobacco grown in the Commonwealth if we in turn would eliminate the ASP duty system which, I believe, is applicable to only four categories of imports, the principal one being benzenoid chemicals.

It is this preferential duty that has accounted in large measure for the enormous production increases that occurred in Commonwealth countries, particularly Rhodesia, India, and Canada, and who, in that order, rank next after the United States as Britain's principal supply sources. Imports from Rhodesia have, of course, been cut off since her declaration of independence. That has no bearing on the past, and if she composes her differences with the London Government, the preferred duty position of her tobacco would revert to its status prior to the separation. The preference is 1 shilling 6 pence per pound weight, or prior to devaluation, 21 cents in U.S. currency. It had a two-pronged effect. First, British manufacturers could pay up to 21 cents a pound more for Commonwealth tobacco and still have it as cheaply as our own. Second, they could pay, let us say 15 cents a pound more, and still come out 6 cents ahead. In either case, the preference militated against us. It encouraged the British manufacturer to use Commonwealth growths and in doing so and in paying higher prices, it enabled Commonwealth tobacco, because of the United Kingdom premium, to become even more competitive in our other major markets, notably West Germany, Japan, and the Benelux countries.

The elimination of ASP would do away with 25 percent of the umbrella over that competition. It would reduce the spread between our respective tobaccos from 21 cents a pound prior to devaluation to 13.5 cents as of today. However valuable such a step would be in absolute terms to our tobacco in Britain, the parallel benefits elsewhere could vastly overshadow that of tobacco. It would provide the world with a clear indication of our determination to move ahead in the difficult task of removing barriers to trade. This demonstration could pay off many times over to this Nation as a whole in the years ahead without damage of consequence, so I am informed, to the benzenoid industry. The record would indicate that this industry has used ASP as a wet nurse for nearly half a century when it should have been weaned on reaching full muturity long years ago.

Tobacco is more vitally involved in that in the Common Market than any other obstacle to Common Market trade.

The need for continuing authority to negotiate is set out in bold relief in tobacco problems in the European Common Market. The market comprises two entirely different types and methods of tobacco operations. In France and Italy, tobacco is under monopoly control by the state all the way from seed to cigarette. These two countries produce 90 percent of all tobacco grown in the market. Benelux and West Germany have private industries. Methods and rates of taxation vary widely in all six. The goal set forth in the Treaty of Rome establishing the Common Market envisioned the abolition of the monopolies, the harmonization of taxes, and the institution of a common agricultural policy with respect to the growth of tobacco in the six.

The attainment of these goals obviously presents an enormously complicated set of problems. The last mentioned, production within the community, is of greatest concern to us. The Commission has proposed to the Council of Ministers that production is to be without limit or control; that this production is to be supported at prices that would exceed 100 percent parity, and as, if and when surpluses existed, imports from us or other third countries would be subject to licensing and/or complete suspension until the excess position had been rectified. If the committee desires, Mr. Chairman, I shall be more than pleased to go into the ramifications of this proposal at the conclusion of my statement. Suffice it for the moment to say that without negotiating authority to counter this proposal, the European Common Market which now takes in excess of $100 million annually of our unmanufactured tobacco could be lost as a market in toto over a period of years. That is not an exaggeration: it is a straightforward fact of our tobacco life. It is one on which we have fully informed our growers that they in turn may follow the proceedings of this hearing and subsequent action by the Congress.

In summary, then, Mr. Chairman, Flue-cured tobacco growers support the Trade Expansion Act of 1968. As ASP is repugnant to the United Kingdom, so it is an anathema to the farmer, for it holds his crops at a price disadvantage, while conferring a near monopoly on a handful of benzenoid manufacturers. Farmers not only want, but they must have, continued access to the Common Market and other countries. Farmers are historically horsetraders by the very nature of their occupation. They appreciate to the fullest the value and the necessity of having a hole card when making a bargain. An essential hole card for Ambassador Roth is the quid pro quo in the act of 1962, and they want it continued. They want above all exactly what the title of the act says—trade expansion.

One item which I would like to take 1 minute on, Mr. Chairman—I did not include it in my formal statement, but I would like the committee to know because it was mentioned by several other witnesses this morning—is the interest of tobacco in East-West trade. It is an untapped market for us. The Soviet bloc countries have some 300 million people. Experience has shown since the end of World War II that wherever American tobacco became available to the public, the public switched over to using our tobacco and that is the reason we are today able to sell 30 to 40 percent of our entire crop despite the fact that

foreign production has gone up 500 percent since the war and ours has gone up only 50 percent.

West Germany before the war used 90 percent oriental tobacco, 10 percent American. Those figures are almost completely reversed today.

So I would like to emphasize that tobacco growers are extremely interested and support East-West trade.

Tobacco Associates as an organization first took part in the Leipzig Trade Fair in East Germany in 1966 and we have participated in it successfully since and shall continue to do so.

Now, $2 million is a very little bit of money when we are talking about international trade but it is a fact that since 1960 up to date we have come from actual zero in our tobacco trade in East Germany to approximately $2 million today and we look for it to increase.

Thank you very much, Mr. Chairman, for permitting me to appear before this committee.

The CHAIRMAN. We thank you, Mr. Palmer, for bringing to us this statement of the views of your associates. We find it a very interesting statement.

Any questions?

Thank you, Mr. Palmer.

Mr. PALMER. Thank you, sir.

(The following statement was received, for the record, by the commitee:)

STATEMENT OF MALCOLM B. SEAWELL, EXECUTIVE SECRETARY AND GENERAL COUNSEL, LEAF TOBACCO EXPORTERS ASSOCIATION, INC.

My name is Malcolm B. Seawell. I am Executive Secretary and General Counsel for Leaf Tobacco Exporters Association, Inc., 406 Raleigh Savings and Loan Building, Raleigh, North Carolina. I wish to submit the following statement on behalf of the sixty-eight tobacco exporting companies comprising Leaf Tobacco Exporters Association. These companies buy American tobacco and export it throughout the world.

The United States is the world's largest exporter of tobacco and ranks third as an importer of tobacco. Last year, the value of U.S. exports of leaf tobacco added up to a record $500 million. Most of these sales were for dollars and made a significant contribution to our balance of payments.

Since one-third of total U.S. tobacco production is exported, U.S. tobacco exporters and farmers have a vital stake in expanding our export outlets.

U.S. tobacco exporters have always strongly supported the long established American policy of trade liberalization and expansion. We recognize that in order to expand export opportunities for our products we must be willing to buy from foreign countries. For this reason we have consistently opposed over-protection or coddling of American industry by import restrictions. Protectionism, not only inflates the costs of things they need to buy but also, reduces the buying power of customers abroad. We feel that a liberal trade policy is plainly in the national interest.

The wisdom of this policy is illustrated by the more than $8 billion in concessions achieved by the U.S. in the Kennedy Round. In the agricultural side of these negotiations we gained some important concessions for U.S. tobacco which will give us better access to certain foreign markets. In addition to these concessions, the U.S. tobacco industry stands to gain a major benefit from the so-called "American Selling Price Package" (ASP), negotiated during the Kennedy Round. In return for agreement by U.S. negotiators to seek Congressional action to abolish ASP, and subject to such action being taken, the United Kingdom agreed to reduce the margin of preference on tobacco imports by 25%. What is ASP and what does ASP elimination mean to the U.S. tobacco industry?

Most imports into the United States are subject to duty expressed as a percentage of the value of the imported goods (e.g., 10 percent ad valorem). In

almost all cases, the U.S. ad valorem duty rates are applied to the foreign values of the goods in the country of exportation. This is not the case, however, with respect to certain benzenoid chemicals. When these products are imported into the United States and found by the Customs Bureau to be competitive with a domestic product, the ad valorem rate of duty is applied to the U.S. price of the competitive domestic product—i.e., the American Selling Price (ASP).

Benzenoid chemicals first became subject to ASP under the Tariff Act of 1922. At that time ASP was conceived as a form of protection for the infant U.S. coal tar products or benzenoid chemicals industry which had developed in the post World War I period in the wake of the destruction of the German chemical industry.

Although the U.S. chemical industry has since grown and become competitive, the U.S. system of protection for benzenoid chemicals has been virtually unchanged—as if the industry were still in the developing stage.

This situation has brought the United States a great deal of criticism from other countries. Not only does the ASP system permit the domestic manufacturer to adjust the protection afforded by the import duty charges by adjusting the U.S. price of his product, but this protective benefit may, in fact, be achieved on an item where there is only token U.S. production. As a result, the foreign exporter of a product subject to ASP faces uncertainty as to import charges he will have to pay. If this legislation had not been in effect prior to U.S. membership in the GATT, its continuance by the U.S. would be a GATT violation.

In return for U.S. action to abolish this outmoded and patently unfair system, the U.K. will reduce the Commonwealth margin of preference on tobacco by one-fourth. What does this mean to the U.S. tobacco industry? The U.K. is the largest U.S. export market for tobacco, taking 138 million pounds in 1967. This meant a contribution of $139 million to the U.S. balance of payments. At the present time the United Kingdom duty on U.S. unmanufactured tobacco is about $11 dollars per pound compared with a duty of $10.82 dollars on leaf from Commonwealth sources resulting margin of preference on leaf from Commonwealth sources of 18.5 cents per pound.

In recent years this Commonwealth preference has been an important factor in enabling leaf from Commonwealth sources to gain an increasing share of the U.K. tobacco market. During the 1950–54 period, the Commonwealth held only 44 percent of the U.K. market. In 1965 U.K. imports from Commonwealth sources reached 184 million pounds—64 percent of this market. We expect this percentage would be even higher today if there were not a trade embargo on Rhodesian tobacco.

A 25% reduction in the U.K. margin of preference for tobacco will reduce the advantage enjoyed by Commonwealth suppliers to the U.K. market by 4.5 cents per pound. This will make U.S. tobacco more competitive with tobacco from Commonwealth sources and decrease the incentive for U.K. manufacturers to shift to greater purchases of Commonwealth tobacco.

U.S. tobacco exporters urge that the necessary implementing legislation be adopted to approve the so-called "American Selling Price Package." We feel that it will be a forward step, not only for U.S. tobacco exporters, but also for American foreign trade.

The CHAIRMAN. Dr. Adams.

STATEMENTS OF DR. WALTER ADAMS, PROFESSOR OF ECONOMICS, AND DIRECTOR OF PROGRAM ON INDUSTRIAL STRUCTURES IN THE ATLANTIC COMMUNITY, MICHIGAN STATE UNIVERSITY, AND DR. JOEL B. DIRLAM, PROFESSOR OF ECONOMICS, UNIVERSITY OF RHODE ISLAND; ACCOMPANIED BY WILLIAM JAMES ADAMS, HARVARD COLLEGE

Dr. ADAMS. Yes, Mr. Chairman.

The CHAIRMAN. Dr. Adams, you are accompanied by Dr. Dirlam.

Dr. ADAMS. Yes.

The CHAIRMAN. If you will identify yourself, Dr. Adams, and Dr. Dirlam and the other gentlemen with you we will be glad to recognize you, sir.

Dr. ADAMS. Mr. Chairman, and gentlemen of the committee, I am Walter Adams, professor of economics and director of the program on industrial structures in the Atlantic Community at Michigan State University.

On my left is Dr. Joel B. Dirlam, professor of economics, University of Rhode Island.

This statement is submitted on behalf of both of us.

On my right is William James Adams, Harvard College, who prepared appendix No. 1.

Mr. Chairman, at this point I would like to move that the entire statement with the appendixes be included in the record.

The CHAIRMAN. It will be, Dr. Adams. This is the material appended to it?

Dr. ADAMS. That is correct. There are eight appendixes, Mr. Chairman.

The CHAIRMAN. Yes, I know.

Let me thank you, sir, for the depth and extent of the studies that the three of you have made and which you contributed here to our hearing. I have had occasion to go through some of it. We appreciate your doing it.

Dr. ADAMS. Thank you, Mr. Chairman.

Public policy in America has traditionally favored competition and feared monopoly. As a people, we have always believed "that possession of unchallenged economic power deadens initiative, discourages thrift and depresses energy; that immunity from competition is a narcotic, and rivalry is a stimulant, to industrial progress; that the spur of constant stress is necessary to counteract an inevitable disposition to let well enough alone." (Judge Learned Hand in *United States* v. *Alcoa*, 148 F. 2d 416 (1950).)

The very essence of capitalism, according to the late Professor Schumpeter, is the "perennial gale of creative destruction"—"the competition from the new commodity, the new technology, the new source of supply, the new type of organization"—which strikes at established power positions, vested interests, and entrenched privilege. Such competition is not only the harbinger of economic progress, but also the built-in safeguard against the vices of monopoly and privilege.

Competitive capitalism results in undoubted public benefits. But those subject to its gales of creative destruction do not perceive it as a gentle and beneficient force. To insulate themselves against it, and immunize themselves from it, they try to build storm shelters for their protection. And, since private shelters in the form of cartels and monopolies are either unlawful, unfeasible, or inadequate, they ask the Government to build public shelters for them. They try to manipulate the State to preserve their vested rights against the newcomer, the innovator, the foreigner. They want the State to short circuit the discipline of the competitive market—to vitiate the central regulatory mechanism of a free economy.

One type of storm shelter which would-be monopolists demand of their Government are barriers to foreign competition—in the form of tariffs, import quotas, "antidumping" laws, and other restrictions. Instinctively, they recognize the rough validity of the Manchester maxim that "free international trade is the best antimonopoly policy

and the best guarantee for the maintenance of a healthy degree of free competition." They also understand that Government help is virtually indispensable if they are to achieve their monopolistic goals.

Economic history provides many examples of the high costs which society pays for cooperating with such monopolistic schemes. One of the most dramatic examples is the impact of French malthusianism which fostered cartels and monopolies at home, and built barriers to competition from abroad. As we demonstrate in some detail in appendix I, the French economy paid the price of stagnation and retardation for this policy which persisted, almost uninterrupted, from the Revolution to the post-World War II era. It is significant that, in the early 1950's, the French themselves, seeking the causes of their stagnation, concluded that the high cost-price structure, low productivity, and general inefficiency of French industry were in large measure due to the corrosive system of protectionism. Thus, the French Commission on National Accounts concluded that—

> In effect, in the shelter of our frontier which foreign merchandise finds it difficult to cross * * * a structure is developed which is no longer stimulated to maximum productivity. * * * It is in the structure which it has established that the almost complete cloistering of the French market must be judged. The true long-term cost of abusive protectionism is the low productivity of the economy.

Noting that, on the average, French prices were a good 10 to 15 percent above world prices, René Mayer, a premier with close business connections, told the Chamber of Deputies:

> The essential cause—I say it with moderation, but with conviction—of our high prices is the system of protectionism, that growing protectionism of which we cannot rid ourselves, the survival of unproductive enterprises, the private cartelization which one day legislation * * * must definitely destroy.

Other French statesmen saw in the vigorous competition induced by the Common Market the only hope for reversing the stagnation of French industry, and providing the necessary stimulus to modernization, progress, and growth. Competitive entrepreneurship, they felt, was the only road to survival in a competitive world.

It is both ironic and tragic that the Congress is now asked to embrace a comprehensive and pervasive policy of economic malthusianism—the very policy which has produced such deleterious results in France and elsewhere, and which the most progressive industrial nations are now abandoning. Illustrative of the rationale for (what Barron's calls) the "protection racket" is the steel industry's clamor for import quotas. Some of its arguments border on the ludicrous. Thus, Roger Blough alleges that—

> Obviously there are many things in life that should and must be protected. For example, millions of our people—and a number of Government agencies—are laudably striving to protect certain vanishing forms of wildlife that are threatened with extinction; and one may reasonably wonder, I suppose, how far down the road to oblivion some of our major industries must go before they are deemed to merit similar concern.

Other steel executives are more specific in their claims of gloom and doom: Imports, they say, represent "more than 70,000 steelworker jobs alone, and many thousands of jobs in supporting industries;" imports are a threat to the national security because "a first-class power with global responsibilities cannot afford to rely on overseas

sources of steel thousands of miles away;" imports are a serious drain on the U.S. balance of payments; imports are the inevitable consequence of the world's highest wage structure which makes it impossible for America to compete with foreign-made products in world markets; and finally, imports must be severely restricted in order to give the American steel industry time to modernize so that it can meet foreign competition.

These arguments, we submit, are spurious and deceptive. As we demonstrate in the appendixes to this statement, steel employment is not correlated with imports but with rising productivity—both in the United States and in leading steel producing nations like the European Coal and Steel Community. The level of U.S. steel prices is uncompetitive not because of high labor costs, but because of an insensitive, monopolistic, and suicidal pricing policy, on the one hand, and technological lethargy, on the other. The balance-of-payments deficit, reflected in rising imports and lagging exports, is indeed a stark reality, but this again is explained by the industry's noncompetitive behavior. According to the calculations of Prof. Egon Sohmen, of the University of Saar in Germany, an international steel authority, the U.S. balance-of-payments deficits during the early 1960's could have been eliminated, if the steel industry had priced its products to assure operations at full capacity, and if it had exported the additional steel produced at world market prices. Sohmen says:

> Moreover if steel prices in the United States had uniformly been at the lower world-market levels, many important American industries using steel—the automobile or the machinery industries, to name only a few—could have reduced their prices. This would have entailed a rise of exports of these industries and a fall of competing imports, further improving the U.S. trade balance.

Finally, as the record of the last 15 years conclusively shows, technological progress will not come about by shielding the steel industry from foreign competition, but by subjecting the industry to the regulatory discipline and competitive compulsions which such rivalry provides. In short, a strong steel industry, with a viable national defense posture, is a competitive steel industry—not an industry operating in its monopoloid and lethargic manner under the umbrella of government protectionism.

Despite its poor performance in the past, however, there are signs that the industry has begun to respond to import competition, and that it can prosper without the crutch of government aid. According to the Wall Street Journal:

> The steel industry, long plagued by heavy modernization costs and rising imports, nonetheless seems poised on the brink of a spectacular long-term surge in profits.

The modernization program, induced by import competition, is beginning to pay off. The new oxygen furnaces at Republic's Cleveland plant have shaved $10 per ton from previous production costs. National's continuous casting machine at the Weirton plant will save an estimated $2 a ton in operating costs, which would mean an annual saving of $6 million, or nearly 6 percent of National's pretax profit of $105 million last year. McLouth, a leader in new steel technology, is likely to be earning $27 million by 1970, up from $10.8 million last year. In addition, of course, the price increases announced last year on

70 percent of all steel mill products will yield more than $350 million annually—that is, roughly twice the $170 million increase in labor costs effective last August. Finally, as an Allegheny Ludlum spokesman observed, the steel industry can take a hell of a lot more business without adding more people. Its rising productivity is reflected in the fact that in the first quarter of 1968, the industry produced 37 million tons with an average employment of 432,000 people, whereas in the first quarter of 1965, the output was 35 million tons with an employment of 463,000. (Wall Street Journal, May 31, 1968, p. 6.) This is hardly the time, therefore, to impose import quotas, or to short circuit the market forces which have compelled the steel giants to modernize and increase efficiency.

In conclusion, we note that even if (steel) import quotas could be justified in theory, which they cannot, they would still be an unwise policy in practice. In a chess game, it is foolhardy to assume that our opponent will play dead—that our moves will not be met by countermoves which neutralize a seemingly brilliant forward thrust. Trade restrictions by the United States will inevitably and predictably invite massive retaliation, leading to a further loss of export sales and an aggravation of the balance-of-payments crisis. Let us remember that a large volume of American steel is exported in the form of machinery, metal fabrications, vehicles, aircraft, and similar products, and that the dollar value of these exports is 10 times larger than the dollar value of steel imports. Let us also remember that some 2.9 million jobs in the United States are attributable to exports—accounting for 20 percent of the employment in engines and turbines; 24.9 percent in construction machinery; 16.9 percent in special machinery; 15.6 percent in chemicals; 13.8 percent in plastics; 12.1 percent in office machinery, et cetera. Is it in our national self-interest to penalize these progressive, competitive, and aggressive export industries in order to protect some inefficient, lethargic, monopolistic giants? We submit, Mr. Chairman, that this would be a bad trade off.

Import quotas for such industries as steel are, therefore, unwise and self-defeating. Aside from their deleterious effect on world trade, they are against the best interests of the United States—the employment of our workers, the efficiency and competitiveness of our industries, the stabilization of our balance-of-payments position, and our industrial strength for national defense.

Mr. Chairman, we should be delighted to answer any questions the committee may have.

(The appendixes referred to follow:)

APPENDIX I

MALTHUSIANISM, PROTECTIONISM, AND STAGNATION: A CASE STUDY OF FRENCH COMMERCIAL POLICY

(By William James Adams, Harvard College)

To the American, malthusianism is a theory of population growth. To the Frenchman, by contrast, malthusianism is a theory of entrepreneurial behavior: it is an attempt to explain why French economic values crystallized about the goals of security and conservation rather than those of creation and innovation. Although French in origin, the concept of economic malthusianism (as I shall refer to the second usage to distinguish it from the first) can be used to analyze certain strident strains in our own economic attitudes. It is important, then,

for us to understand what the French mean by economic malthusianism, and to examine the consequences it had for their economy. Accordingly, I shall examine: (1) the meaning of economic malthusianism, (2) the pernicious effects on the French economy of its embodiment in a system of protectionism, and (3) the beneficial effects on the French economy of its temporary abandonment in favor of moderately free trade.

I. THE CONCEPT OF ECONOMIC MALTHUSIANISM

Economic malthusianism stems from an obsessive fear of narrow markets.[1] The malthusian entrepreneur believes that narrow markets are inescapable. Nothing can be done to stretch them. He therefore resigns himself to the inelasticity of the demand for his own product, whatever the actual economic situation may be. Domestically, even when "confronted with an expanding economy, the French producer still does not go out to find or make new markets; he waits for them to come to him."[2] Abroad, he does not fight for markets that could permanently compensate him for allegedly inadequate domestic demand. The Pechiney company, for instance, "one of the most vigorous of France's large concerns" according to Ehrmann, once explained a sharp dip in its exports in terms of increased domestic demand. It apparently did not consider the possibility of satisfying both by expanding production.

Fear of narrow markets is reflected in the malthusian's concern over the ability of the market to absorb his output. He is consistently pessimistic in his estimate of what the fragile market is able to bear. Thus the National Institute of Statistics found in its periodical questionnaires that "when asked to make prognoses concerning business conditions in the period immediately ahead, most employers underestimate the possibilities of their firms, large or small, and the ability of the market to absorb their products."[3] Similarly, executors of the Monnet plan found that industry representatives on the several working committees "invariably would show concern whether there would be a sufficient market for the increased production called for by the plan;"[4] fearing overproduction, the Wendel steel group refused, when asked by the Commissariat, to install a continuous strip mill in the early 1950's.

Pessimistic about the possibility of stretching demand, the malthusian attempts to organize rather than to expand his market. The reason is simple: in a fixed market, market share is more important than market size. The chief desiderata under such circumstances become the stability of the market and the security of one's position in it. To the malthusian mentality, such stability and security are best achieved by formally organizing the market, for as Baum put it: "the emphasis on stability and security rather than profit maximization greatly facilitates the establishment of a *modus vivendi* between potentially competing firms."[5]

The organization of markets is, therefore, secured by the formation of *ententes*. Each producer agrees to market a specified volume at a specified price. In return, he is guaranteed his position in the market place, regardless of the economic justification for his presence. As a former minister of economic affairs once described the system, "he who has the greatest difficulties cries, 'Help me to protect myself.' He furnishes his cost elements and sees to it that the price fixed by the entente will at lease cover his costs."[6] Thus no one who abides by the rules is forced from the game, no matter how low the score to his credit.

As a result, the small family firm has been permitted to outlive its efficiency. French markets are still encrusted with a plethora of marginal firms surrounding the few larger corporations which account for the major share of economic activity. As late as 1957, fully 60 percent of all firms employed no salaried personnel and 95 percent employed fewer than five. Only 0.1 percent of all firms employed more than 100 persons.

The survival of the marginal firm has been made possible by the fact that the large, relatively efficient, corporation which could long since have compelled it to modernize its plant or retire from the market-place has chosen to organize production instead. The corporation has not done so out of charity. Spared the spur of competition, it is enabled to become "of the sleepy sort which does not strain after every gnat of profit, but prefers a quiet life."[7] With a uniform price set high enough to maintain the most marginal of producers, the relatively efficient corporation automatically enjoys a high profit *margin*, which, given inelastic demand, results in high profit *volume* as well. That his profits could be even larger

See footnotes at end of Appendix.

concerns the malthusian little. As Landes beautifully summarizes the attitude, "why take risks and make money faster, when you can follow at a safe distance, earn less to be sure, but still be there when the front runners have long since faded?" [8]

The ease with which the large corporation can maintain its superiority in the family firm league liberates it from the tiresome necessity of adapting to world efficiency. Accordingly, it is lulled into inertia with regard to technical change. Thus, as Bettelheim despairs:

> The spontaneous expansion of production and natural resources which is the natural outcome of a state of competition where producers are continually obliged to improve their productive capacity lest they be eliminated from the market, has increasingly given place to the stagnation of production and resource development due to economic malthusianism which . . . has limited production and investment to the immediate absorptive capacity of the market.[9]

The large corporation which appears efficient by domestic standards is actually inefficient by world standards. It, too, becomes dependent on the protective effect of the cartel. It, too, would be eliminated from a rational market.

The businessmen themselves were aware of this inefficiency. But the malthusians among them were unconcerned. Two examples of their attitude are as sufficient as they are startling. First—

> At the turn of the century, Paul-Boncour spoke about the hostility of the trade associations toward modernization. The president of the pre-war CGPF constantly praised the "prudence" of the French industrialist in matters of rationalization. Not to have adapted suddenly to measures of standardization or mass production was considered by him a virtue, worthy of a country which has always honored the *juste milieu*, but also a tribute to nature, for *natura saltus non fecit*. The high level of French prices was to be regarded as the "ransom" for the meritorious modesty of modernization efforts.[10]

Second in 1933,

> M. Duchemin in one of his yearly addresses to the CGPF had almost proudly declared that production of costs in France would always be higher than in other industrial countries since in matters of modernization and competition Frenchmen would always show "that modernization which corresponds to the genius of the race." [11]

Just as they were prepared to sacrifice profit maximization, so they were prepared to sacrifice technical efficiency to their goals of security and stability. Disciplined by the cartel instead of the world market, they were easily able to do so.

In the early 1950's the Commission on National Accounts reported that "the sclerosis of competition goes far beyond the framework of these open or closed cartel agreements among some power groups. It results from a complex of practices which themselves are the product of a general mentality.[12] That mentality is economic malthusianism. It seeks economic survival through stability and security. That is why the malthusian is more a Weberian than a Schumpeterian entrepreneur. He specializes in careful calculation rather than in spontaneous creation and innovation.

II. THE HEAVY HAND OF THE STATE

If the effects of economic malthusianism on efficiency were so perverse, why didn't the French state, anxious to promote economic growth and development, attempt to eradicate it? The answer is simple. The malthusian businessmen were able to convince the government that they needed time to adapt to the exigencies of the world market. Insulate us today that we might modernize tomorrow and compete the next day, ran their argument. Obligingly, the government not only sanctioned the cartels but protected them from foreign competition by instituting a comprehensive system of trade controls and prohibitions. Unfortunately it did not realize that "such a monopoly of the home market has never promoted progress in industry." [13] The protection it extended had precisely the opposite effect from the one it had intended: it led to the retardation rather than the modernization of the French economy.

Let me illustrate in detail, beginning with the agricultural sector. The Revolution of 1789 atomized French agriculture. Hence, few nineteenth century landholdings could guarantee subsistence, much less permit efficient production for

See footnotes at end of Appendix.

the market. Even in 1925, 37.9 percent of all farmland was cultivated in units of of less than one hectare; and another 45.9 percent was cultivated in units of one to ten hectares. This myriad of small holdings was hopelessly inefficient and would never have survived world competition. Unfortunately, it did not have to. The exigencies of war forced Napoleon I to rely on domestic agriculture. When cut off from tropical cane sugar, for instance, he encouraged home production of sugar beets. There arose, then, a self-sufficient but inefficient home agriculture. At the end of the Napoleonic wars, with the return of competition from abroad, home agriculture sought and secured protection. High tariffs appeared on sugar, wheat, and most other foodstuffs. Other agricultural products such as wool were also protected by either tariffs or absolute prohibitions. This system remained largely in effect until the Cobden-Chevalier Treaty of 1860. There followed twenty years of what the French euphemistically call free trade: i.e. moderate protection. Some foodstuffs, such as rye, barley, and oats, did enter free; but wheat still carried a duty of about 0.60 francs per one hundred kilograms, wheat flour one of 1.20 francs, and the *pates d'Italie* one of 1.20 francs. Comparable duties remained on livestock. As competition from the great plains came to be felt, however, moderation capitulated to excess. A law of 1881 excluded grain and livestock from future commercial treaties. In 1885, duties on formerly free goods reappeared and those on the rest went up. The duty on wheat climbed to three francs, and in 1887 it was boosted to five francs. Finally, with the Méline tariff of 1892, protection reached a climax, and the tariff on wheat levelled off at seven francs per hundred kilograms.

Protection permitted farming to remain fragmented in France. In 1908–09, an Inquiry conducted by the Ministry of Agriculture on small property found that since the Méline tariff, the *number* of small holdings had increased in 42 departments, had declined in only thirteen, had remained stationary in seventeen, and were undetermined in fifteen. During the same period, the *area* of small holdings had increased in 52 departments, had declined in five, had been stationary in nineteen, and were undetermined in eleven. The Iquiry also discovered that the number of large farms was actually declining, while the number, and more significantly the area, of small holdings increased. As late as 1929, 62 percent of all exploitations greater than one hectare were between one and ten hectares. Another 34 percent were between ten and fifty hectares.

Fragmented farming retarded industrialization in two ways. First, it permitted the rural population to remain inefficiently swollen and therefore impeded urbanization. Hence, in the period 1815–48, fully three-fourths of all industrial workers retained a connection with agriculture. For many, industrial employment was only a supplementary source of income. Thus, industrial labor remained unspecialized and inefficient. As long as it could fall back on its land, it was not compelled to acquire industrial habits and unit labor costs remained high. Industrial efficiency was impaired.

Second, fragmented farming reduced agricultural as well as industrial efficiency. Augé-Laribé has estimated that over one-quarter of the land in cultivation is too fragmentized for economic use. Moreover, the protective tariff permitted the farmer to resist specialization in such products as wine in which France enjoyed comparative advantage. Even Jaurès, who had favored agricultural protection in the years past, "declared that the tariff was now preventing it from realizing its true possibilities, by maintaining the un-economic production of grain and limiting the development of an export trade in the special lines in which it excelled."[14] Producing goods in which it had no relative competence, French agriculture lagged behind its foreign counterparts. In 1910, her wheat yield was twenty bushels per acre while that of Germany was thirty and that of Great Britain 32. She also lagged her neighbors in sugar beet yield per acre, in yield of sugar per ton of beets, and in milk production per cow. Golob summarizes the period after the Méline tariff in this way:

> Considered only in relation to its own past, French agriculture in the first decade of the twentieth century seemed to be continuing to progress very slowly. Per hectare yields had risen, land ownership had gained somewhat over tenancy, but the dominant note was one of maintenance of traditions, of resistance to change rather than progressive change. If a rise of truck farming indicated a slight tendency toward specialization, the decline of so-called industrial crops indicated a return to diversified farming.[15]

The result of this lack of specialization was high prices. Especially after 1894, the price of wheat became substantially higher in France than in the world

See footnotes at end of Appendix.

market. This meant that wages had to be higher in France than abroad to cover subsistence, further retarding industrialization.

Sluggish urbanization, low-productivity but high-wage labor, and high food prices can be imputed to agricultural inefficiency. It is not surprising that Bettelheim calls agriculture retardation "one of the principal factors in the isolation of our economy from the world economy." [16] While this inefficiency was directly caused by the Revolutionary land distribution, it was indirectly sustained by post-Revolutionary protectionism. Sawyer long ago noticed that "in agriculture the system of tariff-protected peasant proprietorship has survived for great parts of France, giving her the highest percentage of 'independents' in this field of any Western country. The result has been to hold an excessive amount of labor in the land and to maintain small, undercapitalized, underproductive units, particularly in the south and east." [17] Dillard, writing in 1967, has the same impression: "High agricultural tariffs," he declares, impeded the shift in resources from agriculture to full-time urban industry, a movement consistent with general economic development. Undoubtedly the pace of industrialization in France was slowed down by the high tariff on agricultural products. High tariffs on wheat and other foodstuffs continued well into the twentieth century and retarded the growth of the entire French economy.[18]

Unlike England, then, France failed to repeal her corn laws. As a result, she was unable to industrialize as rapidly.

Industry received the same protection and displayed the same retardation. As early as the Revolution, Kemp found "the typical reaction [to competition] was to seek what defence was possible behind tariff walls, which meant falling back on a stagnant or only slowly growing market." [19] Thus the Convention annulled all existing commercial treaties, imposed several export duties, and prohibited the importation of many goods. A law of October, 1793, banned all imports from Great Britain. In June, 1803, this ban was extended to goods from British colonies and goods passing through British ports. Navigation laws were passed and the free ports, dating from Colbert, were abolished. Under the Berlin and Milan decrees of 1806–07, businessmen became so accustomed to the pervasive system of prohibitions, that they claimed it was essential for prosperity.

Thus, prohibitions and high tariffs did not fall with Napoleon. Between 1816 and 1826, industries which had lived only by the grace of protection made sure that peace did not revive competition. Absolute prohibitions and virtually prohibitive tariffs, were extended rather than dismantled. Under Louis XVIII, protection was first accorded to producers of flax, wool, and cereals. Lest linen and woolen manufacturers be placed at a disadvantage by relatively high raw materials prices, a compensatory duty was levied on raw cotton, even though that fiber was not produced in France. More important, imports of coking coal faced a stiff tariff, usually of thirty percent. (The system, however, was complicated, and English coal faced much higher duties than either Belgian or Prussian coal.) Louis also raised the duty on bar iron from ten percent to fifty percent. When it was found that Britain could still export iron smelted with coal across the Channel, a special duty of 120 percent was levied on such iron. It is not surprising that this tariff did in fact "preserve intact for French ironmasters the complete monopoly of the home market." [20] Nor is it surprising that the large landlords were strong supporters of the tariffs on coking coal and iron smelted with coal: they enabled them to make large profits on the wood they sold to smelters.

The July Monarchy realized things had gone too far. It reduced duties on wool by one-third. This enabled the woolen and worsted industries to expand greatly near the foundation of the Second Empire, since the supply of home-grown Merino wool was insufficient both quantitatively and qualitatively for such expansion. Louis-Philippe also reduced the duty on iron smelted with coal by one-fourth and that on cotton of long and short staple to twenty francs. Finally, he removed the import prohibitions on fine cotton (which was not spun in significant quantities in France) and on coarse linen. Political considerations, however, prevented further reductions, and his regime remained, on balance, protectionist.

Thus ". . . France still maintained, at the time of the Revolution of 1848, the system of absolute prohibitions—a legacy from the exclusive policies of the Napoleonic period. Included in the list of goods whose importation was unlawful were many of the most important industrial products, such as pottery, glassware, textiles, chemical products, and manufactures of metals and leather. The

See footnotes at end of Appendix.

continuation of exclusion was demanded by the producers of similar products in France, who feared that the duties which would otherwise be applied might not be sufficiently high to permit them to retain their monopoly of the home market . . ." [21] From this protective system, the Revolution of 1848 subtracted nothing. "Though the Republican Assembly of 1849 was elected by manhood franchise, it showed no particular disposition to commercial liberty. Whereas in England the extension of democracy led directly to greater freedom for foreign trade, in France it had no such result . . ." [22] The legislature was controlled by the landowners and manufacturers, who were naturally hostile to reform. Since no popular demand for reform arose, it was in no way disposed to act.

Until the Cobden-Chevalier Treaty, then, France remained devoutly protectionist. "French manufacturers had enoyed almost complete protection against foreign competition since the beginning of the revolutionary wars in 1792." [23] It is time to discuss the results of this system of protection. It is time to see whether it helped or harmed the French economy.

In the coal and iron industries, to begin with, the effects of protection were adverse. The absence of abundant coal deposits caused the price of that mineral to be high in France in the first place. Generous tariffs boosted the price even higher, so that coke cost twice as much in France as in England or Germany. This made it much less profitable for the ironmasters to adopt the efficient coke-smelting process, and hence put them at a disadvantage with respect to foreign producers. It is a testament to the efficiency of the coke process that it remained more efficient than the wood process, even with the artificially high price of coal. That is why "the demand for coal increased so rapidly that domestic producers could not expand fast enough to meet the needs, and large amounts continued to be imported from Britain, Belgium, and Germany despite the tariff." [24]

The ironmasters didn't complain about the cost of coke because they also received protection. The price of iron was so high that even the most inefficient of producers could stay in the market without being compelled to modernize. Of the ironmasters of the Marne, Dunham says:

> Thanks to their favored position, they had been able to use antiquated machinery, or sometimes to depend to a great extent upon hand labor by workers in households, such as had been prevalent in England at the beginning of her industrial revolution, sixty-five years before. Many of the iron foundries were situated in mountain districts, far from both railroads and markets because, under existing prices, they could still afford to burn wood instead of coal.[25]

Thus protection prevented the rapid conversion to coke smelting. Not only did high tariffs keep coal artificially scarce, but they kept the price of iron artificially high. Hence, all penalties for antiquated production methods were effectively removed. No wonder ". . . the progress of metallurgy in France was almost completely checked." [26]

Just as high coal prices hindered the development of the iron industry, so high iron and steel prices hindered the development of other important industries. In 1860, the Inspector-General of Mines, M. Combes, had occasion to investigate the cutlery industry of the upper Marne. He concluded that it was extremely inefficient. Testimony by the cutlery manufacturers themselves at government hearings in May, 1860, corroborated his opinion: "it was proved then that the cutlery industry had scarcely been touched by the industrial revolution and still used the old domestic system with the waste of time and effort involved in manufacturing on a small scale in the widely scattered homes of the master workmen." [27]

Much more significant than a retarded cutlery industry was a stunted railroad system. Inefficient smelting and refining of iron made "the construction of railroads slow and expensive." [28] Hence the creation of a pervasive transportation network, the plinth of the development process, was retarded by the inefficiency of the iron industry. That is why Dillard feels "tariffs on coal and iron clearly worked to the disadvantage of French economic growth." [29]

The picture in textiles is only somewhat less bleak than that in coal and iron. In the early nineteenth century, urbanization proceeded at a leisurely pace. Hence, the putting out system, employing very little machinery, accounted for most spinning and weaving. Change came first to spinning. In cotton, for example, most spinning was done in mills with machinery by 1860, even though such mills were not of great size. Weaving, however, was hardly touched. In cotton, "in 1860, with the exception of Alsace and of centers like Rouen, Lille, and Roubaix where

See footnotes at end of Appendix.

there were some powerlooms, it would not be far from the truth to say that all weaving was done by hand." [30]

To trace the rate of progress in spinning and weaving, most economic historians cite statistics on the introduction of spindles and looms. I shall not follow this practice because I consider it quite deceptive. Most machinery in use was inefficient. Dunham, after describing the transition of cotton spinning from home to mill, says: "It seems clear, however, that the machinery used was of an antiquated type, and that the French spinners did not as a rule adopt improvements as they were made in England." [31] In fact, some of this machinery was outmoded before it was even installed. Of the once strong silk tulle weavers, it is said:

> Their looms were generally old and poorly constructed, having been bought from manufacturers of cotton tulle in northern France and adapted to the weaving of silk tulle at great cost. They were run by hand, but England had installed looms run by steam power and had improved her methods so that she was driving the French from the markets of the United States, Spain, Germany, and Italy.[32]

Particular machines, then, as well as people can become inefficient in performance of a given process. France did not keep up with England technologically; it had the unhealthy habit of using machinery that was obsolete on installment. Thus the mere existence of machinery is no measure of progress at all.

How did the tariff relate to this retardation? By keeping the price of yarn and cloth artificially high, it permitted inefficient producers to stay in business without adopting better methods. Amé cites the case of Rouen, whose chamber of commerce declared in 1802 that her manufacturers "used the most efficient techniques known." It thought France superior to England in the production "of all common cottons and the principal woolens." In 1792, just before the proscription decrees which left us with the system of prohibitions, we already exported, under the aegis of the Treaty of 1786, more cotton yarn than we have ever exported since. In 1814, to make the prohibitions survive the war, Rouen had to admit that our industry had not matched the progress of British industry and that we were not prepared to take up her challenge.[33]

Whether or not they would have been wiped out by British competition is debatable, but it is true that they had not kept up with their British rivals. The prime argument for protetcion had been that it would permit home industry the breathing space to undertake reform. "Under the system of prohibitive tariff duties, however, the French [plain silk tulle] manufacturers, like so many of their colleagues in other industries, made such large profits that they saw no need of improving their methods or machinery." [34] Among these colleagues in other industries were the woolen manufacturers. Dillard found that protective duties on woolen yarn and cloth probably retarded rather than promoted economic growth in this ancient and well-established branch of the textile industry. The transition from hand to machine weaving was delayed by the protective tariff. Protection to woolen cloth also sustained the domestic system of manufacture and impeded the transfer of manpower out of agriculture into full-time industrial employment, which was one of the primary needs for French industrial progress.[35]

Thus, the effect of insulation was not efficiency but stagnation. The textile industry did not reform because it was not compelled to reform. As long as there was no penalty more pricking than moderate instead of exorbitant profits, it was unreasonable to expect a change in technique.

The picture in textiles was, however, less bleak than that in coal and iron. Unlike coal and iron, the textile industry did have some compartments of efficiency and strength. Principal among those was silk, which "enjoyed an absolute as well as a comparative advantage over all other countries during the nineteenth century." [36] Unfortunately, the protectionist policy in France provoked retaliation in other countries. As a result, the expansion of this efficient export industry was arrested.

In sum, industrial tariff policy between the Revolution and the Cobden-Chevalier Treaty fostered retardation, not modernization. While it did not create the putting out system, the overpopulated country-side, or the small family firm, it did permit each of these institutions to survive its economic utility. If prices had not been kept artificially swollen, the high cost producer could have met British competition only by adopting more efficient techniques. Lacking both the innate obsession and the external compulsion to do so, he did not. The result was retardation. As Dunham tersely put it: "the deadening in-

See footnotes at end of Appendix.

fluence of a prohibitive tariff on industrial progress is well known and needs no demonstration. There is no reason to believe that this influence was less deadening in France between 1810 and 1860 than it has been elsewhere and at other times." [37]

In 1860, the French Emperor, Napoleon III, agreed to end the system of prohibitions. I say the Emperor did, because the people did not. So hostile was public opinion that the Cobden-Chevalier Treaty could not be presented even to the Emperor's hand-picked Senate for ratification. It had to be presented as a *fait accompli*. From the very beginning, there was substantial popular opposition. By 1872, at the inception of the Third Republic, a majority of parliament favored high protection. By 1878, the Treaty with England was denounced; and within three years the tariff had been raised 24 percent for bargaining purposes. By 1888, in a questionnaire on tariff reform circulated by the *Société des agriculteurs*, only three of 140 replies favored retention of the already increased tariff. By 1890, 96 of 107 chambers of commerce wanted to denounce all existing commercial treaties; only 35 recommended any renegotiation. Finally, in 1890, a tariff revision commission was appointed consisting of 39 protectionists, eight moderate protectionists, and eight free traders. It was clear what was going to happen.

I could go on to discuss the return of protectionism: the effects of the Méline tariff, the import quotas of the 1930's the quotas and compensatory taxes of the late 1940's and early 1950's. I shall not do so, however, because such a discussion could only contribute similar if not quite so shocking examples of the retarding inuence of protectionism. Suffice it to say that in the early 1950's, the French, themselves seeking the causes of their stagnation, concluded that the high cost-price structure and the general inefficiency of French industry were in large measure due to the corrosive system of protection. The Nathan report found that "the French market, for short periods, has largely been isolated from foreign markets for the past twenty years. . . . The economic cloistering has, in effect, permitted our country to develop, purely on the basis of internal exigencies, practices or policies which could not fail to have consequences on the structure of national costs." [38] Similarly, a report of the Commission on National Accounts concluded that "in effect, in the shelter of our frontier which foreign merchandise finds it difficult to cross . . . a structure is developed which is no longer incited to maximum productivity. . . . It is in the structure which it has established that the almost complete cloistering of the French market must be judged. The true long-term cost of abusive protectionism is the low productivity of the economy." [39] That is why the French found their prices a good ten to fifteen percent above world prices on the average. It is also why M. René Mayer, a premier with close business connections, could say before parliament:

> The essential cause—I say it with moderation, but with conviction—of our high prices is the system of protectionism, that growing protectionism of which we cannot rid ourselves, the survival of unproductive enterprises, the private cartelization which one day legislation . . . must definitely destroy . . .[40]

Protectionism after 1892 was like protectionism before 1860. It permitted high-cost inefficient producers to remain in business because of artifically high prices. The tariff may not have been the chief cause of French retardation, but "it is clear that in almost every case its influence was unfortunate, if not definitely harmful." [41]

I do not discuss this period in detail, then, because it would constitute another exercise in negativism. Instead, I wish to take the more positive approach of showing just how salutory the absence of restriction would have been. Thus, I turn to the two truncated periods of French economic liberalism, the one just before the Revolution, the other at the summit of the Second Empire.

III. THE INVISIBLE HAND OF THE STATE

When free trade finally penetrated government policy, the manthusian did not greet it with equanimity. In each period of trade liberalization, he claimed that he would be destroyed by his more efficient foreign counterpart, and that far from modernizing he would be forced out of business. In each of these periods, however, the businessman was able to complete, and compete well, once he modernized.[42] It is the purpose of this section to show how and why.

In 1786, at the time of the Eden-Rayneval Treaty, the French businessman seemed in no condition to compete with his British counterpart. His rival had

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better coal, and even better wood. He was using water-frames while the Frenchman was still struggling with jennies. He was well informed concerning the kinds and qualities of French goods as well as the tastes and needs of French consumers. He faced no guild system or internal tariff barriers. His country was not on the verge of bankruptcy. No wonder Vergennes predicted the sudden influx of British goods would give a strong shock to French industry.

This strong shock was not unwelcome to the French statesman, however; he predicted that the shock was badly needed and would not destroy the French manufacturer. In this appraisal, he proved to be correct. Even in cotton, the vehicle of England's economic revolution, British imports did not kill the home industry but stimulated the adoption of the jenny and, to a lesser extent, the water frame. Broadly speaking, "no single branch of industry was ruined and industry in general seems to have been notably stimulated by the competition which induced French manufacturers to study and copy British goods with gratifying success." [43] Hence, Haight concludes that "no doubt the equalization of duties on manufactured articles operated to the immediate benefit of England, but it provided a much needed stimulus to the technical renovation of French industry and demonstrated, better than any amount of theoretical reasoning, the stifling effects of excessive regulation and organization." [44] France was on her way to economic revolution.

Unfortunately, the operation of this Treaty was arrested prematurely. In its paranoia, the Revolution reverted to the system of prohibitions which I have already discussed above. Early hopes for catching England evaporated. The free trade movement itself went underground until Michel Chevalier and Frédéric Bastiat formed a free trade association similar to the Anti-Corn Law League, and began to publish their *Libre-Echange*. In 1847, they proposed the abolition of all prohibitions, the abolition of all duties on foodstuffs and raw materials, the abolition of constraints on shipping, and the setting of a maximum duty of twenty percent, to be lowered to ten percent in one year. The plan never gained popular support and was not even presented to parliament until the Second Republic. By that time it had lost even its backers. Bastia, more afraid of the socialists than annoyed with the tariff, devoted all his energy to celebrating the virtues of a laissez-faire (as opposed to liberal) system. His association was disbanded and his newspapers ceased publication. Thus, when moderately free trade was proposed by Sante-Beuve, it was overwhelmingly rejected in pariliament.

The record of the Second Republic demonstrated that reform wauld have to come as a coup. That is in fact what happened, as I related above. The Cobden-Chevalier Treaty was negotiated privately, then secretly. It was never approved by parliament. And yet (perhaps therefore) its provisions were impressive. France was to eliminate all duties on foodstuffs and raw materials. By 1861, she was to permit all British goods to enter at a maximum rate of thirty percent. By 1864, that rate was to fall to 25 percent. Each nation granted the other most-favored-nation treatment. Specifically, the coal duty was to drop by one-half and the coke duty by two-thirds. British cast iron was to be admitted at 25 francs per hundred kilograms,[45] her machinery at fifteen francs per hundred kilograms, a reduction of 75 percent. Cutlery was taxed at an *ad valorem* rate of twenty percent. In textiles, most British cloths would be taxed at fifteen francs per hundred kilograms, and then at ten frances in 1864.

What were the effects of this comprehensive trade liberalization? Let us look, first of all, at the iron industry. Indeed, let us look at the producers in that industry who were most inefficient and would find it most difficult to adapt: the ironmasters of the upper Marne. Those establishments located high in the hills or deep in the forests refused to convert to coke and were, as a result, eliminated. The charcoal industry died and iron mining virtually ceased. But those establishments that were situated near the railroads or the canals, or were placed close to the river, survived and increased their output greatly after changing their equipment and improving their methods. Many learned to specialize in making cast-iron, and the manufacture of wrought- or weld-iron prospered. Rolling-mills were modernized, and produced large quantities of fine iron and steel . . . The manufacturers, in short, brought their equipment up to date and specialized in the production of goods of superior quality, especially in that of finished parts for machinery of all sorts and sizes.[46]

Thus, in 1912, the iron industry of the upper Marne had a far larger number of workers, a far higher volume of output, and a far better quality product than it did in 1860. It did suffer in the transition period, but after that, "the indus-

See footnotes at end of Appendix.

try was not injured by the new commercial policy of the Second Empire; in fact there are many grounds for saying that the reforms so bitterly opposed in 1860 were of great and lasting benefit to the manufacturers of the upper Marne." [47]

The adaptation of the rest of the French iron industry was even more spectacular. Producers made use of British scientific discoveries, and improved their methods of production. Soon they were able to export large quantities of iron goods to countries other than Britain—especially locomotives and other machinery. Most impressive was the fact that the British were not able to increase their exports of iron goods to France, despite the large reductions in duties. The reason was that the adoption of efficient techniques brought French costs way down. Costs fell farther than tariffs, and so the new duties remained prohibitive.

The lower price of iron stimulated all firms which used that commodity. This involved almost every sector of the economy. Most important was the effect on transportation. According to Dunham, the great development of French railroads in the later years of the Second Empire was, to a very considerable degree, the result of English competition, which brought down the price of French iron, and both increased the supply and improved the quality by compelling the small ironmasters to abandon their inaccessible forges in the mountains and establish themselves in favorable situations where they could smelt with coal. The use of wood for smelting was declining before 1860, but the change to the burning of coal was completed with rapidity after the conclusion of the Commercial Treaty.[48]

The development of the railroads in turn affected the coal and iron industries. Apart from their direct demand for coal and iron products, the railroads reduced the cost of coal at the point of consumption enormously, making the rewards for conversion from wood smelting even greater. This served to reinforce the already increased demand for coal and improve the efficiency of the iron industry. No wonder iron and steel production spurted to over one million tons per year in the 1860's.

Cheap iron also enabled the textiles industry to undergo its adaptation to free trade more painlessly. I have already shown that spinning and especially weaving were slow to adopt machinery, and that when they did, such machinery was old and inefficient. The new Treaty forced both branches to catch up. In cotton spinning, for instance, "we have abundant evidence that British competition caused the introduction of large numbers of self-actings." [49] In weaving, it is interesting to compare the reactions of Elbeuf, a town which encountered little British competition against its fancy clothes, with Lisieux, a town which encountered stiff competition against its ready-made clothing.

> Less than half of Elbeuf's fancy cloths, which represented three-fourths of her production, were woven on power looms, the machines being used chiefly for the plain cloths of a single color. At Lisieux, on the other hand, where the principal industry of ready-made clothing was feeling keenly British competition, there were four hundred power looms in 1870, all of them introduced after the signature of the treaty with England, but the number of hand-looms had decreased from 2500 to 1200 and the industry showed a strong tendency to concentrate in the town.[50]

Similar evidence could be adduced in cotton and linen.[51]

In textiles, too, then, French industry was able to equip itself with efficient processes and then to compete effectively with the British, at least in the domestic market. Textile prices, like iron prices, fell so far that *ad rem* duties became prohibitive. The manufacturers of Dundee ascribed this to greater French efficiency; they felt "that the French duties which were moderate in 1860 had since become prohibitive because of the great progress made by the French linen industry." [52] Once again, the Cobden-Chevalier Treaty forced businessmen to adopt efficient techniques and to lower their prices, permitting the whole economy to move forward.

More important than the introduction of any particular piece of machinery was the appearance of a new entrepreneurial mentality. In Part II, I showed how the spirit of economic malthusianism was an important retardative factor in the French industrial process. At the beginning of this section, I suggested that this spirit would have evaporated in a stridently competitive environment. This seems to have been the case. It is worth quoting at length from the life of M. Baril, a velvet manufacturer from Amiens. His reaction to the Treaty was to apply for an Imperial loan under the law of August 1, 1860.[53] Writing later of this difficult period, he said:

> I was sure their fears were exaggerated. I was well informed regarding the English market, and certain that Amiens could compete. I therefore asked

See footnotes at end of Appendix.

for a loan of 150,000 francs in August, 1860, and received 100,000 in March, 1861, and January and April, 1862. I used this to erect a new building and to set up 108 looms for cotton velvet, and I already had 82 of these when the crisis of the American war came. The result was the quick rise of cotton with which the cloth could not keep up, loss on the goods, stagnation of trade, lack of credit, and the closing of one of the chief markets for Utrecht velvet.

I had to stop the manufacture of both forms of velvet. I studied linen and got orders from Amiens merchants and an agreement from the Pont Remy mill to supply yarn. But my funds were sufficient to change only thirty looms and this was not enough to pay. Then the medal awarded me at the Exposition of London [1862] attracted the attention of French manufacturers to the mechanical weaving of Utrecht velvet. Payen, and later others, gave me orders to resume work with 38 looms. I had great difficulty in training workmen in mechanical weaving, and these difficulties kept cropping up and still do. Meantime wages and excessive general costs due to an insufficient number of looms, interest on capital, the cost of all these investigations, the change of looms; all these meant continual loss. My net loss is now 331,429 francs. My average sales since 1858 have been 280,000 francs. With my equipment I should sell for 1,000,000 francs. My present plight is due wholly to insufficient production.[54]

The aroma of an ardent capitalist simply exudes from that passage. Baril did not shrink from the challenges of hardships of a competitive market. He was not only to adapt but to win a *British* award for technical excellence. He was an entrepreneur of whom Schumpeter could have been proud.

Most businessmen were not such hearty capitalists as Baril. Only the great wine and silk firms refrained from proclaiming their imminent destruction. The others complained of having to adapt to small profits on large volume from large profits on small volume. They resented the increased exertion they had to make. But they learned, and they changed. They had to, or they would not have survived. Thus "international competition in silk goods was sharper in 1876 and 1877 than in 1860, yet the French silk industry had grown to fear it less because it had learned from experience that it was beneficial."[55] Whatever their public propaganda might have been, whatever their private feelings actually were, French businessmen were compelled to meet the test of the marketplace, and the blight of economic malthusianism was overcome.

IV. CONCLUSION

In the critical decades of the early and late nineteenth century, high tariffs in France cauterized the competitive process and permitted, indeed encouraged, the retention of malthusian values and practices. In two fleeting periods of moderately free trade, however, France showed that these values and practices were not indelibly imprinted on her economic soul. They showed she could compete, and compete well, when assisted by the invisible hand. The same *élan vital* has characterized economic France in the 1950's and 1960's. For World War II taught her that French foreign policy, the French Union, a French Europe, and even French culture, were all destined for decline without a policy of vigorous economic expansion. Today, she sees, through the eyes of Jean-Jacques Servan-Schreiber, that the cost of economic malthusianism is the existence of France itself. For the cost of such rigidities, if they are permitted to continue, will be overwhelming. The common market is not the prelude to a new period of stability: it is the beginning of perpetual change. Automation and computers will spread, the pace of invention will quicken, incomes will continue to rise, and the tastes of consumers to vary. Growth will indefatigably create and destroy both processes and the skills necessary to perform them.[56]

Like it or not, the only way to achieve security in the modern economic world is to heed the perennial gale of creative destruction, not to hide from it.

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FOOTNOTES TO APPENDIX I

(Numbers in brackets refer to listings in the bibliography. All references originally appearing in French have been translated)

1. The origins of this fear can be traced back to the medieval guilds. It became more pronounced in France than elsewhere because of her unique demographic history since the Middle Ages.
2. [12]. p. 339.
3. [8], p. 284.
4. *Ibid*, p. 287.
5. [2], p. 255.
6. Quoted in [8], p. 379.
7. John Hicks, *Value and Capital*, p. 265.
8. [12], p. 350.
9. [4], p. 150.
10. [8], p. 382.
11. *Ibid.*, p. 305.
12. Quoted in *ibid.*, p. 391.
13. [7], p. 145.
14. [9], pp. 216–17.
15. *Ibid.*, p. 226.
16. [4], p. 174.
17. [13], p. 306.
18. [6], pp. 294–95.
19. [16], p. 337.
20. [7], p. 9.
21. *Ibid.*, p. 20.
22. [10], p. 29.
23. [7], p. 145.
24. [6], p. 293.
25. [7], p. 129.
26. *Ibid.*, pp. 9–10.
27. *Ibid.*, pp. 170–71.
28. *Ibid.*, pp. 10–11.
29. [6], p. 294.

30. [7], p. 210.
31. *Ibid.*, p. 191.
32. *Ibid.*, pp. 258–59.
33. [1], p. 288, n. 3.
34. [7], pp. 258–59.
35. [6], p. 294.
36. [7], p. 294.
37. *Ibid.*, p. 192.
38. Quoted in [2], pp. 267–68.
39. Quoted in *ibid.*, p. 268.
40. Quoted in [8], p. 305.
41. A. L. Dunham, *The Industrial Revolution in France*, p. 399.
42. See, for example, the rest of the speech by M. Mayer, already cited above. "I add," he continues, "that when industrialists pursue another and progressive policy, they are capable of exporting."
43. [7], p. 7.
44. [10], p. 12.
45. This is obviously a quantity rather than a rate. Although the treaty was phrased in *ad valorem* rather than *ad rem* terms, the French were permitted to establish specific duties as long as their implied rate (using 1860 prices) was permissible under the treaty.
46. [7], pp. 172–73.
47. *Ibid.*, p. 173.
48. *Ibid.*, p. 141.
49. *Ibid.*, pp. 209–10.
50. *Ibid.*, p. 227.
51. See Dunham's chapters in [7] on these industries.
52. [7], p. 250.
53. This law, strikingly similar to the adjustment assistance provisions of the American Trade Expansion Act of 1962 (section 301), granted loans for modernization or relocation to firms having difficulty meeting foreign competition under the new tariff schedules.
54. Quoted in [7], pp. 157–58.
55. [7], p. 273.
56. [15], p. 258.

Appendix II

Steel Imports and Domestic Employment

Steel spokesmen claim that 11 million tons of imported steel "represents more than 70,000 steelworker jobs alone, and many thousands of additional jobs in supporting industries—all at a time when this nation is striving to achieve maximum employment." (L. B. Worthington, chairman of AISI, 8 February 1967) The implication is clear: steel imports reduce steel employment by 70,000-plus jobs.

Aside from the dubious techniques for arriving at this 70,000 figure,[1] the contention is defective for the following reasons:

(1) Sharply rising imports, starting in 1959, have been associated with significant increases in steel production—not only in the United States, but also in the European Coal and Steel Community. In neither case can unemployment be traced to rising imports. (See Table II–1.)

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[1] The estimation seems to have been made on a purely mechanical basis. A simple division of steel shipments in 1966 by employment in the steel industry indicates that 156 tons were shipped for every person employed. Since 11 million tons valued at 1.2 billion were imported in 1966, dividing by average tonnage per employee gives a 70,000 figure. An alternative method of arriving at this estimate would be to consider that the 1965 imports of 10 million tons were equal to the combined shipments of Armco and Jones & Laughlin. These two companies employed about 79,000 people (Background Memorandum on American Iron & Steel Institute Steel Import Policy, Feb. 10, 1967). Using the first method assumes: (1) The industry could have filled the extra 11 million tons of demand; (2) The industry's present employees could have produced no more than they did in 1966; (3) The industry could have hired additional labor just as efficient as its existing labor force.

In the United States, for example, imports increased from 3.4 million tons in 1960 to 10.8 million tons in 1966, while production rose from 99.3 million tons to 134.1 million tons. The increase in production was five times greater than the increase in imports. Yet in both years, the industry had approximately the same number of wage employees (ca. 447,000).

In the European Coal and Steel Community, the same trends are in evidence. Between 1959 and 1965, imports increased by 6.5 million tons while production increased by 25 million tons—or four times as much. Yet, in both years, the number of wage employees in the industry was almost identical (ca. 464,000).

TABLE II-1.—EMPLOYMENT, PRODUCTION, AND IMPORT TRENDS, ECSC AND THE UNITED STATES, 1959–67

Year	ECSC				United States			
	Employment [1]	Raw steel production	Average tons per employee	Imports	Employment	Raw steel production	Average tons per employee	Imports
1959	464,467	69,625,000	149.9	8,467,000	399,738	93,446,000	233.8	4,396,354
1960	482,453	80,287,000	166.4	11,981,000	449,888	99,282,000	220.7	3,358,725
1961	483,351	80,739,000	167.0	12,080,000	405,924	98,014,000	241.5	3,163,686
1962	479,466	80,465,000	167.8	13,531,000	402,662	98,328,000	244.2	4,100,039
1963	469,326	80,698,000	171.9	15,508,000	405,536	109,261,000	269.4	5,446,326
1964	477,513	91,334,000	191.3	16,611,000	434,654	127,076,000	292.4	6,439,635
1965	464,707	94,792,000	204.0	15,068,000	458,539	131,462,000	286.7	10,383,021
1966	439,949	93,819,000	213.2	17,013,000	446,712	134,101,000	300.2	10,753,022
1967	428,499	[2] 99,085,000	231.2	----------	424,153	127,213,000	299.9	[2] 11,454,502

[1] Number of wage employees as of December of each year, 1959–66, and as of September 1967.
[2] Preliminary.

Source: AISI, Annual Statistical Reports, 1960–67. Statistiches Bundesamt, Eisen und Stahl, 4. Vierteljahresheft, 1967.

(2) Between 1962 and 1967, while U.S. steel imports more than doubled, separation rates in the steel industry have been consistently below the average for durable goods and for manufacturing as a whole. In May 1967, total separations for the steel industry were at the rate of 2.5 per 100, compared to 4.1 for all manufacturing—substantially the same proportions as in 1962.

(3) Total insured *un*employment in June 1967, in nine areas identifiable as steel centers (such as Allentown, Bethlehem, Buffalo, Gary-Hammond, and Pittsburgh) shows a sharp decline since 1960—again during a period of rising imports. Thus, while 12 percent of the Youngstown labor force was unemployed in 1960, the rate had dropped to 3.3 percent by February 1965. Rising imports cannot be associated with rising unemployment. If anything, the correlation points to the reverse.

(4) The United Steelworkers of America have not been able to furnish us with precise data on unemployment of steel labor. Nor do the published sources indicate that there is more than minimal unemployment at this time. On the contrary, there is some evidence of periodic shortages of steel labor in some production centers.

(5) During the post-World War II period, the *long-run* trend of employment in the steel industry has moved downward. However, as Table II–1 shows, this is due to an increase in productivity (i.e., mechanization and automation) and not to an increase in imports. Employment has tended to decline *even though production has increased*, for the simple reason that output per man and output per man-hour have increased substantially. Again, this is true both for the United States and the European Coal and Steel Community.

As Meyer Bernstein of the United Steel Workers explained to the Congress (testimony on S. Res. 149, June 2, 1966): "Another point to be kept in mind is that as far as employment in the steel industry is concerned, the rate of national industrial activity is much more important than the balance of imports and exports. A prosperous year will increase employment of steelworkers far greater than a surge of imports will reduce such employment. It should be remembered that 1965 was not only the year of highest steel products imports, it was also the year of highest American steel industry production. We achieved this record

production with considerably fewer workers than we had in former years of lower production, but this is because of increased productivity." As Table II–1 shows, this increased productivity, measured by average tons produced per wage employees, is in evidence both in the United States and the European Coal and Steel Community.

In short, our examination of the evidence indicates that steel employment may be related to progressive automation, to geographic shifts in demand (which may cause local labor shortages as well as surpluses), and to the abandonment of antiquated plants. It cannot be scientifically correlated with steel imports.

APPENDIX III

U.S. IMPORTS OF IRON ORE AND STEEL PRODUCTS

In an interview entitled "Why the American people should be concerned about steel imports," L. B. Worthington, then chairman of the American Iron & Steel Institute, stated: "I believe that every thinking citizen is concerned that industry maintain the highest practical level of employment. Every ton of steel brought past our shores is a ton that an American steelworker didn't get a fair chance to make. Then, of course, there's the danger that—if imports are permitted to replace American steel in our domestic market—important producing segments of our industry may deteriorate, to the detriment of this country's economic welfare and its military strength. All of these factors should be, and I think *are* of great interest to citizens and their government representatives." (*"Steelways*, May-June 1967) Mr. Worthington expressed these concerns on the basis of 1966 statistics which showed that steel imports totaled 10.8 million tons, accounting for 10.9 percent of domestic consumption.

It is strange, to say the least, that Mr. Worthington mentioned only the deleterious effects of *steel* imports on employment levels, national economic welfare, military strength, and the U.S. balance of payments, while maintaining a golden silence on the parallel effects of *iron ore* imports. It is strange, because in 1966, "U.S. imports of iron ore, which amounted to 46 million long tons, valued at $462 million, constituted about 35 percent of steel producers' requirements and were larger than the iron ore imports of any other country." (U.S. Tariff Commission, *Summaries of Trade and Tariff Information*, Schedule 6, Volume 4, 1967, p. 2)

Tables III–1 and III–2 demonstrate the incongruence of Mr. Worthington's silence. Table III–1 shows that, between 1959 and 1966, iron ore imports accounted for a minimum of 25.1 percent and a maximum of 37.1 of domestic U.S. consumption—in contrast to steel imports which ranged from a low of 4.7 percent to a high of 10.9 percent. Why, one might ask, should we worry about 10.9 percent of the domestic *steel* market going to imports, while ignoring 37.1 percent of the domestic *iron ore* market being captured by overseas sources? Is not the impact on domestic employment, national welfare, and military strength analogous in both cases? If not, why not?

The same question arises with respect to the U.S. balance of payments. As Table III–2 shows, the total deficit on our *steel* trade between 1959 and 1966 amounted to $2.6, while the deficit on our *iron ore* trade totaled $2.3 million during the same period. Moreover, during five of these eight years, the deficit on iron ore was greater than the deficit on steel. It would appear, therefore, that the balance-of-payments effect of iron ore imports merit at least some mention in the steel industry's discussion of the import problem.

The reasons for the steel industry's silence are not difficult to fathom. Iron ore is the basic raw material for making steel, and the steel industry is anxious to buy the highest quality ore at the most reasonable price. In the interest of efficiency and cost-effectiveness, it imports more than ⅓ of its ore requirements—often from its "captive" mines abroad. This the industry regards simply as prudent management and routine cost minimization; as a purchaser, it seeks the best and cheapest source of supply. Why, then, the difference in its attitude to steel imports? Why demand government action to bar steel imports in excess of 9.6 percent of domestic

consumption? Why not permit steel-using industries (tractors, automobiles, industrial machinery, etc.) to obtain *their* raw material from the cheapest sources? Why not permit these industries to behave like prudent buyers, so that they can function as effective competitors in world markets? Consistency may be the hobgoblin of little minds, but the steel industry's incongruent posture vis-a-vis iron ore and steel imports warrants an explanation.

TABLE III-1.—IMPORTS OF IRON ORE AND STEEL MILL PRODUCTS: A COMPARISON, 1959-66

Year	Iron ore [1]					Steel mill products [2]				
	Production	Imports	Exports	Reported consumption	Percent of imports to consumption	Net shipments	Imports	Exports	Apparent consumption	Percent of import to consumption
1959	60,550	35,627	2,973	96,303	37.1	69,377	4,396	1,677	72,096	6.1
1960	89,291	34,584	5,236	105,842	32.8	71,149	3,359	2,977	71,531	4.7
1961	71,425	25,808	4,916	103,125	25.1	66,126	3,163	1,990	67,299	4.7
1962	71,829	33,435	5,898	101,999	32.8	70,552	4,100	2,013	72,639	5.6
1963	73,599	33,266	6,813	112,672	29.7	75,555	5,446	2,224	78,777	6.9
1964	84,836	42,416	6,963	132,356	32.0	84,945	6,440	3,442	87,943	7.3
1965	87,842	45,105	7,035	131,880	34.2	92,668	10,383	2,496	100,553	10.3
1966	90,147	46,259	7,779	134,067	34.5	89,995	10,753	1,724	99,024	10.9

[1] Thousands of long tons.
[2] Thousands of net tons.

Source: U.S. Tariff Commission, "Summaries of Trade and Tariff Information," schedule 6, vol. 4, Washington D.C., 1967, p. 16, and American Iron and Steel Institute, "The Steel Import Problem," October 1967, p. 51.

TABLE III-2.—FOREIGN TRADE IN IRON ORE AND IN STEEL MILL PRODUCTS, 1959-66

[Millions of dollars]

Year	Iron ore			Steel mill products		
	Imports	Exports	Surplus (deficit)	Imports	Exports [1]	Surplus [1] (deficit)
1959	312	34	279	515	352	163
1960	322	58	264	449	585	136
1961	250	54	197	382	379	3
1962	325	63	262	484	302	182
1963	323	76	247	633	291	342
1964	421	80	342	749	425	324
1965	444	80	363	1,177	357	820
1966	462	92	370	1,208	330	878

[1] Excludes AID-financed exports that do not affect the balance of trade.

Sources: U.S. Tariff Commission, "Summaries of Trade and Tariff Information," Schedule 6, vol 4, 1967, p. 16 for iron ore, and American Iron and Steel Institute, "The Steel Import Problem," October 1967, p. 8, for steel mill products.

APPENDIX IV

STEEL IMPORTS IN THE UNITED STATES AND THE EUROPEAN COAL AND STEEL COMMUNITY

On February 8, 1967, Mr. L. B. Worthington, speaking as chairman of the American Iron & Steel Institute, told a Congressional breakfast: "Foreign governments use their steel industries as instruments of national policy resulting in the protection of those industries. The measures they have adopted take many forms but they are designed to protect domestic markets and stimulate exports. . . . And America is the prime target for these exports because the steel market in the United States is not only the largest and most diversified in the world—it is the most open and easily accessible in the world. . . . But in other countries it is different."

The image conjured up by Mr. Worthington and his fellow steel executives is of an American market inundated by an ever larger volume of steel imports, capturing an ever larger percentage of our steel sales. It is an image of sinister foreigners, operating in an insulated home market in which they can charge high prices, while using the American market "as a kind of 'Bargain Basement' in which to dispose of their surplus production." It is an image, pregnant with dark foreboding, and is offered as justification for the limitation of steel imports by law to 9.6 percent of domestic consumption.

This image, we submit, is pure fantasy—an index of the paranoia with which Big Steel views the world. It is certainly true that steel imports have increased consistently, rising from 4.4 million tons in 1959 to 11.5 million tons in 1967. It is certainly true that steel imports have captured an increasing share of the U.S. domestic market, rising from 6.1 percent in 1959 to roughly 12 percent in 1967. But what does this prove? Is the volume of imports, or their share of the domestic market, in any way abnormal? Is this an aberration in comparison to the experience of other leading steel producing countries? In short, is the import "problem" confronting American steel makers in any way unique?

We submit that it is not, and the European Coal & Steel Community illustrates our contention. While it is fashionable to consider the Common Market a unified entity—approaching the United States in size of markets, volume of production, and level of industrial capacity—it is little more than an agglomeration of separate nations which have gradually eliminated tariffs on intra-community trade, but which still cling to their national boundaries. As Dr. Hans-Gunther Sohl, chairman of the International Iron & Steel Institute, told his American colleagues, "Upon closer scrunity, the oft-quoted economic giant of the EEC reveals itself as an incomplete agglomerate held together principally by the duty-free exchange of goods. The producer is still confronted at every turn with the relics of national economic thinking." (Address before the 76th Annual Meeting Iron & Steel Institute, May 23, 1968.) Thus, a German steel producer finds little solace in the fact that his Belgian competitor in the German market is a member of his "Community;" whether the steel sold in Germany comes from South Africa or Belgium, it is still an import and it still deprives the German producer of a share of his home market.

An examination of the import pattern in the Common Market is, therefore, highly instructive. As Table IV–1 shows, imports captured a larger percentage of the ECSC home market in every year between 1959 and 1966 than they did in the U.S. market. Imoprts also captured a larger percentage of the home market of every ECSC member country between 1959 and 1966 than they did in the United States. And, as Table IV–2 shows, intra-community trade accounts for some 90 percent of the steel imports by the member countries. This is significant, of course, because of the geographical proximity of each member country to potential "invaders" of its home market—and the constant danger that imports will absorb a large share of domestic consumption.

TABLE IV-1.—IMPORTS AS A PERCENTAGE OF DOMESTIC CONSUMPTION: THE UNITED STATES AND ECSC MEMBER COUNTRIES, 1959-66

[In percent]

Year	United States	Belgium-Luxembourg	France	Germany	Italy	The Netherlands	ECSC total
1959	6.1	15.8	12.1	12.9	13.5	61.1	15.3
1960	4.7	18.7	20.3	12.7	18.6	62.1	18.2
1961	4.7	17.1	19.8	11.2	20.3	60.5	17.6
1962	5.6	20.9	20.1	13.7	22.3	56.9	19.3
1963	6.9	24.3	21.6	14.4	26.8	64.8	21.6
1964	7.3	28.7	22.6	15.1	22.1	63.1	21.2
1965	10.3	28.5	21.2	15.5	15.3	58.0	19.5
1966	10.9	34.2	23.0	16.9	17.1	59.4	21.4

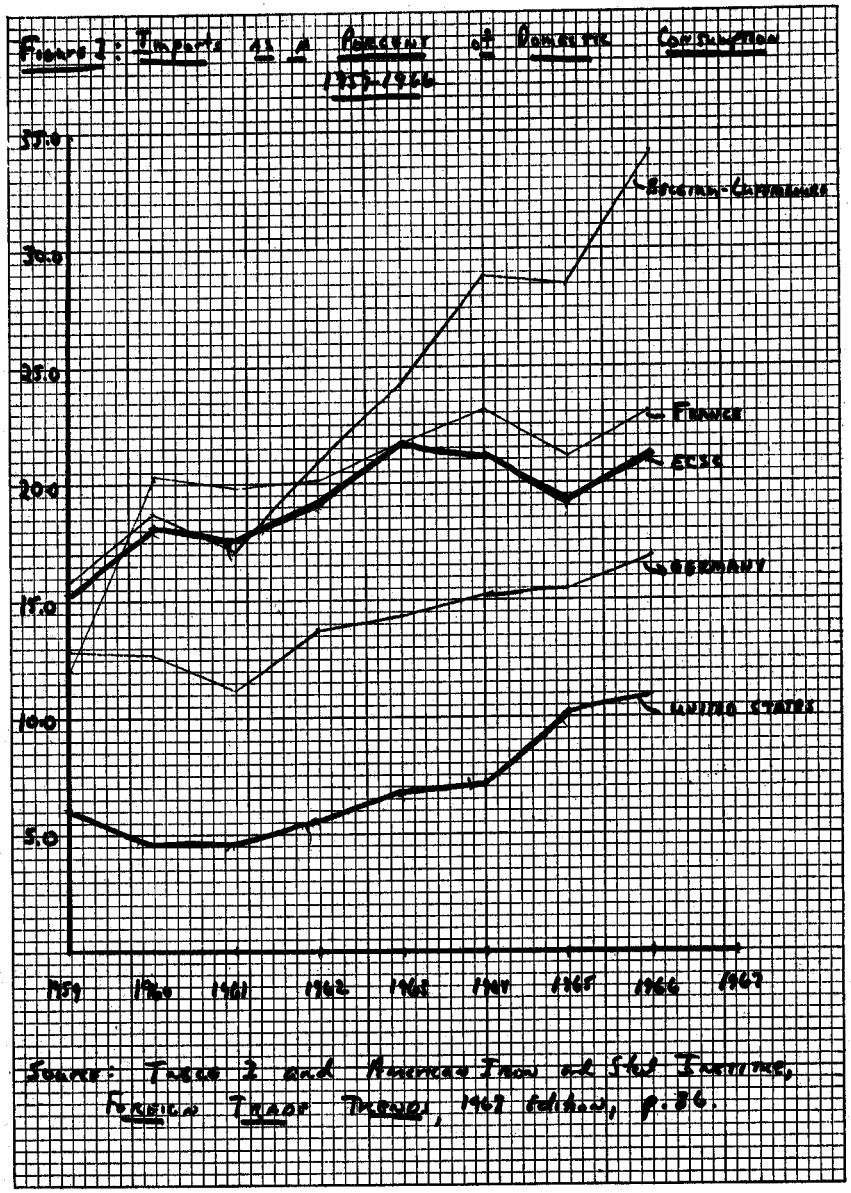
Sources: Statistisches Amt Der Europaischen Gemeinschaften, Eisen und Stahl, Jahrbuch Annuaire, 1966, pp. 84–95; Eisen und Stahl, 1968, No. 1, p. 8 and pp. 86–89; Eisen und Stahl, 1963, No. 1, p. 8; American Iron and Steel Institute, Foreign Trade Trends, 1967 edition, p. 86.

TABLE IV-2.—IMPORTS AND APPARENT CONSUMPTION OF STEEL, ECSC AND MEMBER COUNTRIES, 1959–69

[Thousands of metric tons]

	Imports from other ECSC countries	Imports from non-member countries	Total imports	Apparent consumption	Imports as a percent of apparent consumption
European Coal and Steel Community:					
1959	6,585	1,096	7,681	50,276	15.3
1960	8,940	1,929	10,869	59,842	18.2
1961	9,050	1,909	10,959	62,406	17.6
1962	9,814	2,461	12,275	63,759	19.3
1963	10,753	3,316	14,069	64,989	21.6
1964	12,393	2,676	15,069	71,197	21.2
1965	11,765	1,905	13,670	70,014	19.5
1966	13,166	2,268	15,434	71,976	21.4
Germany:					
1959	2,784	537	3,321	25,749	12.9
1960	3,091	751	3,842	30,184	12.7
1961	2,725	582	3,307	29,454	11.2
1962	3,008	1,043	4,051	29,598	13.7
1963	3,078	1,045	4,123	28,580	14.4
1964	4,012	1,144	5,156	34,194	15.1
1965	4,262	972	5,234	33,668	15.5
1966	4,399	1,057	5,456	32,277	16.9
France:					
1959	1,429	23	1,452	11,970	12.1
1960	2,774	119	2,893	14,286	20.3
1961	2,755	213	2,968	15,001	19.8
1962	2,893	164	3,057	15,181	20.1
1963	3,143	279	3,422	15,835	21.6
1964	3,787	147	3,934	17,421	22.6
1965	3,490	99	3,589	16,934	21.2
1966	3,903	129	4,032	17,534	23.0
Italy:					
1959	696	310	1,006	7,469	13.5
1960	1,073	715	1,788	9,612	18.6
1961	1,530	787	2,317	11,411	20.3
1962	1,944	888	2,832	12,720	22.3
1963	2,382	1,398	3,780	14,000	26.8
1964	1,690	980	2,670	12,108	22.1
1965	1,372	536	1,908	12,488	15.3
1966	1,767	723	2,490	14,602	17.1
The Netherlands:					
1959	1,375	109	1,484	2,428	61.1
1960	1,637	180	1,817	2,924	62.1
1961	1,526	212	1,738	2,871	60.5
1962	1,465	155	1,620	2,846	56.9
1963	1,495	375	1,870	2,886	64.8
1964	1,904	232	2,136	3,383	63.1
1965	1,746	152	1,898	3,272	58.0
1966	1,861	188	2,049	3,450	59.4
Belgium-Luxembourg:					
1959	301	118	419	2,660	15.8
1960	365	165	530	2,836	18.7
1961	515	114	629	3,669	17.1
1962	504	211	715	3,414	20.9
1963	656	219	875	3,608	24.3
1964	1,000	173	1,173	4,091	28.7
1965	894	147	1,041	3,652	28.5
1966	1,235	171	1,406	4,113	34.2

Sources: Statistiches Amt Der Europaischen Gemeinschaften, Eisen und Stahl, Jahrbuch Annuaire, 1966, pp. 84–95; Eisen und Stahl, 1968, No. 1, p. 8 and pp. 86–98; Eisen und Stahl, 1963, No. 1, p. 8.



Source: Table 2 and American Iron and Steel Institute, Annual Statistical Report, 1967 edition, p. 36.

While American steelmen are petitioning Congress to limit imports to 9.6 percent of domestic consumption, it is noteworthy that Belgium-Luxembourg is surviving with an import/consumption ratio (in 1966) of 34.2 percent, France with 23.0 percent, Germany with 16.9 percent, Italy with 17.1 percent, the Netherlands with 59.4 percent, and the European Community as a whole with 21.4 percent. Thus, Belgium-Luxembourg is exposed to roughly three times as much import competition as the United States, and France to roughly twice as much. Moreover, in certain product lines, the import/consumption ratio is even higher. According to Dr. Sohl, 30 percent of the German consumption of rolled steel is supplied from abroad, 50 percent of the wide flange beams, and 40 percent of medium plates and cold rolled sheets. Under the circumstances, it would require a formidable tour-de-force to prove that the E.C.S.C. countries enjoy a protected home market, insulated from import competition, in which they can charge high prices, in order to subsidize the sale of their surplus production at "bargain basement" prices in the U.S. market.

Two final comments are in order: (1) As the ECSC High Authority noted in its *Annual Report* for 1967 (Item No. 195), steel prices in the Common Market were about the same in 1967 as they were in 1953, while in the United States they had risen an average of 40 percent over the same period. (See our Appendix VI *infra.*) (2) Like it or not, the ECSC member countries are powerless to impose tariffs or import quotas on intra-community trade, which means that ECSC steel producers are compelled to solve their "import problem" primarily in the market place rather than by obtaining restrictive legislation like their American counterparts.

Perhaps, Dr. Sohl analyzed the import problem with the wisdom that comes with perspective. Imports, he told his American colleagues, "of course give us all headaches. The problem is to find a remedy that will cure us of the pain permanently, but without side effects. A medicine labelled 'surcharge' or 'quota' may well relieve these headaches, but it affects the stomach."

Appendix V

Steel Imports and Foreign Labor Costs

According to L. B. Worthington, "whether we are talking about steel or any industry, American production costs are inescapably related to the American standard of living; and are based upon the world's highest wage structure. . . . And when you remember that, in the economy as a whole, employment costs represent more than 75 percent of all production costs, you realize why—in industries like steel—foreign-made products can often undersell ours in world markets." The clear implication is that no one can reasonably expect the American steel industry to hold its own against such odds, unless, of course, Congress were to grant it special protection.

This argument is defective on a number of counts:

(1) As *Fortune* points out (October 1967), "some of the arguments that steel is making for protection—notably the fact that foreign wages are lower than U.S. wages—can be disposed of by any first-year economics student." What *Fortune* is driving at is this: labor cost per ton of steel is found by relating output per man-hour of a steelworker to the wage he is paid. If his productivity is high (because he works with efficient machines, knowledgeable management, etc.), his wage rate can be high—yet the *labor cost per ton of steel* can be low. By contrast, labor costs per ton of steel in India will be higher than in the United States—even though Indian steelworkers are lower-paid, if their productivity is low (because management lacks the know-how and the technical equipment to produce steel as efficiently as their American counterparts.) "Historically," as the AISI itself recognizes (Backgrfound Statement, February 1967), "the U.S. steel industry was able to compete in the world market and pay the highest wages because it enjoyed technical superiority." Obviously, then, the industry's current problem is not the high wages it pays, but its apparent loss of technical superiority.

(2) Wages in the U.S. steel industry have always been far higher than foreign steel wages, and the differential in recent years has narrowed rather than widened. Since 1957, i.e., *before* steel imports became a matter of concern, steel wages have risen much faster in the Common Market, the United Kingdom, and

Japan than in the United States. If the year 1957 is given an index of 100, total labor costs per hour in 1966 stood at 145 for the U.S.; 177 for Germany; 206 for France; 169 for Belgium; 154 for Luxembourg; 219 for Italy; 221 for Holland; 156 for the United Kingdom; and 175 for Japan (in 1965). If, as the Chase Manhattan Bank's technical director for the metals industries reports in the August issue of "33" Magazine, current productivity trends favor the United States, there seems to be little justification for curbing steel imports at this time because of allegedly lower labor costs abroad.

(3) Finally, labor costs are only one component in the *total* cost of producing steel. Thus, a country can have higher labor costs than its competitors in world markets, and still have lower total costs. It can still be "cost-competitive". This indeed is the position of the American steel industry when it competes with imported steel in the U.S. market. According to Richard S. Thorn, associate professor of economics at the University of Pittsburgh, from where he has observed the steel industry for a good many years, "lower labor producitvity, higher material costs and ocean freight charges result in a higher average cost for foreign steel at U.S. ports than for U.S. steel at the mill. In other words, American steel products are already, on the average, 'cost competitive' with imports." (*Challenge*, July/August 1967). Estimates are at best approximate, because the U.S. steel industry has consistently refused to disclose its per-ton costs of production; but domestic producers enjoy a rough cost advantage per ton of steel of $2.40 for coke, $2.40 for capital costs, and $14.00 for transportation—sufficient to offset a labor cost advantage of $18.40 per ton for European producers.

In sum, higher labor costs hardly constitute adequate justification for the imposition of new barriers to steel imports. The existence of the sizable transportation costs alone, which foreign producers must bear when selling in the U.S. market, would seem to be protection enough for an industry which claims to be efficient and progressive.

Appendix VI

Steel Imports and Pricing

While the steel industry asks the government to protect it from foreign competition, it insists on the right to engage in persistent price escalation. The logic of its argument runs somewhat as follows: the only way to compete effectively against steel imports is through modernization of facilities and technological innovation. This requires sizable capital funds which can be obtained only through higher profits and higher prices. By increasing prices therefore the industry enhances its potential for effective competition. But such price increases are possible only, if the government excludes foreign competition either by protective tariffs, or preferably by quotas.

Roger Blough, in defending the industry's 1962 abortive price increase, clearly articulated this philosophy: "While the price rise might have appeared to intensify our competitive difficulties with cheaper foreign steel, that steel is usually priced in relation to ours anyway, and in the long run, the increase would have improved our competitive strength. By using the added profits produced by the price increase to help obtain the most modern and efficient tools of production, we could hope eventually to narrow the gap between American and foreign steel prices." (*Look*, January 29, 1963, p. 23) Thus, Mr. Blough proposed to meet the competition of cheaper foreign steel by *raising* prices.

This pricing policy, which seems almost deliberately designed to encourage imports, requires additional comment:

(1) U.S. steel producers do not compete among themselves in terms of price. It is simply not the custom of the industry. Instead of price competition, the industry follows a regime of strict price leadership and followership. It is a classic, textbook oligopoly.

(2) Since World War II, steel prices have been a consistent inflationary force in the American economy. Between 1947 and 1951, according to the Council of Economic Advisers, "the average increase in the price of basic steel products was 9 percent per year, twice the average increase of all wholesale prices. The unique behavior of steel prices was most pronounced in the mid-1950's. While the wholesale price index was falling an average of 0.9 percent annually from 1951 to 1955, the price index for steel was rising an average of 4.8 percent per year. From 1955 to 1958, steel prices were increasing 7.1 percent annually or almost

three times as fast as wholesale prices generally. No other major sector shows a similar record." (*Report to the President on Steel Prices*, April 1965, pp. 8–9)

(3) As the tables attached to this statement show in detail, this persistent upward trend in steel prices continued into the 1960's. Thus, since 1962, the domestic producers have been engaged in an unbroken round of "selective" price hikes. In a kind of ritual dance, the leadership in initiating increases shifts from one company to another—"chacun à son tour"—while each product successively gets its turn at a price boost. To cite only two examples: an important item like hot rolled sheets, imported in large volume, was increased by $4.00 a ton in 1963, and $3.00 a ton in 1966. Carbon bars were raised $5.00 a ton in 1963, and bar prices went up again in 1967.

(4) This pattern of constant escalation of steel prices has had both domestic and international consequences. In the domestic market, steel has lost ground not only to imports, but also to substitute materials. The reason is not hard to find: following an almost uncontrollable suicidal instinct, steel was pricing itself out of the market. "On a comparative basis," according to the Council of Economic Advisers, "the price of basic steel products rose substantially relative to the prices of competing materials. Relative to plastics, the price of basic steel products was over twice as high in 1963 as it was in 1947. The prices of cement, glass, plastic materials, and aluminum all rose substantially less than steel. [See Table below] With this sharp deterioration in the relative price position of steel products vis-a-vis other materials, failure of iron and steel production to keep pace with the growth of the economy is not surprising." (*Report to the President on Steel Prices*, p. 28)

PRICE CHANGES IN STEEL AND COMPETITIVE MATERIALS, 1947–64

Material	Percentage change in wholesale price, index, 1947–64	Price in 1964 relative to steel (percent)[1]
Steel mill products	113.3	100.0
Cement	65.9	77.8
Glass, flat	46.1	68.5
Plastic materials	−5.6	44.3
Aluminum ingots	70.8	80.1

[1] Based on 1964 prices on a 1947 base.

Source: Council of Economic Advisers, "Report to the President on Steel Prices," April 1965, p. 29.

(5) Constant price escalation has, of course, inevitably encouraged increased importation of steel. *Fortune*, for example, finds it curious that, "while complaining about the low costs and the low prices of foreign steel, leading steel companies have chosen this particular time, of all times, to *raise* their own domestic prices when their mills are still working at well under full capacity. Put all this together and one is reminded of that old British march to which Cornwallis surrendered at Yorktown called *The World Turned Upside Down*." (October, 1967) If imports have caused concern for the domestic steel industry, this is clearly a case of self-inflicted injury.

The only explanation we have been able to find for this insensitive (and apparently irrational) pricing policy vis-a-vis imports is the possibility that the domestic steel industry is applying a squeeze against independent, nonintegrated American steel fabricators. Thus, during the recent wire-rod dumping case, an independent fabricator testified that U.S. Steel charged him $6.00 per ton more for the raw material than the price at which he had to sell the finished product in competition with his giant supplier-competitor. In other words, the major steel companies may be trying to maintain their vertical obligopoly by maintaining or raising prices of basic steel—despite import competition—while lowering or maintaining prices of finished steel products. But this strategy of squeezing the independent fabricators can work for any prolonged period of time only if the major companies succeed in their drive to shut off imports—which have become the lifeline of the independents. (See "Steel Imports and Vertical Oligopoly Power," *American Economic Review*, September 1964)

(6) Constant price escalation has also had international consequences. American steel has, by its own actions, effectively priced itself out of world markets. In the process, it has seriously damaged the U.S. balance of payments position. Whereas in 1955 the United States exported four times as much steel as it imported, by 1966 it imported five times as much tonnage as it exported. In a dozen years, the industry's trade balance was radically reversed.

This phenonmenon is largely explained by the divergence between the price policy of domestic and foreign producers. Whereas U.S. steel companies maintain or raise their prices in the face of competition, foreign producers follow a much more flexible price policy designed to get additional business. Thus, economists for the National Bureau of Economic Research, after surveying four main product groups (iron and steel, nonferous metals, and non-electric machinery), found that the largest changes in international competitiveness "have taken place in iron and steel." Between 1953 and 1963, there was an almost 20 percent decline in the price competitiveness of American steel relative to European producers. Although a reversal of the trend began to appear in 1964, the price posture of U.S. steel in world markets "remained considerably worse than in 1953 and 1957." (*American Economic Review*, May 1967, p. 486)

Professor Egon Sohmen, an international steel authority, came to the same conclusion. After surveying steel prices and output in the United States and in six ECSC countries (see Table VI–1), he found "that steel prices were almost completely rigid in the United States (for all practical purposes, they were adjusted only in an upward direction) while they were remarkably flexible in Europe. Largely as a consequence of this, the level of production suffered major setbacks in the United States whenever business activity receded so that steel works operated at less than two thirds of capacity for many years. Steelmakers in Europe, on the other hand, were able to operate near capacity more or less continuously."

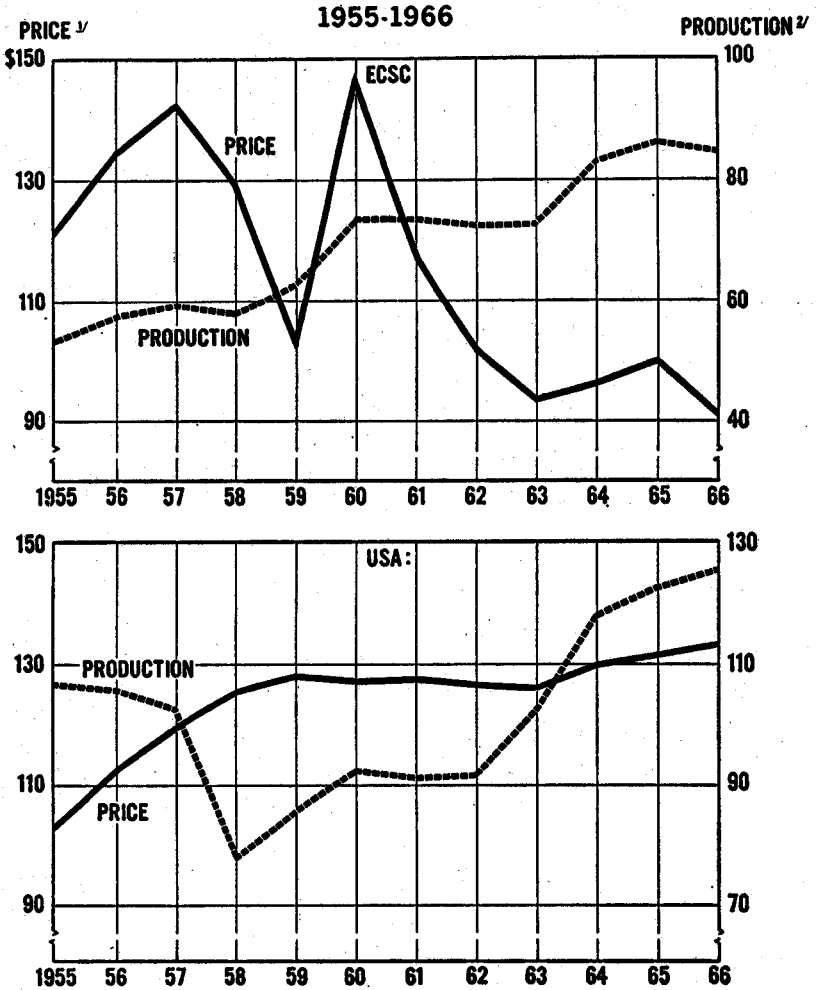
TABLE VI-1.—STEEL PRICES, OUTPUT AND USE OF CAPACITY IN THE UNITED STATES AND THE EUROPEAN COAL AND STEEL COMMUNITY, 1955 TO 1966 (AVERAGE PRICES IN U.S. DOLLARS PER METRIC TON OF 5 ROLLING-MILL PRODUCTS; OUTPUTS IN MILLIONS OF METRIC TONS)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Average export prices:												
ECSC	122	135	144	129	102	147	117	101	93	96	100	91
United States	103	112	119	125	128	127	127	126	126	130	131	133
ECSC:												
Output	53	57	59	58	63	74	74	73	73	83	86	85
Capacity	56	59	64	69	70	78	80	83	88	92	102	109
Percent use of capacity	95.7	96.1	93.9	85.9	89.8	95.5	91.7	87.5	83.3	90.0	84.2	78.4
United States:												
Output	106	105	102	77	85	92	91	91	102	118	122	125
Capacity	115	119	124	131	134	138	139	140	143			
Percent use of capacity	93	90	85	61	63	67	65	64	71			

Source: ECSC, annual reports, 1955–67. Steel prices, unit costs, profits, and foreign competition, hearings before the Joint Economic Committee, 88th Cong., 1st sess., Washington, 1963, pp. 186 and 339. All prices refer to open-hearth quality steel (end-of-year values). Domestic prices in the ECSC countries were at all times close to export prices, the official price lists of steel producers in Europe (required by the ECSC treaty) being a mere formality.

Prepared by Prof. Egon Sohmen.

STEEL EXPORT PRICES AND PRODUCTION
EUROPEAN COAL & STEEL COMMUNITY AND U.S.A.
1955-1966



1/Average export prices, open-hearth grade, end of year, per metric ton.
2/Millions of metric tons.

SOURCES: E.C.S.C. Annual Reports,
Joint Economic Committee

(Chart prepared by Prof. Egon Sohmen)

Professor Sohmen also concluded that "Apart from the pronounced difference in their flexibility, the difference between the absolute levels of steel prices is quite remarkable. With the sole exception of cold-rolled sheets, steel export prices in the United States were up to 30 per cent higher than in the ECSC during the early 1960's. As noted with much chagrin by the High Authority in its 15th *Annual Report* (1967), Item N. 195), steel prices in the common market were about the same as in 1953 while they had risen by an average of 40 per cent in the United States and also in England whose steel industry is notoriously uncompetitive. In the late 1950's, at a time when its own steel-producing capacity was seriously underutilized, the United States turned from a net exporter to a net importer of steel. Even rising imports did not prompt American steel producers to reconsider their price policy in order to recapture markets and to permit a fuller use of idle capacity." (Testimony before the Senate Antitrust & Monopoly Subcommittee, April 1968).

In short, all available evidence indicates that steel is losing domestic markets to substitute materials and imports, and world markets to foreign producers, because it has chosen not to be price-competitive. By a strange inversion of logical decision making, it has decided to meet competition by *raising* prices—and doing so persistently.

TABLE VI–2.—MAJOR STEEL PRICE CHANGES, 1962–67

Item No.	Date announced	Initiator	Followers	Products	Change in price	Washington reaction and industry response
(1)	Apr. 10, 1962	United States Steel	7 companies including Bethelhem.	All products	Increase average $6 a ton (or increase 3.5 percent).	Rescinded after President Kennedy's protest and Kaiser's and Inland's refusal to follow.
(2)	Apr. 13, 1962					Bethlehem withdrew increases and United States Steel obliged to rescind too.
(3)	Apr. 10, 1963	Wheeling		Large plate, HR and CR sheet and strip	Increase $4.50 a ton	President Kennedy accepted "selective" price increases. (No inflationary spiral seen by experts even if all major steel producers lift prices.)
				Long terne sheet, galvanized sheet, and roofing.	Increase $7 a ton	
				Electrical sheet	Increase $10 a ton	
(4)	Apr. 15, 1963		Lukens	Carbon plate	Increase $5 a ton	
				Alloy plate	Increase $7 a ton	
(5)	do		Republic	HR sheet and strip	Increase $4.50 a ton	
				CR sheet and strip	Increase $5.50 a ton	
				Plate	Increase $4.50 a ton	
				Electro zinc coated sheet	Increase $5.50 a ton	
(5)	Apr. 16, 1963		Pittsburgh	HR sheet and strip	Increase $4.50 a ton	
				CR sheet	Increase $5.50 a ton	
				CR strip	Increase $6.50 a ton	
(6)	Apr. 17, 1963		United States Steel	HR sheet and strip	Increase $4 a ton	
				CR sheet and strip	Increase $5 a ton	
				Galvanized sheet and long terne sheet	Increase $7 a ton	
(6)	do		Jones & Laughlin	HR sheet and strip	Increase $4 a ton	
				CR sheet and strip	Increase $5 a ton	
				Galvanized sheet	Incerase $7 a ton	
				Plate	Increase $4 a ton	
(6)	do		Armco	Plate and HR sheet	Increase $4.50 a ton	
				CR sheet	Increase $5.50 a ton	
				Galvanized sheet	Increase $7 a ton	
				Enameling sheet	Increase $5.50 a ton	
				Wire rods and merchant wire products	Decrease $5 a ton	
(7)	Apr. 18, 1963		Bethlehem	HR sheet	Increase $4 a ton	
				CR sheet	Increase $5 a ton	
				Galvanized sheet	Increase $7 a ton	
			National	HR sheet	Increase $4 a ton	
			Youngstown Sheet & Tube	CR sheet	Increase $5 a ton	
			Kaiser	Plate	Increase $4 a ton	
(8)	Apr. 19, 1963		McLouth	HR sheet and strips	Increase $4 a ton	
				CR sheet and strips	Increase $5 a ton	

(8)	do		Sharon	HR strip	Increase $4 a ton	
				CR sheet and strip	Increase $5 a ton	
				Plate	Increase $4 a ton	
(9)	Sept. 30, 1963	Youngstown Sheet & Tube		Carbon bars and carbon steel bloom, billet, slabs, rerolling quality.	Increase $5 a ton (increase 4 percent).	
(10)	Oct. 2, 1963		Republic	Carbon, alloy bars	Increase $4 to $5 a ton	
(11)	do		Inland	Structural shapes and "H" bearing pile	Increase $4 a ton	
(11)	do		Armco	Carbon and alloy bars	Increase $4 to $5 a ton	
				Certain type of stainless sheet	Decrease 7 percent price	
(11)	do		United States Steel	HR carbon bars and carbon semifinished steel.	Increase $5 a ton	
(12)	Oct. 3, 1963		Bethlehem	HR carbon plate, bars and semifinished steel.	do	
(13)	Mar. 31, 1964	Republic	United States Steel, Allegheny, Universal Cyclops.	HR and CR stainless sheet and CR stainless strip.	Decrease by 1 to 7 cents a pound.	
(14)	Apr. 6, 1964	Triangle Conduit & Cable Co.		Galvanized and black enamel rigid steel conduit.	Increase 5 percent	
(15)	Apr. 13, 1964		Youngstown Sheet & Tube	Rigid steel conduit	do	
(16)	Apr. 14, 1964		Jones & Laughlin	do	do	
(17)	Apr. 29, 1964	United States Steel		Wire rods (certain sizes)	Decrease $20 a ton	
(18)	May 4, 1964		Bethlehem	do	do	
(19)	Oct. 8, 1964	United States Steel	Inland, Armco	Concrete re-bars	Increase $0.75 a hundredweight.	
(20)	Oct. 15, 1964		Youngstown	do	do	
(20)	do	Crucible		Certain types of stainless pipe	Increase 5 percent	
(21)	Oct. 19, 1964		Republic	do	do	
(21)	do		Bethlehem	Electric fusion weld line pipe (most)	Increase $5 a ton	
(22)	Dec. 14, 1964		United States Steel	Oil country casing tubing, pipe products	Increase 4 to 4.5 percent	
(23)	Dec. 22, 1964	Inland		Galvanized sheet and coils	Increase $6 a ton	President Johnson had no comment.
(24)	Dec. 28, 1964		Republic, Granite City, United States Steel.	do	do	
(25)	Dec. 30, 1964		Bethlehem, Jones & Laughlin, Youngstown Sheet & Tube.	Galvanized sheet	do	
(26)	Mar. 9, 1965	Allegheny-Ludlum		Flat-rolled silicon steel (4 grades)	Increase $3 to $9 a ton	
(27)	Mar. 12, 1965		United States Steel	(3 nonoriented grades) electrical steel sheets.	Increase $18 to $24 a ton	
				A 4th-grade electrical steel sheet	Decrease $4 a ton	
(28)	Oct. 12, 1965	United States Steel		Tin-coated steel	Increase $0.25 per base box (from $9.10 to $9.35).	
(29)	Oct. 14, 1965		Bethlehem	do	Increase $0.25 per base box.	
				Tin-free coils	Decrease $0.45 per base box.	
(30)	Oct. 19, 1965		National	Tin-coated steel	Increase $0.25 per base box.	
				Tin-free steel	Decrease $0.45 per base box.	

See footnote at end of table.

TABLE VI–2.—MAJOR STEEL PRICE CHANGES, 1962–67—Continued

Item No.	Date announced	Initiator	Followers	Products	Change in price	Washington reaction and industry response
(31)	Oct. 21, 1965		Jones & Laughlin	Regular tin plate	Increase $0.25 per base box.	
				Black plate	Decrease $0.45 per base box.	
(32)	Dec. 31, 1965	Bethlehem		Structuals	Increase $5 a ton	Strong Government objection. Pentagon ordered contracts on structural steel shifted to mills that do not list quotes.
(32)	Jan. 5, 1966		Inland	do	do	Inland and Colorado Fuel & Iron postponed the increase.
			Colorado Fuel & Iron	do	Increase $3 a ton	
(33)	Jan. 12, 1966	United States Steel		do	Increase $2.75 a ton	Price resulting from negotiations (reasoning together) with administration, United States Steel price move increasing the steel price index by about 1/10 of 1 percent called inconsequential rise by G. Ackley, while the former Bethlehem price move increasing the steel price index by 3/10 of 1 percent was judged inflationary by Council of Economic Advisers.
				CR sheet	Decrease $9 a ton in Pittsburgh, Calif.	
(34)	Jan. 17, 1966		Bethlehem, Inland	All structural shapes	Increase $2.75 a ton	
(35)	Feb. 9, 1966	Lukens		Certain types of plate	Increase $4 a ton	
(36)	Feb. 13, 1966		United States Steel, Alan Wood.	Certain types of plate	do	
(37)	Feb. 24, 1966		Kaiser	Certain types of plate	do	
(38)	Mar. 1, 1966	United States Steel		Extras on certain carbon, high-strength and alloy plate dimension.	Increase $1 to $6 a ton (= average increase of $2.92 a ton for all plate products.	United States Steel notified the Council of Economic Advisers of its price change. Apparent Government approval.
				Low-carbon wire rods	Reduction $6.50 a ton	
				Heavy HR carbon sheet	Reduction $2 to $25 a ton. [1]	
				Nails, staples, brads	Increase of $15 a ton in all plants except $6 in Pittsburgh, Calif. and $9 in Worcester, Mass.	
(39)	Mar. 3, 1966		Bethlehem	Heavy-plate items	Increase average $2.92 a ton.	
				Heavy HR carbon sheet	Decrease $2 to $25 a ton.	
			Kaiser	Heavy-plate items	Increase average $2.92 a ton.	
(39)	Mar. 6, 1966		Inland	do	Increase average $2.92 a ton.	
				Heavy-gauge HR steel in coil	Decrease $2 to $25 a ton.	
	do		Alan Wood	Heavy plate items	Increase averages $2.92 a ton.	

(40)	May 19, 1966	Republic	Bethlehem, Jones & Laughlin, United States Steel, Inland, Kaiser.	Alloy bars and billets, carbon special quality bars and billets.	Increase $2 a ton	
				White carbon merchant bars	Decrease $1 a ton	
				Carbon shell billets	Decrease $2 a ton	
(41)	June 1, 1966	Republic, Copperwald, Bliss & Loughlin, La Salle.		Cold-finished bars	Unpublicized price move.	
			United States Steel	Cold-carbon finished bars and alloy bars	Increase $2 a ton	
(42)	June 5, 1966		Jones & Laughlin	HR special quality bars; forging quality bloom, billets, and slabs; alloy steel bars, bloom, billets, and slabs.	do	
				HR merchant quality bars; bar-sized shapes	Decrease $1 a ton	
(43)	Aug. 2, 1966	Inland		Prime grade CR sheets; HR sheets and strips.	Increase $3 a ton	Initiated without consulting the administration.
				2d grade sheets (same products)	Increase $2 a ton	White House asked for delay. Telegrams sent by White House (G. Ackley) to certain companies, but eventually the administration accepted the increase.
(44)	Aug. 4, 1966		Armco	Prime quality HR and CR sheet and strip	Increase $3 a ton	
				Secondary sheet	Increase $2 a ton	
(45)	Aug. 5, 1966		Jones & Laughlin	Prime quality sheet HR and CR	Increase $3 a ton	
			United States Steel, Bethlehem, Republic, National, Youngstown Sheet & Tube.	Prime quality HR and CR sheet and strip	do	
(46)	Aug. 8, 1966		Granite City, Sharon, Alan Wood, Empire, Reeves, Interlake.	do	do	Silence by White House explains the rise of several smaller firms.
(47)	Aug. 10, 1966		Wheeling	do	do	Delay in Wheeling decision explained by the preceding year's just introduced "price-at-time-of-order" system.
				Tin plate	Increase $0.25 per base box.	
(48)	Nov. 9, 1966	Allegheny-Ludlum		Stainless sheets and strips	Increase 2.5 percent	
(49)	Nov. 14, 1966		Eastern Stainless, Republic, Crucible, Carpenter.	do	do	Washington invited Allegheny-Ludlum chief officer for talks. Following increase of about 9.2 percent in nickel price (instituted by International Nickel Co. of Canada) and disregarding Nov. 4 letter from the Council of Economic Advisers urging steel companies to absorb the nickel price increase.
(50)	Nov. 25, 1966		Jones & Laughlin	Stainless billets, bars, and wire products	Average increase of 4 percent.	
(51)	Dec. 8, 1966		Armco	do	Average increase of 2.5 percent.	
(52)	Dec. 1, 1966		Crucible	Stainless steel bars, billets, rods, and wire	Unpublished revised prices.	
(53)	Jan. 5, 1967	Jones & Laughlin		Continuous weld pipe	Increase 2.6 percent	
				Seamless, electric resistance welded pipe	Increase 2.2 percent	White House reacted mildly to price rise.
				Oil country tubular products	Increase 2.9 percent	
(54)	Jan. 11, 1967		Republic	Steel pipe products	Average increase 2.7 percent.	

See footnote at end of table.

TABLE VI-2.—MAJOR STEEL PRICE CHANGES, 1962-67—Continued

Item No.	Date announced	Initiator	Followers	Products	Change in price	Washington reaction and industry response
(55)	Jan. 12, 1967		United States Steel	Steel pipe products	Average increase 2.5 percent.	
	do		Youngstown, Wheeling, Lone Star.	do	Average increase 2.7 percent.	
(56)	Jan. 13, 1967		Armco	Oil country tubing; standard pipe products	do	
(57)	Jan. 18, 1967		C.F. & I. (Denver)	Steel pipe products	do	
(58)	Apr. 13, 1967	United States Steel		Size extras on certain structural steel sections, and size extras on sheet piling products.	Average increase of $2.49 a ton or 2 percent up.	
(59)	Apr. 17, 1967	Bethlehem		Certain nonstandard sized construction products.	Price changes not mentioned.	
(60)	Aug. 1, 1967	National		Electrolytic tin plate	Average increase 2.7 percent.	
(61)	Aug. 2, 1967		Wheeling	Holloware enameling stock, and blued stock.	Average increase of $0.25	
(62)	Aug. 3, 1967		United States Steel	Tin plate, black plate, and tin-free steel	Average increase 2.7 percent (increase of $0.25 a base box).	
(63)	Aug. 4, 1967		Bethlehem, Bethlehem, Pa., Inland, and Kaiser.	Temper hard tin plate, black plate, and tin-free steel.	Average increase of $0.25 by base box.	
			Inland, Kaiser	Thin double-reduced tin plate, black plate, and tin-free steel.	Average increase of $0.15 by base box.	
	Aug. 7, 1967		Jones & Laughlin	Double reduced electrolytic tin plate, and tin mill black plate.	Increase of $0.10 a base box.	
(64)	do	United States Steel		Carbon and alloy bar extras (certain types)	Increase of $2 a ton	
				Heat-treated and straightened cut lengths	Increase of $5 to $8 a ton	
				Molybdenum grade alloy steel bars	Increase of $2 a ton	
(65)	Aug. 18, 1967	Republic		Bar products (certain sizes)	do	
				Flat shapes (certain sizes)	Increase of $1 to $2 a ton	
				Some semifinished carbon steel and some sheet steel (size extras).	do	
(66)	Aug. 22, 1967		Jones & Laughlin Copperweld	Bar products	Increase of $2 a ton	
	do		Bliss & Laughlin Wyckoff	C.F. bars (size extras)	Increase of $3 a ton	
(67)	Aug. 18, 1967	Bethlehem		HR carbon plates	Increase of $4 a ton	
(68)	Aug. 21, 1967		United States Steel	do	do	
(69)	do		Alan Wood	do	do	
(70)	Aug. 22, 1967		Republic, Inland, Jones & Laughlin.	do	do	
(71)	Aug. 21, 1967	United States Steel		Alloy plate	Increase of $8 a ton	
(72)	do		Alan Wood	do	do	
(73)	Aug. 22, 1967		Republic, Inland, and Jones & Laughlin.	do	do	
(74)	Aug. 24, 1967		Bethlehem	do	do	

(75)	Aug. 30, 1967	Republic		Carbon and alloy HR bars	Increase of $0.15 per hundred pounds (or a $3 a ton increase).	G. Ackley, Chairman of Council of Economic Advisers calls on national companies not to follow the steel bar hike announced by Republic.
(76)	Aug. 31, 1967	United States Steel		do	Increase of $3 a ton	
(77)	Sept. 4, 1967	Bethlehem, Armco, Inland, Jones & Laughlin, Kaiser.		CF carbon and alloy bars	Increase of $4 a ton	
				Carbon and alloy HR bars	Increase of $3 a ton	
				CF carbon and alloy bars	Increase of $4 a ton	
(78)	Sept. 11, 1967	United States steel and others.		Stainless steel sheets	Increase up to $80 a ton; and average up to 8 percent. Quantities from ½ to 5 tons.	The cause stated was other competition and imports of foreign made stainless steel.
(79)	Sept. 21, 1967	Cyclops Corp		All nickel bearing grades of stainless steel produced in strip bar, cold-finished wire, and forging billet.	Increase 6 percent or from $0.0225 to $0.0525 per pound.	
(80)	Sept. 26, 1967		Crucible	Wire range of stainless steels including nickel bearing.	Increase 3 to 5 percent	
			Eastern	Stainless strip, sheet and plate	Increase between $0.0275 per pound and $0.06 per pound.	
(81)	do	Granite City Steel		All flat-rolled steel products	Reduction $2 a ton on base prices.	
(82)	Sept. 28, 1967	Crucible		Hot wound coil springs for RR cars and industrial uses.	Increase average 9 percent.	President of Amsted Industries, Inc., said increase was badly needed since prices haven't been raised since 1958.
(83)	Sept. 29, 1967	do		Permanent magnets	Increase 4 percent	
				Certain nickel bearing grades of hard-facing welding products.	Increase 5 percent	
(84)	do		Armco Corp	Stainless sheet, strip, bar and wire products of chromium nickel series.	Increase $0.0225 to $0.0525 per pound.	
(85)	Oct. 1, 1967		Carpenter	Stainless products: billet, bar, rod, wire	Increase $0.0050 to $0.04 per pound.	
(86)	Oct. 3, 1967	Crucible		Stainless tubing products	Increase 5 percent or more.	
(87)	Oct. 4, 1967	United States Steel		Steel wire rods	Increase average 1 percent.	United States Steel notified the Council of Economic Advisers of planned price increase. Government regrets the action and urged a postponement. Other companies are studying increase.
(88)	Oct. 5, 1967	Allegheny-Ludlum, following others Armco Steel Corp.		Range of stainless steel products	Increase average less than 3.4 percent.	
				Stainless bars, billets, wires	Reduction to Carpenter level of increased prices from $0.0250 to $0.0525 per pound and $0.0050 to $0.04 per pound.	
(89)	Oct. 10, 1967	United States Steel following others.	Jessop Steel Co., Washington Steel Corp.	Nickel bearing alloy steel products	Increase in extra charges covering nickel content averaging $3 per ton or 2½ percent.	Jessop said its increases will average 3½ percent.

See footnote at end of table.

TABLE VI–2.—MAJOR STEEL PRICE CHANGES, 1962–67—Continued

Item No.	Date announced	Initiator	Followers	Products	Change in price	Washington reaction and industry response
(90)	Nov. 15, 1967	United States Steel		Wire and RR materials—wheels, axles, etc.	Increase 3 percent	Sources say others had initiated first, Armco and Republic are studying the move. Other major producers had no comment.
(91)	Nov. 17, 1967	Bethlehem	Continental, Detroit, Republic, Jones & Laughlin.	Certain wire products	Increase on extra charges.	Increase had been effective since October, but only customers knew.
(92)	Dec. 1, 1967	United States Steel	Others expected	Cold rolled sheet	Increase $5 per ton or 3.4 percent.	Johnson administration asked other steelmakers to "consider carefully" before following suit. President of Council of Economic Advisers is vexed. Government gave no indication of trying to roll back increase. Johnson will veto any legislation to protect steel industry from foreign imports.
(93)	Dec. 4, 1967		Bethlehem	do	Increase $5 per ton	
(94)	Dec. 5, 1967		Armco Steel	do	do	
				Cold rolled strip	do	No Government comment.
		Armco		Both hot rolled sheet and strip	Increase $4 per ton	If other industries follow Armco, about 84 percent
		Armco		Both hot rolled sheet and strip	Increase $4 per ton	If other industries follow Armco, about 84 percent of all steel sold will have increased price this year.
				Galvanized sheet and strip	Increase $5 per ton	
				Long ternes	Reduction $3 per ton	
			Republic	Cold rolled sheet	Increase $5 per ton	Japanese and British prices will rise on cold rolled sheet.
(95)	Dec. 6, 1967		United States Steel	Galvanized and aluminum coated sheets	do	United States Steel's decision to hold back on increases of much of the flat rolled steel line seems certain to stop industrywide increases from going any further. Strategy is to avoid Johnson administration's wrath.
				Long terne sheets	Reduction $3 per ton	
			Bethlehem	Galvanized sheet	Increase $5 per ton	
			Inland	Galvanized and aluminum sheet	do	
				Hot and cold rolled sheets	Increase of extra charges only.	
			Kaiser	Cold rolled sheets and strip	Increase $5 per ton	
				Hot rolled sheet and strip	Increase $4 per ton	
				Galvanized sheet and strip	Increase $5 per ton	
				Long ternes	Reduction $3 per ton	
(96)	Dec. 7, 1967		Jones & Laughlin	Cold rolled sheet and strip	Increase $5 per ton	If industry follows United States Steel's decision, about 70 percent of all steel sold will have increased price.
				Galvanized sheet	do	
				Hot rolled sheet	Increase $4 per ton	
			Youngstown Sheet & Tube Corp.	Cold rolled sheet	Increase $5 per ton	
			National Steel Corp	do	do	
				Galvanized sheet	do	
(97)	Dec. 8, 1967		Wheeling Steel	Cold rolled sheet and galvanized	do	
				Long terne sheet	Reduction $3 per ton	
			Granite City	Cold rolled sheet	Increase 3.4 percent or $5 per ton.	
				Galvanized sheet	Increase 2.5 percent or $5 per ton.	

	Dec. 10, 1967	Armco and Kaiser		Hot rolled sheet and strip	Roll back prices $4 per ton to $105 per ton.	Jones & Laughlin are studying the action.
		Kaiser		Cold rolled carbon strip	Roll back price $5 per ton.	
(98)	Dec. 28, 1967	United States Steel		Cold rolled strip	Increase $5 per ton	Followed increase by Interlake of cold rolled strip. Kaiser studying the action.
				Standard rails	do	
				Wrought steel wheels	Reduction 3½ percent	
(99)	Jan. 17, 1968	Allegheny-Ludlum		Tool and high speed steels	Increase not given	
(100)	Apr. 3, 1968	United States Steel	Republic	Seamless electric and weld pipe	Increase $10 a ton or 4 percent.	Increase due to increasing imports of foreign steel which rose in the 1st 2 months of the year, 42 percent from a year ago.
				Stainless steel plate for chemical plant use	Increase $75 a ton or 7½ percent to 10 percent.	
		Crucible Steel Co		Stainless bars and wire. Cold finished high carbon stainless wire extras.	Increase of 4 percent and upward.	Increase on bars was effective Mar. 6 and wire extras on Mar. 26. Company blamed "increased costs at the mill" as the cause.
(101)	Apr. 4, 1968	United States Steel		Grainless oriented electrical steel	Increase $14 a ton or over 3 percent.	Armco Corp. and Allegheny-Ludlum are studying situation.
(102)	Apr. 7, 1968	do	Youngstown	Oil industry goods	Increase $7 a ton or 3 percent.	
(103)	Apr. 16, 1968	Kaiser		Can-making tinplate	Increase of $0.05 a base box or 0.5 percent.	Other tinplate makers are studying the move.
(104)	Apr. 17, 1968	United States Steel		Portion of stainless steel plate	Reduction to price increase of Allegheny-Ludlum.	Allegheny-Ludlum said their increases were "considerably under" those first announced by United States Steel.
			Jessop Steel Co	Stainless plate	Increase average $0.02 to $0.0350 a pound or about 4 percent.	
			Eastern Stainless		Raising prices	
(105)	Apr. 18, 1968	do		Alloy grade hot rolled bars, alloy plates, and alloy semifinished products.	Increase $0.005 a pound or $10 a ton.	
(106)	May 8, 1968	do	Jones & Laughlin, and others	Important products including gas and water pipe, galvanized sheet and hot-rolled sheet and strip. Unconfirmed reports on cold-rolled sheet.	Reductions meeting low prices foreign mills are quoting customers.	United States Steel has sought to keep reductions quiet, fearful of any general breaks in steel prices. United States Steel's strategy breaks norms of past industry practice. Other firms are fearful that price cutting will spread. Industry sources say United States Steel is out to increase it's share of the market which has been gradually declining. Industry is waiting to see what move foreign imports take. So far there have been no reductions in import prices.
(107)	May 9, 1968					Bethlehem Steel announced it will not join in price cuts to meet import prices. Says it can't meet foreign competition "without going broke," due to cost difference, especially wage costs.
(108)	May 12, 1968					Armco Steel, Inland, and Jones & Laughlin say they will not follow price cuts to meet import prices. Armco said "Domestic price cuts sufficient to block imports would lead the U.S. steel industry to bankruptcy."

[1] Reconciled to come under sheet-price schedule rather than plate prices.

REFERENCE

[From Wall Street Journal]

Item No.	Date	Page No.
(1)	Apr. 11, 1962	3
(2)	Apr. 14, 1962	3
(3)	Apr. 10, 1963	3
(4)	Apr. 15, 1963	3
(5)	Apr. 16, 1963	3
(6)	Apr. 17, 1963	3
(7)	Apr. 18, 1963	2
(8)	Apr. 19, 1963	2
(9)	Sept. 30, 1963	3
(10)	Oct. 1, 1963	6
(11)	Oct. 2 1963	6
(12)	Oct. 3, 1963	3
(13)	Mar. 31, 1964	3
	Apr. 1, 1964	11
(14)	Apr. 6, 1964	2
(15)	Apr. 13, 1964	28
(16)	Apr. 14, 1964	3
(17)	Apr. 29, 1964	3
(18)	May 4, 1964	3
(19)	Oct. 8, 1964	2
(20)	Oct. 15 1964	2
(21)	Oct. 19, 1964	2
(22)	Dec. 14, 1964	3
(23)	Dec. 22, 1964	3
(24)	Dec. 28, 1964	2
(25)	Dec. 30, 1964	3
(26)	Mar. 9, 1965	4
(27)	Mar. 12, 1965	2
(28)	Oct. 13, 1965	3
(29)	Oct. 14, 1965	2
(30)	Oct. 19, 1965	32
(31)	Oct. 21, 1965	3
(32)	Jan. 3, 1966	3
	Jan. 4, 1966	3
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(33)	Jan. 6, 1966	3
(34)	Jan. 17, 1966	3
(35)	Feb. 14, 1966	3
(36)	Feb. 21, 1966	2
(37)	Feb. 25, 1966	6
(38)	Mar. 1, 1966	3
(39)	Mar. 4 1966	7
(40)	May 19 1966	3
	May 23, 1966	3
(41)	June 1, 1966	32
(42)	June 6, 1966	10
(43)	Aug. 3, 1966	3
(44)	Aug. 4, 1966	3
(45)	Aug. 5, 1966	3
(45)	Aug. 8, 1966	3
(47)	Aug. 10, 1966	3
(48)	Nov. 9 1966	3
(49)	Nov. 14, 1966	2
(50)	Nov. 25, 1966	3
(51)	Nov. 8, 1966	21
(52)	Dec. 1, 1966	10
(53)	Jan. 5, 1967	3
(54)	Jan. 11, 1967	2
(55)	Jan. 12, 1967	5
(56)	Jan. 13, 1967	2
(57)	Jan. 18, 1967	27
(58)	Apr. 13, 1967	2
(59)	Apr. 17, 1967	7
(60)	Aug. 2, 1967	2
(61)	Aug. 3, 1967	8
(62)	Aug. 4, 1967	4
(63)	Aug. 7, 1967	3
(64)	Aug. 18, 1967	5
(65)	____do____	5
(66)	Aug. 28, 1967	7
(67)	Aug. 21, 1967	3
(68)	Aug. 22, 1967	2
(69)	____do____	2
(70)	Aug. 28, 1967	7
(71)	Aug. 22, 1967	2
(72)	____do____	2
(73)	Aug. 28, 1967	7
(74)	____do____	7
(75)	Aug. 31, 1967	2
(76)	Sept. 1, 1967	3
(77)	Sept. 4, 1967	32
(78)	Sept. 12, 1967	8
(79)	Sept. 22, 1967	2
(80)	Sept. 27, 1967	3
(81)	____do____	3
(82)	Sept. 28, 1967	3
(83)	Sept. 29, 1967	2
(84)	____do____	2
(85)	Oct. 2, 1967	2
(86)	Oct. 4, 1967	2
(87)	Oct. 5, 1967	3
(88)	Oct. 6, 1967	19
(89)	Oct. 11, 1967	4
(90)	Nov. 16, 1967	11
(91)	Nov. 17, 1967	12
(92)	Dec. 4, 1967	3
(93)	Dec. 5, 1967	3
(94)	Dec. 6, 1967	3
(95)	Dec. 7, 1967	4
(96)	Dec. 8, 1967	5
(97)	Dec. 11, 1967	3
(98)	Dec. 29, 1967	4
(99)	Jan. 18, 1968	5
(100)	Apr. 4, 1968	13
(101)	Apr. 5, 1968	6
(102)	Apr. 8, 1968	4
(103)	Apr. 17, 1968	28
(104)	Apr. 18, 1968	34
(105)	Apr. 19, 1968	20
(106)	May 9, 1968	1
(107)	May 10, 1968	10
(108)	May 13, 1968	6

APPENDIX VII

STEEL IMPORTS AND TECHNOLOGICAL INNOVATION

Historically, according to AISI, American steel was able to compete in world markets because of its technological superiority. In the face of increased competition, says L. B. Worthington, "we've been doing everything in the book to make this industry as efficient and as competitive as it is possible for any industry to be. To enhance our position of technological leadership . . . we are now spending considerably in excess of 100 million dollars a year on research. . . . [D]uring the past ten years American steel companies have spent more than 13 billion dollars on new, more efficient production facilities—designed not only to reduce costs, but to establish new high standards of quality for our competition to shoot at." Presumably, all this is not enough. The industry wants more time to establish its technological superiority, and wants governmental protection through import quotas in the meantime.

Unfortunately, the facts do not support Mr. Worthington's claims:

(1) A 1966 report of the National Science Foundation shows that the steel industry ranks shockingly low in its R & D expenditures. In 1964, it spent only 60 cents of every hundred dollars in sales revenue on R & D, compared to a $1.90 average for all manufacturing industry. Moreover, all the industries producing steel substitutes—aluminum, cement, plastics, and glass—invested more in R & D than did the steel industry, sometimes five or six times as much.

(2) The major steel inventions in recent years—including the basic oxygen furnace, continuous casting, and vacuum degassing—came from abroad. They were not made by the American steel giants.

(3) In innovation, as in invention, the American steel giants seem to lag, not lead. The oxygen furnace, for example, the only major technological breakthrough in basic steel making since the turn of the century, was invented and innovated by the miniscule Austrian steel industry in 1950. It was first installed in the United States in 1954 by a small company (McLouth), and not adopted by the steel giants until more than a decade later: U.S. Steel in December 1963, Bethelehem in 1964, and Republic in 1965. Despite the fact that this new process entailed operating cost savings of roughly $5.00 per ton, as well as capital cost savings of $20–25 per ton of installed capacity, the U.S. steel industry during the 1950's "bought 40 million tons of the wrong kind of capacity—the open hearth furnace" (Business Week, November 16, 1963). As *Fortune* recently observed, much of this capacity "was obsolete when it was built" and the industry, by installing it, "prepared itself for dying." (October 1966 pp. 130, 135). Or, as *Forbes* put it more mildly, "In the Fifties, the steel industry poured hundreds of millions of dollars into equipment that was already obsolete technologically—open hearth furnaces." (March 1, 1967, p. 23.) The technological blunder may have cost close to $1 billion in "white elephant" facilities. (See "Big Steel, Invention, and Innovation," *Quarterly Journal of Economics*, May 1966.)

(4) Even defenders of the American steel giants concede that it was the cold winds of competition rather than the sheltered atmosphere of protectionism which ultimately forced the domestic majors (belatedly) to follow the path of technological progress. Thus, Professor Alan McAdams admits that by "1962 it appears that the costs to United States producers for *not* innovating were significantly raised by actual and threatened competition from both domestic and foreign oxygen steelmakers." (*Quarterly Journal of Economics*, August 1967) Competition, not protection, broke down the industry's habitual lethargy and resistance to change.

(5) Technological progress is less costly than AISI would have us suppose. Small American steel fabricators, utilizing the latest technology, and demanding neither special protection nor special favors from the federal government, have begun to produce their own basic steel—at costs far below the prices charged by the domestic steel giants. According to the *Wall Street Journal* (October 5, 1967), "Roblin Steel Corp., North Tonawanda, N.Y., has more than tripled its earnings since 1964, when it installed an electric furnace and a continuous casting machine and quit buying semifinished steel from major producers. Florida Steel Corp., Tampa, started making its own steel in 1958; since then, it has increased annual net income nearly 200% while achieving steel production of more than 300,000 tons a year." Such plants "turn out high-quality steel for less than $65 a ton, at least $20 a ton cheaper than current prices for bars of semifinished steel called billets." (Ibid.)

In sum, experience makes it abundantly clear that an industry like steel, dominated by slothful giants, will lead neither in technological invention nor innovation. To give such an industry artificial protection from competition would merely serve to reinforce its natural disposition to lead the quiet life and to let well enough alone.

Appendix VIII

Steel Imports and the U.S. Balance of Payments

In this appendix, we review the relation between steel imports and the balance of payments position of the United States. We propose to examine the effect that the domestic steel pricing and other policies have had on the balance of payments, and what the consequence might be of artificial restrictions on the import of steel products.

In recent years, steel imports have accounted for a larger share of domestic consumption than in the past, particularly since 1959. At the same time, steel exports have shrunk. The two phenomena are related, and elsewhere in this presentation we have demonstrated the crucial role played by the upward rigidity of pricing[1] and technological backwardness. It is, therefore, possible to regard any difficulties the steel industry may be facing in its international economic relations as to a large degree self-inflicted. This conclusion is not, however, sufficient to dispose of the balance of payments problem. The American Iron and Steel Institute, for instance, insists that "the most relevant trade factors are the inflow and outflow of the primary products of the steel industry itself" (*Staff Study*, p. 336), and by implication that the unfavorable balance of trade in steel is strategic in causing the unfavorable balance of payments for the U.S.

There are several points that must be made with respect to the effect of steel imports on the balance of payments. In each case, it appears that the imports of steel products cannot be considered a serious threat to the United Staets. First, it is manifestly improper to assess the effect of steel imports considered in isolation without also examining the export and import of products containing steel. When the end-use items are taken into consideration, the steel balance of trade, even though it remains "unfavorable", is nevertheless sharply cut. Table 34 of the Senate Finance Committee *Staff Study* shows that for 1966 the net outflow was reduced from $889 to $486 million. This is approximately 2 per cent of the total value of merchandise imports in 1966. For 1967, the comparable figure is not available, because the AISI has not made public its estimates of the value of steel in end-use exports, but in view of the fact that the imports of steel in dollar value were *lower* in 1967 than in 1966, and the total merchandise trade exports were higher, it is extremely unlikely that the so-called "unfavorable balance of trade" for steel exceeded $486 million in 1967, and it may very well have been less.

A further adjustment is sometimes made by those attempting to isolate the impact of steel imports on the U.S. international position. Since we are not importers of iron ore and concentrates and manganese ore and concentrates, and export scrap and coal and coke, a balance of trade can also be constructed for steel-making raw materials. It was favorable for the yers 1963, 1964 and 1965; in 1966 a slight deficit of $3 million was registered. In 1967, the balance again was favorable: imports totaled $659 million and exports $845 million, yielding a net inflow of $186 million.

The justification for taking into account the end-use steel products should be plain enough. If domestic steel is used, then to the extent that these sales bring in foreign exchange, the effect is the same as though the steel had been exported directly. If the product uses imported steel, then to the extent the import is re-exported the loss of exchange by purchase of the imported steel is offset by its subsequent sale to foreigners. The raw materials for steel should be taken into account because, if the production of steel in the U.S. requires that raw materials be imported, exports can not be counted as a net gain of foreign exchange, nor can domestically produced steel consumed here be regarded as a complete import substitute. Therefore, all raw materials imported must be

[1] "This emphasis on competitive price cutting is typical of the policies of foreign steel industries when exporting. In the United States the practice has still been—with the exceptions, such as, unpublished discounts and freight absorption—to maintain prices and to adjust output to demand." *Steel Imports*, Staff Study of the Senate Committee on Finance, 90th Cong., 1st sess., 1967, p. 120 (hereinafter referred to as Staff Study).