TABLE IV.—*German phenol sales to the United States*—Continued

	Cents per pound
After separate package and border tax harmonization:	
Duty: 1½ cents per pound plus 11½ percent ad valorem (country of origin selling price, 7 cents)	2.3
Freight and insurance	1.4
Subtotal	3.7
Less rebate (11 percent)	.8
Total costs	2.9
Landed cost of entry	9.9

The recent border tax harmonization agreement among EEC members will result in an increase in the border tax of all members except France, thus further burdening U.S. exports to the EEC. The Tables III and IV below indicate the nature of the impact of border tax harmonization on one product traded between the United States and Germany. No effort is made to generalize from this about the precise balance of trade and payments results of harmonization, but only to indicate how changing conditions were of importance during Kennedy Round negotiations.

It has been argued that the negative effects of border tax increases by five EEC nations will be in part offset by the decrease in French taxes. While this is true, the volume of 1967 U.S. exports to France totals only $1.0 billion while U.S. exports to the other five were $4.0 billion. Thus even with a relatively large French adjustment downward it seems likely that the net effect on U.S. exports to the EEC would be negative. In addition, since 1964, U.S. exports to France have been growing at a much slower rate. Between 1964 and 1967 U.S. exports to France rose by 3.6 percent while exports to the other five rose by 7.4 percent.[5]

C. Our commercial ability

As analyzed in the first section of this paper, there are a number of reasons for believing that the assumptions of U.S. commercial superiority with which this country entered the Kennedy Round were ill-founded. These assumptions stemmed both from using the wrong data in assessing commercial strength and due to the choice of an unrepresentative base year. These factors resulted in a tendency to make overly generous concessions.

D. U.S. concessions and the balance of payments

Multilateral, reciprocal trade negotiations are expected to result in some gains and some losses with, presumably, a neutral negotiating impact in the face of other substantial favorable trade factors (that is other factors at work which would shift our merchandise trade surplus substantially upward), or a positive negotiating impact (a net merchandise trade surplus increase resulting from negotiations), or both. A neutral or positive outcome was absolutely essential for the United States because of the large deficit in the U.S. balance of payments and the Administration's announced reliance upon trade as the long run solution to the U.S. payments deficit.[6] This is not to claim that in the trade account lies the solution to the deficit. To the contrary, this writer is convinced that the United States must look elsewhere for improvements of a magnitude to bring payments equilibrium and the elimination of controls. However, because of the large and persistent payments deficits, the United States is in need of an aggressive trade policy which will, at the very least, prevent any deterioration of the merchandise trade position.

The U.S. balance of payments deficit was at issue in the Kennedy Round as a matter of fact (the deficit) and policy (the Administration's reliance on trade to eliminate the deficit). The negotiators proceeded as though it were not or assumed that, due to the nature of tariff concessions (equality) and trading superiority, the U.S. balance of payments would be unaffected at worst and possibly benefitted. Evidence is surely ample by this time to indicate that our trade surplus is not going to expand relatively automatically and that our deficit is not transitory.

[5] I.M.F., I.B.R.B., *Direction of Trade* (various issues).
[6] See Presidential balance-of-payments messages of 1961, 1963, and 1965 and *Economic Report of the President*, 1966–67.

III. THE SIGNIFICANCE OF AMERICAN SELLING PRICE

A. The ASP system

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

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

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

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

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

TABLE V.—COMPARISONS OF RELATIVE TARIFF REDUCTIONS

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

B. Delaying the elimination of ASP

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

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

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

(1) The "separate package" embodying the elimination of ASP was agreed to under false assumptions. This was detailed in Part I of this testimony. Due to history and statistical presentation, Kennedy Round negotiations were conducted with an assumption that the United States possessed a pervasive, fundamental, and steadily widening commercial superiority over the rest of the world on an almost across-the-board basis, an assumption the facts simply do not support.

(2) The way in which the ASP bargain has been struck does not bode well for Congressional prerogatives in the formulation of trade policy. The bill is presented as something that the Administration agreed to seek to eliminate and for which they obtained concessions which will be lost if ASP is not eliminated (an approach the Senate requested be avoided in Senate Resolution 100). Now consideration of this legislation is being influenced by the EEC in its offer to speed-up the schedule of agreed upon tariff cuts. While the speed-up would be of some benefit to the United States, that benefit is transitory as it does not alter the total concession offered in exchange for ASP and leaves the United States in the same position at the end of 1972 as would have been true otherwise. This speed-up offer is also some indication of the value of ASP elimination to the Europeans, a point returned to later in this paper.

The entire ASP bargain is curious. It was hoped that the Kennedy Round would result in a broad range of tariff cuts of 50 percent in the industrial sector. In large measure this was achieved, but in the chemical sector, U.S. negotiators agreed to cut tariffs by 50 percent in exchange for an EEC–UK reduction of only 20 percent. It is difficult to accept this as an equal and reciprocal bargain as the logic of calling the ASP bargain a "separate" package would dictate. By tying the "other" 30 percent of the European cut to ASP elimination, of course, there resulted not a separate but an integrally related package.

(3) In the negotiating process, ASP was "sold" too cheaply, an argument that can be supported both by inference and analysis. It can be inferred from some of the foregoing which dealt with the false assumptions surrounding U.S. bargaining.

It has been argued that the Kennedy Round tariff concessions were reciprocal in that the deeper U.S. cuts covered a much smaller volume of trade than the smaller European reductions. This argument has also been applied to the aggregate Kennedy Round concessions. Curiously, the argument was not used on an industry basis except in the case of chemicals and neither was it applied to all nations in the chemical case. Furthermore, the logical extension of such an argument would be to have obtained more than reciprocal concessions for categories where our trade was in deficit.

As indicated earlier, weighting the cuts in tariffs in terms of 1964 data ignores what the concessions mean in terms of future imports and exports.

There are reasons for believing that the chemical industry, while by no means weak, is going through a period of international competitive change which does not support use of existing U.S. chemical trade balances as a guide to relative concessions. In addition to government sponsored industry harmonization efforts abroad, the Common Market and opening of the U.S. market made available economies of scale hitherto denied and technology represents a rapidly shrinking gap.

It would be incorrect to claim that ASP was to be eliminated as a consideration only of the remaining 30 percent chemical tariff reduction. Belgium, France, and Italy agreed to modify their road-use taxes to eliminate discrimination against American cars, the United Kingdom would reduce its preference on tobacco imports by 25 percent, and Switzerland would eliminate limitations on importation of canned fruit preserved with corn syrup. While these facts should not be overlooked, their importance seems slight.

Attitudes abroad regarding the elimination of ASP also cast some light on the negotiations. There would appear to be no reason for the chemical industry abroad to artificially inflate their optimism—quite the contrary, in view of the fact that ASP has not yet been eliminated. Yet they have expressed delight at the agreements and anticipate that the elimination of ASP will pave the way for major inroads into U.S. markets they had not previously penetrated. Not that equality of concessions means no injury. Trade depends upon comparative advantage, and reductions in tariffs, if they are meaningful in any sense other than to reduce government revenues, will foster this principle thus "harming" [9] certain

[9] "Harming" in the sense that, *ceteris paribus*, the domestic producer will face a less favorable position relative to landed cost of imports. He may, of course, respond by various cost reduction techniques or price reductions which will offset tariff cuts.

domestic producers but improving the allocation of resources. Despite European delight U.S. negotiators proclaimed both parts of the chemical package were to this country's advantage,[10] though again falling back on a comparison of volume of 1964 trade covered by concessions.

(4) *The Basket Categories.* While use of a single year, the year selected, sampling methods, and adjustments of invoice, raise general questions applicable to the entire conversion process, the most serious reservations apply to the basket categories, where evidence of downward bias as well as statistical looseness may be noted.

The basket categories referred to are the "other" categories not the basket groups broken out of the earlier (pre-1964) basket categories. These baskets consist of products imported in small quantity and value or not imported at all, and as such they can be properly lumped as "other". This does not mean that calculation of a converted rate is not of great importance however. In some cases, the basket covers items of vast importance to domestic production.[11] The basket converted rate is the rate to be applied to most existing products which happened not to be imported in 1964 but which may at a later time and to those products not yet invented or traded.

The use of a single year data may be especially dangerous here because computing a basket rate involves weighting and the product mix can shift substantially from year to year.

Most serious of all aspects of the converted rates in terms of bias is the fact that the basket category includes both competitive and non-competitive items [12] which were combined in computing a weighted average converted rate for the basket. Since the ASP method of valuation only applies to competitive products, it is only those that require a converted rate. For non-competitive products foreign or export value is already applied so no conversion is necessary. The mixing of the two has the anomalous effect of raising the rates for non-competitive items and lowering it for competitive goods. That is, the barrier that results is higher than would have been the case if separate rates had been computed on products which the U.S. does not produce and lower on those where domestic industry competes. The converted rate on the two groups together tends toward the lower end of the range (between existing rates and converted rates for competitive items alone) because the $ volume of non-competitive items in the basket categories was substantially higher than that of competitive items in 1964.[13] Thus, the final converted rate represents a greater degree of bias against domestic products than foreign. The effect of this can be seen in detail in Table VI below.

TABLE VI

[In percent]

Basket category	Average converted rate-competitive products	Tariff Commission converted rate	Competitive product tariff reduction through conversion
Dyes	72	48	33
Intermediates	42	36	14
Pigments	77	43	44

Source: Based on industry provided data.

[10] In testimony before the Joint Economic Committee, Ambassador Roth stated, "Taking into account both trade covered by concessions and the depth of the concessions, the United States thus stands to benefit on balance in each package. This positive balance also holds in our bilateral trade with each major participant. Our chemical industry, in short, stands to derive substantial benefits." *The Future of U.S. Foreign Trade Policy,* Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, Volume I, p. 25.

[11] The basket categories cover some 3,000 products not imported in 1964 as well as over 700 that were imported; over 98% of the products produced in the United States fall in this category. In some areas, the basket comprises a major proportion of domestic production—the dye basket (TSUS 406.50J) includes items comprising 90% by volume and 60% by value of U.S. dye production.

[12] Non-competitive are those not produced in the United States.

[13] In 1964, 57.3% by value of the basket category items imported were non-competitive.

Again using Tariff Commission data we can note the bias in another way. The converted rate on the basket category for dyes was 72%. The rate on ASP basis was 40%, indicating a relationship of 1.8:1 between ASP and export value. On that basis, using 1.00 as export value, ASP would be 1.80 and duty (ASP basis) would be .72. Assuming insurance and freight of 5% of export value and commissions of 10% of landed value [14] the selling price of an import would be 1.95 made up as below:

Export value	1.00
Duty	.72
Insurance and freight	.05
Commission	.18
Selling price	1.95

This is between 8 and 9 percent higher than ASP and would seem to preclude sales of imports. Yet imports did enter the country. A logical conclusion would seem to be that the converted rate is too low.

IV. CONCLUSIONS

Faced with a serious and persistent balance of payments deficit, the United States has through erroneous assumptions as to commercial superiority and equality of concession as well as by ignoring the changing economic environment, bargained ineffectively in the Kennedy Round and proposes to eliminate ASP too cheaply and inaccurately.

As I have had occasion to argue elsewhere [15] and as is implied in the first part of this testimony, successive Administrations have predicated the entire balance of payments program on the mistaken expectation that this country's merchandise trade balance would soon expand to provide balance of payments equilibrium. It is time to recognize that sometime between 1958 and 1964 the era of across-the-board dominance of world merchandise trade by the United States came to an end. This does not refer to the mounting deficits themselves or even the shrinking trade surplus since 1964 but rather to the fact that we are no longer a monopoly department store for the world's needs in goods. The United States has become a nation whose most significant competitive advantage is service exports—finance, technology, organizational and managerial know-how—along with those merchandise exports heavily dependent upon research—computers, aircraft, electronic equipment. This is not to argue that an expanded merchandise trade surplus is unimportant, for such is critical in the present international scene. But trade cannot help in the absence of a far more aggressive approach to trade policy.

The invalid assumptions which led to the expectation of a substantial widening of the merchandise trade surplus were doubly damaging because they led to further actions which were both shortsighted in terms of U.S. international economic strength and in terms of trade flows themselves. I here refer to controls on capital movements, particularly direct foreign investment.

Direct foreign investment has been a major positive factor in the U.S. balance of payments throughout the postwar period as is shown in Table VII.

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[14] Based on industry source.

[15] *The National Banking Review*, Vol. 4, No. 3, pp. 283–9 (March 1967); *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies*, Committee on Finance, United States Senate, Vol. 2, pp. 652–61 (1968).

TABLE VII.—U.S. DIRECT FOREIGN INVESTMENT OUTFLOWS AND RELATED RECEIPTS, 1945–67

[In millions of dollars]

	Direct foreign investment outflows	Repatriated income	Royalties and fees	Net balance
1945	100	426	(1)	326
1946	230	589	(1)	359
1947	749	809	(1)	60
1948	721	1,964	(1)	443
1949	660	1,112	(1)	452
1950	621	1,294	126	799
1951	508	1,492	130	1,114
1952	852	1,419	130	697
1953	735	1,442	128	835
1954	667	1,725	136	1,194
1955	823	1,912	158	1,247
1956	1,951	2,171	229	449
1957	2,442	2,249	238	45
1958	1,181	2,121	245	1,185
1959	1,372	2,228	349	1,205
1960	1,674	2,355	403	1,084
1961	1,599	2,768	463	1,632
1962	1,654	3,044	580	1,970
1963	1,976	3,129	660	1,813
1964	2,435	3,674	756	1,995
1965	3,418	3,963	924	1,469
1966	3,543	4,045	1,045	1,547
1967 [2]	3,026	4,445	1,126	2,545

[1] Not available.
[2] 4th quarter 1967 data are preliminary.

Source: U.S. Department of Commerce Survey of Current Business various issues; and Balance of Payments Statistical Supplement rev. ed., Washington: U.S. Government Printing Office.

While the Administration has apparently accepted that direct foreign investment is beneficial, the belief that the deficit was of short-term nature and that an expanded trade surplus would make possible the removal of controls were used as justification for restricting investments abroad. As has been shown above, the trade surplus is not going to eliminate the deficit and the controls are not short term. The controls themselves have now become mandatory. The rationale that controls on direct foreign investment are acceptable because they are short term is not valid. And in the long run there are clearly grave dangers. These dangers would appear to be of three types outlined below.

(1) The competitive position of existing foreign affiliates can be quickly eroded if expansion, modernization, and product and marketing developments do not keep pace with competition and market demands;

(2) Direct foreign investment controls spur efforts to finance abroad which in turn drive up foreign interest rates, a factor which could retard the speed of economic growth abroad thus having a negative effect on U.S. exports:

(3) With approximately 25% of U.S. exports going to or through the foreign affiliate of U.S. firms according to Department of Commerce estimates, the balance of payments gains of reducing direct foreign investment are clearly in some degree offset by resulting losses in exports to those direct foreign investment enterprises.

This country is in critical need of a balance of payment policy (we must not confuse a program with policy) broadly and imaginatively conceived. As such it would embrace trade policy which, in turn, would stress far more than heretofore matters in addition to tariffs. As indicated earlier, while solution of the deficit cannot be anticipated from the merchandise trade account, an improvement in that area must be an integral part of the overall balance of payments policy. And quotas and other trade restrictive devices are surely not the avenue to follow.

The positive trade related elements of such a policy would include the following:

(1) *Taxation.* The United States should take maximum advantage of the application of the philosophy of border tax adjustments to our existing tax structure. I agree that our entire tax system should not be overthrown for balance of payments or export stimulation reasons. But we should seek maximum trade and payments benefits from existing indirect taxes and cannot ignore ways in

which future tax adjustments could bring such benefits. This dictates, for the longer run, careful consideration of the expanded use of indirect taxes (excise, TVA, etc.) and/or a major effort to alter the GATT working party agreement that assumes a black and white distinction in the incidence of direct and indirect taxes. We must also be cognizant in tax policy formulation of an increasing tendency to question the assumption that sales type taxes are regressive, especially if graduated or if compared with effective income tax rates.

Also in the taxation area would be careful consideration of the reallocation provisions of Section 482 of the Revenue Code, provisions for the taxation of "foreign base company income", Subpart G provisions dealing with Export Trade Corporations, and the question of expanding the geographical limits of Western Hemisphere Trade Corporations. While the Treasury surely has a legitimate interest in plugging loopholes and assuring equitable treatment to all taxpayers, under present balance of payments conditions this country must not ignore the balance of trade and payments impact of tax policy. Circumstances would seem to suggest that tax policy be one of our weapons to eliminate the deficit.

(2) *Investment Controls.* Because the controls on direct foreign investment cannot realistically be viewed as short term and because they damage export efforts, they cannot be justified. Having applied them, however, and still seeing no near term elimination of the deficit, the Administration understandably (however unwisely) feels constrained to keep them. There is fear of short run negative effects of control removal despite awareness of longer range benefits of direct foreign investment. Rather than clinging to the controls until the U.S. balance of payments reaches equilibrium,[16] the controls should be removed on an individual basis under an incentive system of performance. Under such a system a company which could show a certain improvement in its own overall balance of payments account (or could give firm evidence that investment would result in such for those companies not yet involved in overseas activities) would be relieved of the application of the controls. Basing relief on a firm's overall balance of payments rather than on its balance of trade alone could presumably avoid violating the conditions of the GATT regarding subsidies. Under such an arrangement the controls could be dismantled without short-term adverse balance of payments impact. The difficulties, of which there surely are some, seem no more insurmountable than those the Department of Commerce faces in applying the existing controls and in measuring the contribution to our balance of payments through the corporate response to the restraint program.

(3) *Aggressive Negotiation.* The United States must press for relief, especially in the area of non-tariff barriers, in negotiations which will proceed from a realistic set of assumptions regarding our competitive position and with clearly defined balance of payments goals. Where inequities exist, and they surely do, we must use all the weapons at our disposal. These include refusal to eliminate ASP except as part of reciprocal action on non-tariff barriers, the application of taxes for maximum trade benefits, and the use, where necessary, of action available under Articles VI, XII, and XXIII of the GATT. To have meaningful negotiations and balance of payments relief the United States must get its complaints to the bargaining table, must apply the leverage available, and must not fear to step back from negotiations which are unsatisfactory. This latter we failed to do in the Kennedy Round.

Earlier reference to statistical presentation and industry rationalization need no repetition here. They are part of what is needed for an integrated balance of payments policy just as is domestic price stability. Such a policy while not alone eliminating the deficit, will enable the United States to gain maximum benefit in the merchandise trade account. Quotas will not bring such an achievement. They are not only an admission of defeat but bring in their wake retaliation which will prevent optimum balance of payments benefits from the trade account.

Mr. FULTON. Thank you, sir.

Are there any questions?

Mr. CONABLE. Mr. Chairman, the juxtaposition of this statement to the previous one is a very interesting one.

Thank you.

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[16] This means a surplus under present thinking, since, if removal of controls would bring a sharp rise in capital outflow, a balance could be achieved only by removing controls after achieving a surplus position.

Mr. FULTON. Thank you, Doctor, for your appearance before the committee.

The next witness is Mr. Schwenger.

Mr. Schwenger, we are pleased to have you appear before the committee today.

I want to say for the other members of the committee I am sure that some of them are aware of your many years in connection with the trade agreements program in the Department of Agriculture.

We are pleased to have you appear before the committee.

Will you identify yourself and your association for the record.

STATEMENT OF ROBERT B. SCHWENGER, KENSINGTON, MD.

Mr. SCHWENGER. Thank you, Mr. Chairman.

My name is Robert B. Schwenger. I worked in the Interdepartmental Trade Agreements Organization from 1934 to 1966: 26 years for the Department of Agriculture; 6 years for the Department of Labor, after holding fellowships in international economic relations at the Universities of Wisconsin, Geneva, Switzerland, and Chicago.

About 1963, I became convinced that a fundamental change in approach was needed, but officials were too preoccupied with the Kennedy round to really consider by proposal. In 1964 I was awarded a sabbatical year to develop my idea but officials were too preoccupied with the Kennedy round to consider it. In January 1967, I retired in order to try to get it considered in connection with new trade-policy legislation. Hence, I am particularly grateful for the opportunity to appear before this committee.

My proposal for a change in policy must presumably go over to next year for consideration. However, regardless of what may then be decided, I believe it of the most urgent importance that the Congress now give an effective expression of its wish, when debating future foreign trade policy, to be fully and authoritatively informed as regards the relevant problems and concerns of foreign governments and people.

I believe such a simple expression would reverse the deterioration that I now see taking place in the support for a trade policy for the national interest and in the atmosphere of intergovernmental discussion of trade problems.

In the 5 minutes allotted me for oral presentation, I will try to summarize the main points of the reasoning and analysis behind this contention, leaving the future proposal for inclusion in the record if I may do that.

1. Technology and interdependence—world growth perspective needed.

Technology, working through the ownership and management institutions evolved in the United States and other free world industrial countries, is integrating national economies into a world economy, a matter that has been touched upon by many of the witnesses. They must function as a single production-consumption process to achieve the enormous new possibilities—for example, the supply of a decent minimum of food, clothing, and shelter for every human being. And, due to advances in communication, that enable everyone to see what is going on, people everywhere expect governments to facilitate that kind of world growth. Every important economic policy and program must be reviewed in that perspective.

2. The national recovery perspective persists in trade policy.

Our present trade policy does not meet the test. It is still directed against the excessive, beggar-my-neighbor barriers of the great depression. By 1934, it was widely recognized that these barriers had only made matters worse. Cordell Hull had the genius to forge a consensus of free traders and protectionists to bargain them away for the purpose of facilitating recovery. He persuaded other governments to do the same. Most of the beggar-my-neighbor barriers have now been reduced to little more than nuisance levels.

3. Measures to meet growth problems won't bargain away.

Most government actions affecting trade today (today's trade barriers, if you want to call them that) are associated with national or regional efforts to deal with problems of innovation and world growth that are really wider than national boundaries and are world boundaries. The people of the program have tried to develop intergovernmental cooperation in facing these problems through the consultation and factfinding mechanisms of the GATT. But the present bargaining approach, directed uncritically against all "barriers" tends to inhibit intergovernmental problem solving. It requires formulation of national demands followed by adversary discussion. The frequent result is the result on important national programs.

The object is to win concessions not to get the facts and solve the problems. Hence the trade policy consensus everywhere is falling apart. Legislative bodies now find no really forward-looking program serving the general public interest which they can use to support them and which they can support and thereby resist restrictive proposals urged by particular interests and governments when they consult together, regarding problems with which they must deal, lack confidence, that they can settle their differences within a mutually accepted trade policy framework. They sometimes even turn to economic warfare in middiscussion as is the current case in the chicken war discussions going on as economic warfare throughout the world. The common interest in trade expansion as part of the dynamic growth of the world, tend to be lost sight of.

A lead must be given, therefore, toward trying to understand trade barriers in their full dimensions—not only among governments but also among the leaders of opinion in all of the countries involved.

Moreover, the lead in that reasonable direction is needed urgently as a basis for a new consensus behind a program for seeking growth-oriented solutions to the disturbances to production, trade and marketing which are natural in a dynamic, competitive world. Those disturbances are bound to increase with the world's progress.

One way to start would be for the Congress to request the President to explore this matter with other governments and report the results for consideration in drafting next year's legislation. Such a signal from the world's greatest economic power should have a dramatic effect at home and abroad. A new consensus would begin to form behind the search for a growth-oriented approach toward disturbances which are natural in the competitive world and which are bound to increase with progress.

It will be evident to the committee that trade bargaining has created the impression that there is an economic basis for hostility among friendly countries. Of course, the opposite is true.

A technique of openly deliberating the full facts such as the one I will offer for inclusion in the record should have the opposite effect. It would emphasize the interpenetration of real economic interests short term as well as long between countries. International economic stresses and strains crisscross political lines. They are properly seen as healthy differences within a dynamic international economic community.

The proposed request to the President whether it is a forward-looking addition to the bill before the committee or separate would be an important step in building the structure.

Thank you, Mr. Chairman.

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

SUPPLEMENTAL STATEMENT OF ROBERT B. SCHWENGER

A GROWTH-ORIENTED FOREIGN TRADE POLICY: DELIBERATING PROBLEMS OPENLY INSTEAD OF BARGAINING BARRIERS SECRETLY

1. INTRODUCTION

My name is Robert B. Schwenger. I worked in the Interdepartmental Trade Agreements Organization from 1934 to 1966: 26 years for the Department of Agriculture; 6 years for the Department of Labor, after holding graduate fellowships in international economic relations at the Universities of Wisconsin, Geneva (Switzerland) and Chicago.

About 1963, I became convinced of the need for a fundamental change in approach to the intergovernmental discussion of what are called "trade barriers"—that is, government actions affecting foreign trade. In 1964, I was awarded a sabbatical year (and appointed research professor at the University of Stockholm's Institute for International Economic Studies) to develop my idea. However, officials and economists were then too preoccupied with the Kennedy Round to really consider it.

In January 1967, I retired in order to try to get my proposal considered in connection with new trade-policy legislation. Hence, I am particularly grateful for the opportunity to appear before this Committee.

Immediate consultation and longer-term deliberation

In the present circumstances, I have two proposals—one (which should be relatively uncontroversial) for consideration in the limited time available for action at this session of the Congress, the other (which involves a change in approach) for consideration next year or whenever the Committee sets the course for future U.S. foreign trade policy. They may be summarized as follows:

1. At this session, enact an arrangement (either as part of the Administration bill or separately) whereby the Congress can be fully and authoritatively informed, when it debates and decides on future foreign trade policy, as regards the relevant problems and concerns of foreign governments and people. The purpose is to arrest and reverse the deterioration taking place in the atmosphere of intergovernmental discussion of trade problems and in popular support (here and abroad) for expansionist trade policy.

2. When setting policy, provide for open intergovernmental deliberation of the full facts regarding the effects of individual trade barriers in the light of their public purposes, to be followed in each case by national reconsideration and, when appropriate, intergovernmental cooperation toward accepted purposes. This would achieve the maximum possible expansion of mutually beneficial trade. It would replace the adversary confrontations of the old program (which now serve mainly to confuse and fragmentize) by cooperation in problem analysis and the search for solutions.

The Committee will observe that the two proposals, though related ideologically, are quite independent of one another. Declaring an interest in hearing all sides of the problem would not commit the Congress to any particular solution. On the other hand, the longer-term proposal will be appropriate and important even if no action is taken this year.

I. IMMEDIATE REQUEST FOR AN EXCHANGE OF VIEW

The argument for asking at this time that the President institute, and report on, an exchange of views with foreign governments as to future international trade policy is relatively simple and straightforward.

a. The present program is not dealing effectively with trade problems due to innovation, technological progress and the rapid growth of the world economy.

b. Therefore, the popular consensus behind a general trade policy in the public interest is falling apart—both here and in other great trading countries. The isolationist trade policies urged by particular interests are coming more and more to the fore.

c. At the same time—accelerating and being accelerated by the decline in consensus—there is a failure of intergovernmental discussions of trade problems to settle differences because of a fear by each participant that the others cannot be relied on to operate within a framework of trade policy accepted as being in the common interest.

d. An immediate indication by the Congress that, in this time of malaise and confusion, it is determined to remain in active, objective and friendly touch with other trading nations when enacting new legislation (for trade policy to follow the Kennedy Round) would be an act of constructive leadership; it would create an atmosphere favorable to the general public interest at home and to friendly understanding abroad.

A. Present program can't deal with growth problems

The first point, that the present program deals inadequately with common problems of world growth, is dealt with more extensively in part II of this testimony. The three following paragraphs discuss (i) the growth possibilities and expectations in today's interdependent world, (ii) the orientation of present bargaining policy toward depression-caused barriers which are no longer important, and (iii) the need for a program directed toward the problems of innovation and world growth which underlie today's national trade barriers.

(i) *Technological possibilities in an interdependent world*

Technology, working through the ownership and management institutions evolved in the United States and other free world industrial countries, is integrating national economies into a world economy. They must function as a single production-consumption process to fully achieve the enormous new possibilities—for example, the supply of a decent minimum of food, clothing, and shelter for every human being. Moreover, due to advances in communication—movies, radio, television, etc., people know of these possibilities and expect governments to facilitate their early realization. Every important economic policy and program must be reviewed in this perspective.

(ii) *Trade policy clings to a national recovery goal*

Our present trade policy does not meet the test. It is still directed, in procedure and in inspiration, against beggar-my-neighbor barriers designed to wall nations off from world depression. By 1934, it was widely recognized that these barriers had only made matters worse. Cordell Hull had the genius to forge a consensus of free traders and protectionists to bargain them away for the purpose of facilitating recovery. He persuaded other governments to do the same. Most of the beggar-my-neighbor barriers have now been reduced to little more than nuisance levels.

(iii) *Today's barriers reflect problems of world economic growth*

Most government actions affecting trade today (today's trade barriers, if you want to call them that) are associated with *national* or *regional* efforts to deal with problems of innovation and world growth. The people of the program have tried to develop intergovernmental cooperation in facing these problems through the consultation and fact-finding mechanism of the GATT. But the present bargaining approach, directed uncritically against all "barriers", tends to inhibit intergovernmental problem-solving. It requires the prior formulation of national demands—followed by adversary discussion. A frequent result is reciprocal attack on important national programs. The object is to win concessions—not to understand the full facts as a basis for solving the problems.

B. Popular consensus behind trade policy is falling apart

That the popular consensus which has supported the Trade Agreements Program is falling apart is a point on which, as regards to consensus in the U.S., hardly anyone could add to the expertise of the members of the Committee. But it is falling apart elsewhere, too. As early as 1962, the special circumstances surrounding the European Common Market's trade policy were thought, in the U.S., to justify rejuvenating the old trade-agreements program. But the consensus on an expansionist trade policy *within* the Common Market countries was shaken by the critical attitude of the other GATT countries toward the anticipated foreign trade impact of measures taken to solve the enormous problems of economic integration of the six countries.

And now we have, here in the U.S., a large number of quota requests by producers who, for the most part, do not claim to have suffered reduced output or even reduced employment as yet, but who want import restriction declared the U.S. policy for meeting the problems of world growth in particular lines of production. The Committee will recall the disastrous results the last time general trade policy was made by yielding to particular interests—back in 1930. Income losses and unemployment were then real rather than anticipated and the failure to follow broadgauged, imaginative leadership was understandable. But the policy made matters worse. Yet today, for all our rapidly increasing wealth and employment, there is difficulty throughout the Free World maintaining national consensus for a framework of intergovernmental trade discussion in which, while the real growth problems of particular interests can be met appropriately, their fears of future progress will not dictate a restrictive general policy.

C. No accepted framework for settling intergovernmental problems

The deterioration in the atmosphere of intergovernmental trade discussion was already serious during the Kennedy Round. The reciprocal disputes of fact and recriminations regarding policy purpose which were made public from time to time gave the impression that the important bargaining was carried out by threat and counter-threat with little element of common interest. This appears to be continuing and becoming aggravated in current discussions such as those regarding border taxes and poultry. The latter in particular merits specific attention as an example of the inadequacy of the present bargaining approach for dealing with problems of innovation and growth.

Chicken was a luxury meat until war-time demand made it worthwhile to apply new technology. Costs were then so reduced that chicken became the poor man's meat in the U. S. Since it can be (and is) produced almost everywhere, it was natural for private enterprise to spread the new know-how and for government to help as a matter of technical assistance. But this took time. Late in the '50's, a temporary flow of chickens from the U. S. began to disrupt the European market. The Europeans blocked it. The U. S., although it had never before had significant chicken exports, demanded continuance of the new trade as a matter of right. This head-on, often emotional confrontation—in the Dillon Round, and then in the Kennedy Round—strengthened the hand of the particular chicken interests against the general public interest—almost as a matter of patriotism—in all of the countries involved. The world commercial surplus phase, which was a natural result of technological innovation, and should have been expected and prepared for, was brought on early. We now have open economic warfare.

On February 18, the U. S. asked the GATT Council to establish a working party on the matter. We put the problem before the working party in a paper which, like all the representations of both sides in this bargaining, is designed to avoid considering the full world picture. We ask that the barriers be changed to assure our markets according to the legal rules and the bargaining spirit of the GATT. We say nothing about the technical revolution whose course through the world will probably terminate our exports anyway, nothing about the problem of foreign adjustment to the disrupting technological change (which was easy for us because it came during war-time scarcity), nothing about our own "principle" of restraining exports that disrupt *our* markets, nothing about the growth of the American chicken-meat market which for us pales the significance of our exports, nothing about lowering prices to bring more proteins to poorer people. We just threaten to subsidize in order to maintain our exports at 50 million dollars a year.

Yet in a full, deliberative discussion, both sides would surely get public support, probably even from chicken producers, for statesmanlike recognition of

the possibilities of the new technology in terms of benefit to low-income people—with private enterprise doing the job and getting the profit. The costs of the adjustment assistance required would be negligible by comparison with the benefits. A scheme for sharing the costs, or making them a charge on the successful expansion, would be relatively easy to work out. Such reasonable intergovernmental discussion has been prevented by the adversary bargaining technique. The bargaining has obscured the common interest in using a new protein-production technology to serve people. Instead, it set the leading countries of the free world against one another in high-level public recrimination.

D. Congress can give a lead toward understanding

Both the failing consensus and the deteriorating negotiating atmosphere cry out for a lead to be given toward public understanding of trade problems in their fullest dimensions. Moreover, the lead in that reasonable direction is needed urgently as a basis for a new consensus behind a program for seeking growth-oriented solutions to the disturbances to production, trade and marketing which it is natural to expect to become more and more frequent in a dynamic, competitive world.

One way to start would be for the Congress to formally request the President to explore this matter with other governments and report the results for consideration in drafting next year's legislation. Such a signal from the legislature of the world's greatest economic power would have a dramatic effect—at home and abroad.

II. ESTABLISHMENT OF A POLICY OF DELIBERATING TRADE PROBLEMS OPENLY

Introduction

The Public Deliberating Proposal was inspired in considerable part by observing, over the years of the present trade agreements program, the failures and successes of the improvisations tried for dealing with trade problems and amenable to solution through the trade-barrier-bargaining approach.

In retrospect, it is apparent that most of those problems were not due to beggar-my-neighbor protectionism but were associated with *national* efforts to deal with the problems of a rapidly growing world economy. This will be even more true of the trade problems of the future.

The Committee is familiar with the problem areas: Agricultural incomes and output, distributions to needy foreigners, levels of employment and wages, market disruption, monopolistic pricing and production practices, the overall rate of national economic growth, threats to public health, depressed areas, monetary instabiilty, capital movements, taxation patterns, and so on. Although actions to deal with such problems often affect trade and are called trade barriers, there is no *a priori* case that discontinuing them would expand healthy trade and production—even after allowing for a period of adjustment. Efforts to bargain them away produce reciprocal bitterness. Yet no one government, working without any foreign cooperation, can carry them out entirely successfully. Therefore, each of the problems must be discussed among the interested governments in some way. Many of them are—in the FAO and commodity groups, in the OECD and ILO, at the UNECOSOC, in the IMF, and so forth. They are even discussed at the GATT—although GATT's bargaining atmosphere tends rather to discourage than to advance intergovernmental problem solving.

My proposal is for a format of trade discussion which would complement other intergovernmental economic discussion. It is designed both to remove the nuisance left over from the beggar-my-neighbor era and to enable governments to serve domestic policy purposes successfully with as little harm to foreign interests and as much dynamic trade creation as possible. As a convenient word for comparing this approach with the "bargaining" approach, I describe it as "deliberating".[1]

The following description presents one possible format for applying the principles of the proposed approach.

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[1] Some earlier relevant statements are as follows: "A Format for Intergovernmental Discussion of Trade Barriers in a Dynamic Environment," *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies,* Committee on Finance, U.S. Senate, February 7, 1968, pp. 666–675.

"The Restructuring of Foreign Trade Negotiations," *Issues and Objectives of U.S. Foreign Trade Policy,* a Compendium of Statements, Subcommittee on Foreign Economic Policy, Joint Economic Committee, Congress of the U.S., September 1967, pp. 65–96.

Rethinking Foreign Trade Policy, Washington, February 1966; and revised text of the section, "A Way to Start," July 1966.

"Some Considerations and Proposals Regarding Agriculture in U.S. Foreign Trade Policy: The Search for a Coherent Approach," Stockholm, June 17, 1965 (manuscript).

Summary of a "deliberating-public-interest" trade discussion format

There would be established a continuing forum for conversation among governments regarding any of one another's specific actions which had (or was alleged to have) significant repercussions on international trade. The form would be open to participation by all governments. The conversation would be held in public.

The conversation would be non-adversary. Each participating government would be committed to state the economic purpose of any of its actions brought up for consideration (and as far as possible to limit the action to the level and the duration required for that purpose). The forum would not debate the purpose but would address itself to the economic effects of the action. The stated purpose and the facts and analysis of effects would be published in a report. Actions by other governments affecting the same trade might be included in the conversation and report on the same non-adversary, analytical basis. There would be no recommendations.

Following (or in connection with) the intergovernmental conversation, the acting government would be committed to give public reconsideration to its action, through its own constitutional processes, in the light of the facts and analysis brought out. (For most U.S. actions other than tariffs reducible without serious injury, this would presumably mean Congressional reconsideration.) If the government decided that the action was not currently necessary or, on balance, desirable, it would schedule it for discontinuation. If it found that an alternative or modified action would serve the stated purpose sufficiently and with fewer undesired side effects, it would change its program accordingly. It might, of course, decide to make no change.

Following (or in connection with) the reconsideration, the acting government might seek cooperation from other governments in the particular mix of actions that would serve the stated purpose in the most efficient way. All participating governments would be committed to give public consideration to thus cooperating with the acting government. Much cooperation would probably be agreed upon in commodity or sector groups.

Each participating government would maintain a special independent official trade-information structure (preferably an agency of the parliament), the sole responsibility of which would be to assure that the facts and analyses for assessing the effects of trade-affecting actions were fully and understandably available at both the multilateral conversations and the national reconsiderations and were brought to public attention. The head of this trade-informaion structure would have the status and authority needed to obtain appropriate information. He would be a member of an intergovernmental trade-information organization to exchange facts and serve the intergovernmental public forum.

Actions might be schedule for examination on the basis of a government-complaint procedure, a report by each government on the economic effects of its own actions, recommendation of the principal officers of the special information structure, or reference from more specialized intergovernmental groups (such as international commodity groups) within the purview of the general forum and its public process. In addition, it should probably be open to a government to put forward for consideration an action which it contemplated but had not yet taken; this technique might appeal in cases where foreign government cooperation was particularly valuable for insuring the success of the action.

The intergovernmental conversation would deal primarily with the economic effects of a government action. It would cover all significant effects—domestic and foreign, direct and indirect, concentrated and diffused, immediate and longer term, costs and gains. It would run to specifics. As far as possible, it would be in quantitative terms—estimating or evaluating even when examining doctrinaire allegations of effect. How much does an action change prices, costs, profits, production, consumption? Who is affected adversely, who beneficially, when, and to what degree? What is the effect on the growth of the world production process—on innovation—on adjustment to current changes in the economic environment?

A participant government would not take a position as between a national (say, producer) interest that might be helped by an action and another national (say, transportation or consumer) interest that might be injured. Each would be assessed separately; and the presentation of this combination of assessments—for all interests, wherever found, which are significantly affected by the action—would be the formal object of the examination.

Disagreements would be reported—and quantified as far as possible; they would relate to facts, not to recommendations for action—although perhaps facts

about alternative possible actions might be presented. There would be no reporting of resolutions to create a sense of progress or a facade of decision. The consequences in action would come in the public national reconsideration and the consultations regarding cooperation. The latter might, in many cases, take place in existing commodity councils or other organizations for intergovernmental cooperation. The new forum would have a coordinating and multilateralizing influence on all intergovernmental discussions related to trade.

Principal advantages of a deliberating approach

I will not go into any of the theoretical rationale by which this proposal can be justified. The members of the Committee will grasp most of it intuitively from their experience in considering problems of the present program.

I would like, however, to point out three outstanding characteristics of the proposed approach which make it superior to the present bargaining approach for expanding trade and serving the national interest. They may be summarized as follows:

1. It will emphasize the common interest of governments in economic expansion and trade-problem analysis—a force for peace (instead of, as now, emphasizing private business competition as a principal concern of trade policy).
2. It will supply a representative-popular-government element in the emerging international competitive-mixed-economy process.
3. It will make foreign-trade policy consistent with other foreign economic policy (instead of, as now, a source of policy conflict).

1. Building a Structure of Peace by Publicly Deliberating Common Interest in Economic Growth

In recent years the "bargaining" approach has retarded the creation of a structure of peace—the kind of peace that manifests itself—and maintains itself—in day-to-day economic interchanges among producers, traders and consumers. In bargaining, each government is required to adopt an irrational nationalistic posture. One must accumulate "bargaining counters". A government must publicly treat each of its actions affecting trade as helpful to its economy and harmful to the countries which ask that it be reduced. Even when a U.S. duty has become clearly harmful to the U.S., so that a member of Congress introduces a bill for its removal, the administration sometimes asks the Congress to withhold action so that the duty may be used as a "bargaining counter" in GATT negotiations.

Now, as I have suggested, this worked well for the beggar-my-neighbor barriers of the depression. As long as the barriers were so onerous as to be recognized by both sides as self-defeating and not really in any country's interest, it was a great idea to make an adversary game of getting them reduced.

But there is no point in the bargaining game if one is dealing with trade barriers incidental to desired domestic policies. (And this includes, of course, not only non-tariff trade barriers but also high tariffs on particular industries which it may be domestic policy to maintain at the expense of the consuming public.) This explains the bitterness worked up, and frequently reflected in public discussion, at the refusal of a particular government to toss onto the bargaining table a poultry policy or a sugar policy or a particular tax policy or a development policy or a petroleum policy or a steel pricing policy, etc. And the bargaining approach contemplates every domestic policy affecting trade as though it were designed primarily to benefit citizens at the expense of foreigners. Hence, it creates the public impression that the interest of one country in a given commodity trade is diametrically opposite to the interest of other countries in the same trade. It encourages private producers to seek government support in their competition with foreign rivals. It promulgates the fallacies of protectionist economics; it suggests to those who read the headlines that there is a substantial economic basis for political hostility among friendly countries.

By contrast, the public deliberating approach here proposed would constantly highlight the natural economic basis for peace. It would focus on the growing interpenetration of economic interests. The various national economics, particularly those in the private-ownership industrial countries, cannot deal with economic problems successfully without regard to what is done in others. Therefore, the effects of government action within a country would be deliberated in relation to relevant effects and actions in the entire international

economy. The present method of setting up a prior U.S. position and an EEC position and a United Kingdom position, etc.—and then bargaining for a compromise—creates public antagonism on a nationalist basis over questions where the real differences are usually between different groups within a country. The proposed approach would involve governments in a joint public process of review in which the various interests were fairly represented and there was an opportunity to understand and weigh. This would bring out the "horizontal" dimension in the interest pattern.

The traditional government identification of the pattern of national economic interest with the pattern of national political jurisdiction would be corrected specifically and meaningfully in public thought and discussion. The stresses and strains incident to the economic process would be seen to crisscross, and therefore offset, the stresses and strains incident to the international political process. The former would be seen as healthy differences reinforcing the life of a dynamic, competitive community. This is what I mean by building peace.

Cordell Hull, you may remember, made a great point of peace as an objective of his trade program. He saw that removing the depression barriers would smooth political relations. This was the high wisdom of his time. A future foreign trade policy, however, must require governments to discuss publicly both the desirable and undesirable effects of any sections complained of by foreigners—and to consider that discussion in its decisions—if we are to grasp the great growth opportunities of our time.

2. Supplying the Government Component of a Dynamic International Competitive Mixed Economy

Technological progress is not new. We have had a lot of it in the U.S. over the past century. In our great free-trade area, it formed one economy from the several parts—and we became the leading economy of the world—forging ahead of the separate economies in Europe.

To permit this rapid growth and yet keep it healthily serving the public interest, we evolved a process of private and public relations which I call a "dynamic competitive mixed economy", taking words and insights from J. M. Clark's competition study and from John R. Commons, Gunnar Myrdal, Jacob Viner, and others of my teachers. Something like it now prevails within most of the private ownership industrial countries.

There is freedom for initiative and innovation. There is a tendency to try to better, or to join, one's competitors. Individuals operating in groups often have an advantage. Most advances in technology seem to increase this advantage and make the optimum group size larger. Government exercises a degree of surveillance over conditions of competition on behalf of the public interest—as in agricultural incomes, wages, public utility services, business combination, banking and other fields. But government is only the complicated apex, as it were, of a dynamic combination of heterogeneous units—individuals, firms of all kinds and sizes, associations, combinations, public corporations, labor unions, community action groups, clubs and societies. Any of these may at times influence the economic process, or check and balance the influence of others.

This dynamic mixed politico-economic process has been dramatically successful in the past in bringing technological progress to provide a greater and greater proportion of the people of an industrial country with a decent level of income and welfare, even though the creation of a continually adjusting dynamic balance within a nation to answer to the continually changing and increasing challenge of new growth has sometimes involved almost insuperable strain. (In the end, of course, the extension of increased economic benefits to new groups of participants almost always increases the benefits to the old groups who resisted.)

As technology goes on to make the whole world its community, many parts of the mixed-economy process are extending internationally. More and more firms operate in several countries. Ties and affiliations are developing among labor unions, trade associations, chambers of commerce and all sorts of groups. And, as already noted, governments try to organize and consult as to their role in the world economy.

This is done very largely by the executive branches of the various governments. In the trade field, under the present program, it has been done with great secrecy regarding the effective details of discussion, so that the normal mechanisms of representativeness—the checks and balances of informed com-

ponents of the mixed-economy process—have not functioned well. The executive officials, certainly in the U.S., have shown a certain fear and distrust of the process. The opinion is widely held in governments that all people are dominated by a fear of depression and, therefore, are protectionist when their own earning activities are concerned. Hence, the executives have marshalled public support for vague or unrealistic concepts like freedom of trade, comparative advantage, across-the-board reductions, and (now) negotiating non-tariff barriers—but have carried out the details of the program behind closed doors. There they are in the dilemma of fearing to work for the public interest because they think the public will not support them when the results are known. At the same time, they are "sitting ducks" for the importunings of great corporations or other groups powerful and skillful enough to penetrate the secrecy. Thus, they preserve a trade-barrier reduction program in principle but do not feel free to carry it out thoroughly. They only rarely marshal opinion behind specific decisions in the public interest against the fears of a narrow interest.

The proposed deliberating approach would open out this process and restore to parliaments their basic, representative function (without recapturing for them the executive function which they carried to such absurd extremes in the depression). Parliaments would authorize their executives to discuss the pros and cons of any trade problem intergovernmentally. More important, the parliaments would be represented by an information officer with the duty and authority to see that the discussion was open, that all relevant facts were obtained and considered and, therefore, that both legislature and executive were far better informed than is ever the case under the present program.

The result would be a trading community disposed to progress together. Relations among governments, as regards the specific trade problems of such progress, would be cooperative and restrained instead of adversary and pugnacious.

3. Bringing Coherence to U.S. Foreign Economic Policy

A related advantage of the deliberating approach is that it can "ride tandem" relatively comfortably with many areas of policy that conflict with the present program. In the thirty-odd years since the Trade Agreements Program began, that policy has come into vigorous public conflict at various times with U.S. recovery programs, agricultural support programs, the European Recovery Program, aid to economic development abroad, various balance-of-payments programs, and others. In each case, a way through the apparent dilemma was improvised in pragmatic intergovernmental cooperation. That improvisation provided insights for formulating the deliberating approach. The following subsections of this statement discuss the consistency of that approach with policy in the fields of a. Aid, b. Agriculture, c. Restrictive Business Practices, d. East-West Trade, and e. Other Foreign Economic Problems.

a. Aid to Economic Development

The trade policy conflict with aid policy (and recovery policy) stems from a basic difference in underlying theory. People responsible for developing an economy rapidly (or for reconstructing one) do not want to liberalize trade—at least not until development is successful. They want to control trade—in order to require support for their development plan from individuals whose short-run economic interests lie in other directions. They want relief from import competition.

In the European case a working compromise was reached based on faith—and determination—that recovery and redevelopment would succeed. We felt ourselves involved. We bargained as equals to lower trade barriers, but we let the Europeans postpone performance of their part of the bargain until their "dollar gap" might be closed. This was thought to be a disguise for unilateral concessions because most economists said it never would be closed. But it closed well before they stopped saying that it wouldn't.

For the poor agrarian countries, we have not yet found such a working compromise of policies. Their opinion leaders (like the postwar Europeans) consider that trade-freeing policies exaggerate their dollar gap (or "foreign exchange gap" as they call it). They consider it "economic imperialism"—freeing powerful firms to sell to them at administered prices and to buy their extractive products at competitive prices. On our side, we think we see "primitiveness"—economic and technical inadequacy. We say free trade will help them, but we have no faith that they can soon develop—even if conforming with the GATT rules.

In the trade-policy community, we—and they—gave up the search for a compromise some time ago. A code of second-class citizenship was drawn up and formally adopted as Part IV of the basic GATT rules. We talk—at the UNCTAD, the GATT, the ECOSOC, and elsewhere—but it is an open secret that nothing substantial is expected to come of it very soon, either for trade or development.

Meanwhile, in other channels, we go on quite determinedly with aid and also with trade. Development and trade are sometimes discussed in quantitative, realistic relation to one another.

The deliberating approach would give an open, multilateral framework for that kind of discussion. There would be legal equality. Both the industrial countries and the less-developed would discuss and explain the trade effects of their own policies. National objectives would not be challenged. In the questioning and analyzing, the slow process of reciprocal "north-south" understanding and identification would be publicly advanced.

The interrelation of ideas and policy is such that, for the industrial countries to take a dynamic, purposive policy attitude toward the trade of the less-developed countries, they must first have a mature attitude regarding their own trade relationships. The dozen-odd separate industrial governments in the private-ownership world must first recognize, publicly and institutionally, that the trade flows among themselves trace arteries internal to a growing production organism which they are fated to govern cooperatively. They will then see a new urgency for extending the industrial process rapidly into the less-industrialized population masses—radical though the necessary measures might be.

And this might work both ways. The less-developed countries might then be able to accept publicly that their own major advances are associated with advances in the industrial countries—that economic discrepancies are decreased by a mutually beneficial production process, not by closing "gaps" as such.

Industrialization in the less-developed countries in our time calls for multiplying the total world production plant many times—and varying and adapting it at the same time. Cooperative involvement in purposive public discussion of specific problems of the trade which unites us progressively as development succeeds would bring a kinetic faith in success—that the gains will be worth the costs.

b. Agricultural Policy

Because of world surpluses of important field crops, most governments by 1934 interfered regularly in their domestic markets in order to support crop-producers' incomes; hence, they could not be expected to free trade to let normal market forces reduce those incomes. As early as January 1938, the late Leslie A. Wheeler had the Department of Agriculture put out annual surveys of agricultural policies throughout the world in order that our trade policy could be based on knowledge of the trade-barrier facts. In planning and negotiating the GATT, therefore, we were able to reach understanding on a synthesis of the two policy fields.

Essentially, the GATT understanding was that, where governments intervene to support domestic producers' incomes for a commodity in surplus due to special market inadequacies, those governments must treat international trade in the commodity fairly—judged by trade in previous representative periods and by changes in comparative international advantage. Where differences arise as to what is fair in a specific case, the interested governments must consult with one another and seek agreement. Government action maintained pursuant to such an agreement is given a general exemption from the GATT trade-barrier-reduction rules.

When post-war surpluses began to appear with the recovery of foreign production, the solution agreed upon in the GATT was contested and often ignored. By the time of the Kennedy Round, however, there had been a gradual—although perhaps reluctant—return to it.

The deliberating approach would reinforce the GATT solution by making its application the subject of public, factual, international examination. It would underline the different needs of different commodities as part of a normal continuum of trade problems rather than treating them all together as a publicly perplexing trade-policy dilemma.

A major source of difference lies in cost structures. There is a large land-rent component in field-crop costs. This and other fixed costs militate toward cutthroat

competition. Increases in mechanization, management and non-land inputs to the point where the rent component was low might some day change this. For agricultural products other than field crops, one finds great variation in economic characteristics. Some are "industrializing" fairly rapidly and becoming less subject to chronic surplus.

In the public discussion and deliberations under the approach here proposed, government action affecting trade in some of these products might very well be found, like the nuisance remnants of the beggar-my-neighbor tariffs of the depression, to be no longer needed for their purposes. Whatever the needs of a particular group of producers, the deliberating approach would bring a much more effective kind of pressure against unnecessary public support—and a much more sympathetic and efficient conduct of necessary support—than does the theoretical denial of economic rationale for *any supports* that has been so difficult to dissociate from the present policy.

Incidentally, the long search for a method of support which will not affect trade is doomed to failure. Intervention in a market affects the whole market—and these markets are world wide.

c. Restrictive Business Practices and Multinational Corporations

The development and exercise of power over markets by private firms or groups presents government with a great policy challenge in the field of international trade—as it long has in the field of the restraint of domestic trade. Here the present trade-policy approach may be said to inhibit the formation of policy—rather than to conflict with established policy. The deliberating approach, on the other hand, would facilitate facing the new situation rationally and responsibly.

The establishment of monopoly power *within* a country, of course, is often checked by imports. Therefore, to the extent that the present policy reduces import restrictions, it is consistent with our historic anti-trust policy. However, the bargaining approach has required us to publicly cling to the restrictions protecting our quasi-monopolistic industries in order to get maximum concessions from foreigners for reducing them. The resultant confusion and the present lack of leadership regarding future trade policy are being turned to monopoly purposes.

One of our major established industries—in whose world leadership we once took great pride—is making a great effort to persuade the Administration and Congress—at the expense of the American public (who consume products containing steel) and of national and world growthto save it from the alternative of revitalizing its management-entrepreneurship-competition practices or losing a share of its market to foreigners. There is an obvious need to get, and deliberate openly the full facts about the world steel economy—including some not yet available for our own industry—before making such a significant admission of American inability to compete.

But the challenge of the growth of private market power internationally—rather than within countries—may be even more important. A growing part of international commerce is conducted by firms whose interest is not exclusively within the American or French or German or any other national economy. "Multinational corporations" is the currently popular term for them. We apparently are witnessing the development of a private-enterprise management structure for the world economy. To obtain maximum benefit from technological progress—and to keep it progressing, the world production mechanism must integrate in the sense that the U.S. production mechanism—or the German or the Swedish or other industrial mechanisms—integrated as part of their national development processes. Therefore, this world-spanning entrepreneurial and managerial "techno-structure" is making a great contribution. It serves as a channel for interchanges of dynamism and efficiency among countries. It spurs social, economic and institutional adaptation to the demands and opportunities of change. But it can also, and sometimes apparently does, inhibit such interchanges and such adaptation—channeling or suppressing competition and innovation for its own ends.

Clearly some sort of basis is needed for intergovernmental consideration of problems stemming from multinational business activity. The U.S. has pushed for international agreement on the limitation of business practices restrictive of competition. This must doubtless be a concern of governments if they are to play their appropriate role in a dynamic mixed international economy. There must

doubtless be an appropriate blending of the idea of limiting bigness as such and the idea of requiring market power to be used in the public interest. The latter, of course, is much more difficult and complicated. There are some uncoordinated national laws and regulations affecting activities of multinational firms. These probably tend to inhibit the efficient performance of the function these firms have stepped in to fill rather than to remedy abuses effectively.

In this situation, the proposed multilateral forum for the non-advisory deliberation of (rather than decision regarding) trade-policy problems would present a useful focus. It could help governments grope their way successfully through the difficulties Professor Ray Vernon foresees, in his article in the April 1967 Harvard Business Review, in achieving what he calls "international harmonization." Recently, Mr. George Ball, while still with Lehman Brothers International, suggested the negotiation of an international companies law. The working rules needed to achieve agreement on such a law, or on "harmonization," might evolve more rapidly and rationally dealing with specific problems in the proposed forum than in general negotiation or discussion of codes of conduct.

d. State-Ownership Countries: East-West Trade

It might prove significant in the future that the deliberating approach, although its main justification must be uniting the private-ownership world, can be directly relevant for a policy of trading with countries in which the means of production are owned collectively—i.e., the Soviets.

Using the present approach would tend to highlight a clash of unrealistic ideological extremes: Government direction of trade, versus free trade. In the case of Yugoslavia, which threw off external political restrictions and is trying to accommodate to the rules of the GATT under a modified state-ownership doctrine, we are learning how long and difficult that road is. It requires a good deal of acceptance on the Soviet side of the superiority of the trade-agreements technique and a good deal of winking at facts by us.

As for the current idea of bargaining MFN treatment for negotiated advantages to the U.S., it is good only for relatively small, one-time deals.

The deliberating approach might smooth over some of the ideological and prestige problems. Deliberation of the facts about a trade barrier, to seek a measure of intergovernmental understanding on a world-product-economy basis, involves an idiom of quantities produced, traded and consumed which is relevant regardless of the ownership institutions of a country. Soviets enter some current multilateral commodity discussions without ideological difficulty on either side.

Moreover, while the emphasis of the deliberating approach on public information may be difficult for state-ownership countries—with their fetish of economic secrecy, it may turn out to be just the posture to facilitate detente. These countries consider themselves democracies and need educated populations to industrialize. They are already feeling the consequent imperative toward economic openness working underneath their tradition of secrecy. The more they succeed in their industrialization, the more openness will prevail. An open world trade-policy deliberating forum would be a strong influence in that direction.

e. Other Foreign Economic Policy

Once the deliberating approach was recognized as the principal trade-policy technique, policy regarding a great number of intergovernmental problems would be reinforced. The prospect of joint public inquiry into full facts, and the presumption of cooperation toward pursuing publicly announced objectives with minimum damaging side effects—these two characteristics of the approach militate toward rationality and "cool" even in very difficult situations.

The new approach could be particularly helpful in dealing with those regional economic groupings where the precise requirements of the GATT have resulted less in desirable arrangements than in the granting of exceptions in law or in fact; in these matters, and the EEC is the prime example, the present approach has created much bad feeling.

The problem of "non-participating" countries might also be made easier. Countries not willing to accept the detailed rules of the GATT (and perhaps Mexico is an important example) could be quite interested in consultations and fact-finding. They should be welcomed to the multilateral forum.

Even in such an area as monetary policy, the deliberating approach could have useful repercussions. The point can easily be overemphasized, but there is little doubt in my mind that the adversary postures cumulated over several years of

the Kennedy Round contributed something to the difficulty of increasing the elements of intergovernmental cooperation in international currency management. An established forum for non-adversary discussion of trade-policy consequences might possibly have had an opposite effect.

The whole atmosphere of international economic discussion could be changed if the basic trade form were one of search for the common interest instead of search for victory in bargaining.

Public Process Is Basic

At the risk of repetition, let me conclude by underlining the great opening of the trade-policy process to public scrutiny which is essential to my proposal. The problem of forwarding international trade understanding—involving millions of opinion leaders and literate people in all parts of the world—requires dramatization of real issues. The bargaining process dramatizes an aggregation of economic interests most of which turn out to be of questionable national value. It surrounds local economic inertia with an aura of national patriotism. The deliberating process would dramatize real individual or group economic interests. Misimpressions as to facts, incident to adversary process, would no longer appear to be sponsored by government. Instead, governments would enquire together—publicly—cross-examining. They would consider the gains of innovation as well as the suffering incident to it. They would estimate the effects, on the one and the other, of various actions being urged. Then they would decide their actions, each through its national public processes.

To this end, there must be an information structure with the responsibility (and necessary authority) for assuring that there is no conscious distortion or concealment. It is my experience that most government trade decisions are taken without adequate information—and often the information known does not include major material facts which are suspected. My proposal includes an independent agency with the duty and the power to remedy this as far as possible.

It is important for the new information officers to operate independently of the executive arms of government. Some of my colleagues oppose the deliberating approach because they think it would increase government power over economic life; they argue that governments concerting internationally would control their domestic economies more closely. I see exactly the opposite result. The new information mechanism is a key to the difference. If, in order to have government help to compete successfully, enterprises must submit to international public discussion of the reasons they cannot go it alone, they will rely on the free market unless their reasons for needing assistance can stand public scrutiny *within their own countries*. There is much subsidy through trade restriction which would be discontinued if it had to stand full public examination on its merits.

Mr. FULTON. Thank you, Mr. Schwenger.

Are there any questions?

Thank you for your contribution, sir.

Our next witness is Professor Thorn.

Professor Thorn, we welcome you in your appearance before the committee and ask that you identify yourself for the benefit of the record.

STATEMENT OF PROF. RICHARD S. THORN, DEPARTMENT OF ECONOMICS, UNIVERSITY OF PITTSBURGH

Professor THORN. My name is Richard S. Thorn, professor of economics at the University of Pittsburgh.

I am speaking in opposition to the imposition of special quotas on steel imports. The rapid growth in steel imports should be restrained but quota restrictions are an inappropriate way to accomplish this end since they will not prevent the long-run decline in employment, profits and relative output which is taking place today.

Quota restrictions are simply an unimaginative effort to preserve profit margins in a declining industry which will take away most of

the incentives to deal with the underlying factors which have prevented the steel industry from participating fully in the unprecedented growth in the American and world economies.

I ask you to look at table 1 of the paper before you. The key to the problem of the American steel industry is summarized in table 1.

TABLE 1.—STEEL, PRODUCTIVITY, WAGES, PRICES, AND OUTPUT

	1957–66 as percent per annum	
	Steel industry	All manufacturing
Output per man-hour	2.8	3.6
Compensation per man-hour	3.4	3.8
Unit labor costs	.6	.2
Prices	.7	.7
Output	3.4	5.0

Source: U.S. Senate, Public Finance Committee, Steel Imports (December 1967) pp. 466–468.

Labor productivity in the steel industry has risen more slowly than that of the manufacturing industry, in general—2.8 percent per annum compared to 3.6 percent per annum for all manufacturing in the period 1957–66. While average hourly labor compensation has grown more slowly—3.4 percent for steel compared to 3.6 percent per annum for all manufacturing—it is not enough to offset the slower growth in productivity with the result that unit labor costs in the steel industry have risen on the average of 0.6 percent per annum compared to 0.2 percent per annum for all U.S. manufacturing industry. While unit labor costs have risen faster than the average, for manufacturing industry, prices have risen on the average about the same, so that a profit squeeze has developed. Output has increased only 3.4 percent per annum compared to 5 percent per annum for all manufacturing industry.

The steel industry has focused its attention on the second item, labor costs, in table 1 as the cause of all its problems. In fact the available statistical evidence indicates that the average cost of imported steel at U.S. ports is greater than the average cost of American steel at the mill.

Mr. Holliston R. Wood, chairman of the board of Alan Wood Steel, said in 1966 that "With the possible exception of the Japanese I don't think anybody has substantially lower costs than ours," and he added the only reason he was leaving out Japan was a lack of information.

This statement was seconded by Harvey Lee Allen, vice president and general manager of operations of Republic Steel Corp. When speaking of costs he said, "I don't think anybody is doing better than the United States if as well." These statements are confirmed by a research study of my own which I am appending to my written statement.

I maintain that the first item, productivity, is of equal, if not greater, importance. If the steel industry had been able to maintain a rate of growth in productivity equal to that of all U.S. manufacturing industry, its unit labor costs would have declined. If this was passed on to the consumer of steel in the form of lower prices more steel would have been sold, output would have risen faster and profits would

have been higher since, as the steel producers have pointed out, most of their profit is in the marginal tons of steel sold and imports would not be the problem they are today.

The basic problem of the steel industry of lagging productivity has been compounded by an excessively rigid price policy in regard to imports which has made the U.S. market a "sitting duck" for foreign steel exporters.

In order to stop imports, the steel industry should embark on a program embracing three basic points:

1. Increase expenditures on research, and the development of new products in order to step up the rate of cost reducing innovations and expand its market. The steel industry spent only $0.60 of every $100 of sales on R. & D. compared to $1.90 for all manufacturing industry. Only the textile and wood products industries spent less on R. & D. than the steel industry, a shocking performance, I maintain.

2. Maintain the present high level of investment over the next decade. This requires greater use of outside finance. The steel industry has self-financed 85 percent of its investment expenditures from its own resources (almost 100 percent if working capital is excluded) compared to the 61 percent figure for all manufacturing companies.

In short, when business is good steel investment goes up. When business is bad it goes down and this type of investment behavior hasn't been adequate for steel to attain the type of growth and productivity that it needs to remain competitive, not only with imports but with domestic substitutes for steel. If steel wishes to increase its rate of growth and step up its productivity it must make greater use of American capital markets, one of the great advantages we have over our foreign competitors.

3. The introduction of an aggressive and flexible price policy designed to expand steel's market position both at home and abroad. Our domestic steel prices have risen 51 percent since 1952 compared to 19 percent for Germany and a 30-percent decline for Japan.

While in the long run greater price competitiveness depends on cost reducing innovations and investment, even at present cost levels a great deal can be done to improve the competitive ability of the industry. I have gone into this in greater detail than I can do today in an article appearing in American Metal Markets for February 7, 1968.

Any government assistance to the steel industry should support this self-help program. Steel quotas or increased tariffs do not. To the contrary, they eliminate most of the incentives to make any changes at all.

Any Government program to assist the industry should include:

1. Research grants to the steel industry and universities for research in steel and a stepped up program of the Bureau of Mines in steel research. Actually the Bureau of Mines' program has been cut back.

2. Special accelerated depreciation allowances to the steel industry for a period of 5 years to allow and encourage the industry to undertake an intensified modernization program to make up lost ground.

In a very real sense the problem of today's imports was made in the late fifties and early sixties when the level of steel investment was approximately one-half of what it is today.

3. Streamlining of our antidumping laws to make the criteria for foreign dumping clearer and the legal process for securing relief less complicated and time-consuming.

4. Increase governmental pressure on nontariff barriers to steel exports.

I don't want to go into detail on the subject of nontariff barriers to trade as several speakers here today have. I can only second what they have said.

The steel industry today is faced with a critical choice. It must either meet the challenge of foreign steel, aluminum, cement, and plastics with a positive policy or else resign itself to a slow decline.

The advocacy of quota protection is the counsel or despair. It is an unimaginative effort to preserve profit margins in a declining industry without attempting to deal with the factors that have prevented the industry from participating fully in the unprecedented growth of the American and world economics. The steel industry's problems are capable of solution but they require basic changes of policy. The steel industry is tougher and more resourceful than the impression it gives from the statements of some of its spokesmen. The impressive increase in productivity that the industry produced under the pressure of World War II indicates the type of response that the industry is capable of delivering when challenged.

I have little doubt that the industry is capable of the same type of response to today's challenge of steel imports and domestic substitutes for steel if it only throws off its mourning clothes, rolls up its sleeves and starts to flex its muscles.

Thank you.

Mr. FULTON. Thank you, Professor Thorn.

Are there any questions?

Mr. CONABLE. No. I think that Professor Thorn has given us a helpful statement, though.

Mr. FULTON. We thank you for the excellent statement that you have presented.

Professor THORN. Thank you for the privilege of being able to come.

Mr. BATTIN. Mr. Chairman.

Mr. FULTON. Yes.

Mr. BATTIN. I don't know if Professor Thorn wants the appendix included as part of his statement.

Mr. FULTON. Would you like that included?

Professor THORN. Yes.

Mr. FULTON. Without objection the appendix to your statement will be included in the record.

Professor THORN. Thank you.

(Professor Thorn's prepared statement and appendix follows:)

STATEMENT OF RICHARD S. THORN, PROFESSOR OF ECONOMICS, UNIVERSITY OF PITTSBURGH

The rapid growth in steel imports should be restricted but quota and tariff restrictions are an inappropriate way to accomplish this end since they will not prevent the long-run decline in employment, profits and relative output which is taking place today.

Quota restrictions are simply an unimaginative effort to preserve profit margins in a declining industry which will take away most of the incentives to deal with the underlying factors which have prevented the steel industry from participating fully in the unprecedented growth in the American and world economies.

KEY TO THE STEEL PROBLEM

The key to the problem of the American steel industry is summarized in Table 1.

TABLE 1.—STEEL, PRODUCTIVITY, WAGES, PRICES, AND OUTPUT

	1957–66 as percent per annum	
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The steel industry has focused all its attention on the second item, labor costs, in Table 1 as the cause of all its problems. I maintain that the first item, productivity, is of equal, if not greater, importance. If the steel industry had been able to maintain a growth in productivity equal to that of all U.S. manufacturing industry, its unit labor costs would have declined. If this was passed on to the consumer of steel, output would have risen faster and profits would have been higher since, as the steel producers have pointed out, most of their profit is in the marginal tons of steel sold and imports would not be the problem they are today.

The basic problem of the steel industry of lagging productivity has been compounded by an excessively rigid price policy in regard to imports which has made the U.S. market a "sitting duck" for foreign steel exporters.

In order to stop imports, the steel industry should embark on a three point program:

1. Increase expenditures on research and the development of new products in order to step up the rate of cost reducing innovations and expand its market. The steel industry spent only $0.60 of every $100 of sales on R&D compared to $1.90 for all manufacturing. Only the textile and wood products industries spent less on R&D.

2. Maintain the present high level of investment over the next decade. This requires greater use of outside finance. The steel industry has self financed 85 per cent of its investment expenditures (almost 100 per cent if working capital is excluded) compared to the 61 per cent figure for all manufacturing companies.

3. The introduction of an aggressive and flexible price policy designed to expand steel's market position both at home and abroad. Our domestic steel prices have risen 51 per cent since 1952 compared to 19 per cent for Germany and a 30 per cent decline for Japan. While in the long run greater price competitiveness depends on cost reducing innovations and investment, even at present cost levels a great deal can be done to improve the competitive ability of the industry.

Any government assistance to the steel industry should support this self-help program. Steel quotas or increased tariffs do not. To the contrary, they eliminate most of the incentives to make any changes at all.

The government program should include:

1. Research grants to the steel industry and universities for research in steel and a stepped up program of the Bureau of Mines in steel research.

2. Special accelerated depreciation allowances to the steel industry for a period of five years to allow and encourage the industry to undertake an intensified modernization program to make up lost ground.

3. Streamlining of our anti-dumping laws to make the criteria for foreign dumping clearer and the legal process for securing relief less complicated and time-consuming.

4. Increase governmental pressure on non-tariff barriers to steel exports.

SOLUTION TO STEEL IMPORT PROBLEM

If the steel industry wishes to participate fully in the growth of the American economy and maintain a profit rate closer to average experience by the American manufacturing industry, the solution to its problem is inescapable. It consists of three fundamental steps:

1. Greater expenditures on research and development in order to step up the rate of cost reducing innovations.

2. The maintenance of the present high levels of investment in plant and equipment over the next decade.

3. The introduction of an aggressive and flexible price policy to maximize profits designed to maintain and even expand steel's market position both at home and abroad.

The steel industry today is faced with a critical choice. It must either meet the challenge of foreign steel, aluminum, cement and plastics with a positive policy, or else resign itself to a slow decline. The advocacy of quota protection is the counsel of despair. It is an unimaginative effort to preserve profit margins in a declining industry without attempting to deal with the factors that have prevented the industry from participating fully in the unprecedented growth of the American and world economies.

The steel industry's problems are capable of solution, but they require basic changes of policy.

STEEL'S MARKET LOSS

Imports are just one sympton of the steel industry's growing inability to meet competition, not just from imports, but from substitute materials, notably aluminum, plastics and cement. The steel industry is not only not growing as fast as our economy, it is not growing as fast the industries that produce substitutes for steel. Between 1957 and 1966 steel output grew 36 percent while aluminum grew 100 per cent, plastic 86 per cent and cement 46 per cent. This loss of competitive ability is primarily the result of over a decade of inadequate investment in plant and equipment research. No amount of quota or tariff protection will eliminate these deficiencies and reverse the relative decline in the importance of the steel industry in the American economy.

An analytical diagnosis of the steel industry's problem suggests a radically different set of polices.

PRICE BEHAVIOR

Prices as well as technology have played an important role in the loss of steel's market position. Between 1947 and 1966 steel prices rose 115 per cent while the price of aluminum rose only 72 per cent, the price of cement 80 per cent and the price of plastics actually declined by four per cent. While U.S. steel export prices rose 3 per cent between 1957 and 1964, the prices of Common Market steel producers declined about six per cent.

FOREIGN COSTS

Several industry spokesmen have laid their problems at the door of the high wages being paid American steel-workers. The fact of the matter is that, in the period when steel imports have made their greatest incursion into the American market, foreign wages rates were, and still are, rising considerably faster than American wage rates.

In the appended study made by the author it was found that Japanese labor costs per ton of steel at the mill were $16 lower than comparable American labor costs. However, when higher Japanese coke costs of $4 a ton and ocean transport rates of $18–$22 a ton are added, they completely offset the initial labor costs held by Japan. Similar results were found for the European producers. When capital and non-labor costs are taken into account one arrives at the conclusion

that the average cost of foreign steel landed at U.S. ports is greater than that of domestic steel at the mill.

This does not mean that there are not Japanese steel plants with costs substantially below the average, just as there are U.S. plants. Nor that there are not specific foreign steel products produced at lower cost than corresponding American products but the differences are nowhere as great as those indicated simply by looking at differences in labor costs as some analysts would have us believe.

In short, American steel producers are already "cost competitive" with foreign producers.

However, "cost competitiveness" cannot be equated with price competitiveness. The rigid price policies followed by the American industry in which prices have with few exceptions moved in one direction have made the American steel market a "sitting duck" for foreign steel producers, as they slowly disjoint one segment of the market after another.

STEEL INVESTMENT

The most important factor that has led the steel industry to its present situation today, is inadequate investment in plant and equipment and research and development over the past decade. That might be a bitter pill for an industry to swallow whose investments have been two billion dollars a year over the past two years and are currently running over $2.4 billion a year.

But steel's problems were not made in the last three years, but in the late fifties and early sixties when the level of investment was half as much as it is today.

While present steel investment of over $2 billion annually is encouraging, it still does not provide final proof that the industry has committed itself to maintaining its present high levels of investment.

The industry has traditionally increased its investment when business was good and reduced it when business slacked off.

As a result of this cyclical investment policy the industry has not been able to replace its high-cost, inefficient steel making capacity as fast as necessary to remain competitive. One trouble of course is the world steel industry is a dynamic business where you have to run just to stand still market-wise.

The American steel industry has a substantial advantage over foreign steel producers in its almost unlimited access to the American capital market. While Europe may have developed a lead in the technology of steelmaking in the past decade, the international markets have gone to the countries which have had the capital to apply this technology, as well illustrated by the example of Japan.

The cyclical policy of investment of the American industry which has brought it to its present state has resulted from the fetish it has developed for self-financing. The industry has financed approximately 85 per cent of its gross investment from internal funds, largely profits and depreciation, compared to an average of 61 per cent for all manufacturing companies. If changes in working capital are excluded, the industry has financed almost 100 per cent of plant and equipment expenditures from internal funds.

The federal government should consider granting the steel industry emergency tax relief for a limited period of time in the form of accelerated depreciation allowances on new investment in order to assist the industry in reestablishing its international competitive position. While, in general, I am opposed to discriminatory tax treatment to any industry (in spite of the precedents found in our tax laws), I believe in the case of steel the benefits to the national interest outweigh the disadvantages by a sufficient margin to make this a desirable course of action—infinitely superior to the quota protection currently being discussed.

I suggest the steel industry be granted accelerated depreciation at the rate of 33 per cent the first year, 17 per cent the second year and normal rates in subsequent years on new investment made within the next five years. In short, 50 per cent of any new investment in the next five years could be written off in the first two years of its life.

This type of "shock treatment" should allow our domestic industry to "shake out" its obsolete, inefficient capacity and reduce its average costs to a level closer to those obtained in its current most efficient operations and set the stage for the pursuit of an aggressive price policy designed to regain steel's lost markets and penetrate new ones.

The real challenge to the industry will come when the present boom in steel subsidies, as it may already be doing. To maintain its present level of investment the industry will have to go to the capital market. Will it? On the answer to this question more than any other hinges the future of the American steel industry.

RESEARCH, PRODUCT DEVELOPMENT

In an age when industrial survival and technological development are so closely linked, the steel industry has failed to heed the message. A 1966 report of the National Science Foundation revealed that there were only three industries of those surveyed that spent less of their sales dollar on research and development than the steel industry: food products, textiles and lumber products.

All of the industries that produce substitutes for steel spend more on R&D than the steel industry. The steel industry in 1964 spent only 60 cents of every $100 of sales on R&D compared to a $1.90 average for all manufacturing industry (excluding government sponsored research). If the automobile, chemical and plastics and other industries spent the same amount on R&D as the steel industry, I wonder whether we would be debating a general protective tariff rather than a special one for steel?

The upper echelons of steel management are almost devoid of men who have come up through the laboratory. My own contact with the industry's researchers has found them to be a demoralized group who feel they are the industry's step-child.

Most major recent advances in steel making, BOF, vacuum processing and continuous casting were first developed or implemented in Europe and Japan. It is only in blast furnace technology that we hold any substantial lead, and this is largely due to the recently closed Bureau of Mines experimental blast furnace at Bruceton, Pa. In four years it produced innovations which produced savings in pig iron production of $5 a ton.

Technology developed by Bruceton but not yet introduced would be capable of reducing costs another $2.50 a ton. These results were obtained from just four years of intensive research effort in one phase of steel production. It is also interesting to note that most of the new technology developed has been more labor-saving than capital-saving which should enhance the domestic industry's ability to compete against imports.

Technological developments however cannot be confined only to cost saving innovations but also must result in new products to regain lost markets and to develop new ones.

In addition to greater industry expenditures on R&D there is ample justification for greater government research assistance to the steel industry. The steel industry is an orphan when it comes to government sponsored research. It receives less government research funds than any other major American industry.

I suggest that a substantial government program promoting steel research be inaugurated consisting of 1) grants to individual firms and consortium of firms for applied and basic research; 2) introduction of an intensive research program by the Bureau of Mines in developing new technology and uses for steel including reactivation of the Bruceton experimental blast furnace and 3) government and industry grants to universities to stimulate basic research in steel and allied products.

The arguments for greater government assistance in the research area are strong. Many aspects of steel research are extremely expensive and can only be carried on privately by our largest producers. Government sponsored research would make technological improvements available to the more progressive managements of the industry and would increase the competitiveness of the industry by giving smaller producers equivalent access to technological information as major producers.

The image of steel as a tired old industry with hardening arteries painted by some steel critics is a better description of some executives than it is of the technological future of the industry. There is every indication that the steel industry will respond to a greater R&D effort in much the same way that the rest of American industry has over the past two decades. What is needed is the courage to explore the unknown.

PRICE POLICY

While in the long run the competitive ability of the steel industry depends fundamentally on lowering costs through greater investment in plant and equipment, the introduction of cost saving innovations, and the development of new products, even at present cost levels a great deal can be done to improve the competitive ability of the industry.

The internal pricing policies of the industry have aggravated the industry's ability to meet competition from abroad. The industry has widely recognized

that of all of its factory inputs, it is least competitive in unit labor costs and hence in labor intensive products.

For example, in spite of this, the majority of the industry follows the conventional cost accounting principle of allocating overhead costs on the basis of variable cost, a large part of which are labor costs. The result of this practice is that the products which are least likely to be able to compete with imports must carry the heaviest burden of overhead costs.

An accounting rule which allocated overhead costs on the basis of non-labor direct unit costs of a product would contribute toward producing a more competitive pricing structure.

Vertically integrated firms could improve their ability to compete against imports by allowing their processors and fabricators to purchase their inputs in the cheapest markets even if this means purchasing products from competitors or from abroad.

In short, I am suggesting that profit maximization at each horizontal stage of production in integrated companies will produce a cost and price structure better able to meet competition from imports and steel substitutes and will secure superior profits compared to attempts to maximize profits by treating the vertically integrated company as a single firm or "profit center."

The steel industry should be more aggressive in meeting price competition selectively in individual markets rather than beating a hasty retreat. The industry has missed some important lessons of competitive gamesmanship.

The creation of greater uncertainty about the domestic industry's price behavior in meeting foreign competition may cause Japanese and other foreign producers to take a more cautious view of adding steel making capacity based on further penetration of the American market and will help destroy the "sitting duck" view that foreign steelmakers have taken of the American price structure.

If there is one area which is clearly in the domain of government action, it is efforts to remove non-tariff barriers to trade. In this area the industry has been poorly served by our government partly because of the industry's own reluctance to seek assistance from Washington.

The government should seek vigorously the lifting of discriminatory non-tariff barriers to steel exports in the OECD, which has specific jurisdiction in this area, and in our bilateral relations with steel producing and importing countries. U.S. anti-dumping laws should be revised in order to make the criteria for foreign dumping clear and the legal process for securing relief less complicated and time consuming.

Federal assistance to research, accelerated depreciation allowances to stimulate investment, government pressure to remove foreign non-tariff barriers to trade and streamlining of our anti-dumping laws rather than special quota protection are the proper areas for the industry to demand government action.

The steel industry is tougher and more resourceful than the impression it gives from the statements of some of its spokesmen. The impressive increase in productivity that the industry produced under the pressure of World War II indicates the response that industry is capable of delivering when challenged. I have little doubt that the industry is capable of the same type of response to today's challenge of steel imports and domestic substitutes for steel.

Appendix

Steel Imports, Labor Productivity, and Cost Competitiveness

The principal argument that has been cited by the steel industry for the rapid increase in imports since 1957 is the rapid growth of modern steel-making capacity abroad and lower foreign prices which the steel industry has ascribed to occasional dumping and "lower costs," particularly lower labor costs, abroad. Can the lower delivered prices of foreign steel in the U.S. be explained by lower costs abroad, and if so, how much of this may be attributed to lower labor costs?

Recently, data have become available which, although they contain some important shortcomings, allow a more precise quantitative insight into the question of steel imports, labor productivity and the cost competitiveness of the domestic steel industry. It is difficult, if not impossible, at present to make

international comparisons of absolute unit costs for producing steel because of the lack of essential data. However estimates may be made of the *differential* costs of the major factor inputs which go into steel which together with information on labor productivity enables an estimate to be made of the differential unit costs for producing and delivering steel to the United States. This method gives us important new information with which to evaluate the "cost competitiveness" of the domestic steel industry as distinguished from its "price competitiveness." The actual price charged per unit of output is a combination of cost and demand factors and the pricing policy followed by steel producers.

WAGE COSTS

In Table 1 are shown the unit wage costs per ton of producing steel in several leading steel producing countries which provide almost all the steel imported into the United States, along with other information on wage rates and labor productivity. A few words of explanation are necessary on the data:

(1) *Wage costs* comprise gross wages which include average direct wages (time or piecework wages) including cost of living, overtime, night or Sunday work allowances and bonuses for special responsibility, heavy, dirty or dangerous work and productive bonuses *plus* the following factors—legal or contractual social insurance contributions to insurance institutions, paid vacations, public holidays and other days of leave with pay, family allowances paid by the employer, together with any other labor payments paid by the employer not coming under these categories.

(2) *Man-hours per ton of steel* is the annual number of hours worked by production workers in 1966 divided by the crude steel production of that year, i.e. average production workers' man-hours required per metric ton of steel produced.

(3) *Unit labor costs* were obtained by multiplying the average man-hours per metric ton of steel of (2) by the average gross hourly wage costs defined above.

TABLE 1.—ESTIMATED LABOR COSTS FOR PRODUCING STEEL IN 1966

	Unit labor cost per ton	Man-hours [1] per ton of steel	Hourly wage cost	Crude steel production (metric tons)
Japan	[2] $14.92	$13.81	$1.08	47,784,000
Luxembourg	17.88	8.68	2.06	4,390,000
Netherlands	14.79	6.88	2.15	3,255,000
Belgium	21.93	11.02	1.99	8,911,000
France	20.19	12.94	1.56	19,594,000
Germany, Federal Republic of	19.42	10.17	1.91	35,316,000
Italy	14.03	8.30	1.69	13,639,000
United States	32.65	7.05	4.63	121,656,000

[1] Production workers only.
[2] 1967: $13,30 (estimate).

Source: Iron & Steel Bulletin, Statistics Institute of European Economic Community, AISI Annual Statistical Report, 1966, p. 14.

The data had three shortcomings: (1) no account is taken of the types of steel produced and the product-mix which may vary considerably between countries. Ideally one would want the labor productivity data on a product by product basis but this data is difficult to obtain and even if available would not be comparable with data from other mills because of differences in accounting methods; (2) some fringe benefits for foreign workers which are paid out of taxes or tax benefits are not included, e.g. housing in some countries; (3) the cost of workers other than production workers is not taken into account. Table 2 shows that the ratio of production workers to the total labor force varies considerably. Belgium has the highest ratio, the U.S. is in about the middle, and Japan has the lowest ratio. In spite of these deficiencies, it has been possible to compute cost differences for inputs comprising approximately 75 per cent of total costs and the results are sufficiently accurate to indicate the approximate quantitative dimensions of the problem.

TABLE 2.—RANKING OF STEEL IMPORTS BY COUNTRY OF ORIGIN IN 1966

	Percent of U.S. steel imports, 1966	Unit labor costs per ton, 1966	Percent of increase in hourly wage costs, 1964–66	Ratio of production workers to total labor force in steel, 1965
Japan	39.7	$15	21.0	76.9
Belgium-Luxembourg	13.1	18–22	12.1	84.7
West Germany	10.7	19	14.8	82.3
France	6.5	20	5.5	79.3
United Kingdom	6.2	[1]25	10.0	80.9
United States		33	3.1	82.3

[1] Rough estimate.

Source: American Iron and Steel Institute, International Federation of Metal Workers, and table 1.

The United States, although it has the second highest labor productivity per ton (the reciprocal of man-hours per ton) of steel, also has the highest unit labor costs (Table 1) because of its high wage rates. Japan is the worst of the group in labor productivity but has the second lowest unit labor costs. The relative ranking of the remaining countries' unit labor cost is approximately inversely related to their labor productivity ranking.

There is a rather close correlation of the ranking of the share of major steel producing countries in the U.S. import market and their unit labor costs (Table 2), which suggests that unit labor costs are a major determinant of the relative competitive ability of foreigners and that other factors such as material cost are of secondary importance. However, the relative position of Belgium, Germany and France, which have almost equal average unit labor costs, indicate that other factors than wage costs also enter into the market position of foreign producers.

Wage costs per man-hour between 1964–1966 have risen faster in foreign countries than in the United States as shown in Table 2 and, with the exception of the United Kingdom, have risen fastest in countries with lowest wages. However, in 1966 Japan still had approximately $16 a metric ton lower wage costs than the United States, and European producers $5–13 a ton lower labor costs.

Foreign steel producers therefore have an average absolute labor cost advantage at the mill of somewhere in the neighborhood of 4–14% [1] of the unit price of steel, the exact amount depending on the price of the product, and the actual number of man-hours employed per ton to produce it. The advantage of European producers alone was in the neighborhood of 4–11%.

Fortunately for the domestic steel industry, labor costs comprise only 42 per cent of its production costs. Material costs in 1964 comprised 49 per cent of its cost and capital costs the remaining 9 per cent.[2] Both material and capital costs represent a higher percentage of total costs of the foreign steel producers, and both these costs are higher than those of the American industry. The question then in determining the cost competitiveness of the U.S. industry is to determine how much higher these other costs are.

MATERIAL COST DIFFERENTIALS

The amount of coke required to produce a ton of steel has fallen sharply in recent years as a result of improved technology. In 1966 only 1282 lbs. of coke were required to produce a ton of steel in the United States.[3] To produce a ton of coke requires approximately 1.43 tons of coal,[4] so that approximately 1833 lbs. of coal are required to produce one ton of steel. Japan imports all its coking coal, and Europe a very large percentage of its coke. It is known that coke produced from European coal is higher in cost and of inferior quality, so that if we assume all European and Japanese production is based on imported metallurgical coal

[1] Assuming an average price of steel of $118 a metric ton which was approximately the average c.i.f. price of U.S. steel imports in 1966. U.S. Congress Senate Finance Committee, *Steel Imports* (Dec. 19, 1967), p. 78 (cited hereafter simply as *"Steel Imports"*).

[2] Council of Economic Advisers, *Report to the President on Steel Prices* (Washington, April 1965), p. 60.

[3] M. W. Lightner, "Developments in Iron and Steel Making," blast furnace and steel plant (November 1966), p. 1023 Cf. Steel Imports, p. 169 where a slightly higher rate of 1,312 lbs. is given.

[4] The newest Japanese coke plants are slightly more efficient.

from the United States, we shall approximate the coke costs of the most efficient plants abroad.[5] In practice, because European producers are required to employ a certain amount of Common Market (ECSC) coal, their costs are slightly higher than this assumption would indicate. The difference in the cost of coke is based entirely on the differences in transportation costs and while the exact difference depends on the precise location of each plant with reference to its coal supply, we may take as a first approximation that the difference between U.S. and foreign producers is due to differences in ocean freight rates. In February 1967, based on information supplied by a major U.S. coal exporter, the freight rates on coal were:

	Freight per gross ton	
	40,000 ton vessels	80,000 ton vessels
Norfolk to Japan	$5.50	[1] $4.40
Norfolk to West European ports	3.5	2.80

[1] Estimated.

While these freight rates are extremely low levels and may be expected to rise, the greater use of super bulk carrier ocean vessels will tend to lower freight rates so that the average cost of transportation might remain relatively stable over the next five years in spite of higher average freight rates.

Japan now is in the process of switching over to Australian coal to supply its steel industry and intends to use little American coal after 1972. This should result in a substantial reduction of coal costs.

Both the American and foreign industry find imports of foreign iron ore competitive with the domestic ores, especially at plants located close to ports. The United States imported 36 per cent of its iron ore in 1966. It may be assumed for the purposes of this exercise that the cost of iron ore is approximately the same for all producers, although it is likely that Japan and Europe probably have slightly higher ore costs. Ore costs in practice, however, will vary widely within a country from plant to plant, depending on the location of the plant.

Both American and foreign producers imported almost all their manganese ore so there may assumed to be no differential in this respect.

These three materials, iron ore, coal and manganese ore, account for approximately 46 per cent of the cost of steelmaking materials in the U.S.[6] It is assumed that with the remainder of the inputs such as steel scrap, electric power and other miscellaneous inputs, there is no differential although it is likely that on the balance, foreign costs are higher than those in the United States.

TRANSPORTATION COST DIFFERENTIALS

To bring the finished steel to U.S. markets involves further costs. The cost of transporting steel from Japan to U.S. Pacific Ports for most products actively imported in 1966, based on actual invoiced costs, was approximately between $18.65 and $22.33 and from Western Europe to East Coast Ports $13.97–$21.00,[7] depending on the product.

In some instances, however, steel may be brought in on tramp steamers at less than $12 a ton, although in 1966 only a small percentage of steel entered the U.S. on tramp steamers.[8] However, Japanese and other foreign producers are organizing export cartels in order to make greater use of chartered vessels.

CAPITAL COST DIFFERENTIALS

The comparison of capital costs is one of the most difficult elements to estimate. In the period 1956–1966, the American steel industry invested $14.9 billion and charged off $9.6 billion in depreciation, depletion and amortization so that its net investment in this period was $5.4 billion.[9] At the same time steel capacity in-

[5] U.S. Senate, Joint Economic Committee. "Steel Prices, Unit Costs, Profits and Foreign Competition," hearings, Washington, 1963, pp. 514–515. (Henceforth cited simply as "hearings").

[6] Based on 1961 weights. *Hearings*, op. cit., p. 257. Material costs represent a considerably higher proportion of total costs of the foreign industry, *Steel Imports*, p. 447.

[7] Cf. *Hearings*, op. cit., pp. 555–567 for complete ocean tariff data for earlier period.

[8] Cf. *Hearings*, op. cit., p. 551. The information for 1966 is from private industry sources.

[9] *Steel Imports*, p. 420.

creased by 36 million tons [10] at an average cost of $149 of net investment per ton of new capacity. However since financial depreciation was considerably in excess of the physical depreciation of plant and equipment, the investment figure has been arbitrarily increased to $300 of net investment per ton of new capacity, the figure often cited by the industry.[11]

The cost of a net ton of integrated capacity in Japan has been estimated to be on the order of $115–127 a net ton. For the purposes of our calculation we shall assume a figure of $121 a ton.[12] Lacking sufficient data it was assumed that the cost of European capacity was about halfway between that of Japan and the United States of $160 a ton.

Roger Tyson of the Finance Committe of U.S. Steel has estimated the working life of a steel plant at 25 years. The figure of 20 years, however, has been employed for depreciation in the calculation of depreciation differentials.[13]

Interest rates in 1966 were considerably lower in the United States than abroad as shown in Table 3. However the American industry has charged the industry abroad has received low cost loans and certain tax advantages which have lowered the average cost of their capital [14] and for the purposes of this study it is assumed that there are no differences in the interest cost of capital.

TABLE 3.—*Long term bond yields in selected countries, December 1966*

	Long-term bond yields (percent)
Germany	7.6
Japan	7.5
United Kingdom	6.8
Belgium	6.7
France	6.4
United States	4.7

NOTE.—Yields on representative government or public sector bonds except for Japan where seven-year industrial bonds were used.
Source: Federal Reserve Bank of New York, *Annual Report, 1966* (New York 1967), p. 43.

TOTAL COST DIFFERENTIALS BETWEEN U.S. AND FOREIGN STEEL PRODUCERS

Now adding together the various elements of differential cost, we may obtain some rough assessment of the total *cost* differential of foreign steel producers. This is done in Table 4, separately for Japan and the major European producers shown previously in Table 2.

The data in Table 4 do not take account of differences in management costs. It is difficult to estimate the direction of the effect that the inclusion of non-production workers would have. While the compensation of American salaried workers is higher than that of their Japanese counterparts, the ratio of the number of Japanese non-production workers to production workers was higher in 1964 as was shown in Table 2. The problem is further complicated by the difficulty in estimating the total compensation and benefits received by executives in each country. The ratio of salaried workers to wage workers however, rose substantially in the United States from 22.7 per cent in 1957 to 28.7 per cent in 1966. The reader is again reminded that these are averages. There was, for example, a domestic steel plant in 1962 that had lower unit labor costs than the average for Japan,[15] and some U.S. producers have higher coke costs than producers in Europe or Japan due to their location and overland freight rates. Nevertheless, the exercise is still valuable in shedding light on how valid is the general argument of lower foreign costs in explaining the sharp rise in steel imports.

[10] *Steel Imports*, p. 273 and National Industrial Conference Board, *Economic Almanac*, 1968, p. 424.
[11] AISI, *The Steel Import Problem* (New York 1967), p. 37. However C. A. Lovgren estimated the investment cost per ton of capacity for a two million ton plant producing cold rolled coils by conventional processes between $203–$225 depending on the particular combination of processes employed, "Forces of Economic Change, Steel U.S.A." Unpublished paper presented to the 97th Meeting of the A.I.M.E., February 27, 1968, p. 7.
[12] K. Takeda, "The Technological Development of the Iron and Steel Industry in Japan" in American Iron and Steel Institute, *1966 Yearbook*, p. 234; data converted to net tons.
[13] George McManus, *The Inside Story of Steel Wages and Prices 1959–1967* (Philadelphia 1967), p. 62.
[14] Cf. AISI, *The Problem of Steel Imports*, op. cit. *Steel Imports*, p. 40 ff. The interest cost per ton of steel ingots for U.S. companies was the second lowest of all world industries studied in 1962–64, however this data is influenced by the higher debt ratio of foreign steel industries.
[15] Hearings, op. cit., p. 511.

TABLE 4.—AVERAGE COST DIFFERENTIALS PER METRIC TON BETWEEN UNITED STATES AND JAPAN AND EEC[1]

[—Indicates less than U.S. costs]

	Japan	EEC
Estimated unit wage cost differential	—$17.73	—$18.62 to —$10.72.
Coke, ocean freight to foreign producer, 1967	3.60 to 4.65	2.37 to 2.96.
Steel, ocean freight 1966 rates	18.65 to 22.33	13.97 to 21.00.
Total differential excluding capital	4.64 to 9.25	—2.28 to 13.24.
Estimate of capital cost differential	—9.00	—4.50.
Average tariffs[2]	7.00	7.00.
Total cost advantage	2.64 to 7.25	0.22 to 15.74.

[1] Differences of sum of all excluded inputs assumed to be equal.
[2] Steel imports, p. 24.

It may be seen from Table 4 that lower material costs (largely due to ocean freight rates), transportation costs, capital costs and tariffs more than offset the cost disadvantage the U.S. steel industry incurs through higher unit wage labor costs. In other words the lower price of imports must be sought in other directions, in general, than in lower costs of foreign producers.[16] While some foreign products, particularly those of Japanese origin, may actually *cost* less delivered at U.S. ports than at U.S. steel mills, the difference is nowhere as great as the difference in unit labor cost and well within the realm of the competitive ability of the U.S. industry to meet through further improvement in labor productivity, managerial efficiency and reduction in prices.

The large difference in prices of steel products observed in U.S. markets cannot be primarily ascribed to differences in costs but must, at least partly, be ascribed to differences in price policy. The OEEC Iron and Steel Committee observed in their 1960 report, "there seems to be a fundamental difference in the export price policy pursued by producers in the various exporting areas . . . the producers in the European Coal and Steel Community and Japan . . . seem to adopt a much more flexible policy . . . to try to expand their share of the export market by making price sacrifices. This policy is in marked contrast to that followed in the United States and, it would seem, in the United Kingdom where the steel industries seem less disposed to offer heavy price cuts to overseas consumers . . . ;"[17] nor, one can add, are they inclined to readily reduce prices to domestic consumers to meet foreign competition.[18]

The somewhat surprising fact that foreign producers have slightly higher costs than the American Steel Industry is supported by data on the rate of profits which with the possible exception of Japan are below those of the American Industry. Since foreign firms use a much larger amount of debt than American firms, a more reasonable comparison can be made employing the ratio of Net Income plus Interest to Revenues as shown in Table 5. The Common Market steel industry in face of its low profitability and over capacity is cutting back its investment. However, Japan continues to expand its steelmaking capacity in the expectation of further penetration of the American market.

TABLE 5.—NET INCOME AND INTEREST AS A PERCENTAGE OF REVENUES FOR SELECTED FOREIGN STEEL COMPANIES, 1965

	Net income/ revenues as percent	Net income plus interest/ revenues as percent
Japan (Yawatz)	2.9	9.7
Belgium (Hainaut-Sambre)	1.0	3.3
Germany (Thyssen group)	2.3	5.1
France (USINOR)	1.4	6.0
United States (industry)	5.9	6.8

Source: 'The Steel Import Problem," p. 64.

[16] Professor Weidenhammer estimated that Japan had an average cost advantage of $16 a ton and that European costs equal American costs. Ct. *Steel Imports*, p. 24.
[17] OEEC, *The Iron & Steel Industry in Europe* (Paris: May 1960), p. 97. Ct. Hang Sheng Cheng, "Relative Movements in the Price of Exports of Manufactures," *IMF Staff Papers* (March 1962), p. 91–94.
[18] J. Dirlam and W. Adams, "Steel Imports and Vertical Oligopoly Power," *American Economic Review* (September 1964), pp. 626–655.

THE FUTURE COST COMPETITIVENESS OF THE AMERICAN STEEL INDUSTRY

Technological developments in iron and steelmaking already in existence are capable of greatly increasing the cost competitiveness of the U.S. steel industry.[19] In the making of iron alone, technological prograss already made by the Bureau of Mines is capable of reducing the cost of ironmaking $2.50 a ton.[20] The introduction of the basic oxygen furnace (BOF) will lower operating costs including unit labor costs substantially.[21] The competitors of the U.S. however are not standing still in technological development. To the contrary, in steelmaking they have a substantial lead.[22] The prize, however, will go to the national industry which most rapidly invests in plant and equipment embodying the newest technology. Here is a battleground where the U.S. industry has a substantial advantage in its access to the U.S. capital market if it chooses to exercise it. However, as long as the steel industry relies principally on self-financing of new investment, it is tying its strongest competitive hand behind its back.[23]

In the longer run as European capital markets grow in strength, the U.S. steel industry will have to attain and maintain technological superiority in order to maintain its competitive position, although the closing gap between foreign and domestic steel wage costs should offer some assistance. To achieve technological leadership will require a sharp increase in the surprisingly low industry and federal expenditures on research and development made by the steel industry.[24]

The transportation barrier will not offer permanent protection to the American steel industry. The important role of ocean freight rates, particularly those for finished products, in determining cost competitiveness can be seen on Table 4. If the present declining trend of ocean freights continues, the cost competitiveness of American steel industry may be further threatened. This again highlights the necessity for cost saving, particularly in the direction of increasing labor productivity.

The possibilities for substantial cost reductions are already in existence, as previously mentioned. The introduction of the best existing blast furnace technology can reduce operating costs $2.50 a ton and the introduction of BOF furnaces another $5.00 a ton. The BOF furnace is capable of increasing labor productivity in excess of 300 per cent over present methods of production as demonstrated by the actual operating experience of a major steel producer.[25] The BOF gives the American industry the possibility of changing the composition of its inputs in a manner to greatly reduce the ratio of labor to other factor inputs. Therefore rapid introduction of the BOF will improve the international cost competitiveness of the American industry by economizing on the factor input in which it is least cost competitive. This advantage to the American industry will occur even as foreign producers increasingly adopt the BOF processes because the new production function will make greater relative use of our lower cost inputs (materials and capital) relative to our higher costs inputs (principally labor), whereas it will have the opposite effect on foreign producers. Similar comments to those made about the BOF also apply to the introduction of continuous casting and other presently available innovations.[26] However careful attention must be paid also to management costs which have risen faster than wage costs, 3.8 per cent compared to 2.5 percent per ton for the period 1957–1966, respectively.

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[19] For example, a study made by L. F. Rothschild & Co. in 1965 of Republic Steel indicated that savings of $23 a ton could be made if the most modern technology were introduced in all phases of steelmaking. *Steel Imports*, p. 135. Cf C.A. Lovgren, op. cit.

[20] Based on operation of the Bureau of Mines, Bruceton experimental blast furnace.

[21] It has been estimated the BOF can reduce operating costs by approximately $5 a ton. See W. C. Ruechel and J. W. Irwin, op. cit., p. 62. Also, U.S. Bureau of Labor Statistics, *Technological Trends in Major American Industries* (Washington 1966). p. 74.

[22] In 1966, Japan produced 68 per cent of its steel with the BOF process. Europe 24 per cent and the United States 25 per cent. (*Quarterly Bulletin & Steel Statistics for Europe*, various issues).

[23] The U.S. steel industry financed approximately 85 per cent of its gross investment from internal funds compared to the 61 per cent average for all manufacturing. See Council of Economic Advisers, op. cit., p. 60.

[24] Of the 15 industries for which the National Science Foundation computed the ratio of company financed research and development expenditures (excluding government funds) to sales, in 1964 steel was 12th followed only by textiles, lumber and food products. The steel industry spent only $.60 of every $100 of sales on research and development, compared to $1.90 for all manufacturing industry. The steel industry received less government funds for research than any other major American industry. National Science Foundation, *Basic Research, Applied Research and Development in Industry*, 1964. (Washington, June 1966), p. 62.

[25] *Hearings*, op. cit., p. 762.

[26] Cf. *Steel Imports*, p. 135.

CONCLUSION

The higher productivity of labor has offset a major portion of the higher wage costs paid U.S. steelworkers when compared with foreign wages. Higher material, transportation and capital costs have largely, or completely, offset any other cost advantages foreign steel producers may have. For most steel products, American steel products are already "cost competitive" in U.S. markets. For those foreign steel products which have a present cost advantage, the American industry has it in its grasp through a higher rate of new investment and greater research and development expenditure to eliminate this advantage in most products. However, "cost competitiveness" cannot be equated with price competitiveness. What is lacking is an aggressive price competitiveness to match the high cost competitiveness of the American industry. Steel makers can take small solace in any success they obtain in shutting out steel imports with tariffs or quotas. Under their present policies, if imports do not erode their domestic markets, aluminum, cement, plastics and glass will.[27] The rise in steel imports in being a highly visible indicator well may be a blessing in disguise in calling attention to the loss of domestic steel markets to other competing materials, among them steel imports.

The solution to the steel industries' problem of the loss of domestic markets[28] is a high rate of investment over the next decade both in plant and equipment embodying recent technological developments and in research and development to create new products and to achieve a future technological advantage, and the introduction of a more aggressive price policy.

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

STATEMENT OF RICHARD W. LINDHOLM, PROFESSOR OF FINANCE AND DEAN OF THE GRADUATE SCHOOL OF MANAGEMENT AND BUSINESS, UNIVERSITY OF OREGON

The value added tax is rapidly becoming the major tax of the industrial nations of the world. However it is not being considered in these Hearings. The United States is not seriously considering this approach to the solution of its balance of international payments problem. Nevertheless, the close relationship of the expansion of value added tax use to the international flows of commodities, services and capital justifies a summary at this time of its basic theory and broad operational principles. My analysis which follows is based on over ten years of careful study of the tax as a public finance professor at Michigan State University and as professor of finance and dean of the Graduate School of Management and Business at the University of Oregon.

A NATIONAL VALUE ADDED TAX TO STRENGTHEN THE U.S. INTERNATIONAL PAYMENTS POSITION

The adoption of a value added tax as a major national tax would help to harmonize the U.S. tax system with that of most industrial nations. The term "tax harmonization" has been popularized by Professor Neumark, who completed with others a very influential report for the Member States of the European Economic Community (EEC).[1] It considers how to make national tax systems sufficiently similar so that tax differences do not become a major element in a decision to invest, sell, produce, or where to hold income earned.[2]

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[27] These substitutes for steel products have made large inroads into traditionally iron and steel markets. Their prices have all fallen in relationship to steel and their output has grown considerably faster than that of steel. Cf. Council of Economic Advisers, op. cit., chapter 3, and R. Thorn, "The Trouble with Steel," *Challenge* (July 1967), for further discussion of this point. Cf. *Steel Imports*, pp. 109–117.

[28] To regain foreign markets, however, will also require government assistance to reduce non-tariff barriers to steel exports and freight rate discrimination. See R. Thorn, "The Challenge to Steel," *American Metal Market*, Feb. 7, 1968, p. 1.

[1] Translation of the *Neumark Report of the Fiscal and Financial Committee on Tax Harmonization in the Common Market*. The membership of the FFC Committee was Chairman Fritz Neumark, Frankfurt am Main; members, Willy Albers, Kiel; Alain Barrere, Paris; Cesare Cosciani, Rome; Joseph Kauffman, Luxembourg; Maurice Masoin, Brussels; Bernard Schendstok, The Hague; Carl S. Shoup, New York; G. Stammati, Rome; George Vedel, Paris (Chicago, Illinois: Commerce Clearing House, 1963).

[2] A definition geared to economic goals suggested by Douglas Dossar and quoted by Melvyn Krauss in "Balance of Payments Aspects of Tax Harmonization," *National Tax Journal*, March 1967, p. 30, is as follows: ". . . tax structures are deemed to be harmonized when they are moved from an unsystematic to a systematic set of tax rate differentials geared to some objective of economic or political policy."

Another tax term recently introduced to much wider usage in American tax literature is "border taxes." This refers to the levy of taxes on the value of an imported good after customs and transportation costs have been included. The rate applied may be no higher than the indirect tax rates this good would bear if produced within the country of import.

An "indirect tax" is a tax so declared in the General Agreement on Tariffs and Trade (GATT) and includes special excise taxes, general turnover, or sales taxes, and also VAT. Excluded are the individual and corporate income and profit taxes and apparently all property and wealth taxes.[3]

GATT establishes standards for national conduct of nations in the area of international trade. All major commercial non-communist nations have agreed to follow the rules. The last major nation to be accepted was Japan.

"Tax rebate" refers to the GATT rule permitting nations to refund indirect taxes attributable to goods exported.

The general fiscal rule applicable by GATT is that direct taxes (all taxes not indirect) are payable at source, i.e., the country of origin. In the case of income taxes, this means the country in which the income was earned. All indirect taxes are to be collected on a basis of country of destination. This means indirect taxes are rebated on exports and assessed as border taxes on imports.

VAT has become the principal source of tax revenues of the French national government. The French name is *taxe sur la valeur ajouteé* (TVA). It is a tax levied at each stage of production on the difference between the selling price of the product and the value of products purchased from other business firms included in the product sold.

There are other terms involved in thinking about the relationship between national tax systems and the balance of payments. These will be defined along the way as is appropriate.

The importance of the relationship between national tax systems and the balance of payments was first recognized in U.S. Treasury tax recommendations when the Revenue Act of 1962 was developed. Federal government tax actions since 1962 consisted largely of making corrections on the fringe of a troublesome and basic international tax disharmony existing between the U.S. and EEC. Even the justly famous U.S. 1964 tax reductions are appropriately viewed in this light.

The American economy in 1968 continues to enjoy an industrial research organization that develops many new products requiring worldwide investment and marketing for full exploitation.[4] It continues to be a high savings economy. It also continues to suffer from a negative balance of payments figure, large federal government deficits, and rising prices.

U.S. adjustments

The Hearings and the Treasury 1962 and 1964 tax proposals considered only a limited approach toward harmonizing U.S. and European tax treatment of businesses. The harmonization was toward making the maximum individual income tax rate more comparable with that existing in Europe. The corporate tax rate was reduced directly and also indirectly by increasing the rate of allowable depreciation and by making allowance for a tax credit for qualified investment. The legislation of 1962 also provided procedures aimed at increasing corporate income taxes collected on profits of foreign operations of American companies. The elimination and reduction of rates of the special federal excise taxes in 1965 was a step toward harmonizing the U.S. tax system with that of the Member States of EEC. Tax treaties and 1966 legislation to reduce tax barriers to foreign investment in the U.S. are yet other tax harmonization steps taken by the U.S.

The 1964 adoption of the Interest Equalization tax by the U.S. and the special 25 percent German tax on interest income of foreign holders of German bonds and savings accounts, one arising from unusual capital outflow and the other from unwanted capital inflow, are symptoms of the types of tax developments caused by international imbalance. The reaction can become much more drastic as the imbalance becomes greater and takes on more of the air of permanence. This can be expected to be the situation now that Germany has adopted VAT and the rapid spread of the tax throughout western Europe is underway.

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[3] VAT can be collected on the income paid base and this is the procedure that may be used if it is introduced into the U.K. or the U.S. Nevertheless, nearly all considerations of VAT utilize the sales or transaction base.

[4] Dan Throop Smith, *Revenue Act of 1962, Hearings of Senate Finance Committee, Pt. 7* (Washington, D.C.: U.S. GPO, 1962), pp. 3087–3093.

EEC member state tax evolution

Traditionally, the Member States of EEC have made considerably greater use of indirect taxes than the U.S. These taxes are refunded on exports and collected as border taxes on imports. This became accepted practice when tax rates were much lower than in the 1960's and has been included in the GATT arrangements. VAT (TVA) as developed by France during the past ten years has been accepted by GATT as an indirect tax and therefore refundable on exports. Also, the tax can be levied as a border tax on imports.

The taxes collected by all levels of government of European nations divert to government use about as large a portion of GNP as is the case in the U.S. The impact on the balance of international payments of tax differences is not in the relative level of taxation. It lies in the types of taxes used to raise this level of government revenue, and the manner of taxation expected to exist in the future.

The EEC is now deeply involved in carrying out Article 99 of the Treaty of Rome. On April 5, 1960, under the provision of Article 99, The EEC Commission established a Fiscal and Financial Committee (FFC) to work towards "establishment of a common market through creating and insuring conditions similar to those of an internal market" in the area of taxation. The report of the FFC was completed in July, 1962, and adopted by the Economic and Social Committee of EEC on July 2, 1963, and by the European Parliament on October 17, 1963.

A substantial portion of the FFC report is a recommendation for a common EEC value-added tax along the lines of the very successful French TVA. The timing provides for passing and promulgating a VAT (TVA) system before December 31, 1967, and the entry of the system into force cannot be delayed beyond December 31, 1969. The draft of structure and implementing details were completed on schedule and submitted in April 1965. In February 1967, the EEC Member States gave final approval to adoption of a VAT (TVA) system on industrial goods. The system will be in effect not later than 1970. On January 1, 1968, the German VAT (Mehrwersteuer) went into effect. The remaining EEC Member States are developing appropriate legislation. However, the Italian VAT is not expected to become effective until 1971.[5] VAT is being used by Denmark, and Norway and Sweden have adopted legislation to introduce it.

EEC is well on its way to establishing a common VAT. Under the rules of GATT the VAT possesses the capability of providing a powerful export stimulus through rebate to the exporter of all tax attributable to the production of the product exported. It also can be the basis for restricting imports as the full rate of the tax can be applied to imports as border taxes. It is very doubtful if a tax possessing these international trade "advantages" can be realistically abandoned or turned down once introduced and used by a major group of trading nations. Current U.S. discussions to attempt to minimize the advantages are therefore unlikely to produce results.[6]

GATT's acceptance of VAT as an indirect tax seems to have developed originally from the conditions out of which it arose and the method of French administration. The correctness of this decision can be the subject of an honest difference of opinion. But this is all water over the dam, and TVA, and therefore VAT, are considered to be indirect taxes by GATT under Article XVI–4 and implementing amendments. This GATT position combined with proven effectiveness of VAT in France points to a very nearly inevitable continued spread of the use of the tax.

It is a multi-level tax, and therefore can be a major revenue raiser with relatively low rates. Its use permits reduction of taxes on profits and incomes. It will also be the basis for an additional protective trade wall increasing the difficulty for firms outside EEC to compete in EEC with producers located in EEC Member States. The attraction of VAT to EEC Member States and other European nations as a substitute for their cascade turnover taxes is nearly irresistible. The tax does not violate the basic theory of turnover taxation while it eliminates most of the weaknesses of this tax.

The VAT approach to taxation has proven itself in France and has been adopted by Germany. The generalization of the procedure will permit EEC Member

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[5] *European Taxation,* April 1966, pp. 92–95, February 1967, pp. 44–45, and *Common Market,* April 1968, pp. 85–88.

[6] Richard W. Lindholm, "Adjusting the Posture of the U.S. Economy to Facilitate Corporate Freedom in International Actions," *The Journal of Finance,* (1966), pp. 253–265 and *Maintaining the Strength of the United States Dollar in a Strong Free World,* U.S. Treasury, January 1968, p. 11.

States and other Western European nations to increase the relative portion of total government revenues arising from a multi-level transactions tax. This development will relieve the revenue pressure for substantial corporate and individual income taxes. More than likely VAT will also make it politically easier to retain general indirect taxation as a major revenue raiser. The net effect will be that pressures for European use of direct taxation will decrease and pressures against indirect taxation, particularly of the multi-stage type will also decrease. The disharmony between the tax system prevailing in the U.S. and Europe will widen.

Balance of payments considerations

A number of undesirable results can be associated with this developing international tax situation:

(1) It makes it more difficult for the U.S. to enjoy its economic potential;

(2) It causes the rebirth and continuation of international economic barriers to products of nations using direct taxes;

(3) It makes foreign investment attractive in countries using VAT because it permits them to reduce their income taxes.

Negative U.S. international payments balances set into motion by the widening tax disharmony cause the following chain of events: The lower profits taxes in the EEC Member States than in the U.S. make it attractive for American capitalists to invest in the EEC and to retain reserves outside of the U.S. The relatively high profit taxes in the U.S. cause EEC capitalists to refrain from investing in the U.S.: the net result is negative international balances on capital accounts for the U.S. The Foreign Investors Tax Act of 1966 somewhat mitigates this impact by giving favors to foreign income receivers and asset holders that are not available to U.S. citizens.

The tax refund available to exporters from EEC Member States, but not available to exporters from the U.S., and the border taxes assessed by EEC, but not by the U.S. reduces international balances on trade accounts.[7] The U.S. surplus (balance on goods and services) has deteriorated steadily from $6.9 billion in 1965 to $5.1 billion in 1966 and to $4.8 billion in 1967.[8]

Possible approaches

The U.S. by shifting its national tax system toward the existing and evolving tax system of EEC Member States, can escape the "national tax disharmony syndrome." But this is not the only possible escape route. The U.S. could devalue the dollar. It could withdraw from GATT and freely change its tariffs to compensate for border taxes and tax refunds. It could severely restrict foreign investment of American savings. The alternatives to moving toward tax harmonization are not attractive.

The Europeans, and particularly the EEC Member States, also have alternatives. They could revalue their monetary units upward relative to the American dollar. They could abandon the trade advantages possessed by indirect taxes. They could collect profit and income taxes equal to the U.S. level. They could prohibit foreign investments in their country. Some of the alternatives possess the same basic unattractiveness of a reduction of freedom in international transactions as the U.S. alternatives. Others run counter to the basic competitive nature of international transactions between national groupings.

The alternatives to a basic harmonization of the U.S. tax system with the system existing and evolving among the EEC Member States show few characteristics required for acceptability. At the same time the Europeans in VAT have developed a technique for making much more effective use of their concept that the transaction should be an important tax base. The last six years have not been a period in which European taxes have been moving toward the American model (with the possible exception of the U. K.) of high profit and income tax rates. On the other hand there has been some tendency for the U.S. to move toward the European model.

It is quite possible that international economic freedom and free world economic growth would be well served by a basic change—the word reform does not seem to be the correct one, although reform is involved—of the American tax system toward the existing and evolving EEC model.[9] This would require

[7] Richard W. Lindholm, "National Tax System and International Balance of Payments," *National Tax Journal*, June 1966, pp. 163–172.

[8] *Federal Reserve Bulletin*, May 1968, p. A–68.

[9] See pp. 247–258 of *The Role of Direct and Indirect Taxes in the Federal Revenue System*, (Washington, D.C.: The Brookings Institution, 1964) for an excellent summary statement of the economic strengths of VAT.

a substantial reduction in the portion of the U.S. federal government receipts arising from direct taxes and an increase in the portion arising from indirect taxes. To do this would more than likely involve legislation providing for the introduction of a national VAT and to the exemption of low and middle bracket income receivers from the individual income tax, plus a sharp reduction of the corporate income tax on all corporate profits not arising from capital gains and the elimination of all federal excise taxes except those on tobacco and alcohol.

The Congressional discussions, that took place when the 1962 Revenue Act was before Congress and again in the Summer of 1965 and in 1966 in consideration of H.R. 5912 and 13103, demonstrate that the tax differences between the U.S. and Europe are alone sufficiently sharp to warrant new U.S. legislation. The new legislation adopted were stopgaps to permit continued growth of free international economic relations. However, this is not the end of the story.

Domestic U.S. fiscal conditions have become nearly unbearably complicated as a result of the federal tax legislation aimed at arresting the deterioration of the U.S. international balance of payments. Both the domestic and international federal fiscal situation could be substantially strengthened by a fundamental move toward use of the transaction as a tax base.[10]

American tax legislation recommended and adopted during the past six years has not been aimed at a general harmonizing of the American tax system with the tax system existing and evolving in Europe, except in an incidental way, as was pointed out above. *The aim has been to develop procedures to prevent the differences in the prevailing tax systems from placing an unbearable strain on the U.S. balance of international payments under current conditions.* It is questionable if this is the best method of meeting the long-term requirements for the development of the American economic potential and the economic growth of Europe. Also it is a slow and laborious method for harmonizing the U.S. tax system with the existing and evolving tax systems of EEC Member States. The political pressures existing to move European taxation toward the American model have been greatly weakened by the development of VAT as a substitute for the cascade turnover tax. At the same time the economic desirability of the U.S. tax system including VAT as a major tax has increased. In the near future the American people should dare to experiment with a rare innovation, a rational tax program.[11]

Mr. FULTON. Our next witness is Mr. Cerf.

Mr. Cerf, we welcome you in your appearance before the committee and ask that you identify yourself for the record.

STATEMENT OF JAY H. CERF, MANAGER, INTERNATIONAL GROUP, CHAMBER OF COMMERCE OF THE UNITED STATES; ACCOMPANIED BY MRS. KAY VEST, FOREIGN TRADE DIRECTOR; AND HENRY W. MOORE, JR., RESEARCH ASSOCIATE, ECONOMIC ANALYSIS AND STUDY GROUP

Mr. CERF. Thank you, sir.

I am Jay H. Cerf, manager of the international group of the Chamber of Commerce of the United States. On behalf of the chamber I want to thank this distinguished committee for the privilege of presenting several of our views on foreign trade policy in 1968 and beyond.

If I may, I should like to introduce my colleagues.

To the right of me is Mrs. Kay Vest, foreign trade director, of the national chamber, and Mr. Henry W. Moore, Jr., who is research associate in our economic analysis and study group.

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[10] Richard W. Lindholm, "Adaptation of Tax Policy to International and Great Society Requirements," *Tax Changes for Shortrun Stabilization, Hearings of Subcommittee on Fiscal Policy of the Joint Economic Committee,* (Washington, D.C.: USGPO, 1966), pp. 288–291.

[11] Frederick G. Reuss, *Fiscal Policy for Growth Without Inflation,* (Baltimore, Md.: The Johns Hopkins Press, 1963), p. 280.

Mr. FULTON. We welcome you.

Mr. CERF. Our trade policy recommendations are derived from a broader spectrum of U.S. business than any other business organization in existence. The national chamber is composed of some 3,900 organization members, including over 1,000 trade associations and more than 33,000 business members, together constituting an underlying membership of more than 5 million individuals and firms.

It is well known to this committee that, since 1934, the national chamber has consistently supported the principle of the U.S. reciprocal trade agreements program. The chamber rests its case for trade expansion on a fundamental tenet. I refer to the well-established economic principle, that trade, investment and economic growth benefit when artificial restraints are minimized. Just as it has been the chamber's goal to reduce government intervention in business domestically it equally seeks to reduce artificial and discriminatory devices in restraint of international trade.

Before specifying our recommendations to this committee, permit me to be a bit more specific about the underlying chamber view to which I have referred.

1. *Balance-of-payments problem.*—The United States is suffering balance-of-payments difficulties along with rising domestic prices. The fundamental cause of rising prices, aside from wage-cost factors, is inadequate domestic fiscal discipline and, as this committee knows, the chamber has had much to say on this. With respect to the relationship between foreign trade and inflation, higher domestic prices lessen the competitive ability of U.S. goods at home and abroad. Added restraints on imports, however, feed inflationary forces without net gain to the balance of payments.

2. *Retaliation.*—Beyond the competitive disadvantage to American goods experienced because of inflation, new trade restrictions introduce the added possibility of outright foreign retaliation. Information gathered during recent foreign travels by national chamber staff and committee members tends to support the view that retaliation is not unlikely if new restrictions are imposed at this particular time. There is strong indication that rising economic nationalism in Europe, about which no one has any doubt, in several cases needs only the excuse of a U.S. reversal of its trade expansionist stance to justify trade and investment restrictions by Europeans.

I would like to underline that we don't only mean trade restrictions. We mean investment restrictions to which perhaps we are even more vulnerable.

3. "*Government-sponsored cartels.*"—Possibly the greatest current threat to our continuing successs in world markets is the prospect of a new, unprecedented American era in which the U.S. Government would move in on private business and start allocating markets. This country—the same government—that has fought business cartels and waged antitrust wars for three-quarters of a century is itself now being asked to apportion markets into prearranged shares among producers. It is not easy for some to comprehend why some maintain it is appropriate to slice up markets by Government action when preallocation among producers is ground for criminal action if it is a result of agreement between business firms.

4. *The costs of retrogression.*—Since 1945, American leadership in trade and monetary policy has been the principal cause of the tremendous rate of economic development in much of the modern world. Retrogression—such as introducing a system of import quotas—would be a reversal of a 20-year trend which has brought rising wealth, economic growth, and expanding world trade.

RECOMMENDATIONS

1. *Provisions of H.R. 17551, the Trade Expansion Act of 1968.*—The chamber supports provisions of H.R. 17551 which would extend, through June 30, 1970, Presidential authority to negotiate tariff reductions enabling use of the residual powers of the 1962 act. This country's ability to exercise this residual authority is essential if American business is to benefit, and be protected from actions by our trading partners during the months ahead. The chamber does not recommend authority at this time for major new tariff negotiations.

2. *Office of the Special Representative for Trade Negotiations.*—In order more effectively to carry out the above objectives the national chamber recommends that the Office of the Special Representative for Trade Negotiations be strengthened to give that agency the tools needed for the proper coordination of U.S. foreign trade policies.

3. *Adjustment assistance.*—Despite aggregate benefits to American business due to reciprocal tariff reductions, the national chamber is sympathetically aware of the likelihood that genuine instances of injury to domestic industry do arise by reason of tariff concessions. We feel that future foreign trade legislation should recognize injury better than it has in the past. We, therefore, recommend that criteria for trade adjustment assistance provisions in the existing law be changed so that producers experiencing import injury can more easily qualify for assistance during a necessary period of adjustment.

4. *Controls on direct foreign investment.*—The national chamber recommends that the mandatory controls on private direct foreign investment be terminated no later than the end of 1968. We believe these controls have a vital relationship to the foreign trade policy issues now before this committee. The chamber is concerned that the temptation to look good on the balance-of-payments accounts will cause the current investment restraints program to be continued despite the knowledge that the temporary reduction in capital outflow through these controls is achieved at the expense of repatriated earnings and of exports which are generated by investments.

Both U.S. exports and repatriated earnings, resulting from U.S. direct foreign investments, are the most promising factors in the balance-of-payments picture. The outflow from initial investments is much more than offset by the accompanying inflow from interest and dividends, royalties, and fees resulting from such foreign investments.

Gentlemen, between 1950 and 1966, for example, direct U.S. private foreign investments totaled $39 billion—a lot of outflow. During the same period, direct foreign investments returned $58 billion to the United States. In short, the capital outflow yielded a net balance-of-payments gain of $19 billion (an average of approximately $1.2 billion per annum). It seems overwhelmingly clear to us that unless these mandatory investment controls are terminated soon, a serious blow

would befall America's long-term prospects for balance-of-payments equilibrium.

5. *General Agreement on Tariffs and Trade.*—In the longer range, the national chamber recommends that Congress instruct the Office of the Special Representative for Trade Negotiations to review the adequacy of the present General Agreement on Tariffs and Trade in specific areas. Revisions could be proposed which would enable: (a) Negotiation on such discriminatory and trade-diverting policies of member nations as border taxes, export subsidies, and other nontariff barriers; (b) wider future use of "sector" or industry-by-industry negotiations for more "balanced bargains" (such approaches would embrace both tariff and nontariff barriers); (c) new mechanisms for more effective relationships with state trading countries, with the aim of involving these countries in free world multilateral trade machinery (this would not only expand peaceful trade between divergent economic systems, but would also serve to further decentralize state economic authorities); and (d) consideration of establishing a new Business and Industry Advisory Council (BIAC) to the GATT, along the lines of the BIAC to the Organization for Economic Cooperation and Development (OECD). Such a Business and Industry Advisory Council would enable the leading private enterprise organizations within each GATT country to monitor the GATT proceedings on a systematic basis, report back to their members, and similarly advise GATT negotiators on trade expansion policies. This BIAC–GATT could satisfy a growing need for systematic communication on trade policy between Parliaments and business communities throughout the industrialized world.

Finally, Mr. Chairman and committee members, the national chamber is convinced that for the United States to reverse its traditional course of reducing barriers to the free flow of trade and payment and that the views of the National Chamber of Commerce are matching restriction for restriction in the trade field would not only be retrogressive but self-defeating.

Thank you.

Mr. FULTON. Thank you, sir.

I would certainly like to say that I think this is an excellent statement and that the views of the National Chamber of Commerce are always welcome.

Mr. CERF. Thank you.

Mr. FULTON. Are there any questions?

I certainly want to thank you and your colleagues for your appearance before the committee today.

That being the last witness, the committee will be adjourned until 10 a.m. tomorrow morning.

(The following letters and statements were received, for the record, by the committee:)

DEPARTMENT OF STATE,
Washington, D.C., June 18, 1968.

HON. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: The Department of State has received from Carlos Sanz de Santamaria, Chairman, Inter-American Committee on the Alliance for Progress, a statement which he has prepared in connection with the current public hearings before the Committee on Ways and Means on tariff and trade proposals.

Mr. Sanz de Santamaria has requested that his statement, together with points VI, VII, and VIII of the attached Declaration of the Inter-American Committee on the Alliance for Progress, be transmitted to the Committee for its consideration for possible inclusion in the record of the hearings.

I am, therefore, pleased to forward three copies of the enclosed statement and attachment for your consideration.

Sincerely yours,

H. G. TORBERT, Jr.,
Acting Assistant Secretary for Congressional Relations.

STATEMENT OF CARLOS SANZ DE SANTAMARIA, CHAIRMAN, INTER-AMERICAN COMMITTEE ON THE ALLIANCE FOR PROGRESS (CIAP)

SUMMARY

The Chairman of the executive committee of the Alliance for Progress calls attention to the CIAP Declaration of May 3, 1968, which emphasizes that adverse trends in Latin America's trade are hampering regional development recommends that adjustment assistant to the U.S. industry be given priority over protectionist legislation, and urges the Congress to take no action that would harm the Alliance for Progress or inter-American relations.

The Inter-American Committee on the Alliance for Progress (CIAP) is the central, multilateral, coordinating mechanism responsible for promoting Latin American economic and social development under the Alliance for Progress. Since trade is the lifeline of Latin American development, CIAP must be constantly concerned about the impact on Latin America of trade developments around the world. But as I pointed out in a statement submitted to Chairman Russell B. Long of the U.S. Senate Finance Committee during trade hearings last October, "my positon as CIAP Chairman requires me to represent all the member countries of the Inter-American System, including the United States, in the endeavors of the Alliance." I emphasized that CIAP's concern over restrictive proposals being heard by the Finance Committee was motivated "not only by a realization of the harm that they could do to Latin America's effort to expand its export income—an expansion that is crucial to its capability for purchasing the U.S. goods and services needed to accelerate its development—but also by a conviction that they would harm the United States." In the same spirit I am directing this communication to the House Ways and Means Committee which has just opened an important series of hearings on the future of U.S. trade policy.

CIAP declaration

Over the past year, CIAP has viewed with increasing concern the reemergence of protectionist sentiment in the United States and other trends and policies in trade and finance on the international level that are working against Latin American development and the purposes of the Alliance for Progress.

In its most recent meeting, held in Washington at the beginning of May, CIAP adopted a declaration emphasizing the need for joint action by Latin America and the United States to counter adverse trends in world commerce. I enclose a copy of the declaration for the information of Committee members and request that, if the Committee's rules permit, points VI, VII and VIII be printed after my statement in the record of the hearings.

Recent trends in Latin America's international trade

In the past decade a spectacular expansion of world trade has taken place. From 1958 to 1966 world exports doubled. But Latin America did not share fully in this boom. Its exports increased by only 66% and its share of world trade declined. In 1967, moreover, for the first time in more than a decade, Latin America's earnings from international exports not only failed to increase but dropped by about one percent. Only the increased developmental capacity of the Latin American countries, reflected in a record level of public investment, which in turn reflected progress in budget making and tax reform, prevented this decline from having disastrous consequences.

But the drop in export earnings is not the only blow that Latin America has suffered. The Second UNCTAD conference produced only meager practical results for developing countries. This constituted a setback for Latin America. The declining volume of long term development loan assistance and the rise of interest rates on development loans constitute a further threat to Latin American development.

Protectionist legislation harm to United States

The House Ways and Means Committee will be hearing testimony in favor of imposing import quotas on many products. Bills already introduced cover petroleum, meat, lead, zinc, textiles, steel, frozen strawberries, fishmeal, dairy products, footwear and electronic products. In 1966 Latin American exports of these products to the United States amounted to $1.2 billion or 31 percent of Latin America's total exports to the U.S. If such measures were adopted they could well have the effect of offsetting the total amount of Alliance for Progress authorizations likely to be forthcoming in fiscal year 1969.

In CIAP's view, however, such legislation would be not only harmful to Latin America but to the United States. In its trade with Latin America, the United States enjoys a large and favorable balance. Any action that reduces Latin America's dollar earnings will reduce its purchases of United States goods. But the harmful effects of protectionism go beyond the trade surplus. Inevitably the result of quota restrictions will be to protect a few U.S. producers at the expense of the many U.S. consumers. Restrictions will also inevitably encourage other industrialized countries to counter with restrictions against U.S. exports. There could be a chain reaction precipitating a contraction of world trade and economic activity detrimental to the whole world.

Protectionism would be preferable to chaos if these were the only alternatives. Fortunately they are not. We note with interest President Johnson's recent trade message to Congress proposing to strengthen the adjustment assistance provisions of the Trade Expansion Act. It seems to us that this is the right approach both from the point of view of the United States and from that of the Alliance for Progress community as a whole.

Latin America's need for increased export earnings

The American Presidents last year gave top priority to Latin American economic integration, a process that will be difficult and costly.

The United States recently ratified the Protocol of Buenos Aires which makes the Alliance for Progress the basis of the economic and social policy of the Inter-American System. It is fundamental that Latin America's self-help efforts cannot succeed if the region's export earnings decline while simultaneously the availability of international development financing decreases and terms become harder. But in the final analysis, the success of the Alliance, from the point of view of the U.S. as well as of Latin America, must depend on expanding Latin American trade. This is so simply because there is a limit to the burden of external debt at rising interest rates that Latin America can service and still step up its investment in development. Furthermore, the need for an improvement in export earnings will become even more critical as the process of creating the Latin American Common Market advances.

Therefore, CIAP urges that the U.S. Congress take no action in the field of trade that could cripple Latin American development and undermine the Alliance for Progress and inter-American relations.

DECLARATION OF THE INTER-AMERICAN COMMITTEE ON THE ALLIANCE FOR PROGRESS

The Inter-American Committee on the Alliance for Progress, in its Fifteenth Plenary Meeting, reviewed the performance of the Alliance for Progress during 1967, together with the elements of judgment provided by the cycle of country reviews carried out in that year and the documents submitted by the Executive Secretariat and the Panel of Experts. This evaluation of the situation and prospects, of the progress made in domestic efforts and the role to be played by international cooperation leads to the following conclusions and recommendations for action:

I. *The prospects of the Alliance depend, to a greater degree than in previous years, on the evolution of the international economy and especially at this time, on the solution of the difficulties affecting international monetary relations.*

The United States balance-of-payments problem and the difficulties in international liquidity, which reached a climax with the March gold crisis, have brought about a risk of economic recession in the developed countries, the stagnation or reduction of financial aid within the Alliance, an even greater increase in interest rates, and greater restrictions on trade and on other international transactions. An increase is also observed in protectionist pressures. If these threats are translated into policies, they could seriously hamper the economic and social development of Latin America. For this reason, CIAP places special emphasis on the following points:

1. The efforts which the United States may make in order to solve its balance-of-payments problem deserve the support of the countries participating in the Alliance for Progress, but the measures proposed in order to directly increase the favorable balance of trade should take into consideration the interests and needs of the member countries of the Alliance and, when appropriate, the need for adequate exceptions to avoid serious repercussions on their development potential.

2. The international community should begin to implement, as soon as possible, within the framework of the International Monetary Fund, the Special Drawing Rights system, since this is a prerequisite to achieving an adequate expansion of international liquidity, a matter of decisive importance to world trade in order to return to less burdensome levels of interest and to resume the rising trend in financial cooperation provided to Latin America by both public and private sources.

3. It will be necessary to make an effort toward cooperation among developed countries in order to maintain a high level of economic growth and employment in an atmosphere of stability; without this effort to maintain the pace of activity and employment in industrialized countries, it will be difficult to achieve economic and social progress and political stability in the developing areas of the world.

II. *The uncertainties and risks to which foreign trade and financial cooperation are now exposed should not obscure the responsibility of Latin America to intensify its efforts to accelerate development and carry out the profound economic and social reforms which are a prerequisite for achieving maximum participation by the people and building a society in which the fruits of development are adequately distributed.*

Although external aspects may be a powerful influence regarding the speed with which Latin America may fulfill the objectives of the Alliance for Progress, this fact does not in the final analysis, relieve the countries of the region from being responsible for reforming the economic and social structure for purposes of progress and justice, mobilizing internal resources, and creating an institutional basis for development. At this time in which urgent action is more needed than ever before, the CIAP wishes to reiterate the overriding need to grant preferential consideration to the following elements of the economic and social development policy:

1. The social content of the development policy should be expanded and strengthened, as the essential basis of lasting economic progress and political stability. This social content should not be sought merely through the expansion of public services with government expenditures, but also through social reforms designed to achieve improvements in the structures and in income distribution.

2. More attention should be devoted in the near future to strengthening the various elements of a planning system which would simultaneously contemplate development needs with a view to the long-term horizon, together with the requirements for action in the immediate future. It is also indispensable to persevere in the efforts to gradually adapt the institutional base and the administration to the requirements of development policies.

III. *Noteworthy progress was made by Latin America in 1967 in mobilizing its financial resources and rationalizing its tax systems and, in general, in its fiscal policies. These forward steps are among the most important achievements of the Alliance for Progress and, in 1967, were responsible for maintaining a rate of development comparable to that of 1966, despite adverse external events. In addition, growth rates, by themselves, are not an adequate index of the rate of development, especially in periods of strong investment in social development.*

With few exceptions, Latin American countries in 1967 increased their public investments, thus temporarily compensating for the decline in exports and the resulting effects on development. There was an increase in the region's public investment, which constituted the fundamental factor behind the rapid increment in fiscal resources which followed the tax reforms—in some cases quite thorough—carried out in recent years. Public expenditures, nevertheless, generally rose at an accelerated rate, bringing about imbalances in some countries, especially in those which have not given adequate priority nor depth to tax reform. The characteristics of the economic and social development programs promoted by the Alliance for Progress naturally create intense pressure for expansion of public expenditures, which can only be satisfied and controlled by

means of constant effort toward fiscal reform and a sense of priorities and discipline in development policy. In view of the above, CIAP recommends that:

1. Those countries particularly affected at the present time by a deterioration of their public finances, should urgently undertake fiscal reforms designed to simultaneously achieve greater receipts for the government and an improved distribution of the fiscal burden. Without these reforms the situation may become critical in various cases and require even more drastic and far-reaching measures.

2. In general, more attention should be given to the preparation of budgets and to the control of their implementation. Experience indicates that a violent expansion in current public expenditures, which arises largely because of the immediate need to increase social outlays, is partly the result of errors in planning of programs and weakness in the selection of priorities. It is therefore imperative today to emphasize a sound budget policy.

IV. *The expansion in educational services in 1967 is another noteworthy achievement of the Alliance for Progress, constituting the seed of the just and dynamic society which should rise from development efforts at this stage. The broadening of education is very demanding in terms of fiscal resources, requiring intelligent reform measures in order to adapt it to a changing society, and also creates rising expectations. All these factors require ever-increasing effectiveness in the mobilization of resources and in development planning.*

Expansion of educational coverage, on its three basic levels, is one of the more general features of the effort of the state within the Alliance for Progress. Almost without exception, 1967 saw a growth in the share of fiscal resources devoted to education, while the increase in enrollment reached a pace, in some countries, which, if generalized at these levels, could achieve nearly total coverage in elementary education and the consolidation of modern educational systems in the overwhelming majority of the countries of the region. This accelerated expansion has in some cases been carried out at the expense of necessary reforms in the quality of education, and has produced a rising pressure on budgetary resources which is not expected to diminsh in the next few years. The effects of this increase in primary school enrollment will show up in coming years in even greater demands on secondary and higher education levels, where structural reforms are therefore, even more urgent.

In view of this, CIAP emphasizes the importance of:

1. Devoting priority attention to consolidating the progress made, through implementation of required reforms designed to raise the quality of education. In many cases it is urgent to undertake needed structural changes in secondary and higher education in order to anticipate future demand.

2. Maximum attention should be given to adequately foreseeing the expansion of state expenditures derived from the broadening of educational services, as well as to the proper and judicious usage of fiscal resources. This is another reason to insist upon tax reform, budgetary control, and, from the viewpoint of external cooperation, on the imperative need to provide more flexible financing on less burdensome terms.

V. *Despite a substantial increase in agricultural production in 1967, agricultural development is not yet being carried out on the scale required in order to assure a sustained increase in the supply of foodstuffs and higher farmer income; with a few exceptions, progress in agrarian reform was slower in countries where this problem exists.*

The year 1967 was a good one for agricultural production, though it hardly reached the level of 1965. In several countries carrying out stabilization programs, the tightness of agricultural supply has created growing obstacles to the success of these efforts, while in others having high population growth rates, income redistribution policies may be cancelled out by high food prices. Despite its importance, the region, except in a few cases, has not yet succeeded in carrying out the necessary structural reforms, nor in putting together the agricultural policy required in order to satisfy these demands. There is, in regard to this policy, a lack of administration and planning, both of which are evidently of high priority in development action.

In view of the above, CIAP makes the following recommendations:

1. To concentrate efforts on granting priority to improvement in agricultural planning in those countries where land tenure constitutes an economic and social problem, and on making the necessary administrative changes in agricultural policy formulation.

2. To expand agricultural credit, as a fundamental element in the accelerated development of the agricultural and livestock sector in the next few years.

3. To prepare a larger number of agricultural projects and programs, and to

consider granting a larger share of the financial and technical assistance required for the purpose.

4. To grant more active and direct participation to the farmer and the farm community in agricultural development. The projected Inter-American Agricultural Conference should, to this end, undertake, on a priority basis, the formulation of the necessary policies and mechanisms.

VI. *Economic integration and export promotion are of special importance at this time of uncertainty in the region's external trade. Although the process has been slower in 1967, the countries have begun to face the problem realistically and have initiated the difficult task of making the institutional and juridical foundations more adequate with respect to the decisions of the Presidents of America, while their economy and external trade has become more vulnerable.*

For the first time, intrazonal trade figures for LAFTA, during the first nine months of 1967, show a significant decline in trade levels. This is a symptom of the ineffectiveness of the instruments employed thus far and makes it urgent to seek decisions and procedures to revitalize this vitally important process in regional development. Despite the continued expansion of trade, difficulties are also encountered in Central American integration, above all due to the balance-of-payments problems in the countries of the region. This, therefore, appears to be a decisive, perhaps critical point in Latin American integration, requiring directional changes and a more intense action both in the field of trade negotiations and in that of carrying out investments which should facilitate and promote integration.

In this sense, CIAP has taken up with interest President Johnson's suggestions on the establishment of a working group on multinational projects, to which it is ready to provide its fullest cooperation.

CIAP also recommends that:

1. Priority be given in domestic policy to identification of export potential and, in general, to the promotion of existing industrial exports. CIAP hopes that the services of the Inter-American Export Promotion Center, which will begin operating soon, may be reflected in greater interest within each country in order to lay new foundations for exports in the region.

2. A concerted and effective action be undertaken to develop the Hemisphere's infrastructure, in accordance with the Declaration of the Presidents of America, the suggestions of the President of the United States and the Resolution of the Board of Governors of the Inter-American Development Bank.

VII. *The results of the Kennedy Round tariff negotiations and of UNCTAD II were not very favorable to Latin America, and present trends in world trade and in capital flows are unfavorable to the development of the region.*

The Kennedy Round only produced concessions of minor importance for a small number of commodities of interest to Latin America, and had no effect at all on the liberalization of trade for tropical products in industrialized country markets. UNCTAD II, on which Latin America, and developing countries in general, had placed such high hopes, closed without any specific decisions on matters as fundamental as basic financing and supplementary financing, creation of regulatory stocks, establishment of a system of nondiscriminatory preferences for imports of manufactures and semimanufactures on a nonreciprocal basis, and broader application of commodity agreements. Although the discussion on the aforementioned matters and on others of interest to international cooperation will continue in the forums of UNCTAD, it is deplorable that the rigid positions adopted by some developed countries and the differences existing even among the poorer nations, have resulted in the wasting of this singular opportunity to carry out long-needed reforms in the system of international trade and in capital flows. In the light of these events, it is alarming to note the renewed strength of protectionist attitudes in some sectors in the United States. Finally, it is a matter of concern to observe the prospects for Latin American foreign trade.

In the face of this picture:

1. CIAP recommends an analysis of the possibilities for initiating a supplementary financing system for the region, until such time as a worldwide mechanism can be established on the terms set forth in UNCTAD II.

2. CIAP requests the executive power in the United States to continue its efforts to contain protectionist pressures within that country. In this respect, CIAP requests it to transmit to the pertinent government agencies and to private enterprises in the United States, its concern regarding the threat implied with regard to the possibilities for the success of the Alliance, since if such pressures prevail the result would be a weakening of development and consequent political and economic instability.

3. CIAP requests the Government of the United States, in conformity with

the statements made by President Johnson at the Meeting of Chiefs of State of America, to study, in conjunction with the other members of the Alliance, the possibility of creating a system which will enable the Latin American countries to enjoy, with respect to exports, advantages not inferior to those presently enjoyed by other developing regions, and which will insure, through this or other procedures, that no discrimination is practiced against Latin American products.

4. CIAP requests the member governments to study the establishment of an inter-American fund to finance regulatory stocks for some of the commodities exported by Latin America.

5. CIAP requests the governments of the region to make arrangements for consultations and make other necessary efforts to formally present the viewpoints and matters of concern of Latin America to the member countries of the European Economic Community and to the competent bodies of this entity. The Chairman of CIAP will propose to the Committee and to the member countries of the Inter-American System, the manner, procedure and time in which such efforts will be made, in accordance with the resolutions adopted in the Fifth Annual Meetings of the IA–ECOSOC.

VIII. *The reduction in the allocations for the Alliance for Progress approved by the U.S. Congress for fiscal 1967/68, the higher interest rates in capital markets and the uncertainty surrounding foreign trade, have created an atmosphere unfavorable to Latin America's development efforts, at a time in which the region shows evident progress in various fields of economic and social policy.*

The U.S. appropriation for technical and financial cooperation within the Alliance for Progress for the present year totalled US$469 million, while the amount allocated for the previous fiscal year was US$508 million. Although the cut was smaller than that of other areas, a decline of about one percent in Latin American exports took place, thus recording the first absolute decrease since 1958. At the same time, terms for public and private credit tend to become more burdensome. The substantial increase in fiscal receipts in a good number of countries was the only factor which made it possible to maintain a high level of public investment during 1967, which prevented, in the growth rate for the region as a whole, a drop from the rate of activity achieved in 1966. The possibility of stagnation or decline in financial aid, coinciding with extremely uncertain export prospects, is a dangerous prospect which, should it materialize, would sharply weaken the mobilization of internal resources in Latin America and significantly check its rate of development, and its social progress and stability. For these reasons, CIAP proposes:

1. That the Government of the United States provide increasing financial support to the Alliance for Progress in fiscal 1968/69.

2. That a study be initiated, in cooperation with the IDB, the World Bank, AID and other institutions, relative to the establishment of a financial mechanism, regional or international in scope, along the general lines of the so-called Horowitz Plan, designed to reduce the burden of interest rates on development loans.

3. That the growing burden of Latin America's debt service and the trends and prospects of exports should be subject to continuous analysis and observation. Sharp declines in export receipts which cannot be compensated by other means, should bring about the implementation of systematic procedures in order to decide upon the possibilities for a parallel reduction in debt service, through changes in the repayment schedule or postponement of installments, without affecting the possibilities for private investment. The Chairman of CIAP will initiate consultations with the competent authorities in connection with the feasibility of such a system.

STATE OF WASHINGTON,
Olympia, June 7, 1968.

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

DEAR CONGRESSMAN MILLS: It is with pleasure and concern that I submit a written statement for your committee's consideration, in contribution to the public hearings, now in progress, on proposed U.S. foreign trade legislation.

It is a pleasure because I believe that the states can and must cooperate closely with our Federal Government in evolving and implementing mutually equitable foreign trade policy. It is our difficult task to maintain, safeguard and

help expand the framework within which our private enterprise can continue to develop a foreign trade, investment and travel climate in support of a viable industrial and agricultural economy such as we have today in Washington State.

I submit this brief with concern because the "protectionist" attitudes now much in evidence, should they prevail, could have a severely detrimental effect on states such as ours, much of whose industry, agriculture, service sectors and port facilities depend intrinsically on foreign trade.

On October 1, 1967, my administration, with full legislative support, inaugurated an Office of Foreign Trade within our Department of Commerce and Economic Development. We look forward to the positive contribution we may make in expanding and streamlining our trade with the world and most particularly with our trading partners in the vital Pacific Rim area.

I sincerely hope that the outline of our plans and proposals as contained in our brief will be of positive value to your efforts to chart the future course of a U.S. foreign trade policy of long-range benefit to us all.

Sincerely,

DANIEL J. EVANS, *Governor.*

OUR INTERDEPENDENCE WITH U.S. FOREIGN TRADE POLICY AND PERFORMANCE—POSITION PAPER SUBMITTED BY DANIEL J. EVANS, GOVERNOR, STATE OF WASHINGTON, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT, BUSINESS AND ECONOMIC RESEARCH DIVISION, AND OFFICE OF FOREIGN TRADE

"FEDERAL/STATE": CONFLICT OR COOPERATION

This country's spending abroad over the years has resulted today in depletion of our gold reserves to about $10 billion, and in short-term debts to foreigners of over $30 billion in currency. As our debts abroad now far exceed the official value of our gold back-up reserves, a "run on the bank" by our foreign creditors would put us into dire straits. Such a development may not be likely—but it is possible. The very existence of this possibility puts our dollar in a threatened checkmate position.

Various solutions proposed deal with possible means to restrict the outflow of dollars and increase our earnings. In the first category it is said we could limit imports in several direct and indirect ways, limit travel, reduce foreign aid, restrict investments abroad, and curtail our military presence and activities abroad. In the second category we could boost exports, attract more travelers, trades and investors to the U.S., increase repatriation of profits from our investments abroad and further tighten our tied procurement requirements.

It is important to note that of all the measures mentioned, only three are positive and expansive: export development and inducement of foreign travel and investment to the U.S.A. All other measures mentioned in both categories are immediately restrictive and eventually contractive. Furthermore, only those three expansive measures fall within the jurisdiction and competence of the individual states. In fact, it is mostly up to the individual states to "produce the goods" in terms of increased exports, travel inducements and investment climate. The federal government can work at cross purposes to these efforts through implementation of the restrictive measures mentioned earlier—all of which fall outside the control of the states individually.

The federal government can contribute passively to the states' export performance by refraining from implementing such national cost-saving devices as would, immediately or eventually, exert restrictive pressures on trade, investment and travel. On the other hand our federal government can contribute constructively through continued sincere and consistent effort to further liberalize international trade and further promote streamlined and responsible trade and business practices.

Our federal government can also substantially aid the states in their efforts through the provision of a national umbrella of policy, cost reductions and tax incentives (such as employed by many other countries), as well as the continued and expanded services of the various departments and bureaus (Commerce, State, Agriculture, Census) in supplying foreign market data, business contact opportunities and and market intelligence.

WASHINGTON STATE FOREIGN TRADE: PERFORMANCE & POTENTIAL

For Washington State, 1967 was a banner year in several ways. International trade moving through Washington ports reached an all-time high. Exports recorded an increase of 22 percent over 1966. In six years they have more than

doubled in value and our contribution to the national trade surplus has more than tripled. As late as 1959 there was still a trade deficit, with imports exceeding exports. Now Washington is responsible for almost a third of all Pacific Coast exports—and still gaining.

Since 1966 the State has been among the top ten exporting states in the United States and also ranks among the top three fastest growing exporters in the nation. Last year our State turned out an over $2 billion trade performance and produced half a billion dollars in trade surplus for the U.S.A.; one sixth of the national surplus. With no more than one sixtieth of the country's population, our export performance stacks up as ten times the national average on a per capita basis and was realized in primarily "hard" currencies.

The rapid development of containerization, the exciting concept of the sea-land transportation bridge, the burgeoning world need for sophisticated sea/air/land transport and handling systems for both freight and passengers, the streamlining of shipping and travel procedures, the scarcely tapped potential of oceanographic exploration and exploitation, the dire need in much of the world for more food, less spoilage and better nutrition—each of these areas represent a pressing need and an exciting potential. Washington State's increasing stature as a Pacific Northwest and national pacemaker in many of these areas is reflected dramatically in our foreign trade performance, to the benefit of our State, our country and our trading partners. Yet we have really only scratched the surface in filling the need or realizing the potential.

WASHINGTON STATE FOREIGN TRADE: OUR STAKE

Today, foreign trade contributes substantially and increasingly to Washington State's economic growth and prosperity. For instance, we found that Washington State exports contributed a billion dollars in personal income to our economy in 1966, and fully supported the living standard of the equivalent of more than a hundred thousand households. In 1967, obviously, that contribution was even higher, and foreign trade even more important to our well-being.

In fact, we cannot stop now, or even stagnate. Our growth momentum has to be maintained: our stakes are too high. Let's look at two of our better known export products, diverse as they are: airplanes and wheat. Without markets abroad our commercial aerospace industry would be much more cyclical than it is today and certain planes would not be built at all. Without export, where would we sell our Washington wheat? In short, the economies of scale—rather, the lack thereof—would quickly take effect. Supportive and derivative industries and services would be severely affected, even dry up. Much of our standard of living now directly or indirectly paid for from foreign trade revenue and profits would painfully evaporate.

THE NATION: TROUBLED TIMES AHEAD

The year 1967 was a banner year for Washington State foreign trade, and 1968 looks good, so far. (Our exports are still growing twice as fast as our imports.) With the nation, it's another matter. An international dollar crisis was narrowly averted or hastily and temporarily patched up. The dollar outflow continues. Domestic economic growth is distended by inflation. Record GNP advances are only half real. An unrelenting wage-price spiral has negated productivity increases. Inflation and industrial complacency have eroded our export competitiveness and swollen industrial and consumer imports until, today, the national trade surplus is melting away with alarming rapidity. The immediate future appears still cloudy and disturbing. Positive and constructive measures are urgently needed if we are to achieve more than to buy time.

FOREIGN TRADE POLICY: FEDERAL/STATE INTERDEPENDENCE

With the advent of air cargo, all states become "international ports" in the strict sense of the word. However, those states with seaport facilities have a more direct and vital interest in U.S. foreign trade policy and the few seaport states with deep-draft capability and backup land, of which Washington is one, must play an ever bigger role in future foreign trade and policy. Our stake has become such that we as a State can no longer afford to leave the formulation of a national trade policy entirely to our federal government; there, too, we have to be innovators. Our policies have to be as modern and dynamic as the technology of our free enterprise establishment, if we are to maintain our hard-won

position and momentum of pacemaker in the Pacific Northwest, preserve our economic health and expand our contribution to the national effort.

Most of our major markets are basically healthy, yet almost all are under increasing inflationary pressures and can be expected to intensify efforts to balance their own international transactions. On the whole, import demand overseas will keep on building in 1968, but with most of these countries running a trade deficit already, it will be hard work to even preserve our current trade surplus. In effect, measures to not only increase exports but also lessen the U.S. balance of payments deficit through restrictions on imports could quickly provoke retaliatory action from our major trading partners. This danger of retaliation by foreign governments, exercising their rights under G.A.T.T., is obvious. The result could be a general stagnation—possibly a contraction—of international trade. A rising trade surplus from increased exports has been counted on to help achieve a payments equilibrium. This is impossible to achieve in a world of trade restrictions.

For years our country's foreign trade has been developed and maintained by thousands of individual members of our free enterprise establishment, in a rather unstructured battle with the elements: favorable or unfavorable "trade winds" and the "barometers" of policy, support, incentive and restriction in the various departments of our Federal Government and in our Congress. State governments, for the most part, were not or barely involved. Now, nationally, our momentum of unstructured growth may no longer be profitably sustainable, while on the state level it is becoming clear that representation of a constituency in uniquely regional conditions now includes as well the taking of a stand on foreign trade and trade policy.

FOREIGN TRADE POLICY: SOME PROPOSALS

State governments are finding themselves increasingly concerned with what appears to be a developing turmoil of confusion and conflict between national policy and regional interest. As our state's spokesmen here we are prepared to participate constructively in a fruitful federal/state discourse on such matters of vital interest to all of us. While our private enterprise supplies the ammunition for our efforts, we can supply the advance troops. We have a State Department of Commerce and Economic Development, an Office of Foreign Trade, and a Business and Economic Research Division. They stand in service to promote trade contact, initiate studies and proposals, support national programs, share the responsibility. It is in these middle areas of coordination and liaison that we in Washington State Government feel we may most constructively aid our local and regional interest and the national aim as well. We have formulated a ten-point program proposal for trade development and federal/state cooperation and coordination.

1. "We will continue and intensify our efforts to locate foreign markets, analyze their potential, coordinate trade contact, and promote our exports.

2. "We will research and promote additional 'sister-community' concepts suitable to mutual development of trade, educational exchange and cultural exchange.

3. "We will develop research assistance and planning coordination for our ports' expanding efforts to prepare for tomorrow's sophisticated passenger and freight transportation systems.

4. "We will continue and expand our efforts to research and coordinate the development of resources, land-use, and facilities designed to create an increasingly attractive climate for both investment and tourism.

5. "We will welcome and assist continued and closer cooperation and exchange with the various federal intelligence gathering, fact-finding and information dispersing agencies, such as the Department of Agriculture, Department of Commerce Field Offices, Bureau of the Census, and the Department of State and its foreign service.

6. "We will actively participate in national efforts for the promotion of international trade, travel, investment, and cultural and educational exchange. We do not favor policy restrictions in these areas, beyond those in regard to national security.

7. "We will explore and develop the possibility of increased trade with less developed and so-called soft-currency countries through the instrument of whole or partial 'trade in kind' or barter, be it in goods, services or both. It is here that the triangular service function of state government comes prominently into play. Our Research Division must determine suitable markets and commodities or products, upon which our Foreign Trade Office must establish contact and coordinate negotiations between potential trading partners and with foreign

government representatives on matters of currency equivalent, terms, time periods and means of delivery, and future contacts.

8. "We will continue and expand our efforts, as a state government, to give Washington State a face abroad; an image and identity, as an economic entity justly proud of its unique products and features of interest and benefit to traders, tourists and investors. This may be accomplished through publications, encouraged personal contact, sister community projects, and increased participation in U.S. or international exhibits abroad. Our Foreign Trade staff will increasingly be called upon to represent, under the umbrella of a state exhibit, many smaller firms new to exporting or otherwise not sufficiently equipped to participate individually or personally. Only as a state with a personal, unique identity can we rate equally with our friends in the marketplace, most of which, as sovereign nations both developed and developing, already have such identities.

9. "We wish to participate in the formulation of a policy whereby the federal government offers a federal/state share or matching formula on various taxes or incentives to exporters, foreign investors and foreign visitors, utilizing the best features of comparable programs in effect in many foreign countries.

10. "In general, we wish to suggest increased constructive state government participation in the formulation of national policy regarding matters of international trade, travel, and investment."

CONCLUSION

The national balance of payments problem, our foreign trade, our State's contribution and stake—all these factors interact with one another through the common denominators of market forces and governmental balancing attempts. We have made some proposals designed to stimulate the former and modulate the latter. It is our intent and hope to make a contribution to the formulation of a progressive long-range U.S. foreign trade policy.

At least twenty-six states have now staff personnel specifically and officially designated to deal with foreign trade matters. A number of these states make a substantially above average contribution to our national trade performance. Any significant change in federal policy regarding exports, imports, travel or investment affects these states most immediately and severely. Washington State, as one of this group, wishes and is prepared to be an active partner with the other states and the federal government in the determination of matters and policies which affect us so greatly.

Foreign trade can not exist except for the principle of reciprocity. We cannot justly call for liberalization of trade without stressing forcefully the necessity for other countries to join us in our efforts to achieve reciprocity in all trading practices and regulations. With the recent conclusion of the "Kennedy Round" of GATT negotiations the current major area of concern is the equalization of non-tariff barriers. There appears to be a natural opportunity for cooperation between the federal government and Washington State pertaining to specific commodities and market areas.

There appear to be many ways in which a new framework of federal/state cooperation and coordination in matters of trade policy, trade practice and trade promotion could be most helpful, but it will take all of us together to maintain our momentum, preserve our stake and reap our future in foreign trade potential. More than that: foreign trade may well mean tomorrow the real difference between prosperity and stagnation.

STATEMENT OF NATIONAL ASSOCIATION OF MANUFACTURERS

We welcome this opportunity to express our views as a contribution to these hearings on Tariff and Trade Proposals. It is our understanding that the Committee's concern is not only with the proposed Trade Expansion Act of 1968, H.R. 17551, but with broader questions of United States policy and the trade balance. Our comments are offered in this broad context. We believe that they have a significant relationship to the development of a sound foreign trade policy.

The National Association of Manufacturers is a voluntary organization of industrial and business firms, large and small, and located in every state. Due to the diversity of its membership and the consequent divergent viewpoints, this Association does not attempt to speak for its members on specific tariff matters. The NAM does, however, urge its members to express their views on tariff matters as individual corporations and through their respective trade associations.

We are confident that the Committee will consider their recommendations carefully.

International trade among the free nations of the world should be promoted in a manner that benefits the economics of, and promotes private enterprise in, the countries involved. There are various factors which have a direct bearing on the successful conduct of international trade. We urge that the Ways and Means Committee consider these factors carefully while deliberating and reaching decisions on the proposed legislation and related matters.

We urge further that, in formulating policy, Congress give due regard to the increasing role which intellectual property plays in overseas operations. Intellectual property, in a broad sense, includes the uses of managerial, technical, scientific, and other skills often referred to as "know how." One of the probable reasons for the acceleration of concern in this area is the newly imposed restriction on direct investment. Another reason is that previous direct investment in a foreign environment produces an immediate market for "know how" in many of the components of the overseas operation. The main inhibiting element of marketing "know how" is the question of the protection of patents and other intellectual property. The NAM, through its Patents Committee, has worked closely with the U.S. Patent Office and the President's Patent Commission in order to achieve a uniform and efficient world patent system. We hope that the United States will endorse a world patents system, and take all appropriate steps for its development through international negotiation.

In the view of a preponderance of experienced U.S. international traders, an important problem blocking the orderly growth of international trade is the imposition of non-tariff barriers by trading countries. The elimination of these impediments to international trade should be a primary objective of U.S. policy. Each year the list grows larger and the solutions become more complex. Such artificial manipulations of the trade environment by governments can only invite pressure for countervailing actions by other trading nations and inhibit orderly expansion of trade. The negotiations already started by the Office of Foreign Trade Representative through the General Agreement on Tariffs and Trade to reduce and eliminate these non-tariff barriers should be supported to the fullest extent.

The tax aspects of trade policy are of the highest importance to the members of the NAM and to the country generally. In the remainder of this statement, we will present our views on this subject.

TAX ASPECTS OF TRADE POLICIES

The NAM believes that there are some basic inconsistencies between the tax treatment of foreign business activities and the objective of maintaining and fostering international trade. For the purposes of this discussion, these can be divided into two categories: one involving international border taxation, and the other involving domestic income tax policy on foreign source income.

We do not think that action should be taken in either area solely on the grounds that it might improve our immediate balance-of-payments deficit. In the recent past, that deficit has been used to justify a series of controls on private investment abroad—some of which have aggravated tax-trade policy inconsistencies. We do not want to see any precipitous changes in tax policy without regard for their long-term implications.

The NAM would like to see a change in the present system of international border taxation and a change in our own tax laws affecting export trade. Both can serve the long-term objective of providing a more equitable international marketing environment and help to improve our balance-of-payments position at the same time.

Border taxation

Under the General Agreement on Tariffs and Trade (GATT), indirect taxes are eliminated from exports and imposed on imports. These indirect taxes include value-added taxes as in France and Germany, turn-over taxes as in other EEC countries, and the United States' excise taxes. The adjustment for taxes at the border treats all indirect taxes as identical assuming these taxes increase product prices but direct taxes (income, payroll) do not.

These assumptions are not supported by economic evidence. The real effect of indirect taxes on price is controversial but it is clearly not consistent with the maximum allowance given under GATT to countries with high indirect taxation

and minimum allowance to those with relatively little indirect taxation, such as the United States. To the extent that driect taxes do raise product prices or indirect taxes do not raise product prices by the full amount of the tax, the present system overcompensates for indirect taxes. The United States, which relies primarily on direct taxes, is thus put at a disadvantage.

This is being compounded, of course, by the spread of value-added taxes within the countries of the European Economic Community to replace turn-over taxes of lower rates. Germany recently raised its import charge and export rebate to 10% from an average of 6% to reflect its new 10% value-added tax. Other EEC countries are following suit even before the change-over to value-added taxation becomes effective domestically. Also, as tariffs themselves have been lowered considerably over the years, the impact of border tax adjustments on trade and trade diversion has become relatively greater.

There appears to be increasing awareness that United States exporters clearly face a competitive disadvantage in marketing products in countries which apply border taxes to a wide range of imported products, particularly Western Europe. Since the NAM published a study in 1965 entitled, *The Logic of Border Taxes*, many articles have been written, and comments made, by tax experts, economists, and Congressmen reaching the same conclusion as our study—that the present system is inequitable and illogical. Various studies on particular products and product groups have been conducted to show the cost-of-entry effects of the EEC border tax adjustments on U.S. exports.

Correcting the present system of border tax adjustments is proving much more difficult than recognizing its faults. The United States, by agreeing with the GATT arrangements on border adjustments in the first place, is not in the best of bargaining positions. In the early post-war period, of course, the issue did not appear too significant in comparison with other problems. We allowed the border tax system to become well entrenched and absorbed its effect on exports and export prices without noticeable complaint.

It was hardly surprising, therefore, that when the Administration was reported to be actively considering a request for a U.S. border tax last winter, much concern was voiced abroad by some of our trading partners. With some justification, they viewed this as a frantic attempt on the part of the United States to maintain our trade surplus by indiscriminately squeezing imports. In the context of our rapidly deteriorating balance-of-trade and balance-of-payments position and the drift toward exchange controls, it was natural that these partners, particularly Canada and the United Kingdom, would fear a U.S. border tax, imposed under these conditions, as a precursor to even harsher restrictions on their exports to the United States.

The proposal under discussion last winter was a 2–3% border tax to be levied on imports and rebated on exports. This was adjudged all that would be permitted under GATT rules applying to our existing tax structure. Regardless of the possibilities of foreign retaliation, we doubt that a border adjustment of such magnitude could have any significant effect on our trade balance over either the short or long term. Certainly, it would not remove the basic marketing disadvantage of U.S. exporters.

Therefore, we think the Administration was correct in not making a formal request for a U.S. border tax of such character at this particular time. On the other hand, we do not think the American business community should be satisfied with vague promises to try to negotiate away the problem. Certainly, it should not be allowed to linger on indefinitely.

U.S. negotiators have been trying to get a freeze on border tax changes pending a new study of the whole issue by GATT. The difficulty here is that countries within the EEC have been moving toward tax harmonization for years now, and border tax adjustments reflecting the adoption of taxes on value-added in place of turn-over or cascade type of taxes are considered part and parcel of their domestic tax planning. To date, the United States has had no success in stopping this process.

The alternative proposal presented by GATT—that Western Europe, Canada and Japan accelerate their Kennedy Round Tariff cuts by one year and allow the United States to delay implementation of its reductions—might have a limited benefit on our short-term trade balance, but would offer no long-term solution to the border tax problem.

Certainly, we should support a thoroughgoing study by GATT of the present rules, how they came about, and how they should be changed. The basic question of whether or not there should be *any* border tax adjustment for broad-based internal tax burdens shoudl be explored. At the very least, the question

might be raised as to whether only taxes demonstrating a clear and direct impact on prices should be eligible for border adjustments.

If the results of such a study cannot be used to reduce the arbitrary advantages that the European tax system enjoys in international trade, then perhaps we should argue for allowing a portion of direct taxes on business enterprise also to be eligible for border adjustment.

Assuming such authority, with or without the sanction of GATT, the United States still need not impose a uniform border tax. If the intent is to accomplish tax *neutrality* in international trade, we could deem a U.S. border tax equivalent to the tax which is rebated/imposed by the foreign country involved on similar transactions with the United States. With regard to Germany, for instance, a U.S. exporter would receive a rebate of 10% from the United States and pay 10% to Germany. A German exporter to the United States would receive a German rebate of 10% (as is now the practice) and pay 10% to the United States. With countries such as Canada and the United Kingdom, there would be no rebates or charges since these countries do not now have such taxes.

We believe that such a procedure should be considered as a last resort—that we first should make every possible effort to achieve reduction or elimination of border tax inequities without unilateral action on our part. If all attempts along these lines fail, however, at some point we should actively consider our own action to establish a more neutral international marketing environment.

A lower tax rate on exports

Unlike the tax systems of many countries which tax only domestic and not foreign source income, the United States has always taxed its citizens and domestic corporations on their worldwide income. Thus, income derived from exports by U.S. citizens or corporations is subject to immediate tax at full rates, in the same manner as if the income had been earned domestically.

An exception to this general rule, at least insofar as tax rates are concerned, applies in the case of a Western Hemisphere Trade Corporation (WHTC). A WHTC is a domestic corporation which enjoys a corporate income tax rate 14 points below the regular corporate rate, which is to say that if the corporate rate is 48%, the WHTC is taxed at 34%. In order to qualify for the reduced rate the WHTC must conduct all of its business in the Western Hemisphere, with 95% or more of its gross income being from sources outside the United States and with 90% or more of its gross income derived from the active conduct of a trade or business. The activities of WHTC's are not, however, limited to exports; many of them engage in manufacturing or extractive industries.

The NAM ordinarily looks with disfavor on the use of tax incentives to attain non-tax objectives. It is also opposed to the use of stop-gap measures and temporary expedience as solutions to basic problems. However, in an effort to achieve a better degree of market neutrality vis-a-vis foreign competition, some reduction in the U.S. tax rate on income derived from exports would appear justified by way of an offset to the many restrictions that foreign countries impose on U.S. goods and to the subsidies they confer on exports to the United States. Even if the border tax problem can be settled to our satisfaction, there remain a host of other non-tariff barriers and export incentives employed abroad which bear upon the competitive position of U.S. manufacturers.

There is considerable evidence, moreover, that the competitive condition of the United States in world markets has declined in recent years, and that much of this is attributable to non-tax factors. Nevertheless, for the reasons mentioned above, it is believed that the United States, with its almost total reliance on the income tax as its principal source of revenue, places its exporters at a disadvantage, vis-a-vis foreign competitors, as a result of its own tax system.

The NAM believes that consideration ought to be given to a lower tax rate on income derived from exports—a rate at least as low as that pertaining to a WHTC. To qualify for such lower rate, it would not be necessary to set up a separate corporation as in the case of a WHTC; it would seem that appropriate departmental accounting by an existing corporation should be sufficient to identify the amount of income qualifying for the lower rate. For purposes of qualification, source of income in a legal sense (which under existing law is based upon where title passes) would be disregarded—a destination test requiring use, consumption, or disposition outside the United States would be controlling. Further more, since exports often require the performance of technical, managerial, engineering, and other services directly related to the sales of export property,

income derived from these functions should likewise qualify for the lower tax rate. In addition, where a portion of the consideration received for the export or for any related technical and know-how services consists of a non-cash item such as an equity investment in a foreign enterprise, provision should be made for the taxpayer to elect treatment of such items as in constituting receipt of income for the taxable year in which acquired, with a corresponding provision that would treat these proceeds from any subsequent disposition as ordinary income.

The Nation's balance-of-payments deficit has continued for 17 of the last 18 years and, therefore, can fairly be viewed as a chronic condition which must be corrected by permanent, and not stop-gap remedies. The suggestion of a lower income tax on exports, as described above, is therefore offered as a permanent feature of our taxing system.

STATEMENT OF THE INTERNATIONAL ECONOMIC POLICY ASSOCIATION

The International Economic Policy Association is vitally interested in trade policy because of the importance which foreign trade has in our international accounts. We are in favor of steps which would increase exports and assure continuing surpluses in our international trade account.

H.R. 17551, "Trade Assistance Act of 1968"

The orderly management of our trade relations requires the President from time to time to make adjustments in tariffs. We, therefore, recommend that such portions orf the authority granted in Section 201 of the Trade Expansion Act of 1962 as are necessary for these housekeeping purposes should be extended.

I trust that our failure to comment on the other portions of H.R. 17551 will not be considered as reflecting opposition. We are refraining from commenting on them simply because we have not given them sufficient study to justify taking a thoughtful position on them.

Export incentives

Foreign trade should represent an important plus factor in our balance of payments. It did so over the years 1960 through 1965, when our commercial surplus was at an annual average of $2.7 billion. However, the evolution of trade blocs, the effects of nontariff barriers, such as variable levies and border taxes, and the erosion of our competitive position are having their effect. In 1966, our commercial trade surplus, arrived at by subtracting government-financed exports, slid to $646 million. In 1967 it slid further to a mere $250 million. (See Table I.) Preliminary figures for the first four months of 1968 show further deterioration. (See Table II.) Unless this situation can be reversed, efforts to solve our urgent balance of payments problem will be difficult.

The recent adoption of the surtax and reductions in government expenditures will, hopefully, contribute to improving our competitive position with an accompanying reduction in imports and increase in exports. It will, however, be some time before these effects are felt.

The decline in our trade surplus results from the fact that our exports have not expanded as rapidly as our imports. Although our exports have expanded, our share of world trade has steadily declined. (See Table III.) This has been particularly notable with our major trading partners who have organized into blocs. Over the period 1958 to 1967 the members of the European Economic Community increased their exports to the United States by *166* percent while our exports to them increased by only *109* percent.

The failure of our exports to keep pace with the growth in world trade and our own increase in imports does not reflect simply the erosion of our competitive position. It also results from the fact that our exporters are at a disadvantage compared with their foreign competitors. If we are to improve our foreign trade position, we must provide our own exporters with compensating advantages and incentives.

We therefore propose that legislative action should be taken to authorize U.S. firms to organize International Trade Corporations for export purposes only. Provision should be made that the profits of such corporations would be taxed at a rate of 14 points less than the tax rates usually applied to domestic business corporations. Such an incentive should induce those now engaged in exporting to step up their efforts and many not now so engaged to become interested.

Merchandise Net -- excluding military.

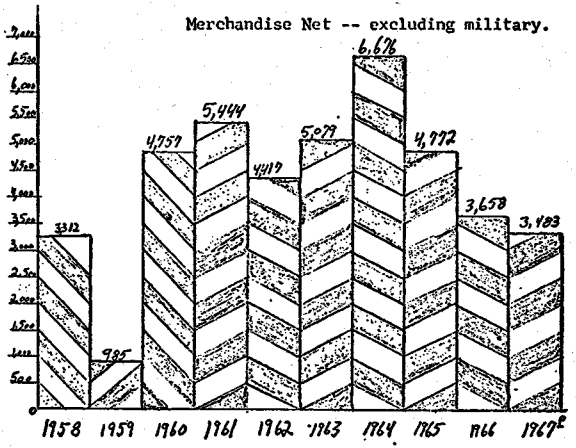
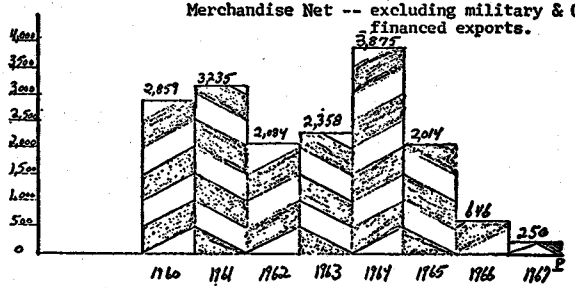


TABLE I

UNITED STATES MERCHANDISE TRADE --- NET
1958 - 1967

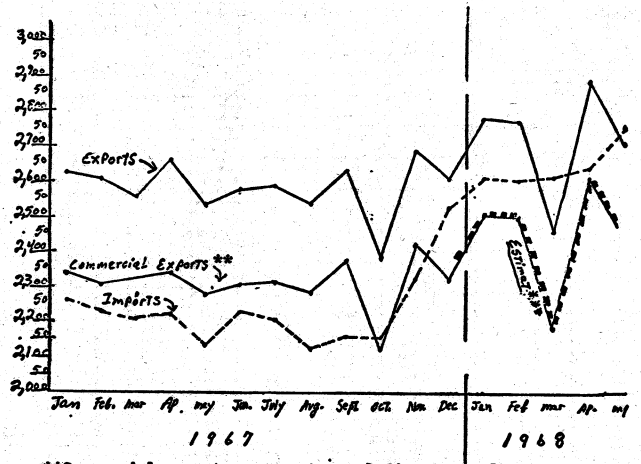
(in millions of dollars)

Merchandise Net -- excluding military & Gov't financed exports.



P = preliminary

Source: Survey of Current Business, U. S. Dep't. of Commerce, June 1967; March, 1968

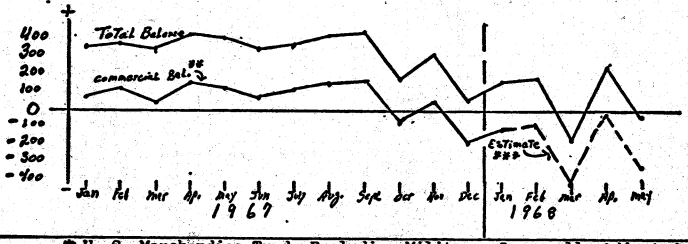


U. S. MERCHANDISE TRADE*, EXPORTS & IMPORTS -1967 THROUGH MAY 1968.

(month by month in millions of dollars)

TABLE II

**Commercial exports = exports excluding Gov't financed exports
***Estimate (of commercial exports)= exports excluding Gov't financed exports running at the same monthly rate ($269.4 million) as the previous twelve months.



U. S. MERCHANDISE TRADE* BALANCE - 1967 to MAY 1968.

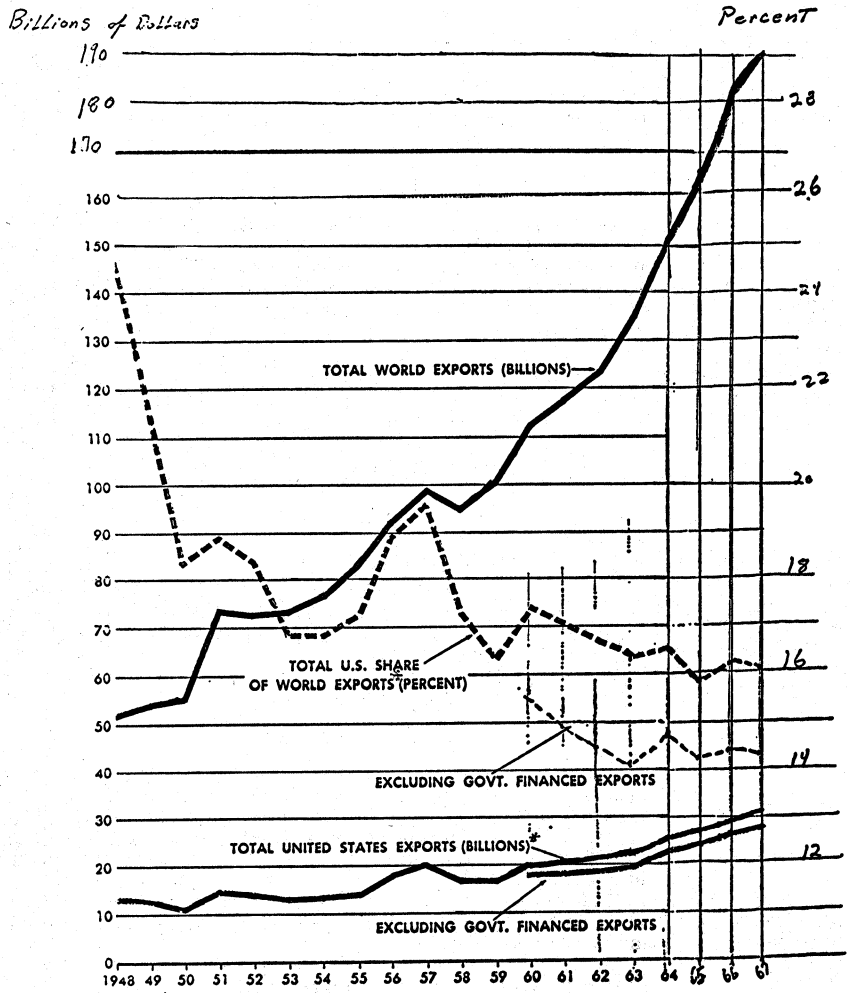
(month by month in millions of dollars)

*. U. S. Merchandise Trade Excluding Military, Seasonally Adjusted, Census Basis.
SOURCE: U. S. Department of Commerce, Bureau of the Census, Release # CB68-55 of May 31, 1968.

TABLE III

UNITED STATES SHARE OF WORLD TRADE

1948 - 1967[P]



* Merchandise excluding military.

P = Preliminary

SOURCE: U.S. Department of Commerce, Balance of Payments Statistical Supplement (rev. ed.) 1963. Survey of Current Business, June 1967, and International Financial Statistics (IMF), 1968 issues.

STATEMENT OF GEORGE S. BULLEN, LEGISLATIVE DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

The National Federation of Independent Business appreciates the opportunity to submit this statement regarding the Trade and Tariff proposals now under examination by your Committee.

The Federation, founded twenty-five years ago, now represents more than 250,000 independents in all fields of enterprise. This means that, within the small business community of this country, as presently constituted, almost one out of every nineteen existing small businesses is a member of the Federation. Our membership is representative of all facets of the business spectrum. A check of membership percentages in each business category will show that the composition of the National Federation of Independent Business falls within a very few percentage points of the overall makeup of the entire small business community. Therefore, we feel that we can reasonably say that the views expressed by our members do represent a valid cross section of the views of the whole small business community.

The legislative policies of the Federation are determined by the direct vote of its membership, using the Mandate ballot.

GENERAL

Regarding experience, Federation Economic Surveys show that while the vast majority of small businesses are unaffected by or indifferent to import competition and export opportunities, a substantial minority is involved.

For instance, in our 1962 survey we asked pointedly whether respondents were "affected" by import competition. Sixteen percent replied "yes," 73% "no," and 11% were not responsive. In our 1967 survey we asked, "Do you manufacture or sell goods for export?" Four percent of all respondents (ranging from 1% among retailers to 20% among manufacturers) replied "yes."

Rather interestingly, in a 1963 survey 89% of those who indicated their businesses harmed by import competition ascribed the harm to "price competition." The balance, 11%, ascribed the harm to the style or type of foreign products. Additionally, in the same survey we asked, "As an importer or exporter, have you used SBA, Commerce, State Department aids?" The pitifully small "yes" response (4% of those styling themselves as "importers or exporters") suggest that a large number of small businesses involved in foreign trade either are unaware of these governmental helps, or do not understand them fully, or knowing and understanding them, do not feel they meet the needs of small business. As we have stated many times, this would indicate a need to publicize these programs more than has been done to date. We of the Federation are trying to do our part in the news section of The Mandate. Additionally, our News Department has at various times, through both print and broadcast, called attention to the work of the Department of Commerce in seeking to assist the smaller businessmen in exporting.

SPECIFIC WAGE DIFFERENTIALS

Over the years, the Federation has presented to its members at least ten legislative proposals aimed at tying tariff rates to wage differentials between the United States and the country of origin. In each and every case, the Federation members have voted, by a substantial majority, to support such a proposal.

Accordingly, the Federation recommends that wherever possible this wage differential be considered and resulting tariffs be sufficiently high so as to remove the competitive advantages enjoyed by low cost labor areas over prices charged by domestic producers who find that their selling prices are being steadily driven upward due to continued increases in labor costs.

TIMELY COMPLETION OF INVESTIGATIONS

On several occasions the Federation has polled its members on bills which would require the Treasury Department to complete its investigations within 120 days of complaints that foreign producers are selling their goods at lower prices in the United States than in other Nations. Every time such a proposal has been presented for a vote, our members have overwhelmingly supported it.

Therefore, in order that those businesses who lodge such complaints with the Treasury Department may be granted relief before irreparable damages are done, we recommend that the Treasury Department complete its investigations as expeditiously as possible after receipt of the complaint.

EXAMPLES

So that Committee may see examples of how the above mentioned proposals were presented to our members, we are reproducing below the information given and the resulting vote totals:

[From the Mandate, Bulletin No. 282]

(5) H.R. 587. Adjust tariffs to protect American businesses from price advantages foreign producers gain through lower wage costs (Rep. Pucinski, Ill.). Under this bill, the lower the wage rates in foreign nations, the higher our tariffs, to equalize competition.

Following are brief arguments "For" and "Against" which we asked our members to read before voting:

5. Arguments for H.R. 587: Many key American industries face serious problems due to increased imports from low wage areas. They've been forced to fire a significant number of their workers. Fact is they're simply unable to compete with areas where wages are only a fraction of those in the U.S. This bill doesn't aim to put U.S. international trade policies back in the "model T" age. It is a moderate, reasonable approach to getting a fair break for our businessmen and workers. All other nations protect their own. We should do no less for our own.

5. Argument against H.R. 587: A lot of tears have been shed over the plight of the poor American producers who suffer due to low wage cost foreign imports. But not enough thought has been given to the fact that many of these people haven't been doing much to help themselves. They've forgotten that trade goes to him who produces what consumers want. They've forgotten how to merchandise aggressively. Atop this, too many American workers have forgotten the meaning of "an honest day's work for an honest day's pay." Not all of them, but many.

The results of this poll were:

5. H.R. 587. Adjust tariffs to offset lower foreign wage costs:

	Percent
For	76
Against	16
No vote	8

[From the Mandate, Bulletin No. 285]

(3) H.R. 2575. Require treasury department to complete its investigations within 120 days of complaints that foreign producers are selling goods at lower prices in the U.S. than in other nations (Rep. Dent, Pa.).

Following are brief arguments "FOR" and "AGAINST" which we asked our members to read before voting:

3. Argument for H.R. 2575: Existing law permits American firms to seek relief when foreign producers dump goods in the U.S. at cut prices. Complaint can be made to the Treasury, which investigates, and if it finds the facts warrant action forwards the information to the Tariff Commission. The Tariff Commission can then enact special tariffs on these goods to restore fair prices. Trouble is that the Treasury Dep't is so slow that serious damage is done U.S. firms before it reaches its decision. In one industry where complaints were made, it required an average 15 months before acting. This bill would speed matters by placing a time limit on the Department.

3. Argument against H.R. 2575: This bill doesn't offer a cure-all for American firms which feel they are being hit by unfair foreign price competition. It merely seeks to shorten the period in which Gov't agency decisions on complaints must be made. It has a good aim, but is very unrealistic. To begin with, the facts in one situation may be more complex than in another and may demand more time and attention. Who can say that 120 days is enough time for the job to be done in all cases? Further, it overlooks the fact that this is but one duty of the Treasury Dep't. The agency can't be expected to drop all other work when it receives complaints of unfair competition.

The results of this poll were:

3. H.R. 2575. Put time limit on actions concerning charges of cut-price foreign competition:

	Percent
For	76
Against	16
No vote	8

CONCLUSION

As to the attitude of small business toward international trade, responses to The Mandate polls, which experience suggests reflect generally the views of small business as a whole, indicate the following convictions:

1. That Congress itself should exercise greater interest in and authority over international trade agreements, and that the authority of the Executive in this area be correspondingly curtailed; and

2. That the Congress should develop mechanisms for preventing undue injury to United States firms through import competition, such as in proposals to require clearer marking of foreign goods to identify the country of origin; to provide adequate tariff protection, and to require that the Treasury Department complete its investigations into complaints of dumping within a shorter period of time than is now the practice.

In connection with the foregoing, it must be noted especially that members have expressed approval in many Mandate polls of measures which would base tariffs on differentials in wage costs between foreign and United States industries, in each line of manufacturing.

RADIO TALK BY ED WIMMER, PRESIDENT, FORWARD AMERICA, INC., PUBLIC RELATIONS DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, INC.

NEEDED: A POLICY FOR INTERNATIONAL FAIR TRADE

A few years ago I attended a large convention of importers and exporters, and after seeing the high quality of foreign products on display, and talking to representatives of numerous importers whose salesmanship was superb, I asked the conventioners the following questions:

1. Will you accept the charge that no trade is good trade that isn't fair trade, either domestic or foreign?

2. Are you afraid to meet American competition at home or abroad, under tariff regulations or agreements that take into consideration the high taxes and high standard of living in the United States, and thus prevent any importing country from exercising the competitive advantage of low wages and low taxes prevailing in your own land?

3. If you had a wide-open market in the United States, and if your success depended on your merchandising technique and the quality of your goods, do you believe you could capture a satisfactory share of our market, and would you be willing to offer American exporters the same opportunities in your own land?

4. Do you believe that if we allow you to endanger or destroy our toy industry—our steel, shoe, office equipment, textile, glove, motorcycle, plumbing supplies, cattle, creameries, dairy farms, dishes, tile or almost any other line, that you eventually will endanger or destroy the best market you have in the world?

At the end of my talk the wife of a Japanese importer asked: "Why doesn't your government talk to us like this, Mr. Wimmer?" An executive of a Swedish corporation got to his feet and told the audience that he would not only favor any and every attempt to establish a basis for fair trade between nations, but added it could become one of the biggest and most important educational programs ever carried out between nations.

In contrast to this view, we are hearing from all sides that if we fail to allow billions of dollars worth of goods to flow over our borders, at prices no American business can meet, that foreign nations will shut off our exports. We are told that whole industries in the United States must be considered "expendable"; that Congress must appropriate funds to pay off the bankrupt owners, and retrain or keep on welfare, the workers who lose their jobs and the value of their special training—whatever it may be.

Free traders who are challenged on this theory, call the people who believe in a fair exchange of goods and services, protectionists and obstructionists. Congressman Tom Curtis, Missouri, says that free trade has become some sort of sacred cow which to attack is to be "against Motherhood and Christmas." Mr. Curtis inserted a speech by John Morrill, former president of the Electrical Manufacturers Association, in the Congressional Record, which challenged utility companies and other purchasers of low wage, low tax produced equipment with being blind to the long-range benefits of keeping Americans on jobs and American companies in business.

Since the end of the last World War, we pumped billions into foreign nations to help them rebuild their mills and factories. We gave them the know-how; brought them over here to train them in our ways of doing business. In one single industry: textiles, we aided 49 countries, none of which will allow a pound of our textiles to cross their borders. We have bought their tile, steel, shoes, gloves, wallboard, tools, dishes, plastics—you name it—at prices no manufacturer could meet. To make matters worse, hundreds of American manufac-

turers bought into, took over, or established plants in low wage nations to produce goods to ship back to their home-based markets at prices the home-based factory could not meet.

Compare this outrageous situation with the attitude taken by Japanese industrialist Yosomatsu Natsuabara who said that "chaos would reign in Japan if U.S. industries are allowed to enter our country unhampered by tariffs." He continued (and please keep these words in mind): "Our smaller businesses would be ruined by the thousands."

This is what you call nationalism: my country first, then maybe yours. Ken O'Kubo, president of giant Mitsubishi industries, stated that the "Japanese distribution system would be plunged into serious confusion by an invasion of American capital goods if we did not limit American investment in Japan."

Yet, Japanese steel is pouring over our borders in an ever increasing flow. Japan has captured the shipbuilding leadership we held. Our toy and transistor and camera business is going to Japan, Germany and other nations. Japan is selling us over 80 percent of our motorcycles, and within two years, Japan ought to be leading in foreign car sales in the United States—despite the fact that Chrysler has grabbed off a big slice of the French auto industry; Ford in England and General Motors in Germany.

My point is, if Japan is making a good motorcycle and one that is better or will compete with American cycle makers, would it not be reasonable to assume that we maintain some part of the bicycle-motorcycle industry by regulating foreign trade according to our own cost levels that are set by our high standard of living, and our huge tax burdens, and, yes, our wars and defense establishments all over the world?

"I ask you, and I ask any Member of Congress, if the British government or the German or Russian governments, Japanese or any other, would consider making their own industries expendable and condemning their own workers to a loss of jobs and wasted talents, to favor an American industry? I would ask also if the labor leaders from Germany who visited this country and flatly told us that no foreign country will buy our goods once it is producing those goods in quantity, were stating a true situation? One labor leader ridiculed the whole idea that an American held factory in Germany would tolerate competition from its own American based plants.

Yet, on the other hand, we read the testimony of Dr. Barry Johnson, formerly of Chicago University and lately with the London School of Economics. He argues that by dropping tariff walls, America will be reducing the need for foreign aid. The thing that is wrong with this dumfounding suggestion is, that American workers and factory owners would have to be put on relief to supply this trade advantage, and at what cost?

In talking about protective tariffs, I am fully cognizant that our American workers in industry after industry are not only demanding more and more fringe benefits, bigger pensions, longer vacations, shorter hours, and turning out shoddy merchandise, but they are the first to head for the discount house to buy a cheap foreign lawn mower, pair of gloves or boots, and pass up their independent merchant as if he weren't there. During the last several months we are witnessing one rash of strikes after the other, with leaders demanding huge hourly wage increases, pricing our depressed and bankrupt farmers out of one market after another, and opening every door to a bigger flow of imports, with taxes and inflation blowing through our ceilings; our deficits greater than the taxes of most nations; our boys being killed by the thousands to keep this fiasco going.

Congressman H. R. Gross, Iowa, calls the cry for free trade a ringing cry for one worldism. Congressman H. R. Dent, Pennsylvania, another great voice for international fair trade policies, says he was not elected to help liquidate the businesses in his District, many of which are already gone. Congressman Horace Kornegay, North Carolina, tells how the live and let live arrangement with foreign textile mills who reduced their shipments voluntarily, probably saved the textile industry of the South (last year). To promote the live and let live approach to the trade problem, Congressman Herlong of Florida, and other Members of Congress, have introduced bills which incorporate the international fair trade philosophy.

Mr. Herlong's bill is not a tariff bill. It is merely a restriction against wild expansion of imports from any country. It recognizes the need of importing if export trade is to be maintained, but he sees, with us, the destructive potential

in attitudes that in order to export we must give the low wage countries an almost open field. To go along with this theory is to say that we ought to repeal our antitrust laws so the big discounters and chains can run hog-wild over the market place, dumping loss leaders on the public until all the small manufacturers, suppliers, independent retailers and smaller farmers are liquidated.

By not enforcing our antitrust laws earlier, we have already accomplished this liquidation of free enterprise in many lines of business, closing the doors to our youth in one line and then another.

Exporters who think only of what will happen to them if a foreign country retaliates by cutting down on its purchases, had better consider what is going to happen if we cannot answer our Appalachian problems, our civil rights problems, the problem of training and finding jobs for the millions of people who will be displaced with the coming of peace. These exporters and importers need to realize, too, that they have done a miserable job of selling any American idea of what constitutes a live and let live policy of doing business. They must realize that an overwhelming majority of businessmen, both big and small, have stood back and watched the destruction of the family farm and the independent storekeepers through merger, cutthroat competition, trading stamps, games, discriminatory tax burdens, bureaucratic red tape and trends to socialistic government—without writing a letter to their Congressmen, without taking time to talk to the youth of their communities; without showing a sign of effort in behalf of the fundamental principles set forth by the Founding Fathers who gave them their freedoms and their opportunities.

Free enterprise in this country does not mean the freedom of anyone to exploit workers or the buying public. It does not mean that we should even tolerate the idea of building the dynasties of Europe and Asia by patronizing their sweat shops, and what is wrong, I ask, with our buying the things from Latin America, Europe, Asia and Canada, that they can make well or that we do not make at fair prices, and why cannot we spread this idea into foreign lands? Are we not just as bad as the maker of a sweat shop product when we buy it, actually glorying in the fact that we got it so cheap, when maybe it was produced by people living under starvation conditions who could never purchase anything we produce?

Ladies and Gentlemen, you have great decisions to make. Congress has great decisions to make on this whole matter of domestic and foreign trade. Within the next few years, Russian businessmen and their highly trained, many language emissaries will be streaming over the world to move the goods of their growing industries, and Japan, China, India, Latin America, all will have markets for their goods and services, and if we allow our industries to be weakened, and some to disappear entirely as they are now doing, we could end up not only as a have-not nation, but lower on the economic ladder than the British Empire is today.

I urge you to think about this idea of fair play in the market place; to weigh the benefits of international fair trade, and to keep ever in mind that the destiny of goods determines the destiny of nations as much as the structure of their government and the philosophy that lives in their hearts.

What Congress does to build a fair trade "freedom of opportunity" system in America, may determine America's course for generations to come.

NATIONAL COUNCIL OF FARMER COOPERATIVES,
Washington, D.C., July 12, 1968.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR MR. MILLS: The National Council of Farmer Cooperatives, a nationwide association of farmer-owned, private enterprise businesses engaged in purchasing and marketing of farm supplies and farm products, is vitally concerned with recent developments in international trade matters—including adverse trends in the U.S. trade balance, widespread drift toward new non-tariff barriers which further restrict U.S. export opportunities or threaten unfair import competition, and other policies or actions by nations of the world which conflict with principles of the General Agreement on Tariff and Trade or heighten risks of a damaging, perhaps uncontrollable trade war.

Trade is of critical importance to the welfare of our country, as it is to U.S. agriculture. Opportunities for expanded farm export markets are vital to our farmers, our agri-business sector, and our national welfare. We oppose the unilateral establishment of trade barriers which restrict world trade growth, including such insidious non-tariff barriers as variable levy systems and arbitrary or unfair import regulations which seriously disrupt efficient and desirable trade patterns.

The National Council has consistently endorsed the principle of trade liberalization through reduction of trade barriers, by GATT negotiations to the maximum extent possible, to the benefit of all nations through expanded world trade. We support the principle of reciprocity as a basis for negotiating trade barrier reductions, and we favor the extension of Presidential authority for continuing multilateral efforts to expand trade opportunities.

Farm commodities must also be considered as an integral part of the net reciprocal concessions made by all nations in multilateral negotiations. Even though we recognize the strong representations made and commend U.S. Kennedy Round negotiators for their efforts on behalf of U.S. farm exports, we deplore the circumstances which limited our agricultural gains to only a small fraction of gains made in industrial sectors.

The strong interest of our membership in expanded trade is reflected in the following National Council policy statement on "Expansion of Foreign Trade in Farm Products":

"The National Council of Farmer Cooperatives endorses the objectives of expanded world trade and encouragement of market opportunities abroad for American agricultural products. We recognize also that the lowering of barriers which now limit world trade may create serious economic dislocations and that adjustments in trade patterns must normally come through careful and gradual reduction of trade barriers."

Under GATT (General Agreement on Tariffs and Trade) or other international trade negotiations, expanded trade to benefit all countries is possible only if offers by all trading partners represent comparable concessions. This principle of economic reciprocity must continue to be the keystone of U.S. trade agreement policy.

The National Council recommends renewal of Presidential authority under the Trade Expansion Act of 1962 to enter into further trade agreements based on true reciprocity. Many forms of non-tariff barriers, such as quotas, embargoes, unrealistic inspection procedures, and lack of uniformity of grade regulations and tolerances hamper efforts to achieve such reciprocity and severely limit U.S. export opportunities. Negotiations toward trade agreements should be focused on reduction of such non-tariff barriers, and particularly on the variable levy system widely used by the European Economic Community (EEC).

We are unalterably opposed to the recognition of the variable levy system as a valid policy for trade liberalization, and request that U.S. negotiators press vigorously for its elimination.

The National Council is concerned over increasing use of international marketing subsidies which are disruptive of long established United States markets abroad. Such practices lead to chaotic marketing patterns which tend to allocate resources on a political rather than a most economic basis.

We recommend that United States agencies or negotiators involved in such matters view such practices wherever they exist as a serious disruption of attempts to increase world trade on a fair and equitable competitive basis and work to have such practices stopped immediately.

We favor and urge that if attempts to eliminate such unfair practices are not successful, programs providing funds already available to perishable commodity industries be used (to the extent such funds are available) to meet such unfair trade practices in order to maintain historical marketing opportunities in the markets of the world.

We also deplore those unilateral increases in tariffs or introduction of other trade barriers which have been made since the termination of the Kennedy Round negotiations. We urge that positive actions be taken by the U.S., through GATT channels insofar as is practical and reasonably prompt, to offset trade losses and damaging effects to our balance of trade through such unfair practices.

Trade agreement bargaining which is limited to farm products alone would be ineffective. Farm commodities must be considered an integral part of the broad spectrum of international trade. If we are to grant import concessions on indus-

trial goods, farm products must be part and parcel of the trade package for which we, in turn, must secure concessions. Any concessions granted by us on industrial and other goods should be accompanied by corresponding reduction of market barriers on commodities for which the U.S. has important historical markets, or by other arrangements which would give satisfactory conditions of access for U.S. farm products.

Undue protectionism on the part of the EEC will reduce opportunities for world wide relaxing of trade barriers, rational growth of world markets and the consequent economic benefits of specialized production. It will increase the incentives for uneconomic production of many commodities within the Common Market area and will simultaneously exclude competing commodities from the U.S. and other countries.

We urge that all possible advantage be taken of legislative provisions which may be useful in reducing or withdrawing concessions in order to implement the purpose of expanded trade, where such purpose is being impeded by action not in conformity with the rules of GATT or where there has been arbitrary refusal to fully implement concessions which have been granted to us.

Before concluding specific trade agreements, full consideration should be given to the possible effects of the extension of the agreement to other countries under the Most Favored Nation Policy.

The National Council favors the passage of H.R. 17551, the proposed "Trade Expansion Act of 1968," to expand trade and strengthen adjustment assistance provisions for firms and industries which are unfairly damaged by foreign competition. We believe that procedures for relief of U.S. groups damaged by trade agreements or by abrupt or arbitrary trade actions by trading nations are now inadequate. Substitution of the concept of a "substantial cause of injury" criterion for assistance is a distinct improvement over the current requirement that increased imports, "as a result in major part of concessions granted under trade agreements," have been "the major factor" in causing injury.

We also support other amendments or administrative actions designed to streamline procedures for petitioning for relief, hearings, and application of findings.

Removal of the American Selling Price system for applying certain chemical and other tariffs would offer special benefits to U.S. farmers as well as possible speed-up in the schedule for lowering European and Japanese tariff cuts agreed on in the Kennedy Round. Since ASP is seen by many of our trading partners as the epitome of American non-tariff protectionism, its removal would help our negotiators to move more aggressively toward reduction of non-tariff barriers on a wide front.

The provisional "ASP package" offers gains for U.S. agriculture through reduced barriers to some U.S. tobacco and fruit exports. Perhaps of greater significance, though, is the opportunity for lowered costs for pesticides, drugs and feed supplements having benzenoid chemical components. A billion dollar farm supply market is involved and substantial reductions in farm costs could be possible if tariff reductions were even partially passed on to farmers.

The National Council is also urgently concerned about extensive use of non-tariff barriers which threaten many of our export markets for American poultry, grains, fruits, and other farm products. Regrettably, these trade barriers seem to be proliferating since the conclusion of the Kennedy Round, particularly those occasioned by or at least concurrent with further harmonization of the trade and tax policies of the EEC. Major international efforts are needed to measure and agree upon the impact of these barriers on world trade. Before effective progress can be made in reducing these trade impediments, there must be better agreement on the degree of trade restraint imposed by such complex barriers as indirect subsidies, food additive controls, import licensing requirements, and many other damaging or cumbersome procedures, taxes or other trade regulations.

One of the most notorious and damaging barriers to expanded world trade is the variable levy system of the European Economic Community, which we have vigorously opposed as a violation in spirit, if not in substance, of the basic objectives of the General Agreement on Tariffs and Trade.

We continue our strong opposition to the EEC variable levy. Its damage and its threats are not limited to the harm it does to worldwide efforts toward liberalizing trade. It threatens many U.S. farm export markets and establishes a dangerous precedent in the international trade policy arena. It has already

done great harm to the American poultry export trade and has hampered U.S. grain export opportunities, in both instances resulting in industry dislocations and uneconomic allocations of European resources which in the long run will likely hurt EEC farmers more than it will help them.

The latest threat of an EEC application of the variable levy system to canned fruits and vegetables is another matter of particular concern, since it would do further serious damage to established and efficient U.S. suppliers, add to European consumers costs and undercut the accomplishments of the Kennedy Round in this field. We have urged that U.S. negotiators make the strongest possible efforts to forestall this development, and we believe that an expression of Congressional concern on this point, through a resolution, or other legislative history, would help our negotiators take the firmest possible stance on this critical issue.

Export subsidies in various forms have posed increasing problems for a number of U.S. farm commodity interests in recent months. Established U.S. markets at home and abroad have been threatened by such actions as the Australian subsidy program for canned fruit exports, Israeli citrus subsidies, and European subsidies for certain dairy products, canned ham, and tomato products.

Administrative relief has been possible for some of these damaging situations, but imposition of legally authorized quotas of countervailing duties or subsidies has been too slow. More prompt action and relief is urgently needed by damaged industries. Unless such administrative actions can be speeded up, the clamor for new import quotas or other U.S. "retaliatory" trade barriers is likely to grow.

The case of our badly hurt export markets for canned fruits is a notable example of the difficulties in offsetting damage done to our markets by foreign subsidies. For over a year, the California peach industry has been making appeals for relief from an Australian subsidy campaign which includes direct payments for exports to key foreign markets, heavy government-financed foreign market promotion efforts, and other tax or domestic policy benefits to the Australian peach export industry. A substantial Australian advantage in ocean freight rates also is very harmful to U.S. exporters.

The extent of damage to this $70 million export market for U.S. canned fruits is highlighted by an accelerated rate of loss of the prime West German market in recent months to less than one-fourth of the 1966 level. In the June–December 1967 period U.S. exports of peaches, our biggest canned fruit export item, to West Germany were 230,372 cases, compared to 1,322,466 for the same period in 1966. This loss in revenue of about $5 million for one item alone is significant to our national balance of payments, as it is to our U.S. fruit industry.

Strong efforts have been made by the U.S. peach industry to obtain relief through Australian action or through use of countering U.S. subsidies from funds legally authorized by Section 32, PL 320. We commend the Administration for its support of these efforts, toward a solution by easing of the Australian subsidy program, or failing that, toward appropriate relief for this industry.

Again, the National Council protests vigorously against the threatened use of variable levies by EEC for processed fruits and vegetables. Such action would be a disastrous blow to U.S. opportunities for building and maintaining well-established European markets for our canned fruits. For products on which bindings have been established during the recent Kennedy Round, it would also represent a further and flagrant abuse of the trade-liberalizing objectives of GATT. Use of the variable levy should be opposed at every step if we are to avoid the risks of a disruptive trade war which might result if such obstructionist trade barriers are allowed to mushroom following the Kennedy Round conclusion.

We wish to express our support for the objectives and the continuation of PL 480, our Food for Peace program. While the primary thrust of this program has been changed from that of "surplus disposal" to encouragement of self-help for economic development, PL 480 remains vital to export markets for such U.S. products as cotton. Furthermore, through the market development activities carried out under this law, broad new commercial markets for U.S. farm products have been opened up.

The policy of the National Council with respect to problems relating to excessive imports is set forth in the following current policy statement:

"The National Council of Farmer Cooperatives recognizes the need for safeguards in any nation's trade policy against excessive imports of commodities already produced domestically in substantial quantities.

Provisions of Section 22 of the Agricultural Adjustment Act and of the Trade Expansion Act of 1962 should be promptly invoked when necessary to protect

domestic producers or industries against undue import competition. United States legislation pertaining to international trade negotiations or arrangements should include:

1. Reaffirmation of the "peril-point" principle, with such determination to be made by the Tariff Commission, and mandatory requirements that the executive branch be accountable to Congress for exceptions made in peril-point proceedings.

2. Strong endorsement of "escape clause" provisions, with emphasis on procedures for prompt review and action to protect domestic producers and industries against abrupt or critical damage from imports.

3. Specific recognition that the growers of any agricultural product used in the manufacture of a commodity involved in peril-point or escape clause proceedings shall be considered a part of the domestic industry producing that commodity, and any organization or group of such growers shall be considered to be interested parties in such proceedings."

In summary, the National Council has consistently endorsed the principle of trade barrier reduction and other measures for expanded world trade. We favor reciprocal actions toward this end, preferably through multilateral negotiations under the General Agreement on Tariffs and Trade. In such negotiations, reciprocity should be considered and applied for all products in international trade, specifically including agricultural items.

We recognize the risks involved in current threats to establish quotas or other arbitrarily imposed barriers, in the U.S. or other countries. We believe that inequitable, arbitrary or unilaterally imposed non-tariff barriers represent the greatest present threat to a continued healthy growth in world trade. We urge all possible efforts through GATT or through other avenues to identify, measure and negotiate for reduction of these barriers.

We particularly object to the use of the variable levy system of trade restrictionism as applied by the European Economic Community in contravention of the trade liberalizing aims of GATT. We express strong opposition, too, to non-tariff protectionist barriers unilaterally applied or increased by some nations since the conclusion of the Kennedy Round, including extreme and unfair export subsidies which have been increasingly used by several countries as basic devices for export expansion.

Particularly as a means of protecting U.S. industry groups against the undue losses or sudden dislocations which may result either from unilateral trade policy actions or in some instances from negotiated trade barrier reduction, we urge that provisions for relief under trade policy legislation be liberalized and streamlined for more prompt and equitable relief. We ask, too, that growers of any agricultural commodity used in the manufacture of a commodity involved in such relief proceedings be recognized as a part of that domestic industry.

We commend you and your Committee for conducting extensive hearings on trade policy matters of crucial importance to U.S. agriculture and to our nation.

We would appreciate the inclusion of this statement as a part of the hearings record on H.R. 17551 and other trade bills and issues.

Sincerely,

ROBERT N. HAMPTON,
Director of Marketing and International Trade.

CONSUMER FEDERATION OF AMERICA,
Washington, D.C., July 12, 1968.

Hon. WILBUR MILLS,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Consumer Federation of America is a federation of local, state, regional, and national consumer and consumer-oriented organizations representing millions of Americans. CFA members are both rural and urban people, living in most of the 50 states.

We believe in the farmer's right to produce his crops and livestock and to sell them both here and abroad. We believe in the American businessman's right to make and sell his product both here and overseas. And above all, we believe in the consumer's right to choose both American-made and imported products.

During the past 30 years, America's ability to produce has consistently grown. Our standard of living has consistently improved. Our international trade has consistently expanded. Both business and consumer's have reaped the benefits

of our liberal trade policies. To deliberately cut our foreign trade would hurt both business and the consumer.

That a country as great and powerful as ours should be frightened into building trade walls against other countries is incredible. We know from past experience with the Smoot-Hawley tariff how dangerous such trade barriers are to our own economy.

CFA urges the enactment of the Trade Expansion Act of 1968 and requests that this letter be made a part of the hearing record.

Respectfully submitted.

(Mrs.) ERMA ANGEVINE,
Executive Director.

STATEMENT OF PAUL JENNINGS, PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO, AND MACHINE WORKERS, AFL–CIO–CLC

My name is Paul Jennings, and I am President of the International Union of Electrical, Radio, and Machine Workers, AFL–CIO–CLC.

I am very pleased to have this opportunity to file this statement setting forth IUE's position on the current trade situation in general and the Trade Expansion Act of 1968, in particular.

The IUE represents more than 340,000 workers in plants throughout the United States and Canada. Products manufactured by these workers range from miniature tubes to huge generators and motors and include all electrical machinery and electronics products found in between.

Jobs performed by these workers are also of great variety, from highly skilled technical work to those jobs requiring much less skill and training. To all these workers, international trade and U.S. trade policy is of great concern and consequence.

The position of the IUE and its members, like that of organized labor generally, has been to favor the greatest feasible increase in international trade. Our support for expanded trade involves the expansion of employment at home and among those with whom we trade. The objectives of our support are to promote improved living standards and working conditions here and abroad.

We have taken this position because experience has shown very clearly that where trade barriers are reduced on a sound and equitable basis, everyone benefits—consumers have a wider choice of products; greater access to foreign markets is made available; job opportunities are encouraged in our export industries; production efficiency is increased, and monopolistic prices are undercut.

We are aware that many jobs in this country are due to our export trade. Recent statistics have shown that in manufacturing industries as a whole, almost seven percent of total employment is directly related to exports. In the machinery industry, we are told the percentage is even higher.

The importance of export trade to our economy cannot be overstated.

In support of increased world trade, the IUE strongly endorsed the efforts of the Kennedy Round to reduce tariffs even further with the hope that these reductions, including those scheduled for July 1st, will lead to an increase in international trade which in turn will help to bring about the mutual benefits we mentioned above.

We must emphasize these mutual benefits if trade is to serve a useful purpose to us as well as to our trade partners.

Unfortunately, as you have been told, I am sure, by many who came before you, several problems have arisen in regard to U.S. imports. None of us can overlook the fact that some imports have caused dislocations, reduced employment, brought about plant closings to mention only a few problems which have been created. Let us consider several different problem areas with which we are faced today:

Adjustment Assistance

In the Trade Expansion Act of 1962, Congress gave recognition to the principle that adverse impacts of increased imports must not be shouldered by a few, when the benefits accrue to the many. In that Act, Congress incorporated adjustment assistance provisions to help firms and workers faced with problems caused by the competitive challenge of increased imports.

The IUE lent its support to this Act because just such a provision was included. However, while constituting a notable effort on the part of the United

States to help firms and workers, it failed completely to serve its purpose. Tests for assistance under this Act have proven to be too rigorous and too complicated. Under the Trade Act of 1962, not one petition for help has been approved to date.

One notable example of this involved the IUE-Philco Ford plant in Sandusky, Ohio. This plant, which had employees of many years of service, was shut down and production was transferred to Philadelphia. Prior to this shutdown, we showed that there had been a large increase in the importation of radios by Philco because they could be made more cheaply abroad. Despite these facts, the Tariff Commission refused to certify this case for Adjustment Assistance. One of the grounds for this refusal was that the increased imports were not the *major* cause of injury. We find it difficult to believe that in the entire six year period that there has not been one single case which met the standards for adjustment assistance.

On the other hand, cases handled under the Automotive Products Trade Act of 1965 (an implementation of the U.S.–Canada auto agreement) prove that adjustment assistance can work. Since 1965, certifications for eligibility to receive assistance have been issued in 14 of the 21 cases where petitions for adjustment assistance have been presented. This shows, we think, that adjustment assistance can work. In light of problems confronting many industries as well as segments and individual plants of others, adjustment assistance is vital.

It appears that the Trade Expansion Act of 1968 recognizes this need. It certainly offers a more realistic approach to adjustment assistance and how it should be handled.

The bill would eliminate the requirement that tariff concessions be shown to be the major cause of increased imports which cause or threaten injury; substituted instead is language making relief available whenever increased imports have been a *substantial* cause of injury.

This substituting means that it would not be necessary that the effect of the increased imports be greater than that of all other causes, or greater than any other single cause—but rather that they be an actual and considerable cause.

This section of the 1968 Act also gives authority to the President, rather that the Tariff Commission to determine the eligibility of firms and workers to apply for assistance. Determinations of eligibility will be made jointly by the Secretaries of Labor, Commerce, and Treasury.

The IUE supports these provisions and believes they represent steps in the right direction to help ease the fears of workers that increased imports will mean not only loss of jobs, but considerable ecomonic suffering to them and their families. According to Secretary Wirtz, about 10,000 workers per year would become eligible to apply for adjustment assistance; 10,000 less collecting unemployment insurance.

International Fair Labor Standards

Another problem area which has been of major concern to the IUE in the development of U.S. trade policy has been the need to establish International Fair Labor Standards.

This is not a new idea, having been hashed and rehashed time and time again resulting in many distortions of actual facts. Industry, including many companies represented by IUE, repeatedly points out to American unions the great discrepancy in pay between U.S. wages and wages of other countries. And because of this great difference, industry cannot compete. Certain production lines are halted and employers are displaced. The overall impression created is that American labor is overpriced in world competition.

The truth of the matter is that wages alone are meaningless. Of greater concern is the cost of a unit of labor to the domestic employer which may even be less than it is in other countries where total wages are far less than in the United States. This factor may place such an employer in a better trading position.

As we see International Fair Labor Standards, it is a part of the concept of a code of fair competition. This would bring a halt to production being moved to lower wage countries to seek the advantage of lower wages. By adoption of International Fair Labor Standards, we would make certain that when goods enter this country they will have some sort of seal that they have been produced on the basis of fair labor standards.

We have no information as to the results of any discussion that took place in the Kennedy round on this matter. We hope this question can be pursued

vigorously. We suggest some conference be held to try to develop guidelines to govern Fair Standards.

For without these labor is too often forced to accept unfair competition heaped upon employer complaints that American wages are "just too high."

A current case in point is the Mexican border situation. As you know, a program called PRONAF was established in 1961 by the Mexicans as a means of attracting capital to the Mexican side of the U.S. border.

Under Section 807 of our Tariff Act such programs are helped by our permitting goods produced across the border to be shipped back to the United States with the shipper paying a tariff only on "value added." In this case, "value added" consists largely of low wages paid to the Mexican workers, so the tariff paid is small in relation to the value of the goods.

U.S. firms have been moving across the border at a tremendous rate during the past year. We have received reports of many electronics plants which have followed this course. Some of our organized plants have reported movement of complete production lines to plants at the Mexican border with resulting displacement of American workers in our plants.

According to our information this expanding program is based on wage rates which hover about 40¢ an hour for unskilled workers. These products made at this rate are then sold in the United States in competition with goods made under U.S. labor standards. Such operations result in runaway shops and lead to a loss of jobs for American workers.

We believe that this PRONAF program, as it is now operating, is the wrong way to promote trade. It will bring no permanent good to Mexicans who are exploited by American industry and certainly none to American workers who are deprived of jobs going across the border.

At the recent AFL–CIO Convention, I was appointed as a member of an Executive Council Subcommittee which was given the responsibility to look into the border problem. We have met with representatives of organized labor in Mexico and conveyed our concern. We recommended, in part, the creation by the Mexican trade union movement of a counterpart subcommittee to meet with the AFL–CIO Subcommittee on Border Problems.

In the Subcommittee's report, which the AFL–CIO Executive Council has adopted, we urged that the State Department negotiate a comprehensive trade agreement with Mexico to eliminate existing unfair competition.

Our report also urged that Congress and the Executive Branch give consideration to both administrative and legislative changes in the section of the Tariff Law which encourages this program and further, should tighten existing laws regarding the operation of U.S. companies abroad. Tackling another aspect of the ill effects caused by exploitation of Mexican workers, our report called on the Justice Department to restrain the commuting daily to jobs in the U.S. by low-paid, wage-depressing workers from Mexico—commuters who hold "green cards" as alien residents but who live in Mexico and work in the U.S.

This Mexican border problem represents a prime example of where international fair labor standards are required.

Non-tariff barriers

The existence of non-tariff barriers should be of major concern in developing U.S. trade policy. Even where tariff barriers are lowered between nations, if non-tariff barriers remain, the trade between the countries involved is not improved.

The IUE expressed concern back in 1964 at the time of the active start of the "Kennedy Round". We called attention then to these barriers as they affected heavy electrical equipment and suggested at that time action should be taken to eliminate these. According to the electrical industry these barriers take the following forms:

(a) In the EEC and in most of the EFTA countries of Europe, and to some extent in Japan, the protection of domestic electrical equipment industries to the point of a practical refusal to permit foreign producers (in this case American producers) to bid or receive orders.

Our producers claim that in many cases they had no knowledge of the bids that were requested and received no opportunity to bid.

For example, in the field of steam and turbine generator units—over 10,000 kilowatts—in the period 1964 to 1967, we had no exports at all in the EEC and EFTA countries. Our sales to Japan dropped from $14 million in 1964 to $1,400,000 in the first three months of 1967.

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

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

(b) Special taxes.

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

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

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

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

INVESTMENT OF CAPITAL ABROAD BY U.S. FIRMS

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

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

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

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

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

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

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

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

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

in those countries from their present miserable levels, employers may be quick to find areas of still lower wage rates to which to move.

This introduces tremendous instability not only for the workers in the underdeveloped countries being exploited but also for these countries, economically, in their development of social institutions, and politically. It also introduces instability into the economies of other countries, including the U.S., since they also are not able to determine whether, at a given time, jobs and resources will be available. It also forces upon other U.S. employers the competitive imperative to meet the prices of products from such low-wage areas, and for some employers this may impel them to join in seeking lower-wage areas instead of technological efficiencies, and so this race for lower and lower wage areas accelerates.

A key strategy of employers has been to tell workers in each country that if they ask for wage rates higher than those offered, they will make themselves non-competitive in international trade and so may lose jobs. The same employers and groups of employers may tell this to their workers in the U.S., Japan, Korea, Taiwan, or some other country.

An International Fair Labor Standards agreement would be a safeguard against the coupling of the export of American capital and the technique of the international runaway shop, by introducing the element of social responsibility in the conduct of the enterprise. Under such a program, goods would not be acceptable for international trade if made under unfair conditions.

In 1961, the International Metalworkers' Federation, with a membership of unions representing nearly 10 million workers, adopted a resolution which used the following tests of unfairness:

1. Total hourly wage costs in the exporting firm substantially below the average for its industry in the exporting country, or

2. Both hourly and unit labor costs in the exporting firm unjustifiably below the same industry in the complaining country.

The resolution provided for the right of complaint by employers or unions which could raise the question of unfairness in international forums and provide a basis for action.

We would like to see evidence of vigorous pursuit of this matter by the Office of the Special Representative for Trade Negotiations and by other U.S. government agencies. We have been informed by Mr. John B. Rehm of OSR, in a communication May 8, 1967, that "there has been a strong interest in this office concerning International Fair Labor Standards."

Of the capital outflow in 1966 of $3.5 billion, about half of it—$1.7 billion—was for manufacturing alone. And again, Canada and Europe got a total of $1.4 billion, Latin America got $130,000,000, Africa got only $17,000,000 and Asia only $15,000,000.

Companies important in the electrical industry, such as General Electric, Westinghouse, RCA, ITT, Sperry-Rand and others, have been expanding in all parts of the world at a rapid rate, producing many new problems for their employees here and abroad for our nation and for the nations where they carry on their activities.

Plant movement is no longer a problem confined within the United States borders. Plants of large corporations are located all over the world and in many instances, producing those items once produced within a U.S.-based plant.

In many instances U.S. exports represent intra-company transactions. Many exports are semi-finished products shipped for final processing in plants of foreign subsidiaries. And many of these finished products, as well as parts, from the foreign subsidiaries are returned as imports to the U.S. This may be in the best pecuniary interest of the companies involved in such operations, but is it in the best national interest of the U.S. to have these multi-national companies not only supplant some U.S. exports by selling abroad from their foreign plants but also add to U.S. imports?

In addition, these international operations of multinational companies, which may shift production and plants from nation to nation, not only give these companies a great power in the U.S. They also give them a great power over the economies and even the institutions of the host countries which may become dependent upon the U.S. company for jobs and income.

Further, there is no question that these exports of capital have been damaging to our balance of payments.

The IUE supports expanded trade, because we feel it is in the best national interest.

We have supported export of U.S. capital, especially where such capital is of benefit abroad as well as of value to our national interest. But we believe very strongly that Congress should view with grave concern this sharp rise of foreign investment by U.S. firms and the impact of these firms' foreign operations and the extent of their subsidiaries and other relationships abroad, on the U.S., on foreign nations, and on U.S. relationships with other nations.

We believe there should be a far-reaching investigation of the actual extent and character of this American capital investment penetration of the markets of the world and of U.S. company activities abroad to determine how they can best be controlled in the national interest.

One expert concluded that within the next ten years or so the world's means of production will be in the hands of six or seven hundred international companies—many of them being American. The impact of this upon the world is something that should cause us to reflect very carefully.

Trade Expansion Act of 1968

The Trade Expansion Act of 1968, HR 17551, represents what the IUE feels are useful suggestions for improving the U.S. trade policy. The purposes stated in the bill's Title I are, first, "to continue and strengthen the trade agreements program of the United States," second, "to establish a viable program of adjustment assistance for firms and workers affected by imports," and third, "to promote the reduction or elimination of non-tariff barriers to trade."

To accomplish these purposes will necessitate understanding and cooperation here in the United States and the same relationship between the United States and the rest of the world.

We in the IUE hope that changes outlined in the adjustment assistance section of this Act will provide the help and assistance to the many workers adversely affected by imports.

Non-tariff barriers must be reduced or eliminated before any effective trade policy emerges. This means a reciprocal relationship—not removal of barriers by some, but by all. American exports, as we have tried to point out, are hindered by non-tariff barriers. Countries must be willing to remove these barriers which in many instances are more subtle than some with which we are more familiar.

We support Title II which sets forth the basic authority for trade agreements as well as the amendment to authorize money to finance the budget of GATT. This is only proper since it is the procedure followed in meeting financial responsibilities to other international organizations.

As I mentioned earlier, we strongly support the changes in Adjustment Assistance in Title III. According to President Johnson's statement of May 28, 1968, the test should be simple and clear—relief should be available whenever increased imports are a substantial cause of injury.

Title IV deals with the elimination of the American Selling Price system. Here we will quote the AFL–CIO Convention resolution which states: "No tariff-cutting authority, beyond the authorization of the Trade Expansion Act, should be approved if there is any change of method of valuation of imports, such as the American Selling Price." If the ASP is removed, the effective tariff reductions in products affected should not exceed the 50% cut authorized in the 1962 Trade Act.

We recognize that the elimination of the ASP system would result in important reciprocal concessions from our trading partners. We would hope that if the system is removed, the long run result will be an increase in U.S. employment.

We support Title V which would extend the Adjustment Assistance provisions of the Automotive Products Trade Act of 1965.

I have attempted to set out the IUE's response to the Trade Expansion Act of 1968 and to emphasize those areas which should be given primary consideration in the establishment of U.S. trade policy. We do not advocate the so-called "protective" measures that have come to the forefront recently. We sincerely believe that voluntary agreement to remove non-tariff barriers to trade and greater cooperation among nations towards International Fair Labor Standards will do much to help resolve some of the difficulties our trade policy faces.

The United States has been the principal proponent of action to reduce unnecessary restrictions on movement of goods and services. This kind of action is necessary by all who wish to improve the flow of trade. The U.S. must, therefore, view all the issues and problems of the world today in charting its world trade policy.

The events of the past few days give further indication that the U.S. should stay on the road on international mutual reduction of restrictions on trade by negotiation, rather than take the road of so-called "protectionism."

The French Government's action of June 26, aimed at coping with that nation's economic problems, in increasing governmental assistance to exporters and setting import quotas, is the sort of action which in former times might have loosed a spate of counter-measures by other nations, which in turn might have triggered more counter-measures, in a widening tide of trade-crippling moves. Many workers and enterprises in many lands are in line to be hurt by such spirals of restrictionism. Nations including the U.S. doubtless will take some countervailing measures under international agreements, but these probably will be limited, because of the existence of a history and pattern of international negotiations and because of the stabilizing effects of these agreements.

On July 1, tariffs dropped "in at least 18 nations," according to the *New York Times*, "improving prospects for further expansion of world trade and a pickup in American exports," as most West European nations put into effect their first tariff cuts agreed upon in the Kennedy Round.

As a result, "American goods will be moving more cheaply into Europe while European goods will pay the same duties to enter the United States," the *Times* article adds, because while the U.S. made one-fifth of its total tariff cuts January 1, the European nations which didn't cut then, now have made cuts of two-fifths. Even France, with its problems, is making the tariff cuts, and the French say that their quota and subsidy moves are temporary.

The U.S. will make another cut of one-fifth of its agreed cuts next January 1. On January 1, 1970, both the U.S. and the European nations will make the third cut of one-fifth. So mutually beneficial increases of trade may be expected. The revised Adjustment Assistant program, under Title III of the bill before you, should help meet the needs of the few who may need help because of imports.

The road of negotiated reduction of restrictions on trade, as exemplified by the July 1 tariff cutting, rather than the road of unilateral quotas and other protectionist devices, is the more promising road for the U.S. and for the world.

But coupled with the elimination of both tariffs and non-tariff restrictions on world trade must come the development of internationally negotiated and effective means of assuring that the benefits of trade and investment are broadly shared. I associate myself with the testimony given to your committee on June 13, 1968, by Andrew J. Biemiller, Director of the Department of Legislation of the AFL–CIO, accompanied by Nathanial Goldfinger, Director of the AFL–CIO Department of Research. I especially would like to quote from that testimony, and adopt as my own, the following remarks from that testimony.

"The time for determining a series of workable mechanisms for developing fair labor standards—or adequate development standards—is long overdue. The early adoption of such mechanisms is an essential part of a rational U.S. trade policy. Modern technology now makes it possible for international corporations to exploit labor for the company's advantage, without concern for the effects on other nations or our own. Many international forums should be used to deal with this problem and these forums should include negotiating forums, such as the GATT.

"An effective system of assuring that the benefits of international trade flow to workers in various countries is a necessity. If trade is to be viewed only as an exchange of goods between nations, efforts will grow to restrain trade. There must be assurance of rising standards for labor."

PRONAF: A Haven for Runaways South of the Border

Is your product high in labor content?

> **Producing all or part of it South of the Border could involve great savings. Let the leading consultant firm for the Baja California area help you plan and execute such a move efficiently and economically.**

The above advertisement, taken from a recent West Coast edition of the *Wall Street Journal*, is one of the lures to which American businessmen are responding increasingly in a new wave of plant piracy that bids fair to make the U.S. southern states runaways look like peanuts by comparison.

What's been happening in Mexican cities and towns just over the U.S. border is a fairly recent development, but it's growing fast. And it has a lot going for it, including (up to now) cooperation from the governments of both countries, promotion by trade groups on both sides of the border, and such appeals to profit-

stalking U.S. businessmen as a large reserve of cheap labor and immunity from import duties.

The basic setup is fairly simple. Within a 12½-mile strip along its border, plus the entire state of Baja California, Mexico permits the introduction from the U.S. of machinery, other facilities, materials and goods without normal import duties and taxation. On the other side, U.S. tariff laws permit goods to come back into this country from this border area without payment of duties except on whatever value has been added to them in Mexico.

As a result, U.S. firms have been setting up runaway plants in such Mexican border communities as Tijuana, Mexicali, Juarez and Nuevo Laredo, and hiring Mexican workers at wages like $24 a week (six days) to perform such operations as sewing, soldering and assembling. The companies ship materials from the U.S. to these communities for such operations and then return the finished or partly-finished products to the U.S. for sale or for completion before sale.

The border industralization program, actively promoted by the Mexican Government, is called PRONAF from the Spanish, El Programa Nacional Fronterizo. Here are some of the just-south-of-the-border operations that have sprung up:

Litton Industries, two plants in Tijuana, 150 Mexican workers assembling magnetic memory cores.

International Manufacturing, Electronics and Consulting Corp. (IMEC) in Tijuana, 50 to 300 Mexican workers assembling computer circuits.

Fairchild Camera, two plants in Tijuana, up to 400 workers assembling electronic components.

Raytheon, two plants in Mexicali, over 150 workers assembling integrated circuits.

Solitron Devices in Mexicali, over 150 workers assembling semiconductors.

Transitron in Neuvo Laredo with up to 1,500 workers assembling electronic components.

Sarkes Tarzian Co. in Nuevo Laredo and Piedras Negras, 150 workers assembling TV components, including base sets for VHF tuners used by General Electric in its sets.

Curtis Mathes in Nuevo Laredo with 100 people working on transformers and electronic components.

Motorola in Nogales where at least 150 employees assemble and test semiconductor components.

Electronic Control Corp. in Matamoros, employing 70 Mexicans to assemble semiconductors, light switches and temperature controls for air conditioning.

These are some of the electrical and electronics firms that have responded to PRONAF. There are other companies, such as apparel makers (Kayser-Roth, 225 workers sewing in Mexicali), service industries (A. C. Nielsen, 300 people sorting grocery coupons in Nuevo Laredo and Juarez), toymakers (Mattel, 200 assemblers employed in Mexicali), small products manufacturers (Kanar, Inc., 280 Mexicans making hair clips in Tijuana), and food processors, furniture manufacturers and wig makers.

Estimates of the total investment and employment by U.S. firms in Mexico's border area vary, but there's general agreement that it's grown fast and, given a continuation of present conditions, will continue to grow. The number of companies involved may already exceed 100, according to the AFL–CIO Research Department. One observer sees a Mexican payroll of $400–$600 million by mid-year.

One incomplete city-by-city breakdown of the U.S.-owned plants, the number of people employed for all industries and for the electrical-electronics industry runs like this:

	All industries		Electrical-electronics	
	Plants	Workers	Plants	Workers
Mexicali	30	1,522	13	758
Juarez	16	1,570	4	172
Tijuana	11	741	7	463
Nuevo Laredo	5	856	3	800
Tecate	4	258	3	180
Piedras Niegras	4	305	2	125
Matamoros	4	301	2	101
Nogales	2	128	1	118
Total	76	5,681	35	2,717

While these figures do not give the full picture, they do show where the concentrations of runaways are located. They also indicate that around 50 percent, and perhaps more, of the plants and employment relate to IUE's industry.

Wages to the Mexican workers run from $2.25 (unskilled) to $2.70 (skilled) per day. Added to this is 75 cents daily social security tax, paid by the employer. The workers work six days a week, but are paid for seven. Thus, a skilled electronics worker is paid around $24.15 a week, including the layaway for social security.

If one hunts, however, he can find even cheaper rates. Transitron, for instance, hired its first Mexican workers—34 women—to train as assembly line supervisors at a rate of $2.08 per day.

Mexico requires that PRONAF companies pay wages 50 percent higher that the regional minimum. Nevertheless, U.S. employers aren't breaking any records—even by local standards. Bus drivers in Tijuana, for instance, earn $10 a day.

Some of the factory owners niggling out those pennies are (in the old paternalistic tradition) quite generous in their praise of the intelligence and productivity of the people on the receiving end. One knowledgeable Tijuana entrepreneur said he was "absolutely astounded" by the efficiency of his Mexican "help." "What it takes eight weeks for American assembly workers to learn required just six weeks in Tijuana," he said.

As for profits, well, there's not much information available, but Enrique Meier, a Mexican who helped set up four PRONAF operations, put the *average* return on investment at 120 percent in two years!

The shortage of hard, verifiable information about the border runaways partly stems from the fact that neither the Mexican Government nor U.S. managements are eager to tell the U.S. labor movement who's there and to what extent. Part of it (a lesser part) probably is attributable to a U.S.-Mexican (or English-Spanish) communications gap. But even our government, which should be ready to serve the workingman and his unions, has no publicly available collected body of information on American firms operating along the border.

IUE District 12 President Bill Drohan, who has visited the PRONAF scene at Mexicali, Tijuana and Nuevo Laredo, says many of the plants are hard to find and harder to identify, even with the help of a Spanish-speaking staffer. What with many of the companies operating under Mexican names, neither phone books nor signs on buildings help much.

Reporters from daily newspapers also have noted the secrecy angle. After commenting last year that its two Tijuana plants were quite successful, Litton Industries turned back followup inquiries and refused to permit reporters and photographers to come inside.

The fact is, the fast growth of this industrial weed patch, the exploitation of Mexicans involved and its real and potential devastation of U.S. jobs and benefits is a subject that cries out for Congressional airing. Letters from union members to their Senators and Representatives are called for.

TWIN-PLANT OPERATIONS DEVELOPING

One aspect of the border expansion has been the development of twin-plant operations in which both initial and final production stages are handled on the U.S. side, with intricate hand-labor operations performed in Mexico. An example of the twin-plant setup is Transitron's at Laredo, Texas (75 people) and Nuevo Laredo, Mexico (1,500).

American business groups and municipalities have been seeking federal funds for studies that would help advance the development of more such operations.

While our government does not officially promote PRONAF, federal officials provide advice and information to potential runaways. Moreover, the government's response to U.S. labor's calls for action to stop this plant piracy has been unenthusiastic, to say the least. Although the AFL-CIO had brought the problem to government officials months before, the best the State Department could report following the December meeting of the Joint Mexican-United States Trade Committee was this pallid paragraph:

"Among other matters related to trade, the Committee discussed the Mexican programs related to industrialization of the border areas. In this connection, it was agreed that the two delegations would recommend to their governments the fullest possible exchange of information on the progress of the programs, and their economic and social effects on both sides of the border."

Ambassador to Mexico Harry Turkal reportedly made a confidential report to the White House last year, calling for fenced-in industrial parks straddling the border. The fences apparently would have something to do with customs matters, but one can see they'd also be ideal for keeping out union organizers. One wonders if they might also serve to keep out U.S. fair labor standards.

The Mexican government and some Mexican and U.S. business organizations work hard to encourage firms to come into the border area. Seminar-type meetings have been held in California, Texas, New York City and Washington, D.C., to sell PRONAF to manufacturers.

Glorified labor contractors have sprung up to provide consultant and management services aimed at overcoming the shyness of some U.S. businessmen toward moving into a foreign area. Cal Pacifico of Newport Beach, Calif., for instance, will handle the whole Mexican operation for a U.S. manufacturer, charging $1.25 to $1.40 per hour for each man hour of work performed in the plant.

The ad with which this article begins is another example.

With so many of the border-jumping U.S. companies in our industry, the IUE has been extremely active in seeking information and alerting the labor movement to PRONAF.

Says President Paul Jennings:

"We want Mexico to industrialize, but not on an unsound, runaway basis. If U.S. companies can flee to Mexico to exploit the low wages prevalent there, then they'll surely up and run elsewhere if labor costs go up in Mexico."

Investigation Made Last Year

Last year, Jennings appointed District 12 President Drohan to conduct an investigation of the border problem. Largely as a result of information uncovered by Drohan with the help of District 9 Administrator Charles Snodgrass and District 10 Secretary-Treasurer Ben Dolan, and coordination and contacts by Dave Lasser, President Jennings' assistant for international affairs, the AFL–CIO Executive Council adopted a resolution calling for:

> Congressional repeal of Section 807 of the Tariff Code, which provides import advantages to the U.S.-owned border strip plants.
>
> Major considerations by the U.S. and Mexican border commissions to the interests of workers, and formal consultations by the commissions with the labor movements of both countries.
>
> A U.S. government policy in opposition to this type of unregulated, low-wage operation; government refusal to assist such runaways, and federal officials' making information publicly available concerning them.

The council noted that the AFL–CIO "has consistently supported efforts to improve economic, social and political relations between the U.S. and Mexico" and "will continue policies based on mutual benefit to workers in both countries."

"Since U.S.-owned PRONAF plants are, in effect, operating within the U.S. economy, it is our conviction that U.S. labor standards should prevail."

Mary Callahan, chairman of the IUE Electronics Industry Conference Board, expressed our union's concern in a speech at the AFL–CIO Convention in December. Following her remarks, the convention unanimously adopted a resolution in line with the position taken by the council.

In addition, AFL–CIO President George Meany appointed a committee to investigate further and seek remedies. The committee, headed by Amalgamated Clothing Workers President Jacob Potofsky, includes IUE President Jennings, former International Ladies Garment Workers President David Dubinsky and International Brotherhood of Electrical Workers Secretary Joseph Keenan.

In her speech to the AFL–CIO Convention, Mary Callahan called for cooperative efforts between the labor movements of the two countries. She also spelled out just why we are concerned.

"We are attempting to organize the Transitron Company, an important manufacturer of semiconductors in Massachusetts," she said. "They have just established a plant employing 1,500 people on the Mexican side of the border, paying those miserably low wage rates. This gives the company a weapon against organizational efforts by the threats of moving production to Mexico."

One runaway IUE fought hard to expose was Motorola's Nogales plant, opened last fall to handle work sent from the firm's facilities in Phoenix, Ariz.

As in the case of most PRONAF operations, Motorola's was a hush-hush affair. The company refused to confirm or deny initial reports on its plans.

IUE SOUGHT COUNCIL ACTION

District 9 Administrator Snodgrass issued a press release condemning the Nogales move and John Haynes, then assistant administrator, appeared before the Phoenix City Council to urge action to protect the jobs and wage rates of Phoenix residents.

Snodgrass and Haynes pointed out that Motorola would be paying Mexicans about as much in a day as it paid U.S. workers in an hour for the same types work. They charged that this would deal a death blow to the Phoenix economy because, "if the initial plants proves successful, then obviously Motorola will either place more of its work into Mexico, or move to slash wage rates in Phoenix."

IUE's attack brought a response, although not a City Council resolution, sought by IUE, condemning Motorola and asking Congress to close the tariff code loophole. What happened was that Motorola finally found its voice and started talking publicly about the planned Nogales operaton. At first, in confirming the Nogales plant reports, Motorola stressed the amount of business it does selling products to Latin Americans and also cited plans for expansion in Arizona. It didn't say much about those Mexican wage rates. (Motorola's average annual pay per worker in Nogales comes to around $1,300). By the time the plant opened in late October, the newspapers were quoting Dr. Lester Hogan, company vice president, to the effect that lower labor costs were the main reason for going to Mexico. He said he hoped the Nogales division would grow as large as Motorola's Phoenix operations. And he issued a warning that this country would lose much of its industry unless wage costs are held down.

In short, he all but confirmed IUE's position.

• In IUE's recent successful organizing campaign at Technitrol, Inc., in Durham, N.C., Field Representative Joe Williams says the workers were told at captive audience meetings that the company came South to find cheap wages and that if the plant went union, management would move even farther south—to Mexico or Puerto Rico.

• With the U.S. federal minimum wage going up 20 cents an hour to $1.60 this month, clothing manufacturers in El Paso, across the border from Juarez, were reported eying PRONAF. The clothing industry employs some 15,000 persons in the Texas city.

• When Electronic Control Corp., shifted all its assembly operations from Dallas to Matamoros, Company President Ed Kile said he wanted to take advantage of the lower labor costs in the border area. "A fraction of a cent per unit" in production cost savings, he noted with a straight face, "can result in significant overall cost reduction."

Such "businesslike" thinking seems strangely out of tune with recent comments by President Johnson about the need for jobs in U.S. cities. On Nov. 30, 1967, the President called upon U.S. corporations to remember the "forgotten labor force . . . the unenlisted legion" and make an effort to hire and train the 500,000 U.S. hard-core unemployed. On Jan. 24, 1968, the President sent to Congress his proposal for a $350 million government-business partnership known as Job Opportunities in Business Sector (JOBS), noting that "the special talents of American business can make this program work."

MEXCAN-AMERICANS ARE VICTIMS

Ironically, Mexican-Americans are among the minority groups especially in need of greater job opportunities in this country. Bert Corona, president of the Mexican-American Political Association, has pointed out that the one million of his people living in Los Angeles County have the lowest income of any group there. The California association has passed a resolution opposing the PRONAF exploitation.

Drohan, whose IUE District 12 includes Los Angeles, is particularly aware of this problem. "With the unemployment problem in our cities," he points out, "how are we going to find jobs for the people who need them if industry is siphoning work to the low-wage border area?"

According to reports, many of the large numbers of unemployed in Mexico's border cities and towns are former braceros who once worked seasonally in U.S. agriculture. But this work was cut off by Congressional action, urged by the AFL-CIO, several years ago. Thus, U.S. labor's efforts to solve one problem may have helped to create another.

But that doesn't make the second problem any easier to take. Nor does it excuse the runaway companies from their fast buck approach. More than anything, it points up the fact that localized, self-interest, exploitative approaches to unemployment hurt all workers and the only sound programs are those which meet the needs of all workers.

In a recent television program on the unspoiled wonders of Baja, California, naturalist Joseph Wood Krutch noted that this area of Mexico is inching into the modern world and the changes are not necessarily for the better. His final comment was: "I flatter myself that I value Baja for what it is and not for what I might find exploitable there."

That seems a good approach to nature.

And to people.

[From the IUE News, May 30, 1968]

AFL-CIO Presses Action on Green Cards, *PRONAF*

Employer exploitation of cheap Mexican labor on both sides of the U.S. Mexican border is under stepped-up attack by the labor movement.

The AFL-CIO Executive Council this month adapted a resolution against two government-aided programs under which Mexican workers are being exploited in ways that hurt U.S. and other Mexican workers. The resolution was prepared by the council's 4-man committee on border problems, of which IUE President Paul Jennings is a member.

In connection with the PRONAF program under which the Mexican government is luring runaway U.S. shops to its border areas, the AFL-CIO resolution called for cooperation with Mexican unions to seek Mexican minimum wages nearer U.S. levels; changes in the U.S. regulations that permit the runaway to ship into this country at bargain tariff rates; taxes on capital export and profits under the program, and a trade agreement with Mexico to eliminate unfair competition with U.S. labor.

The resolution declared that PRONAF hurts efforts both to improve the standard of living on the U.S. side of the border and to raise Mexican wage levels. "The only beneficiaries," it said, "are profit-hungry companies."

The resolution also dealt with the practice of bringing in Mexican "green card" workers, who commute to low-wage jobs in the U.S. on government-issued immigration cards.

Pointing out that the "green carders" have been used "to undermine organizing drives and to break legitimate strikes," the council urged that immigration authorities act to "prevent exploitation of Mexican commuters to undermine U.S. standards."

U.S.-MEXICAN CONFERENCE

Before drafting its recommendations, the committee met with the joint U.S.-Mexico trade union committee. The representatives agreed on a 13-point plan for protecting workers on both sides of the border and increasing union cooperation between the two nations.

Members of the AFL-CIO border committee included, in addition to President Jennings, Joseph Keenan of the IBEW, David Dubinsky of the Ladies Garment Workers and Jacob Potofsky of the Amalgamated Clothing Workers.

Report of the Subcommittee of Executive Council on United States-Mexican Border Problems

The statement issued last week following the meeting of the Joint U.S.-Mexican Trade Union Committee could not, because of the nature of the meeting, deal as candidly as we would like with pressing issues which confront the two labor movements. We agreed to establish a mixed committee for interchange of information and work for better labor conditions and to seek representation on Joint U.S.-Mexico Border Development Commission.

One issue is the use of Mexicans holding permanent resident alien status, but living in Mexico, to undermine U.S. working conditions across the border. These Mexicans—so-called "green carders"—by living in Mexico and working in the U.S. are largely beyond the reach of the trade union movement. Because of the differences in national living standards and costs, they have little motivation to participate in the struggle of their fellow workers in the U.S., most of them also of Mexican origin, to raise their living standards through collective bar-

gaining. While unemployment rates are at depressed levels and per capita income is below poverty levels on the U.S. side of the border, commuters have been exploited on occasion to undermine organizing drives and to break legitimate strikes. This reflects seriously on U.S. immigration policy. We strongly urge the Immigration Department to take the administrative steps necessary and possible to prevent exploitation of Mexican commuters to undermine U.S. standards.

The other issue is the effort of the Mexican government to encourage U.S. companies to establish branch plants across the border to take advantage of low Mexican wage levels. Such companies not only pay wages far below U.S. standards, but also benefit from favorable U.S. tariff and Mexican tax treatment. Under the program, all products must be exported, in large part back to the U.S.

We do not believe that any program based on low wage standards is defensible. It obviously damages the U.S. effort to improve its standard of living and employment along the border area, both of which are below national levels. It also harms the Mexican drive to improve its own wage levels. The only beneficiaries are profit-hungry companies which are seeking to improve their competitive position at the price of labor standards on both sides of the border.

The answer to the threat is to solicit and obtain the cooperation of the Mexican trade union movement and to press the Mexican government to raise its minimum wages closer to the U.S. level and to insist on effective Federal enforcement. We also urge consideration of both administrative and legislative changes in the section of the Tariff Law which encourages this program, as well as the imposition of a tax on the export of capital and the profits of firms enjoying benefits of the program.

The Subcommittee therefore recommends the following action:

The creation by the Mexican trade union movement of a counterpart Subcommittee, to meet with the AFL–CIO Executive Council Subcommittee on Border Problems.

The AFL–CIO Executive Council should call for a meeting at the highest level of the Executive Branch of our government, the U.S. State Department, and other U.S. government agencies involved, to coordinate solutions to these problems at the administrative level.

The State Department should negotiate a comprehensive trade agreement with Mexico to eliminate existing unfair competition with U.S. labor.

The Treasury Department should be required to enforce Section 303 of the Tariff Act of 1930 (a duty on subsidized exports to the U.S.), to obtain specific customs declarations and to re-examine U.S. tax provisions and their enforcement.

The Justice Department should administer the immigration law to restrain the green-card influx.

Congress should repeal Sec. 807 of the Tariff Code and otherwise should tighten existing laws regarding the operation of U.S. companies abroad.

Action by our government and the government of Mexico cannot be delayed while further studies are undertaken.

JOSEPH D. KEENAN.
DAVID DUBINSKY.
JACOB S. POTOFSKY.
PAUL JENNINGS.

STATEMENT OF EDWARD E. KENNEDY, RESEARCH DIRECTOR, INTERNATIONAL UNION OF DISTRICT 50, UNITED MINE WORKERS OF AMERICA

Mr. Chairman and Members of the Committee, my name is Edward E. Kennedy. I am Research Director of the International Union of District 50, United Mine Workers of America (Independent), and my appearance here is in behalf of some quarter of a million members represented by our organization in about 45 of the 50 states.

Our Union represents employees in some twenty-five industrial classifications of manufacturers—the products of which are affected by the currents of international trade which, in turn, affects the employment opportunities and employment security of our membership.

About one-half of our total membership is employed by manufacturers of chemical and allied products and a substantial number of these are employed by chemical companies engaged in whole or in part in the production of benzenoid chemicals.

Therefore, our organization has a rather broad "across the board" interest in the field of international trade, and this statement is concerned primarily with the matters involving foreign competitive imports and their effect upon domestic employment, upon our economic well-being and, among other things, the manner, form and degree of regulation of our foreign commerce which is to be exercised by the Congress of the United States.

Our position on these matters may be summarized briefly, as follows:

(1) We are opposed to the repeal of the American Selling Price basis of valuation under the Tariff Act of 1922.

(2) We are in support of H.R. 16936, introduced by Congressman Sydney Herlong, and companion bills introduced by several members of the House of Representatives referred to as the "Fair International Trade Act of 1968."

(3) We are not opposing import quotas—either those currently in effect or those being proposed. It is entirely possible that in some cases they may be necessary to afford proper regulation of a competitive import.

We would emphasize the imperative need for a broad approach covering a wide range of competitive imports of industrial and agricultural products in order to properly regulate the degree of such penetration of our market. H.R. 16936 would not impose a ceiling until a competitive import, or a group of like or similar competitive imports was climbing too fast and taking too large a share of the American market.

A ceiling investigation may be made to the Tariff Commission by the President, the Senate Finance Committee, the House Ways and Means Committee, a trade association, a National Labor organization or other interested party.

The purpose of H.R. 16936 is to stabilize imports and to eliminate their destructive effects while providing for their expansion in equal proportion to the growth of the domestic market for the product concerned.

The United States and our trading partners have lived under the American Selling Price system of valuation, as it applies to benzenoid chemicals, for the last 46 years. Employers have made their investments in plants and equipment, scheduled employment of workers and through negotiations with our union and others have established pension programs and other benefits for the long-time security of our workers. Under the ASP system, the employers of our membership know from day to day the extent of protection afforded them in the market place and our membership (the American workers) has reasonable knowledge of the extent to which their jobs are secure and their standard of living is protected from the outside forces of low wage producers bidding for our jobs and markets.

A quick look at some of the converted rates of duty as compared to the most favored nation rate of duty (T.C. Publication 181, July 1, 1966, T. S. US Items 403.02 through 409.00 inclusive), indicates that there is a substantial difference between the American Selling Price valuation and the foreign invoice or export valuation to reflect the ad valorem equivalent of the converted rate.

For example, an item where the current ad valorem duty is 19 percent and the converted rate is 36 percent would indicate that an article having a foreign export value of $1.00 would have an American Selling Price of $1.89; or, an item where the current ad valorem duty is 40 percent and the converted rate is 72 percent would indicate that an article having an export value of $1.00 would have an American Selling Price of $1.625.

The arguments advanced by our European and Asiatic trading partners that the American Selling Price system should be repealed are quite unconvincing to the American workers or to all of us who have a rightful concern with correcting our balance of payments deficit, the stability of our dollar and the war on poverty.

More than 115,000 workers are employed by some 724 producers of benzenoid chemicals. In 1965, general imports of benzenoid intermediates totalled 38 million pounds with an invoice value of $19.5 million. This is compared with 18.8 million pounds with an invoice value of $14.4 million in 1964—an increase of 102.1 percent in quantity and 35.4 percent in value.

All of this should give pause to this Committee and to the Congress in considering the repeal of our American Selling Price system of valuation, which would imperil our domestic benzenoid industry and the jobs of our workers in this industry, encourage domestic producers to abandon operations here and set up shop overseas, and export our jobs overseas and supply our market from abroad.

Whatever we do to encourage commercial intercourse between and among the free nations of the World, we think the Congress has a continuing responsibility to establish reasonable standards under which competing imports enter our markets—sufficiently well-defined so that competing imports will not undermine our domestic wage standards, our American standard of living, our employment opportunities, our domestic production enterprises, and the internal revenues of the United States.

Here in the United States, our Fair Labor Standards Act is the basic instrument we use to regulate fair competition between and among the States and our outgoing foreign commerce. The level of wages paid to labor in an industrial economy above the subsistence level determines whether that economy is viable or dependent on those who are viable.

The average hourly earnings in twelve foreign countries are as follows:

AVERAGE HOURLY EARNINGS IN UNITED STATES AND IN 12 FOREIGN COUNTRIES

Country	Date	Average hourly earnings	
		In national currency	In U.S. dollars
United States	1967 average		$2.83
Belgium	March 1967	49.79 Belgium francs (men)	.996
Canada	1967 average	2.37 Canadian dollars	2.192
China (Taiwan)	1966 average	6.36 yuan	.159
France	1967 average	3.39 new francs	.69
Italy	March 1967	419 lira	.67
Japan	1967 average	206.5 yen	.578
Korea	April 1967	6,470 won (monthly)	[1] 23.62
Netherlands	1967 average	3.72 guilders	1.034
Sweden	do	9.30 krona	1.80
Switzerland	1966 average	5.29 Swiss francs (men)	1.223
West Germany	1967 average	4.58 Deutsche marks	1.145
United Kingdom	do	116 pence (men)	1.36

Source: U.S. Department of Labor, Conversion rates as of December 1967.

[1] Month.

Among the principal industrial nations of the free world, the United States currently exports only 5.8 percent of its Gross National Product; and, notwithstanding all the efforts and the price which has been paid to achieve increasing exports through tariff reduction and trade agreements, our exports are no larger a percentage of our Gross National Product than they have been over a long period of years as may be seen from the following:

Ratio of exports to gross national product

Year:	*Exports to GNP*	Year—Continued	*Exports to GNP*
1950	4.8	1959	5.2
1951	5.7	1960	5.4
1952	5.2	1961	5.5
1953	4.6	1962	5.4
1954	4.9	1963	5.5
1955	5.0	1964	5.9
1956	5.6	1965	5.7
1957	6.0	1966	5.8
1958	5.2	1967	5.8

Our principal trading partners among the European Economic Community export about 20.5% of their Gross National Product. Using 1965 figures, France exported 10.7% of its GNP, West Germany 15.9%, Italy 12.8%, The Netherlands 34.0%, Belgium and Luxemburg 36.8% and the United Kingdom 13.5% and, in the case of Japan, they exported 10%.

Some significant information was developed by the Trade Relations Council of the United States and presented before the Office of the Special Representative for Trade Negotiations on May 13th of this year.

The data revealed that in 1966 there were 144 selected United States industries with a trade deficit.

Of these trade deficit industries, 121 employed 5,234,900 workers with shipments totaling $137,964,400. Imports competitive with these industries totaled $9,528,500, and exports from these industries totaled $2,752,200.

In making comparisons of the above figures with the average of the years 1958–1960, we find the following:

From 1958 to 1960, employment in these 121 industries rose only 4.0%—shipments rose 36.6%—imports increased 72.8%, while exports were up only 40.9% and the balance of trade deficit increased 90.3%.

This same source (Trade Relations Council) estimates that selected industries among the 144, having a special potential for employment of the poor, had a trade deficit in 1966 that cost American workers between 89,000 and 90,000 jobs.

Our union represents the employees in a number of companies engaged in the manufacture of electronic components. One of these plants located in Pennsylvania employed 413 production workers in December 1966, but this month employment at the plant is down to 234—a reduction of nearly 44%. The vice president of the company says that massive imports destroyed these jobs.

The 180 workers who lost their jobs at this plant can not hope to find employment in another electronic component plant because the jobs they would be seeking there have been exported overseas also.

To further illustrate the problem facing a worker whose job is replaced with imports is found in the trade position of the Electronics Component Industry. In a statement presented to the Senate Finance Committee last October, Mr. Edward Butler, Chairman of the Parts Division of the Electronic Industries Association, which employs some 126,253 workers in 636 establishments in 21 states, stated that this industry had a ratio of imports (units) to commercial production ranging from 30.9% for T.V. receiving tubes to as high as 215.2% in the case of transistors.

In accord with this estimate, the 1966 imports of some 12 categories of electronic components valued at some $1,184,500,500 was the production worker job equivalent of 79,763 workers.

It is well that we keep in mind that most of our competitive imports are produced by workers overseas who are being paid low money wages and are working under conditions that would not be tolerated here in the United States or under our system of free collective bargaining.

To be realistic, when the going gets too tough for a company to operate here because of competitive imports produced by cheap labor abroad it can close up shop in this country and move its operations overseas and then feed its production back into our market. The worker does not have these choices and they would be no good if he did.

We have the continuing problem of correcting our balance of payments deficit, protecting the stability of the American dollar in the money markets of the World, and effectively waging war on poverty by defending ourselves against poverty waging war on us.

There is nothing wrong with our relatively high wage levels here in the United States that would even suggest that they be abandoned in favor of any substandard level of wages. High wages and a high standard of living are an integral part of our industrial economy and the keystone of the arch that supports our vast industrial enterprise. On the contrary, higher wage levels and higher standards of living should be encouraged and extended to include the vast army of workers in the industrial enterprises among our trading partners overseas.

It is becoming increasingly clear that we can not indefinitely extend foreign aid to industrial nations that could be or are self-supporting through the devices of balance of payments deficits and balance of trade deficits.

In summary, District 50 on behalf of its members strongly urges that the American Selling Price system of valuation of imports as it applies to benzenoid chemicals as well as to the other commodities should not be repealed.

Congress should provide the broad instrument under which a National organization of workers, an industry association, or the instruments of government could by affirmative action or petition trigger the imposition of a ceiling on the further penetration of our market by competitive imports and the further loss of our jobs to additional competitive imports.

In our opinion, H.R. 16936, if enacted into law, would contribute substantially toward these ends.

STATEMENT OF WALTER P. REUTHER, PRESIDENT, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

The UAW, which represents auto workers in both the United States and in Canada, supports President Johnson's proposal to extend the adjustment assistance provisions of the Automotive Products Trade Act of 1965.

For a long time the UAW has fully supported the principle of removing artificial trade barriers between the United States and Canadian automobile industry.

This support was evidenced in 1960. In that year a Royal Commission, appointed by the Canadian Government, examined the problems of the automobile industry in Canada. The Canadian section of the UAW made a proposal to the Commission similar in many respects to the provisions which were finally embodied in the Automotive Products Agreement of 1965. The Canadian section of the Union had the full support of the International Union in making its proposal.

This support was evidenced again in 1965. On April 29, 1965 Vice-President Leonard Woodcock appeared before this very Committee and urged approval of the Automotive Products Trade Act of 1965.

On September 15 of the same year Nat Weinberg, Director of the UAW's Special Projects and Economic Analysis Department, filed a statement on behalf of the UAW urging support of the Automotive Products Trade Act of 1965 before the Committee on Finance of the United States Senate.

Skyrocketing automotive trade between the United States and Canada has certainly resulted from the implementation of the Automotive Products Agreement of 1965. Total two-way trade in automotive products was over four and one-half times as great in 1967 as it had been in 1964, the year before the agreement was made effective. As shown by the figures on page 51 of the Second Annual Report of the President to the Congress on the Operation of the Automobile Products Trade Act of 1965, the value of trade in automotive products between the United States and Canada totaled $3,363 million in 1967. This included products exported to Canada from the United States valued at $1,801 million and products exported to the United States from Canada valued at $1,562 million.

In 1964, on the other hand, automotive trade between the two nations was valued at only $730 million, including exports from the United States to Canada of $654 million and exports from Canada to the United States valued at slightly less than $76 million.

The UAW's support of the Automotive Products Trade Act of 1965 was conditioned on inclusion in the final bill of the adjustment assistance provisions in the proposed Act at the time the union's witnesses testified. The union's position was based on a number of arguments. Our position, now, urging that the adjustment assistance provisions of the Act be extended are based on a number of the same arguments.

As UAW Vice-President Leonard Woodcock stated it to this Committee in 1965:

"In spite of the problems it presents, we believe that the automotive products agreement is sound in principle and that it will provide substantial benefits for both the United States and Canada. It will permit a more efficient use of productive resources and a corresponding reduction in costs. The sooner these cost savings are passed on to consumers, the sooner they will be reflected in rising sales and higher employment in the auto industries of both countries. These in turn will make their contribution to greater economic health and a rising standard of living.

"We in the UAW recognize the fact that these changes cannot be made without requiring some adjustments in the auto industry, adjustments which will affect some of our members. We welcome the recognition given in this bill to the principle of special assistance for workers who may be adversely affected by such adjustments. We do not take the parochial view that private interests take precedence over the public interest. But we do insist that when the national interest requires that the private interest of some individuals be subordinated to the general good, then the nation has a special obligation to protect those individuals from harm. We would like to have seen the bill go further in that direction than it does, but we welcome the principle, we support the bill, and we urge approval of the bill by this Committee."

The UAW takes the same position today. When the national interest requires that the private interest of some individuals be subordinated to the general good, then the nation has a special obligation to protect those individuals from harm.

The principle of adjustment assistance is recognized in Europe. In situations similar to those covered by the adjustment assistance provisions of the Automotive Products Trade Act of 1965, the European Coal and Steel Community

provides 'tided over' allowances for workers. These allowances run as high as 100 percent of wages plus other forms of assistance, including supplementation of reduced wages received on new jobs. Workers may continue to receive assistance from the Community for up to two years.

The United States Government has also recognized the principle that actions in the national interest entail an obligation to protect individuals harmed by that action. In November, 1964, for example, Secretary of Defense McNamara

sheer coincidence if the communities to which jobs were moved from Canada were the same as the communities from which jobs have moved to Canada.

The question is often asked, why not rely on the assistance provisions of the Trade Expansion Act of 1962? Why was it necessary to write special assistance provisions into the Automotive Products Trade Act.

There are two good reasons for this. First, the adjustment assistance provisions of the Trade Expansion Act of 1962 have been a complete failure. If autoworkers had been forced to rely on that Act for protection they would have had no protection whatsoever.

Under the Trade Expansion Act of 1962 assitsance cannot be provided until the Tariff Commission has made a determination that injury has been suffered. To date there have been 26 requests for such determinations—6 of them initiated by workers, 8 by individual firms, and 12 by representatives of industry groups. In not a single one of these 26 cases has the Tariff Commission made a favorable determination.

Secretary of Labor Wirtz has recognized this failure. When he testified before this Committee on June 4, 1968, Secretary Wirtz said with respect to the adjustment assistance provisions of the Trade Expansion Act of 1962:

"These provisions have not had the effect intended by the legislation and anticipated by American workers and firms. In practice the tests have proven to be too rigorous and too complicated. Under the Trade Act of 1962 not one petition has been approved to date. The bill now before you proposes that the

criteria for eligibilty to apply for adjustment assistance be made more realistic and equitable."

The second reason why it was necessary to write special adjustment assistance provisions into the Automotive Products Trade Act was that the Automotive Products Agreement is quite different from the kind of trade agreement which the Trade Expansion Act of 1962 was designed to cover. The Trade Expansion Act provided for benefits only if injury to workers or firms was due to increased imports. But as UAW Vice President Woodcock has pointed out the injuries covered by the adjustment assistance provisions of the Automotive Products Trade Act might be due to causes other than increased imports. In 1965, Vice President Woodcock said to this committee:

"This agreement is expected to lead to a substantial reintegration of automotive production as between Canada and the United States. In consequence, workers and firms may be injured, not only through an increase in imports to the United States, but through a decrease in the export of certain products when Canadian production is commenced, or by reallocation of operations within this country or between the United States and Canada as a direct result of the operation of the agreement. Such situations would not come under the provisions of the Trade Expansion Act at all."

That UAW Vice President Woodcock was right is borne out in the testimony of Secretary of Labor Willard Wirtz before this Committee on June 4 of this year. Secretary Wirtz not only asked for changes in the adjustment assistance provisions of the Trade Expansion Act of 1962 as indicated above, he also asked for a three-year extension of the adjustment assistance provisions of the Auto-

President Walker states here very clearly that the full implementation of the agreement will take some time. This makes sense. The companies have invested millions of dollars in production facilities prior to the agreement which they won't close down merely in the interest of integration. But as facilities are replaced or expanded and as new facilities are built they will be built in accordance with an integrated plan, the completion of which might take many years.

CONCLUSION

The UAW supports President Johnson's request that the adjustment assistance provisions of the Automotive Products Trade Act of 1965 be extended. As the Automotive Products Trade Act between the United States and Canada is implemented dislocations have and will continue to occur. The workers who lose jobs and the small businessmen who are hurt as a result of these dislocations should not be asked to pay the costs of a program which is designed to benefit the entire nation. Both in the United States and in Europe government has assumed a responsibility for losses to certain citizens resulting from dislocations brought about as a result of actions beneficial to an entire nation. The adjustment assistance provisions of the Automotive Products Trade Act of 1965 represented a further assumption of that responsibility.

The Trade Expansion Act of 1962 would have been of no help to the persons hurt by the implementation of the Automotive Products Trade Act of 1965. Not even the proposed Trade Expansion Act of 1968 would solve the problem. Dislocations have occurred during the past 3 years and are likely to continue to occur. Hundreds of workers have been aided by the adjustment assistance provisions of the Automotive Products Trade Act of 1965. Additional hundreds may need this type of help in the future.

For these reasons, therefore, we ask the Congress to extend the adjustment assistance provisions of the Automotive Products Trade Act of 1965.

A Statement by the Automobile Manufacturers Association on International Trade and Investment

INTRODUCTION

The Automobile Manufacturers Association historically has supported efforts to expand trade among the countries of the world in the belief that the principles of free competition are as valid in world markets as in the domestic market. In the early 1920's, the Association established a committee to encourage expansion of United States automotive markets abroad.

In 1934, the AMA endorsed the newly enacted "Trade Agreements Act and pledged to support the efforts of the United States Government under that law. The "Trade Agreement Act," which initiated reciprocal trade agreements between the United States and other countries, marked a significant step on the part of the United States toward lowering of trade barriers. Since that time, the Association has publicly supported ensuing Government measures of a similar type. In line with the foregoing, the automobile industry favors removal of non-tariff as well as tariff barriers to international trade. Removal of both types of barriers, with the resultant expansion in trade and investments, is vital for the achievement of stable, continuous growth of the world economy and an increased standard of living.

Moreover, expanding trade can be an influence in reorienting economies not presently committed to free consumer choice or private ownership. In order for world trade to be an effective catalyst for world economic growth, it has to move on a two-way street. Free and fair competition can improve the distribution of production facilities and mitigate the disadvantages of uneven distribution of natural resources among countries. On the other hand, protectionism by any trading nation undermines the principles of reciprocity and endangers the long-term growth of any economy which retreats behind its arguments.

Policies assuring expanding trade and investments benefit not only private enterprise and the national economy but particularly the consumer. The effect of these policies is to provide the consumer wider selection and to stimulate greater price competition from which he also benefits.

If American automobile manufacturers are to maximize their contribution to the welfare of the nation, they need an expanding world market in which to fully employ their competitive skills and resources. The worldwide demand for cars and commercial vehicles is expected to increase from a present level of approximately 25 million units, to about 33 million units by 1975 and nearly 40 million units by 1980. United States manufacturers want to be accorded the opportunity to compete for a fair share of this growth.

The individual states of the United States have long proved the benefits of liberal trade, which has encouraged better resource allocation, specialization, and large-scale production. Regions and continents can benefit in the future in the same way. Note that when the principles of liberal trade are applied abroad, the United States participates in the benefits, not only from direct trade earnings, but also from the remittance of earnings from its foreign investments.

The following sections of this paper document the automobile industry's constantly growing role in the world economy and cite the industry's position on topics having a direct effect on the international activities of its members and those of many other industries engaging in international commerce.

The Role of the United States Automobile Industry in World Trade

As is pointed out below, the automobile industry had made, and is making a significant contribution to the international commerce of the United States. While this contribution is growing, fettering the industry's ability to compete for the markets of the world will endanger the growth of that contribution.

In the postwar years, 1947 through 1967, the value of United States automobile exports exceeded imports by more than 20 billion dollars (see Table A). This has been accomplished in a period when United States automotive tariff rates were, and still are, only about one-fourth of those in the major European industrial countries and even lower in relation to the tariffs in most of the major markets of Asia, Africa and South America. Even at the height of automobile imports in 1967, when the level reached 2.6 billion dollars, exports exceeded imports by 12.5% leaving a net trade surplus of close to 322 million dollars.

For the years 1962 through 1966, the net, favorable contribution to the United States balance of payments of the major vehicle producers exceeded 6.3 billion dollars. This represents the excess of automobile exports over imports plus all other transactions affecting the United States balance of payments. In view of the new mandatory regulations governing foreign direct investment, it is important to note that much of this cash inflow represents the present contribution to the United States balance of payments resulting from past investments.

Moreover, this industry also plays an important role in the economy of the entire free world, conducting business in virtually every nation. The importance of this point is shown by the fact that automotive exports have increased more than twofold, from 1.3 billion dollars in 1947 to 2.9 billion dollars in 1967 (see Table A).

In addition, the mass-production technology of the American automobile industry has become the foundation of automobile manufacturing throughout the world.

The United States share of total world vehicle production in 1966 totaled 10.4 million cars, trucks and buses out of a total world production of 24.9 million units. However, of the 14.5 million units produced outside of the United States, 4.6 million, or 31.7%, were accounted for by United States affiliates.

As outlined below, these United States direct overseas investments in motor vehicle assembly and manufacturing facilities, reflect the special demands of overseas markets.

In the early stages of the automobile industry, the limited demand of overseas markets was met by shipping fully assembled cars and trucks. As the overseas demand expanded, the industry kept pace by shipping unassembled vehicles abroad for local assembly. This was a necessary development in order to meet local commercial and governmental requirements most economically.

Recognizing that assembly alone would not be sufficient to sustain American competition in overseas markets, the United States producers began to establish manufacturing facilities in Europe, beginning in the mid-1920's. A principal reason for this move abroad was the fact that roads, traffic conditions and the cost of fuel necessitated a different vehicle from that used in the United States. It is important to note that while U.S. producers have been building vehicles abroad since early in this century, U.S. automotive exports have continued to set new records. Another reason was the realization that, unless United States manufacturers became an integral part of the foreign markets, this country's participation in these markets would decline because of the protective policies of their governments and the natural economic advantages enjoyed by indigenous manufacturers.

Concurrent with the establishment of foreign-based manufacturing operations was the development of a system of distributing automobile products. The nature of the product puts special emphasis on a financially healthy and geographically well distributed network of dealers. This system is a key link in building for

long-term growth; but, it can be developed only if volume sales are a reasonable prospect.

Despite the problems, U.S. automobile manufacturers have demonstrated that they are willing to accept the commercial risks inherent in liberal trade, both in the United States and overseas. They have always preferred to meet competitors in a market uninhibited by artificial restraints such as import quotas, border taxes or similar protectionist devices. This attitude has been maintained despite the rapid development of automotive industries in Europe and most recently in Japan (see Table B). In keeping with this attitude, the automobile industry believes that ascendancy of protectionists forces within the United States could result in a serious crippling of the future expansion of business for all American industry. The imposition of any restrictions on imports into the United States would substantially undo the hard-won agreements of the recent GATT (General Agreement on Tariffs and Trade) negotiations, and vitiate the tremendous benefits to the U.S. economy gained from its long-standing policy of trade liberalization. Our trading partners have warned of retaliatory action, should the United States take steps to restrict imports. Should a "quid pro quo" atmosphere of this type be allowed to direct the commercial policies of trading nations, a devastating blow will have been dealt the expansion of world trade and the pace of economic development.

New import laws, most assuredly, would result in higher domestic prices for raw materials through a reduction in supply and competition; thus adding fuel to already strong inflationary pressures.

The U.S. automobile industry urges Congress to carefully weight protectionist legislation in terms of its impact on the U.S. economy as a whole, international trade and investment, and its effects on the U.S. balance of payments if retaliatory measures are taken by other countries.

RECENT TRADE NEGOTIATIONS

Basically, the AMA seeks to obtain for its members, treatment in foreign markets comparable to that accorded foreign companies in the United States market. The achievement of full reciprocity in international trade relations, remains a primary objective of AMA trade policy. Consistent with that objective, we believe that trade negotiations should be directed toward the reduction and ultimate removal of nontariff barriers.

The Trade Expansion Act of 1962 provided the basis for the GATT negotiations, held from 1964 to 1967. These negotiations mark an accomplishment of considerable magnitude and benefit in the history of international trade. On balance, all the participants to the agreement should reap greater gains from freer exchange of goods and increased competition in the international marketplace. Tariff reduction were achieved in both agricultural and industrial products. Among the latter, automotive products received significant cuts in tariff rates in most of the major automobile markets.

The United States concession on automobiles exceeded that of any other country, dropping from 6.5% to 3% ad valorem, a reduction of almost 54%. Three of the participants, the European Economic Community, Japan and the United Kingdom agreed to 50% reductions, while four others granted reductions ranging from 13.5% to 40.5%. Most of the participants which granted tariff concessions on automobiles extended some, but overall smaller, reductions to trucks and to automobile parts and accessories. However, the GATT Round did not include negotiations on larger trucks.

In addition to the above tariff concessions, the United States obtained agreement from Austria to revise the Austrian road tax base on passenger vehicles with an engine cylinder displacement greater than 2500 ccm (152.6 cubic inches); thereby reducing, but not eliminating, the discrimination in the tax rate applied largely against American type vehicles. Belgium, France and Italy have made a somewhat similar agreement, subject to repeal by the United States of the American Selling Price (ASP) system of customs valuation.

The achievements resulting from United States trade policy since 1934 clearly demonstrate that substantial tariff reduction can benefit the national economy without serious injury to domestic interests. The experience of the European Common Market (E.E.C.) and of the European Free Trade Association bears out this same conclusion.

A major accomplishment was the negotiation of the anti-dumping code which will provide greater uniformity in anti-dumping procedures by all countries. The industry commends this achievement and recommends that the U.S. Government implement the necessary regulations to conform with the code.

The AMA endorses the Administration's proposals calling for—

Continuation of the Presidential "housekeeping" authority;

Improvement of the trade adjustment assistance criteria; and

It also recommends that Congress give careful consideration to the proposed repeal of the American selling price system of customs valuation.

The expiration on June 30, 1967, of the Trade Expansion Act of 1962 has placed severe limitations on the United States Government's present powers in foreign trade policy. There appears to be only a limited need at this time for major tariff negotiation authority in view of the recent completion of the GATT Round and the current study by the President's Special Representative for Trade Negotiations of the principal issues and long-term objectives of this country's foreign trade policy. While the study is being conducted, the Administration should be provided with "housekeeping" authority to cope with interim tariff changes. This authority is needed to negotiate compensatory concessions, as required under GATT rules where a negotiated tariff reduction is to be wholly or partially withdrawn, by invoking the escape clause in view of actual or threatened injury to domestic interest.

The Trade Expansion Act of 1962 recognized that existing remedies were inadequate and inappropriate when a domestic industry suffered or was threatened with serious injury as a result of a reduction in trade barriers. The Act accepted the premise that action in the national interest to expand foreign trade entailed a national responsibility to assist those who were or might be affected adversely by reduction of tariff duties. Wherever possible this responsibility was to be met in a positive way by providing producers or workers with technical and financial assistance for their adjustment to other fields. This approach was intended to spur more efficient use of domestic resources with attendant benefits for United States economic growth. It represented a marked departure from the traditional remedy of tariff increases by resort to the escape clause.

The automobile industry believes that liberalizing the applicable criteria and their administration can provide needed reassurance that tariff concessions, whether made in the GATT Round or negotiated in the future, would not suddenly be allowed to jeopardize livelihoods.

As noted previously, Belgium, France and Italy, during the recent GATT Round, agreed conditionally to a modification of their discriminatory automobile road use tax schedules, subject to the elimination by the United States of its American Selling Price (ASP) system of customs valuation. Modification of these discriminatory road taxes would benefit United States exports of automotive products. The removal of non-tariff barriers abroad will, as a practical matter, probably depend on whether the United States is able to take reciprocal action regarding non-tariff barriers to trade with this country.

If it can be demonstrated that the elimination of the ASP system would not work manifest and unfair hardship on other domestic industries—a matter which the automobile industry is not in a position to judge—we believe that the system should be eliminated.

PROBLEMS FOR FUTURE TRADE NEGOTIATIONS

While the last six GATT Rounds have made substantial progress, there is still much to be done to remove tariff and especially non-tariff impediments to world trade. The United States received substantial tariff concessions from her principal trade partners. However, at the conclusion of the staged reductions, January 1, 1972, all of the other major vehicle producing countries will have retained tariff levels substantially above those of the United States. For example, the Japanese tariff affecting most American cars will be 17.5%, which will be almost six times greater than the United States rate of 3.0% (see Table C).

Moreover, a number of specific trade impediments remain for future resolution:

A. TRUCK TARIFFS

Although the recently concluded GATT Round resulted in significant tariff cuts on assembled automobiles, it had only very limited impact on the truck tariffs of the major participants. Duty reductions for trucks were limited to light vehicles with gasoline engine capacity of less than 2.8 liters (170.9 cubic inches) or diesel engine capacity under 2.5 liters (152.6 cubic inches); for these vehicles, import duty rates will be halved by January 1, 1972.

The European Community made no tariff reductions on trucks with large engine capacity. The United Kingdom granted a slight reduction from 24%

to 22% on this item to bring it in line with the E.E.C. level. The virtual exclusion of these vehicles from the negotiations leaves intact high tariff levels and deprives buyers of potentially significant benefits that would accrue to them from a lowering of the duty and attendant competitive pressures on national producers.

The United States maintained unchanged its tariff rate for automobile trucks valued at $1,000 or more. The applicable rate remained at 25%, which reflects the retaliatory increase (from 8.5%) imposed on January 1, 1964, following international determination of the damage sustained by this country through the E.E.C. duty increase on imports of American poultry. The United States truck tariff rate is designated as temporary and would revert to its former level, provided appropriate concessions were offered by the European Economic Community.

Trucks with a dutiable value of less than $1,000 are treated in the same way as cars, i.e., the rates are scheduled to decline to 3.0% by January 1, 1972.

B. NON-TARIFF BARRIERS (NTB)

As the GATT Round's tariff reductions go into effect, other barriers become more important as governments are tempted to make greater use of non-tariff devices in order to offset the impact of tariff cuts. The most common of those devices affecting trade in automobile products are discriminatory taxes, freight rates, basis of duty calculation, import license procedures, import quotas, local content requirements, and investment restrictions.

In a number of important markets abroad, as well as in many lesser ones, United States vehicles for many years have been subject to highly discriminatory car purchase and ownership costs. These disproportionate charges are particularly inequitable in countries that are large-scale automobile exporters to the United States. These charges greatly increase the cost to the retail buyer. They severely impair the competitive position of American passenger cars and commercial vehicles in many markets and effectively bar United States vehicles in others.

The widespread practice of basing ownership or use taxes on vehicle size or horsepower creates highly discriminatory or even prohibitive levies (see Table D), by the assessment of each additional power or weight increment at a sharply increased rate of tax. Since these imposts are almost universally annual levies, their cumulative burden in many cases can exceed even relatively heavy import duties. The imposition of severely discriminatory registration fees by such countries as France and Italy, for example, is in especially marked contrast to the practices of the United States; where most French and Italian automobiles are taxed at the lowest existing rates.

Different types of sales taxes, levied at particularly high rates, such as those imposed by the United Kingdom and France, also add a considerable cost burden to American cars competing for sales in those markets. These taxes are particularly burdensome, as they are computed either on the duty paid value of the vehicle or in some instances on this value augmented by a fixed percentage markup.

It should be noted also that the duties abroad are imposed on the value of the vehicles including insurance and freight (c.i.f.). Insurance and freight charges are higher on automobile exports from the United States than on imports of comparable products to the American market. To illustrate, on an assembled United States vehicle the freight factor alone adds $350 and more per vehicle to its landed cost at major European ports, while European producers pay less than one-half of this amount on shipments to the United States. The calculation of import duties by foreign countries on the c.i.f. basis is in direct contrast to the practice of the United States of applying the duty on approximately the wholesale value of the vehicle in the source country.

While not necessarily selective in nature, import license deposits can also be used in a highly discriminatory manner. Although ultimately refunded, deposits of many times the value of the imported goods can operate to reduce the importer's cash position by tying up large amounts of capital. As a consequence, the importer is put at a competitive disadvantage.

Import quotas, which are either arbitrary or discriminatory by definition, set specific limits on the producing countries' ability to compete for the market to which the quotas apply. Japan is a case in point. Quotas are adopted most frequently for reasons of national economic policy largely unconnected with the automotive market as such. The United States should pursue further negotiations with other countries toward the reduction or elimination of instances of

governmental authorities resorting to quotas or other wholly artificial methods of market control.

The substantial duty reductions recently negotiated in many major overseas markets gives the impact of subsequent levies much greater importance. For these duty reductions to effect the full influence intended for freer trade, every effort should be made to reduce, as far as possible, the discriminatory aspects of border taxes, license fees, road taxes, sales or purchase taxes, as well as the great variety of less widely-used levies; as for example, the Commodity Tax in Japan and many other special ownership or use assessments.

Finally, in many developing nations, there is an understandable, if not always practical, desire to force the pace of industrialization. Many of these countries, for example, have adopted policies requiring that, over a period of time, the portion of a vehicle that is imported must be reduced and the portion manufactured locally must be increased. High tariff penalties are stipulated for those who fail to meet the schedule.

From a business point of view, these national programs have created serious questions. In many of the developing countries, the market potential is limited. The consumer could be supplied at a substantially lower cost with vehicles imported from the United States or from other national sources with a high-volume/low-cost output, than out of a relatively low-volume/high-cost local facility. With the import opportunity increasingly limited, uneconomic investment becomes the necessary method of market supply.

Each nation has the right to determine its own route to the future and those who would do business must respect that right. It should be recognized, however, that economic progress and stable growth will be impaired unless industrialization is based on sound economic principles.

INVESTMENT RESTRICTIONS

The benefits of expanding international commerce can best be realized by unrestricted movement of capital, technology, and goods. The AMA, therefore, urges the earliest discontinuation of investment restrictions wherever they exist as detrimental to the best economic interest of all the nations.

Investments of the United States automobile industry have consistently made positive contributions to the United States balance of payments and to living standards of the host countries. One reason for this is the fact that United States companies manufacturing abroad have requirements for production equipment that is often unavailable in foreign countries with low levels of technology. These requirements are often filled in the United States creating additional export volume. The introduction of this new equipment often results in a considerable upgrading of local job skills. Thus, it appears there is a need for the United States to orient its balance of payments and related investment policies to the expansion of world trade and, consequently, to the benefit of the United States economy. Whatever short-run benefit the new direct investment regulations may have on the United States balance of payments, their longer-run consequence could be to inhibit future growth of U.S. industry, both domestically and abroad, as well as to restrict growth of exports and remittances of dividends and profits. Unfortunately, these regulations come at a time when some of American industry's most formidable competition abroad is receiving capital assistance, both direct and indirect, from their governments.

ECONOMIC INTEGRATION

The AMA welcomes economic integration at any level, regional or subregional, when such integration contributes to greater economic strength and prosperity of the participating nations and is directed to an overall expansion of international trade and investment. The AMA supports the efforts of economic blocs to discourage protectionist tendencies and to expand trade multilaterally between members and non-members. Integration should help to create, not merely divert trade.

One route to economic integration is a sector approach which establishes free trade for specific industries. The United States-Canadian Automotive Products Agreement of 1965 can be considered a first step in this direction. The objective of the Agreement is to encourage the long-term growth of production and employment in both the United States and Canada by facilitating the free flow of automobiles and components between the two countries.

While United States automobile manufacturers did not initiate the negotiations which led to the conclusion of the Agreement, the industry has continued

to cooperate with the governments of the United States and Canada in implementing the terms of the Agreement and the related legislation.

This industry supports continuation of this Agreement.

The expansion of this arrangement into other products and industrial sectors deserves study. In principle, the sector approach merits serious consideration when trade blocs find it temporarily difficult to integrate their economies entirely.

Another constructive step toward improving the conditions for growth is the negotiation of industry complementation agreements which do not restrict competition, such as those between various Latin American countries in the chemical, machinery and electronic fields, which pormote effective and beneficial international specialization of labor. The results of the United States-Canadian Automotive Products Agreement should provide motivation for similar arrangements between other countries, especially those whose economic base does not lend itself to integrated large-scale production of products such as automobiles.

INTERNATIONAL MONETARY SYSTEM

The international monetary system is under unprecedented stress of declining monetary gold stock and decreased willingness to hold balances of reserve currency. The apparent desire of all member countries to increase, or at least maintain, reserve levels is incompatible with the rules of the present system and with recent reserve developments. Attempts to reduce payments deficits by major nations has developed a very real threat to progress toward freer trade and investments.

In recent years, it has been recognized that a need existed for an evolutionary reform of the international monetary system. In 1967, the member countries of the International Monetary Fund took a significant first step toward the goal of introducing a higher degree of flexibility into the international monetary system by means of Special Drawing Rights. The AMA endorses the plan to create these units for added flexibility.

Under the system currently in use, certain national currencies are considered reserve currencies and the accumulation of these reserve currencies has been a fundamental part of the western world's economic environment for a substantial period of time. Today, the countries where these reserve currencies originate are reducing their balance of payments deficits by reducing the supply of these assets beyond their national borders. A sudden sharp contraction of the supply of these currencies would entail serious economic repercussions in foreign trade flow. The economic effects of policies leading to an abrupt reduction in the supply of reserve assets can cause reduced economic growth rates, slower rates of income growth and higher levels of unemployment .

The AMA fully recognizes the benefits to trade and investment of the present international monetary system. The AMA also takes cognizance of the disadvantages that are inherent in the system and recommends discussions of methods of providing additional flexibility so as to minimize the employment and output costs of the present adjustment process.

SUMMARY

1. The AMA historically has promoted and supported efforts to expand trade among countries, in the belief that the principles of free competition and private enterprise are as valid in the world market as they are in the domestic market.

2. Primary among AMA policies is the continued support for the removal of restraints of international trade both in the tariff and non-tariff categories.

3. The industry believes that restricting the ability of the automobile industry to compete for world markets could endanger what has historically been a favorable contribution to the United States balance of payments and trade surplus.

4. The AMA seeks to obtain for its members treatment in foreign markets comparable to that accorded foreign companies in the United States.

5. Faced with increasing competition in the world market, the members of the AMA endorse the Administration's proposals calling for continuation of the Presidential "housekeeping" authority and improvement of the trade adjustment assistance criteria. Congress should also consider carefully the proposed repeal of the American Selling Price system of customs valuation.

6. Important subjects for future trade negotiations should be removal of non-tariff barriers and further reduction of tariffs, particularly truck tariffs.

7. The AMA hopes for the earliest discontinuation of investment restrictions imposed on United States firms abroad. The industry recognizes the need for

measures to improve the balance of payments but warns that in the long term the consequences of this policy will be diminution of the industry's contribution to the United States balance of payments.

8. The AMA affirms its position of welcoming economic integration of regional or subregional levels as positive steps toward global free trade. It supports efforts to achieve integration of trading partners in certain industrial sectors before more complete integration is possible.

9. The AMA believes that the international monetary system is becoming an increasingly important topic in international business. This industry believes there should be continued examination of the various alternatives for providing additional flexibility to the international monetary system.

TABLE A.—VALUE OF U.S. AUTOMOTIVE EXPORTS AND IMPORTS, 1947–67

[In millions of dollars]

Years	Exports	Imports	Export surplus
1947	1,279	2	1,277
1948	1,006	31	975
1949	842	10	832
1950	794	28	766
1951	1,306	38	1,268
1952	1,124	57	1,067
1953	1,082	58	1,024
1954	1,157	53	1,104
1955	1,367	85	1,282
1956	1,516	144	1,372
1957	1,467	335	1,132
1958	1,227	551	676
1959	1,281	844	437
1960	1,411	626	785
1961	1,300	378	922
1962	1,401	515	886
1963	1,567	564	1,003
1964	1,900	719	1,181
1965	2,198	826	1,372
1966	2,474	1,825	649
1967 [1]	2,887	2,565	322
Total	30,586	10,254	20,332

[1] Preliminary figures.

Source: U.S. Department of Commerce.

TABLE B.—VEHICLE PRODUCTION AND REGISTRATION FOR SELECTED COUNTRIES, 1957–67

Year	France	Germany	Italy	Japan	United Kingdom	United States
PRODUCTION						
1957	927,814	1,212,206	351,815	181,977	1,149,095	7,220,431
1958	1,127,761	1,495,221	403,560	188,303	1,364,407	5,121,269
1959	1,283,305	1,718,544	500,784	262,814	1,560,427	6,723,588
1960	1,349,213	2,055,127	644,633	481,551	1,810,700	7,905,117
1961	1,204,409	2,147,797	759,140	813,879	1,464,134	6,652,938
1962	1,507,533	2,356,594	946,793	990,706	1,674,530	8,197,311
1963	1,706,731	2,667,896	1,180,536	1,283,531	2,011,720	9,108,776
1964	1,582,129	2,909,657	1,090,078	1,702,475	2,332,376	9,307,860
1965	1,616,153	2,976,477	1,175,548	1,875,614	2,177,261	11,137,830
1966	2,024,220	3,050,708	1,365,898	2,286,399	2,042,354	10,396,299
1967	2,009,672	2,482,319	1,542,669	3,146,486	1,937,119	9,023,736
REGISTRATION [1]						
1957	640,885	720,463	222,580	171,774	595,658	6,840,427
1958	698,365	863,973	237,477	178,335	758,738	5,381,218
1959	665,863	1,011,819	284,742	240,726	871,134	6,983,408
1960	762,361	1,162,414	427,751	355,142	1,074,360	7,520,135
1961	837,988	1,308,664	553,844	511,444	1,008,022	6,773,355
1962	1,044,893	1,419,471	704,474	606,032	1,020,349	8,007,588
1963	1,190,993	1,476,176	1,038,438	810,900	1,272,166	8,800,941
1964	1,211,658	1,554,102	894,029	1,057,371	1,481,384	9,426,922
1965	1,202,791	1,733,117	939,580	1,182,313	1,424,296	10,842,771
1966	1,367,815	1,709,068	1,074,690	1,491,057	1,357,051	10,618,938
1967	1,382,758	1,671,347	1,186,544	1,746,356	1,376,919	[2] 9,777,418

[1] Source for U.S. registrations: R. L. Polk & Co. Permission for further use must be obtained from R. L. Polk & Co.
[2] Includes Connecticut registrations, January through April only.

TABLE C.—AUTOMOBILE TARIFF RATES FOR SELECTED COUNTRIES

SUMMARY OF TARIFFS GENERALLY AFFECTING ASSEMBLED U.S. PASSENGER CARS IN SELECTED COUNTRIES

[In percent]

Country	Tariff rate as of Jan. 1, 1968	Tariff rate as of Jan. 1, 1972 [1]
Australia	35.0	35.0
Brazil	80.0	80.0
France	25.2	11.0
Germany	22.0	11.0
Italy	29.2	11.0
Japan	35.0	17.5
United Kingdom	25.2	11.0

[1] The applicable rate after the phasing period as agreed to in the 1964–67 Conference of the General Agreement on Tariffs and Trade (GATT).

Source: World Trade Department, Automobile Manufacturers Association.

AUSTRALIA [1]

[In percent]

	Tariff rate as of Dec. 31, 1967	Tariff rate as of Jan. 1, 1972
All vehicles:		
Up to 10 tons GVW	35	35
10 tons GVW or more	22½	22½

[1] No GATT round concessions were granted by Australia for automobiles.

NOTES

Import taxes: Sales tax: 25 percent on cars. 12½ percent on commercial vehicles, based on the duty paid value increased by 20 percent.

Customs valuation: Duties are applied on the higher of the current domestic value in country of origin or the sales price.

BRAZIL [1] [2]

[In percent]

	Tariff rate as of Dec. 31, 1967	Tariff rate as of Jan. 1, 1972
Passenger cars:		
Weighing up to 800 kg. (1,766 lbs.), valued at US$1,800 c.i.f	65	65
Weighing 800 kg. to 1,100 kg. (2,428 lbs.), valued at US$3,000 c.i.f	80	80
Weighing over 1,100 kg. (2,428 lbs.), valued at US$4,000 c.i.f	100	100
Commercial vehicles	80	80

[1] Importation prohibited for vehicles valued when new in excess of US$3,500 list price.

[2] No GATT round concessions were granted by Brazil for automobiles.

NOTES

Import taxes:
Surtax: 10 percent c.i.f. value.
Port assessment: 1 percent of c.i.f. value.
Marine assessment: 5 percent of ocean freight.
Industrialized products tax: 18 to 24 percent of duty paid value.

Customs valuation: Duties are applied on the wholesale value in country of origin plus cost, insurance, and freight (c.i.f.) charges.

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FRANCE

[In percent]

	Tariff rate as of Dec. 31, 1967	Tariff rate as of Jan. 1, 1972
Passenger cars	25.5	11
Commercial vehicles:		
Heavy trucks	25.2	22
Light trucks	25.2	11

NOTES

Import taxes:
Stamp duty: 2 percent.
Duty tax: 0.2 percent of duty.
Customs valuation: Duties are applied on the f.a.s. value plus a 3 percent uplift, plus freight and insurance.

GERMANY

[In percent]

	Tariff rate as of Dec. 31, 1967	Tariff rate as of Jan. 1, 1972
Passenger cars:		
Up to 2,000 c.c. (121.9 cu. in.)	20	11
Over 2,000 c.c.	22	11
Commercial vehicles:		
Heavy trucks	22	22
Light trucks	22	11

NOTES

Import taxes: Import equalization tax: 6 percent of the duty paid value including uplift.
Customs valuation: Duties applied to the c.i.f. value, for sole distributors this amount is increased by 3 percent.

ITALY

[In percent]

	Tariff rate as of Dec. 31, 1967	Tariff rate as of Jan. 1, 1972
Passenger cars:		
Up to 1.5 litres (91.53 cu. in.)	31.2	11
1.5 litres to 4 litres (244.1 cu. in.)	29.2	
Over 4 litres	27.2	
Commercial vehicles:		
Up to 4 litres	29.2	[1] 22
Over 4 litres	27.2	

[1] Applies only to heavy vehicles, others subject to duty of 11 percent.

NOTES

Import taxes:
Equalization tax: 7.8 percent of the duty paid value for cars and commercial vehicles, and 7.5 percent on all other vehicles.
Administrative tax: 0.5 percent dutiable value.
Stamp tax and miscellaneous charges: Averages 0.2 percent of c.i.f. value.
Turnover tax: 4 percent of duty paid value including uplift and administrative fee.
Customs valuation: Duties are applied on the c.i.f. value plus a 3 percent uplift.

JAPAN

[In percent]

	Tariff rate as of Dec. 31, 1967	Tariff rate as of Jan. 1, 1972
Passenger cars (4-wheel):		
Not more than 270 (105.3 in.) cm. wheelbase	40	[1] 30.0
More than 270 cm. wheelbase	35	17.5
Commercial vehicles:		
Buses and trucks with a capacity of less than 18 metric tons	30	15.0
Other	27	13.5

[1] This figure could be reduced to 20 percent if Japan reaches agreement with Italy.

NOTES

Import taxes: No taxes are applied solely to imports.
Customs valuation: Duties are applied on the c.i.f. value plus a 5 percent uplift.

UNITED KINGDOM

[In percent]

	Tariff rate as of Dec. 31, 1967	Tariff rate as of Jan. 1, 1972
Passenger cars	25.2	11
Commercial vehicles:		
Heavy trucks	24.0	22
Light trucks	24.0	11

Note: Customs valuation: Duties are applied on the c.i.f. value of the vehicle.

Noted below are the U.S. tariff rates on a basis comparable with those presented above.

UNITED STATES

[In percent]

	Tariff rate as of Dec. 31, 1967 [1]	Tariff rate as of Jan. 1, 1972
Passenger cars	6.5	3.0
Commercial vehicles:		
Trucks [2]	8.5	8.5
Buses	7.5	4.0

[1] New vehicles and parts for original equipment produced in Canada may be imported duty free by original equipment manufacturers.
[2] Trucks valued in excess of $1,000 are dutied at a temporary rate of 25 percent. No GATT round concession was made by the United States on these trucks.

NOTES

Import taxes: No taxes applied solely to imports.
Customs valuation: Duties applied on the foreign value at factory plus any customary trade discounts.

TABLE D.—EUROPEAN ECONOMIC COMMUNITY AND UNITED STATES (NEW YORK) ANNUAL MOTOR VEHICLE TAXES

Passenger cars	Weight (pounds)	Engine capacity (cubic centimeter)	Annual tax in U.S. dollars					
			Belgium Luxembourg	France	Germany	Italy	Netherlands	United States (New York)
Fiat, 600–D	1,320	767	18.00	12.17	29.00	17.15	30.50	10.00
Renault, R8A	1,640	956	21.60	18.28	36.25	29.40	37.85	12.00
Fiat, 124	1,808	1,197	25.20	18.28	43.50	47.83	41.79	13.50
Volkswagen, 1300	1,720	1,285	25.20	18.28	47.13	54.47	39.74	12.75
Fiat, 1500	2,172	1,481	28.80	24.34	54.50	63.69	50.07	16.50
Peugeot, 404	2,250	1,618	32.40	24.34	58.00	75.12	51.84	17.25
Opel, Rekord, 1700	2,271	1,679	32.40	24.34	61.64	81.76	50.99	17.25
Ford-Taunus, 20M	2,183	1,998	36.60	24.34	72.50	135.54	50.32	16.50
Mercedes, 220S	2,860	2,195	48.96	30.43	79.75	158.39	66.08	21.75
Opel, Kap	2,906	2,605	63.84	30.43	94.25	192.69	67.09	21.75
Chevelle, 6	2,870	3,767	100.44	202.84	137.75	274.81	66.08	21.75
Rambeler-American	2,526	3,800	110.44	202.84	137.75	239.56	58.47	18.75
Chevrolet, Bel Air 6	3,300	4,094	122.00	202.84	148.63	297.14	76.25	24.75
Ford, Galaxy 8	3,792	4,736	159.16	202.84	170.50	385.71	87.42	31.25
Buick, Special 8	2,977	4,922	159.16	202.84	177.63	405.53	68.63	22.50
Oldsmobile, Delta 88	4,146	6,965	323.74	202.84	253.75	568.00	95.77	32.25
Cadillac, 62	4,550	7,046	323.74	202.84	253.75	584.17	105.23	37.25

UNITED STATES AUSTRIAN CHAMBER OF COMMERCE, INC.,
New York, N.Y., May 29, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR MR. MARTIN: With reference to the invitation extended by the Chairman of the Committee on Ways and Means of the House of Representatives, Mr. Wilbur D. Mills, in connection with the public hearing on tariff and trade proposals to any interested organization or person, I have the honour to submit, on behalf of the United States Austrian Chamber of Commerce, Inc., New York, the enclosed Memorandum on Protectionism and International Trade, for consideration for inclusion in the printed record of the hearing in lieu of a personal appearance.

This Memorandum reflects the views of the business circles interested in Austro-American trade. While it contains some comments on world trade in general, it more specifically deals with the consequences to be feared in case import quotas would be imposed by the United States as envisaged by the sponsors of numerous quota bills which have been introduced in Congress.

The United States Austrian Chamber of Commerce would highly appreciate if the Committee could give due consideration to the views presented in this Memorandum.

May I, on behalf of the organization I represent, express the sincere hope, that the Committee will be guided in its deliberations of trade policy by the same constructive spirit that characterizes the proposal made recently by Austria along with other members of the European Free Trade Association, namely to attempt to overcome temporary difficulties that might arise in international economic relations by international cooperation rather than by unilateral measures tending to impede the further growth of world trade and prosperity.

Sincerely yours,

Dr. ERNST ROTT,
Executive Secretary.

MEMORANDUM ON PROTECTIONISM AND INTERNATIONAL TRADE PRESENTED BY THE UNITED STATES AUSTRIAN CHAMBER OF COMMERCE, INC., NEW YORK

The successful conclusion of the Kennedy-Round which came about only few months ago after long years of hard bargaining was hailed by the leaders of all participating countries as a significant achievement in the field of international trade. In the final phase when negotiations seemed on the brink of failure all partners had to make great efforts setting aside selfish interests for the sake of a greater common goal, namely a further step in the direction of a more liberal world trade.

The willingness on the part of all countries concerned to make the necessary sacrifices gave reason to hope that a new phase of closer economic cooperation in the interest of a further expansion of world trade was about to be initiated.

Due credit was given to the United States for their role in this round of negotiations. The late President Kennedy had taken the initiative which found strong support particularly on the part of the American Trade Unions, and Congress gave him the negotiating authority by adopting the Trade Expansion Act of 1962. Now, only five years later, a campaign is being conducted in the United States aiming at a frustration of the promising results of all these efforts. The increasing flood of protectionist bills that are being introduced in Congress is therefore not only a matter of grave concern but also of consternation for all the other countries which have placed high hopes in the leadership of the United States toward a freer world trade.

Trade is not a one-way street. Experience has shown that protectionist measures taken by one trading partner have seldom failed to provoke strong retaliatory measures on the part of the other countries. There is no reason to believe that such a highly regrettable process would not be precipitated this time if the proposed measures which do not aim only at the protection of one branch of the economy or the other but at an all-out protectionist trade policy would come into effect.

What would be gained by such a conflict? Perhaps a certain profit for certain limited groups over a limited period of time. *But in the long run there can be only losers, no winners.*

The following considerations will prove this point:

1. ECONOMIC CONSIDERATIONS

In the course of the past years both American importers and American exporters have profited from the considerable increase in American foreign trade.

In 1960 U.S. exports amounted to over $20 billion. In 1966 they rose to over $30 billion.

Imports into the United States totalled about $15 billion in 1960, and over $25 billion in 1966. Hence, both exports and imports have shown an almost identical increase of about $10 billion over this period.

The most characteristic aspect of U.S. foreign trade is the structural surplus in the balance of trade in favor of the United States. This is true not only for the overall pattern of U.S. trade, but also for U.S. trade with Western Europe and with Austria in particular.

So for instance in 1966 Austrian exports to the U.S. amounted to $77 million, Austrian imports from the U.S. to $101 million: the surplus in the balance of trade was $24 million in favor of the United States. In other words, Austria buys by about 25 per cent more merchandise in the United States than she sells on the U.S. market. The cited example is by no means an exception: similar trade balances are characteristic of the preceding years.

U.S. imports from the countries of the European Economic Community (Common Market) and the European Free Trade Association (EFTA) combined amounted to $7.1 billion in 1966, U.S. exports to these two trading groups to $9.5 billion. The surplus in the balance of trade was $2.4 billion in favor of the United States.

One can easily foresee that a curtailment of imports on the part of the United States that will in all probability provoke similar measures on the part of the trading partners will *eventually affect the interests of American exporters to a much greater degree than those of foreign importers.*

There is another important aspect of the problem: in view of the considerable share of U.S. exports and imports in world trade any significant restriction of U.S. imports will inevitably affect the earning power of many countries so that they in turn will be compelled to limit their imports. Furthermore, while the American economy as a whole depends only to a relatively limited degree on international trade, *the international exchange of goods is of vital importance for the economies of the smaller industrialized countries.* About 25 to 30 per cent of the Austrian production goes into export. Any sizeable reduction in exports must therefore have strong repercussions both economically and socially.

2. SOCIAL CONSIDERATIONS

One of the immediate effects of protectionist curbs on imports is the restriction or complete elimination of foreign competition. Thus the advantages of an international division of labor cannot be enjoyed any longer. One result is a rise in prices which will eventually have to be borne by the consumer.

Protectionism is therefore also detrimental to consumer interests. One of the reasons frequently given for protectionist measures is the necessity of protecting jobs in industries which would otherwise succumb to foreign competition. This argument can be a justification only in special cases, as for instance with regard to new industries in their initial phase, particularly in developing countries. But it can hardly be invoked in the case of the most highly developed industrial nation with the highest productivity in the world.

However, those who advocate such measures for the reason mentioned above should not overlook the fact that not only those in the United States who are directly profiting from imports like importers, banks, shipping interests, port authorities, longshoremen etc. would suffer from a curtailment of imports; protectionism as has been demonstrated above would also seriously impair the exports of the United States which in turn would mean *the loss of numerous jobs in export-oriented branches of the economy.* All these developments must ultimately have their effect on the economy as a whole and may lead right into an economic depression. *The hey-day of protectionism in the Thirties is connected with the dire memories of the most serious economic depression and the highest rate of unemployment in history.*

Austria can be cited as a striking example. Lack of confidence in the economic viability of this small country, lack of meaningful international cooperation as

a result of economic egoism, repercussions of the general economic crisis, all this led to a desperate situation for which the rate of unemployment was perhaps the most symptomatic: 600,000 unemployed in a population of not even seven million! This was not the least among the reasons for the collapse of the First Austrian Republic in 1938.

3. POLITICAL CONSIDERATIONS

After the Second World War, when the economy of most of the European countries literally lay in ruins, the United States took a most remarkable initiative: the Marshall-Plan. This ingenious plan not only offered the most generous financial aid supplied by the American tax-payer, it also tied this aid to the requirement that the European countries help themselves on the basis of close economic cooperation.

The progressing abolition of trade barriers among the European countries in the framework of the Organization for Euopean Economic Cooperation was viewed by many European protectionists, among them many Austrians, as a road leading to certain disaster.

The positive results surpassed the expectations of even the greatest optimists: in the course of a few years the European economy not only recovered from the damages inflicted during the war years, it flourished to such an extent that the expression "economic miracle" was coined for some of these European countries, including Austria. Austria today is no longer the "sick man" in Central Europe as it was in the period between the Wars; Austrians are enjoying now an economic prosperity and social and political stability unsurpassed in her history.

This most fortunate state of affairs which is one of the results of the Marshall-Plan has convinced Austrians in particular and Europeans in general that *Americans have taught the Europeans a most profitable lesson in liberal trade policy.* From a political point of view it can be said without exaggeration that the outcome of the Marshall-Plan was one of the most outstanding achievements of American foreign policy in the post-war period.

Austrian leaders and the Austrian population are still grateful for the Marshall-Plan aid, and this gratitude is a firm basis for the friendly feelings Austrians have for the United States. However, in view of historic experiences, they are keenly aware of the vital importance of economic and social stability in Austria and in Europe. Any strong setback in the economic development that could for instance be caused by strong restrictions of export opportunities could seriously endanger this stability which could have especially grave consequences on account of Austria's particular situation on the border line between East and West. *The spirit of the Marshall-Plan should not be abandoned.*

Another aspect should be taken into consideration: as a result of the impressive economic progress made by the Western European countries in the past twenty years they are in a position now to assume a growing share of the burden of economic aid to developing countries. Austria for instance is approaching the goal of one per cent of her GNP set for the UN Development Decade. In proportion to GNP Austria is already giving more in development aid than the United States. In case the Austrian economy would be weakened by a loss of export markets as a result of a resurgence of large-scale protectionism it is safe to predict that *development aid is one of the items in the budget that would have to be adjusted accordingly.* The same is true for other European countries.

CONCLUSION

On the basis of all these considerations it can be said that the protectionist measures envisaged by certain groups would be harmful both from the point of view of internal and foreign policies. The protection of certain group interests would by no means justify the damage that would be done to a much wider range of interests in the United States and abroad.

STATEMENT BY RAYMOND J. PICARD, PRESIDENT, FRENCH CHAMBER OF COMMERCE IN THE UNITED STATES, INC.

The French Chamber of Commerce in the United States, Inc. (the "Chamber"), a non-profit, non-political, and independent service organization established in 1896, duly incorporated in the State of New York, submits the following state-

ment in lieu of personal appearance before the Committee on Ways and Means of the United States House of Representatives (the "Committee"), scheduled for Monday, June 17, 1968.

The Chambers' chief purpose is to further the development of trade between France and the United States, and to foster economic, commercial and financial relations between these two countries. The Chamber's current membership includes about 300 Active Members, all of whom are businessmen and corporations in the United States. In addition, the Chamber has approximately 1200 Associate Members, numbering approximately 150 members in the United States and the balance in France.

The Chamber therefore represents American and French businessmen who have a substantial interest in trade between France and the United States. All the Associate Members in France are interested in exporting French products to the United States. Many of the Active Members in the United States export American goods to France or are service companies and banks deriving substantial benefits from the United States export trade.

It is appropriate, at this juncture, to point out that the balance of trade between France and the United States not only weighs heavily in favor of the United States but, during the past few years, the United States share has singularly increased. In fact, the trade ratio last year was almost two to one in favor of United States exports. In 1965, the United States sold to France $971 million worth of goods while France's exports to the United States were valued at only $615 million. The following year, 1966, American sales to France for the first time exceeded the billion-dollar mark and were again more than $300 million greater than French sales to the United States. Last year, 1967, France's purchases from the United States amounted to $1.025 million while French exports to this country fell to $690 million, thus showing an excess of $335 million in favor of the United States.

What is even more significant is the fact that, last year, in proportion, each Frenchman bought for $20.50 worth of American goods while each American spent only $3.45 on imports from France, the per capita ratio being thus six to one.

These figures illustrate the favorable position of the United States in its trade with France.

With the proposed asymmetrical and accelerated application of the concessions granted at the conclusion of the Kennedy Round, the outlook for higher American exports to France is even greater and the balance of trade between the two countries should improve further in favor of the United States.

Because we have much experience in foreign trade, we know that there is an absolute co-relation between imports and exports. The present imbalance in the French-American trade is undoubtedly hard to face for France, but apparently is still at a tolerable level. We believe that the proposed restrictive measures investigated by the Committee would indirectly have an adverse effect on the export trade of the United States. First, the source of currency available in France for importing American goods would be considerably reduced. Second, retaliation would seem inevitable. There are private interests everywhere in the world which smart under the competition of the American goods. If private interests have their way in the United States, the gate will be open for a flood of restrictive legislation everywhere which will harm American exporters more than the domestic protectionists will benefit.

The Chamber strongly believes that international commerce is essential and that it should flow, unobstructed, in both ways between nations.

For these reasons, the Chamber views with deep concern the imposition of *all* restrictive trade barriers, irrespective of their form, nature and origin, as they would be a step backward from the beneficial results achieved during the Kennedy Round of negotiation.

Additionally, the Chamber having examined the proposals known as the "Proposed "Trade Expansion Act of 1968' " approves the principle of Section 401 to the effect that the American Selling Price system be eliminated.

KENTUCKIANA WORLD COMMERCE COUNCIL, INC.,
Louisville, Ky., June 25, 1968.

Congressman WILBUR D. MILLS,
Chairman, Ways and Means Committee, House Office Building,
Washington, D.C.

DEAR CONGRESSMAN MILLS: Attached is copy of a resolution passed at the April 3 meeting of the Kentuckiana World Commerce Council. Your efforts to protect the interests of the members of the Council will be very much appreciated.

Very truly yours,

WILLIAM E. BENNETT, *President.*

RESOLUTION RE H.R. 17551, ET AL.

Whereas the Kentuckiana World Commerce Council, Inc., 300 West Liberty Street, Louisville, Kentucky, acknowledges that any quota or particular trade legislation at this time would prove devastating to Louisville and its surrounding area; and

Whereas conditions are such that import quotas would stiffle competition; limit the consumer's choice; and, in general, violate the principles of free enterprise; and

Whereas would tend to legislate other countries out of the American market and drive them to open other markets, such as mainland China and the Soviet Union: Therefore be it

Resolved, That it is the consensus of this Council that it go on record to oppose any such legislation; and be it further

Resolved, That any individual member of the Council participate according to his own individual need.

(The following material was submitted for the record by: Danish American Trade Council, Inc.; Finish American Chamber of Commerce, Inc.; Norwegian-American Chamber of Commerce, Inc.; and Swedish Chamber of Commerce of the United States, Inc.:)

NEW YORK, *March 14, 1968.*

Mr. LOUIS KRAUTHOFF,
Chairman, Trade Information Committee of the Office of the Special Representative for Trade Negotiations, Washington, D.C.

DEAR MR. KRAUTHOFF: The below mentioned organizations decided to submit joint testimony on trade policy to the Trade Information Committee because of the importance of the Nordic area in world trade and as a trading partner of the United States. Although the aggregate population of Denmark, Finland, Norway and Sweden is only 20 million people, the total imports of the area are now more than $12 billion a year. This compares with the $27 billion imports of the United States in 1967, with its population of more than 200 million persons.

Put another way, the four Nordic countries import goods each year to the value of over $600 per head of population. The corresponding figure for the United States is about $135.

It is clear from these figures that the four Scandinavian countries depend fundamentally on foreign trade for their livelihood. As a consequence, they have strongly supported all international moves to free the channels of world trade. They took part in the successive GATT negotiations, and in the Kennedy Round were able to play an important part in securing the success of the negotiations because the four countries sank their individual differences and negotiated in Geneva as a single unit working for maximum tariff reductions.

It follows also that we, as trading organizations representing the industries and traders of our countries, have solid reason to admire and appreciate the liberal trade policies which have been followed by the United States throughout the postwar years. We believe that this attitude on the part of the United States has spurred other countries on to follow her example. The Kennedy Round itself was a United States initiative and proved to be the single most successful tariff-cutting negotiation in the history of world trade.

The benefits to all concerned from the progressive freeing of trade over the postwar period can clearly be seen from the trade results (see attached tables I and II). On a f.o.b. basis, United States exports to the Nordic area have risen from $227 million in 1953 to $787 million in 1967. When insurance and freight are added, this means that our four countries paid almost $1 billion for U.S. goods last year.

In the same period, United States imports from the Nordic area rose from $257 million to $737 million. Again, if transport and other costs are added, the cost to the United States was over $900 million.

This growth of mutual trade has, of course, been subject to fluctuations, largely dependent on changes in the economic climate in the United States and in the Nordic area. The trend nevertheless has been steadily upward. While the United States has shown favorable balances in commodity trade f.o.b. with the Nordic area in each of the past nine years, too much should not be made of these figures. The real balance of trade between our countries and the United States includes very important invisible items—shipping, insurance, interest payments, capital transactions, tourism, etc.—which radically affect the annual balance. To take one example, Finland is also a large borrower in the U.S. capital market, and the annual interest payments, in excess of $50 million a year outweigh the small trade surplus which Finland is able to earn.

The following pages contain brief descriptions of the make-up of the trade of each of our countries with the United States. Since commodity figures are not yet available for 1967, the tables show 1966 results, the source being the EFTA Secretariat, based on OECD statistics. Approximately the same pattern of trade remained valid last year and will continue to be the pattern this year and in 1969.

The figures present a satisfactory picture of a successful trading relationship. The sucess has been built on increased freedom of trade and it is our earnest hope that the United States will continue along a path which has been of such benefit to herself and to the world as a whole. Although the organizations submitting this testimony represent private industry rather than government, we are confident that our governments will continue to do everything in their power to support international initiatives of freer trade. Specifically, we believe our governments are ready to take part in international discussions directed at reducing non-tariff barriers as well as more orthodox barriers to trade such as tariffs and quotas.

United States-Nordic Trade

TABLE 1

EXPORTS (f.o.b.)

[In million U.S. dollars]

	1953	1959	1960	1961	1962	1963	1964	1965	1966	1967
Importing countries:										
Denmark	38.3	105.6	109.2	109.4	124.3	146.0	151.2	183.6	179.9	205.3
Finland	22.1	43.2	56.4	56.0	57.5	56.6	69.0	75.7	63.5	58.6
Norway	64.6	76.8	88.8	90.4	94.3	96.1	110.5	129.5	143.6	137.8
Sweden	101.7	206.4	298.8	258.1	258.1	251.6	297.5	326.9	354.8	385.4
Total	226.7	432.0	553.2	513.9	534.2	550.3	628.2	715.7	741.8	787.1

IMPORTS (f.o.b.)

Exporting countries:										
Denmark	39.7	105.6	99.6	109.7	119.3	127.8	128.6	150.7	206.9	175.3
Finland	42.4	49.2	51.6	46.0	59.9	61.6	74.4	83.6	97.1	90.2
Norway	66.9	74.4	87.6	92.2	90.4	105.8	119.5	142.3	127.8	140.5
Sweden	107.8	183.6	170.4	140.2	169.3	181.3	203.2	241.9	299.3	330.9
Total	256.8	412.8	409.2	388.1	438.9	476.5	525.7	618.5	731.1	736.9

TABLE 2.—UNITED STATES-NORDIC BALANCE OF TRADE, 1959–67

[In millions of U.S. dollars]

	1959	1960	1961	1962	1963	1964	1965	1966	1967
Balance of trade (f.o.b.) with—									
Denmark		+9.6	−0.3	+5.0	+18.2	+22.6	+32.9	−27.0	+30.0
Finland	−6.0	+4.8	+10.0	−2.4	−5.0	−5.4	−7.9	−33.6	−31.6
Norway	+2.4	+1.2	−1.8	+3.9	−9.7	−9.0	−12.8	+15.8	−2.7
Sweden	+22.8	+128.4	+117.9	+88.8	+70.3	+94.3	+85.0	+55.5	+54.5
Total	+19.2	+144.0	+125.8	+95.3	+73.8	+102.5	+97.2	+10.7	+50.2

Denmark's trade with the United States

Between 1953 and 1967, U.S.-Danish trade, both ways (f.o.b.), has grown fivefold, from $78 mililon to $389 million a year. In the past nine years the U.S. ran a surplus in U.S.-Danish trade in six years, a deficit in two, and there was equilibrium in one year; the cumulative trade balance shows a surplus in the United States favour of $91 million.

Denmark's imports from the U.S. have generally followed much the same trend as Denmark's total imports. Whereas imports of food and beverages have fallen, the U.S. share rose in raw materials and all major groups of industrial commodities. In absolute terms, the biggest increase was recorded in machinery and transportation equipment; imports from the U.S. rose from $24.1 million in 1959 to $62.7 million in 1966, raising the U.S. share in this group from 6.9 percent to 7.9 percent. Aircraft and office machinery rose particularly sharply, but gains were also recorded in most other types of machinery. Imports of cars from the U.S. are lower—largely because they were replaced by cars made by U.S. corporations in European subsidiaries—but the U.S. share also declined for power-generating machinery, including turbines and piston engines. Commodities showing substantial increases in share include scientific instruments and oil seeds.

TABLE 3

DANISH IMPORTS FROM THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS

[In millions of U.S. dollars, and percentages]

	Food and live animals	Beverages and tobacco	Crude materials except fuels	Mineral fuels	Animal and vegetable oils and fats	Chemicals	Manufactured goods	Machinery and transport equipment	Miscellaneous manufactured articles	Other	Total
	(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(0–9)
Share of United States in imports (percent) 1959–66	25.7	34.6	12.9	4.2	1.1	8.8	1.6	6.9	5.2	----------	9.2
	16.5	31.2	16.9	1.4	2.2	9.0	2.0	7.9	6.7	20.0	7.9
Imports from the United States (dollars) 1959–66	59.7	12.3	21.0	8.5	.1	11.9	6.3	24.1	3.4	----------	147.4
	54.1	16.2	43.5	4.5	.3	23.9	14.8	62.7	15.5	.9	236.5
Percentage increase in imports from United States, 1959–66	−9.4	31.7	107.1	−47.1	200.0	100.8	134.9	160.2	355.9	----------	60.4
Percentage increase in total imports, 1959–66	41.0	46.2	58.7	59.3	48.4	27.0	80.1	126.4	254.4	----------	87.5
DANISH EXPORTS TO THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS											
Share of United States in exports (percent) 1959–66	5.6	14.4	19.7	4.7	12.9	6.4	25.0	3.6	15.0	----------	8.2
	9.6	12.9	16.3	----------	2.4	4.4	5.9	4.0	9.5	1.3	8.1
Exports to the United States (dollars) 1959–66	45.0	2.5	15.3	.2	2.2	3.2	26.7	8.1	10.0	----------	113.1
	104.6	4.7	28.3	----------	.6	5.6	11.6	21.1	18.3	.1	195.0
Percentage increase in exports to United States, 1959–66	132.4	88.0	85.0	----------	----------	75.0	−56.6	160.5	83.0	----------	72.4
Percentage increase in total exports, 1959–66	36.4	109.2	124.1	----------	48.8	150.5	82.3	130.3	188.0	10.0	74.8

Finland's trade with the United States

Since 1953, U.S.-Finnish trade, both ways, has increased from $65 million to $150 million a year. From 1959 to 1967, Finnish trade with the U.S. was in surplus in almost every year; this surplus amounted in total over the period to $77 million. Over the same period, however, imports from the U.S. rose more than imports from the EEC and other non-EFTA countries. The U.S. share in Finnish imports has remained more or less constant at about 6 per cent.

Industrial goods account for two-thirds of Finnish imports from the U.S., the remainder being made up largely of food, tobacco, cotton and oil seeds. Within the group of industrial goods, machinery and cars represent over half. Due to a switch to EFTA sources for agricultural machinery, U.S. exporters have not been able to maintain their share in machinery imports, but have by contrast slightly raised their share in the market for cars. In chemicals the United States share rose from 5.0 per cent to 7.5 per cent of total imports, and an increase in the share for finished goods (SITC 8) has also been recorded.

Finland's exports to the U.S. just about doubled between 1959 and 1967, but this expansion did not start until 1962. These exports are heavily concentrated on forestry products and mink skins. The demand for plywood in the U.S. rose very strongly over this period, enabling Finnish exporters to increase their sales by about 170 per cent. Sales of paper and paperboard, which made up over half of total Finnish exports to the U.S. in 1959, rose much less and the share for this group fell. Pulp exports fell even in absolute terms as a result of stronger competition from Canadian and U.S. producers. Fur skin sales developed satisfactorily and Finland's share in the U.S. market grew. In the last five years significant exports of metallic oxides and pig-iron have also been developed.

In total, Finnish exports to the U.S. were 6 per cent of total exports in 1959 and in 1967 and there were no major variations in the intervening years in a general pattern of trade growth.

TABLE 4

FINNISH IMPORTS FROM THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS

[In millions of U.S. dollars; and percentages]

	Food and live animals (0)	Beverages and tobacco (1)	Crude materials except fuels (2)	Mineral fuels (3)	Animal and vegetable oils and fats (4)	Chemicals (5)	Manufactured goods (6)	Machinery and transport equipment (7)	Miscellaneous manufactured articles (8)	Other (9)	Total (0–9)
Share of United States in imports (percent):											
1959	3.2	32.3	7.8	1.0		5.0	2.9	8.8	4.3		5.5
1966	8.6	28.8	6.6	0.8		7.5	2.4	7.2	5.8	1.4	5.6
Imports from the United States:											
1959	$3.7	$3.0	$5.1	$0.9		$3.8	$5.4	$22.6	$1.2		$45.7
1966	$13.8	$4.5	$10.7	$1.4		$12.9	$8.8	$39.2	$5.9	$0.2	$97.4
Percentage increase in imports from United States, 1959–66	273.0	50.0	109.8	55.6		239.5	62.9	73.5	391.7		113.1
Percentage increase in total imports 1959–66	40.7	67.7	146.6	102.3	−59.0	126.9	98.4	112.3	262.4	495.8	106.4

FINNISH EXPORTS TO THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS

Share of United States in exports (percent):											
1959	1.9		4.0			6.0	10.8	0.4	3.5		5.8
1966	5.2		4.1			14.2	8.6	3.4	7.3	20.0	6.4
Exports to the United States:											
1959	$0.7		$15.0			$0.3	$31.9	$0.5	$0.2		$48.6
1966	$2.9		$20.9			$4.4	$58.8	$5.8	$3.7	$0.1	$96.6
Percentage increase in exports to United States, 1959–66	314.3		39.3				84.3				98.8
Percentage increase in total exports 1959–66	50.1		35.5		360.0		130.8	47.5			80.0

Norway's trade with the United States

Between 1953 and 1967, two-way trade between the U.S. and Norway grew from $132 million to $284 million a year, and has been approximately in balance. The cumulative balance over the nine years, 1959–1967 shows a U.S. deficit of only $7 million.

Norway's imports from the U.S. have, on the whole, followed developments in her total imports. Norway increased her purchases from the United States to meet the rise in import demand during the general economic recovery in 1960, and for similar reasons there was again a spectacular rise in 1966. The share of U.S. supplies has grown slightly to 8 percent of total Norwegian imports.

An important part of Norway's imports from the U.S. has traditionally consisted of agricultural products, cereals, oil seeds and kernels, tobacco and fruits. Although these products have declined in relative importance, imports of industrial commodities from the U.S. have increased more than enough to compensate for this development. In 1966, industrial commodities (SITC 5–9) represented 53 percent of total imports from the U.S. Almost all the increase in Norwegian imports of aircraft, specialized industrial machinery and inorganic chemicals came from the U.S. In office machines and power generating machinery, U.S. exporters also increased their shares of the market, but they lost ground in motor cars—because of U.S. production in Europe—agricultural machinery, electrical machinery, plastics and organic chemicals.

More than half of Norway's exports to the U.S. consist of semi-manufactures and, of the remainder, fish and fur skins constitute the major part. The most significant increases in recent years have been in unwrought aluminum and in fur skins, as a result of substantially higher U.S. demand. Nickel exports have suffered from strong Canadian competition. Canned fish sales to the U.S. have gone up in recent years, but not as much as other markets. The general picture is one of a steady growth of trade in both directions.

TABLE 5

NORWEGIAN IMPORTS FROM THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS

[In millions of U.S. dollars and percentages]

	Food and live animals (0)	Beverages and tobacco (1)	Crude materials except fuels (2)	Mineral fuels (3)	Animal and vegetable oils and fats (4)	Chemicals (5)	Manufactured goods (6)	Machinery and transport equipment (7)	Miscellaneous manufactured articles (8)	Other (9)	Total (0–9)
Share of United States in imports (percent):											
1959	17.9	46.7	0.5	8.1	18.3	9.5	3.2	4.3	5.1	----	7.0
1966	17.6	41.8	10.4	6.3	11.0	10.7	3.4	5.7	5.0	4.5	7.5
Imports from the United States (dollars):											
1959	23.8	5.0	9.2	9.3	2.6	7.7	9.6	21.6	3.6	----	92.3
1966	35.9	8.9	26.7	11.6	0.9	20.4	15.7	50.3	8.9	.4	179.6
Percentage increase in imports from United States 1959–66	50.8	78.0	190.2	24.7	−65.4	164.9	63.5	132.9	147.2	----	94.6
Percentage increase in total imports 1959–66	53.4	99.1	193.0	59.2	−42.3	134.6	58.1	74.7	152.9	----	82.8

NORWEGIAN EXPORTS TO THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS

Share of United States in exports (percent):											
1959	9.7	25.0	9.6	----	1.5	5.1	14.4	1.9	18.0	----	10.3
1966	9.9	28.0	10.3	----	.6	5.0	12.4	2.2	13.9	----	8.9
Exports to the United States (dollars):											
1959	14.3	.1	12.9	----	1.1	3.9	47.2	1.2	2.9	----	83.6
1966	22.1	.7	19.6	----	.3	6.9	75.9	5.8	7.3	----	138.6
Percentage increase in exports to United States 1959–66	54.5	----	51.9	----	----	76.9	60.8	383.3	151.7	----	65.8
Percentage increase in total exports 1959–66	52.8	----	41.2	----	−28.8	79.1	86.1	313.5	227.3	----	93.1

Sweden's trade with the United States

As the most populous and richest country of the area, Sweden is naturally the largest Nordic trading partner of the U.S. Whereas two-way trade was $210 million in 1953, last year the total was $716 million (f.o.b.). In each of the nine years from 1959 to 1967 there was a U.S. surplus in this trade, totalling $718 million for the whole period.

Swedish imports from the United States are spread over a wide commodity range and it is hard to find examples of significant changes in sources of supply. A large part of Sweden's imports from the U.S. consists, moreover, of agricultural products, which are often subject to substantial fluctuations in total value. For industrial commodities, (SITC 5–9) the share of the U.S. in total imports fell from 10.9 percent to 9.2 percent between 1959 and 1966. There were decreases in organic chemicals, pharmaceuticals, plastics, iron and steel plates and sheets, power generating machinery and agricultural machinery. On the other hand, there are also cases where U.S. suppliers strengthened their position on the Swedish market, e.g. in office machines and metal-working machinery.

Motor vehicles represent the most important single item in Sweden's exports to the U.S., accounting for 21 percent of the total in 1966. Sweden has been able to maintain its small (4 percent) share of the U.S. import market for cars. Pulp, paper and paperboard occupy the second place in Sweden's exports to the U.S. During the period under review, half of the U.S. pulp market was lost to Canada, which with 92 percent of the market against Sweden's 5 percent, enjoys a quasi-monopoly. Part of this loss in pulp exports was offset by increasing exports of paper which, however, did not exceed the growth in U.S. total imports of paper.

The U.S. market also represents an important outlet for some specialized Swedish iron and steel products. In at least one group in this category, hoops and strips, Sweden has gained in the U.S. market in competition with the United Kingdom, Benelux and Japan. For office machines also, the U.S. constitutes an important outlet for Swedish exporters. Sweden is a traditional supplier of fur skins to the U.S. which is her most important single market for this commodity.

TABLE 7.

SWEDISH IMPORTS FROM THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS

[In million U.S. dollars and percentages]

	Food and live animals	Beverages and tobacco	Crude materials except fuels	Mineral fuels	Animal and vegetable oils and fats	Chemicals	Manufactured goods	Machinery and transport equipment	Miscellaneous manufactured articles	Other	Total
	(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(0–9)
Share of United States in imports, percent:											
1959	10.9	38.3	11.2	5.8	17.2	15.4	7.1	13.8	8.0	20.0	10.5
1966	9.9	36.7	11.5	4.3	25.6	10.3	4.9	12.1	9.5	3.9	9.3
Imports from the United States, dollars:											
1959	31.6	10.8	20.5	21.0	3.1	28.2	38.5	86.1	13.9	.1	253.7
1966	47.2	24.8	36.2	22.4	5.7	37.2	50.3	160.8	42.3	.6	427.5
Percentage increase in imports from United States: 1959–66	49.4	129.6	76.6	6.7	83.9	31.9	30.6	86.8	204.3	----------	68.5
Percentage increase in total imports: 1959–66	65.0	139.4	71.7	43.7	23.9	97.6	87.4	112.2	156.1	----------	89.9
SWEDISH EXPORTS TO THE UNITED STATES AND THE WORLD, BY COMMODITY GROUPS											
Share of United States in exports, percent:											
1959	2.6	25.0	6.5	----------	2.3	4.7	9.1	9.1	12.7	----------	8.0
1966	2.8	5.6	3.7	----------	4.8	5.2	7.5	9.0	9.0	.7	6.9
Exports to the United States, dollars:											
1959	2.0	.2	47.5	----------	.2	3.1	53.7	60.3	8.5	----------	175.6
1966	3.4	.1	38.4	----------	.6	8.3	89.2	136.3	17.6	.1	294.0
Percentage increase in exports to United States: 1959–66	70.0	----------	–19.2	----------		167.7	66.1	126.0	107.1	----------	67.4
Percentage increase in total exports: 1959–66	60.5	125.0	42.7	191.2	44.2	141.7	100.2	130.3	191.1	----------	93.7

GREATER FORT LAUDERDALE CHAMBER OF COMMERCE,
Fort Lauderdale, Fla., July 3, 1968.

recent unfavorable balance of payments [illegible] protectionist measures at best would be short range at this time.

We believe that quotas and restrictions should be avoided.

Increased foreign trade is vital and the President must be given authority to negotiate.

A favorable balance of trade is necessary. Due to the size and scope of the domestic market, many American firms lack interest in international markets. Conversely, the United States presented opportunities to other countries. In order to increase our exports our Government should continue and expand present programs.

Non-tariff barriers are major problems and in furture trade negotiations should be the prime target of our Representatives. If their removal is unsuccessful, then and only then, should retaliatory measures be used to an equal extent on products originating from such countries that discriminate against United States exports.

We are attaching our views relative to the above mentioned hearings and respectfully request that they be considered by this Committee.

Yours, very truly,

MURRAY C. FINCHER, *President.*

Quotas.—Quotas, whether absolute or not, imposed by any country are the most vicious form of protectionism. Imposition by the United States of across the board quotas or item by item, must be avoided.

The textile, steel and footwear industries, among others, claim that quotas are necessary to protect their industry. They argue that the quantities imported represents jobs lost by American labor. Invariably, they failed to point out that these industries in general are in a healthy, financial state and actually increased employment during the past years.

The ultimate loser in the imposition of quotas is the consumer. Such quotas stifle or eliminate competition, which in turn causes increased prices. Retaliation is always expected when quotas are imposed. This will always result in a reduction of exports.

We believe that not only should the United States avoid this trade barrier, but our representatives should do their utmost to have similar barriers imposed by other countries against our exports removed.

The Proposed Trade Expansion Act of 1968.—This organization fully supports the proposals as outlined by the Administration in the President's message to the Congress of May 28th, 1968.

A. Since the inception of the original Reciprocal Trade Act in 1934, not only has the volume of foreign trade increased tremendously, but the prosperity and standard of living of our own citizens is unprecedented. The increase in foreign trade was undoubtedly a substantial contributor to this condition. It would be shortsighted and catastrophic to return to a trade policy of protectionism as experienced under the Smoot-Hawley Act of 1930.

B. We believe that valuation based upon the American selling price is unrealistic and contrary to the basic concept of foreign trade. Even if we grant that such procedure was necessary at the time of its inception, this is not the case today. This is a form of protectionism to a few industries and is unnecessary and unwarranted. The elimination is necessary to enable us to take advantage of Kennedy Round concessions.

C. It is inevitable that in pursing a liberal foreign trade policy quotas should will be hurt. Increased imports should be used only on a case-by-case basis and only in retaliation against a country which has taken action not in the national interest of the United States. Our great industries in the textile, steel, footwear and many other fields should certainly be able, by technology and the superb management ability available to them, to meet free foreign competition. In fact, this competition will certainly act as a catalyst to keep our industry efficient and competitive.

2. We strongly subscribe to the proposed trade expansion act of 1968 as outlined by the President in his Message to Congress on May 28, 1968. We believe that the President must be given authority to negotiate and the power to cancel or withdraw privileges in foreign trade, and we also believe that he is in a much better position to accomplish this on a day-to-day basis in the best interest of our country than is the Congress.

3. In regard to non-tariff barriers, we take the same position as stated above regarding quotas. These barriers should be used on a case-by-case basis and the threat of these barriers should be available in order to improve the bargaining position of the United States.

I respectfully request that our views, as contained herein, and in the enclosure, be considered by your committee in their important deliberations regarding the enlightened national interest of our country and its people.

Sincerely,

E. M. ROWLEY, *President.*

Enclosure

RESOLUTION

Whereas over 1,000 bills have recently been introduced in the U.S. House of Representatives and Senate, threatening tariff increases, import quotas and other non-tariff barriers against United States foreign trade, and

Whereas, our country experienced the severe impact caused by protectionism in the Smoot-Hawley days of 1930, a repeat of which would threaten to nullify a great proportion of the foreign trade gains made during the past 30 years, and

Whereas foreign trade has been called the lifeblood of the Mississippi Valley, and

Whereas our vital interest in foreign markets is matched by our constant belief in the merits of free trade, as opposed to the credo of protectionism and its concomitant crippling of the enterprising spirit of our nation since its founding, and

Whereas International House strongly believes that favorable congressional action on these bills would be extremely detrimental to U.S. world trade and U.S. prosperity, and would spur inflationary pressures, aggravate our balance of payments problems, limit consumer selections, handicap orderly commerce of supply and demand, disrupt domestic manufacturers' use of import components in their production processes, sharply increase governmental controls over trade and commerce and hence increase costs of government, and provoke retaliatory and restrictive measures by our worldwide trading partners: therefore be it

Resolved, That International House strongly condemns the protectionist measures now pending in Congress, and urges national legislators to oppose such restrictive trade legislation in the best interests of the United States and their constituents.

STATEMENT OF INTERNATIONAL TRADE CLUB OF CHICAGO, RE U.S. FOREIGN TRADE POLICY

PREFATORY NOTE

The International Trade Club of Chicago originated as the Export Managers Club of Chicago shortly after World War I. The International Trade Club, as now constituted, comprises over 800 executives, representing some 700 firms with international business interests. The companies which these executives represent are engaged in all of the major fields of international trade and investments, including manufacturers, exporters and importers, transportation companies and organizations which provide various services to companies engaged in international trade and investments.

The primary objective of the International Trade Club of Chicago is to maintain the position of the Middle West as the leader in United States world trade and to make certain that its industrial and agricultural products move into world markets. In this connection, it should be noted that the State of Illinois ranks as the leading export state in the United States with two and one-half billion dollars of exports in 1966. At the same time, the Club recognizes that world trade is not a unilateral concept, but requires that United States businessmen give adequate consideration to bringing imports into the United States from foreign countries.

It should be apparent from the foregoing that the International Trade Club of Chicago represents a broad background of business engaged in international trade as far as the Midwest is concerned. At the same time, the Club represents the opinions and thinking of these midwestern business leaders who are vitally concerned with international trade. Due to this fact, the International Trade Club of Chicago must necessarily present its views regarding international trade in general terms. Any specific statements or references could only be representative of a small portion of our membership. We have requested our members to submit individual statements to be considered at this hearing. Such statements could express specific positions regarding various facets of international trade.

I. THE FUTURE OF U.S. FOREIGN TRADE POLICY

The United States has always been a leader in the establishment of a world climate of opinion in which nations would have free and unhampered access to world markets. This position has been, to a large degree, based on the American philosophy of free trade and the right of each individual to have equal oppor-

tunity for success and happiness. The United States has applied this basic democratic principle to its relations with foreign nations. Unfortunately, some segments of American business are now attempting to persuade Congress that certain restrictions should be placed on free world trade. This movement comes on the heels of the United States' successful participation in the Kennedy Round of Trade Negotiations.

By withholding tariff or non-tariff restrictions now, we should be in a stronger bargaining position, from a psychological standpoint, to insist that foreign countries drop their barriers to free trade. Certain countries have offered to unilaterally speed GATT tariff cuts if the U.S. will refrain from restrictive action.

The basic philosophy which must underlie the United States foreign trade policy is one which will accept the fact that competition in the world market is keen, but necessary. At the same time, the International Trade Club of Chicago believes that the skills of the American businessman are unexcelled anywhere in the world and that most American businessmen are willing and able to take on any and all competition anywhere in the world. This faith has already been tested and proved throughout the course of American history. It is clearly evidenced by the U.S. balance of trade which continues to be in our favor.

Artificial restraints on free world trade do nothing to assist the state of the American economy over the long run. In fact, such restrictions result in retaliatory action by foreign nations and the loss of American leadership in world trade. Aside from our basic faith in the abilities of the American businessman, we believe that the democratic credo by which our society is governed is one which abhors the types of restraints which are contemplated by those opposed to free world trade.

Such restraints will undoubtedly handicap American businessmen in world trade and provide an unprecedented advantage to foreign firms which will be able to move in the foreign market unchecked by competitive American business. Worldwide price inflation, and the eventual loss of American income now being earned abroad, both in terms of exports and investments, would result.

If the United States foreign trade policy is restricted to any considerable extent, it will be necessary to provide financial assistance in the future to U.S. companies doing business abroad, in order for them to regain the leadership in foreign markets which they now possess. The national economic situation would be considerably worsened by such a turn of events.

The dissatisfaction in certain segments of American business is due to reasons other than "unfair" practices of foreign businessmen. The causes lie in the nature of modern technology and the structure of the world economy. As recently noted, the level of production is rising more rapidly than the purchasing power of the consumer. The average factory worker in the United States contributes 60% more production today than he did ten years ago. At the same time, the number of people who can absorb the greater production has increased by only 15% in the same span of time. This disproportion is of even greater magnitude in many foreign countries.

Domestic markets are no longer sufficient for the level of production with which modern technology has endowed man. Therefore, naturally, world markets become crucially important to any nation. The United States is no exception. America needs the world market just as much as any other country whose modern technology has enabled it to achieve these high levels of production.

II. THE EFFECT OF PROTECTIONISM ON LABOR AND COSTS IN THE NATIONAL ECONOMY

There is little question that trade protectionist measures such as import restrictions and restrictions on direct foreign investments will adversely affect established patterns of world trade. In addition, such measures will directly affect the U.S. economy. U.S. consumers will be denied the benefits of lower prices resulting from the competitive challenge of imports to U.S. business and labor.

U.S. firms which require small orders or specialty items should not be penalized by tariff and non-tariff barriers in purchasing foreign goods, especially when U.S. manufacturers are unwilling to fill small orders or specialty items.

In quite another aspect, approximately 4.5 million jobs which are directly related to imports will be seriously endangered by protectionist measures. World trade, especially imports, is significantly meaningful for the national economy by assisting to hold down prices, by creating gainful employment for a substantial segment of the U.S. population and by triggering dynamic competitive drives

in U.S. industry. These countervailing considerations should be included in any realistic appraisal of the various arguments propounded in support of trade-restrictive measures.

III. RECOMMENDATIONS

Rather than become a party to damaging trade restrictions, the International Trade Club of Chicago makes the following recommendations, to insure both growing international trade and increasing American participation in it:

(a) that existing and proposed restrictions on foreign trade, direct investments and foreign business travel be objectively reexamined in terms of their over-all effects on the American economy; and that any which present formidable barriers to freer trade be modified or disapproved.

(b) that the United States continue to seek ways and means by which East-West trade might be increased with respect to non-strategic materials. The "headstart" position and increasing activity of Western European countries in this regard cannot be ignored.

(c) that the United States continue to seek to eliminate all non-tariff barriers to free world trade both within the United States and abroad; and assure that the mandatory controls on direct foreign investment be terminated before lasting damage to our trade position results.

(d) that future trade negotiations be conducted on the basis of increasing world trade in continuation of the tremendous advances established by the Kennedy Round of Trade Negotiations.

(e) that the United States provide full cooperation and assistance in aiding developing countries to enter world markets.

(f) that the United States continue to encourage and assist state governments to promote international trade.

(g) that the United States expand the administration of U.S. foreign trade policy by greater coordination of private and public efforts to expand American business interests in world trade.

IV. CONCLUSION

The International Trade Club of Chicago submits the above recommendations, not only as the consensus of its members, but as a voice against any move that would cause our nation to curtail its international development goals and violate GATT treaties to mollify a minor but vocal segment of American business. Protectionism does not represent the majority of opinion, and therefore, does not foster the greatest good for the greatest number.

LONG ISLAND ASSOCIATION OF COMMERCE & INDUSTRY
AND THE WORLD TRADE CLUB OF LONG ISLAND,
Jericho, Long Island, N.Y., June 26, 1968.

COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives,
Longworth House Office Building, Washington, D.C.

GENTLEMEN: In reference to your consideration of H.R. 17551, please note the position paper issued by the Board of Directors of the Long Island Association of Commerce & Industry and the World Trade Club of Long Island which reflects the thinking of a major portion of the business community of this region.

Most cordially,

FRED E. MERRELL, *Secretary.*

FOREIGN TRADE, INVESTMENT, AND TRAVEL

Foreign trade, investment and travel policy issues now pending in Congress have been reviewed by the World Trade Club of Long Island. The following are the conclusions and recommendations of the club:

A. *National foreign trade policy*

1. A national policy of trade liberalization is essential to the economic and social progress of the United States and other nations throughout the world.

2. While protectionist measures may serve the short run interests of some segments of our society, these protections are obtained at the expense of the well-being of the nation, are inconsistent with our mores and traditions, and should be eliminated wherever feasible.

3. Non-tariff barriers now raised by foreign governments are deplored and all efforts should be made through negotiations with other nations to eliminate existing barriers to the world-wide flow of goods and services.

4. More emphasis should be placed on exploring means to increase the flow of U.S. goods and services to overseas markets.

B. Foreign investment restriction policy

The policies set forth in Executive Order 11387 of January 1, 1968, and in the regulations promulgated by the Secretary of Commerce and the Federal Reserve Board can be regarded only as short-term measures. In the long run they will not cure the causes of our balance of payments problems, will adversely affect American earnings from foreign investments and invite discriminatory and restrictive credit and financial policies by foreign governments towards American interests abroad. For this reason, more study should be given to the underlying causes of our international payments situation, to the adverse effects of the present foreign investment restrictions, with a view towards their replacement with more acceptable and effective long-range policies.

C. Proposed foreign travel tax and allied restrictions

To be truly effective, the proposed travel restrictions would have to be stringent enough as to actually discourage foreign travel. This would risk invalidation of such travel restrictions by the courts on constitutional grounds. If the restrictions, however, fall short of their target, they will only amount to a "nuisance tax" which will be ineffectual but irritating. For these reasons the tax is opposed.

Approved by LIA Board of Directors, March 8, 1968.

STATEMENT OF PACIFIC AMERICAN STEAMSHIP ASSOCIATION

Pacific American Steamship Association, an organization comprised of the major U.S.-flag steamship lines operating in the foreign trade to and from the Pacific Coast, strongly supports the Administration's bill, H.R. 17551—The Trade Expansion Act of 1968. The main purpose of this bill is to extend to 1970 the President's authority to negotiate multilateral agreements to reduce non-tariff trade barriers and to strengthen the adjustment assistance features of the 1962 Trade Expansion Act to insure aid is given to any firm or workers which the President determines to be drastically affected by imports.

It follows from this that we are perforce opposed to the statutory imposition of any quotas on imported goods, proposals for which are now pending before your Committee involving two-dozen or more imported products aggregating over 45% of all U.S. imports.

Ours is a classic case of an industry which thrives on, and whose economic survival depends upon, two-way international trade. We also operate our ships from a regional part of the United States which is equally committed to, and dependent upon, a balanced export/import relationship. California's foreign trade now totals nearly $6 billion and is favorably balanced on the side of exports.

We find in the President's bill an essential set of legislative proposals whereby the United States continues to reflect its 34-year national policy of trade facilitation and promotion through reciprocal agreements. And we find in the various quota proposals a step backward into the abyss of political tariff and quota swapping, which, if the experience during the infamous Smoot-Hawley Tariff of the early 1930's is any indicator, sets region against region, industry against industry, and faction against faction on the floor of the House and Senate.

We do not challenge the quota advocates upon the validity of their argument that sales of some products suffer substantial price competition with equivalent imported products. We have our own daily battles with low-cost foreign competitors. We do, however, challenge calling upon the Congress itself for redress of whatever grievance, however valid, that they have. The trade agreements program provides for an administrative agency—The Tariff Commission—to study and decide upon whatever tariff and non-tariff types of adjustments that are necessary to preserve or assist an American industry. Whatever inconveniences or frustrations a particular industry may have experienced in past decisions of the Tariff Commission pale by comparison with the national economic setback which will prevail if even a few quota-seeking industries get a quota law on the books and thereby nullify the administrative approach to the problem.

Even if Congress were to be selective in passing one or two quota bills, what criteria will be adopted for deciding that one industry's case for a quota is more meritorious than another? Will it be based on economic consideration and on a careful weighing of all factors, including the consumer's interest? Or will it be based on political accommodations? Clearly the end would never be in sight once one quota gets on the books.

Under the discredited Smoot-Hawley Tariff of 1930, U.S. foreign trade fell from a 1929 high of $3 billion to a low of $1 billion in 1933. From 1934 onward, under the trade guidelines and tariff procedures in the Reciprocal Trade Act, U.S. foreign commerce has risen to over $90 billion annually. This rate of growth far exceeds the growth in our national product over the same span of years. Most certainly the national economy has benefited from reciprocal tariff adjustments through the earlier bilateral Reciprocal Trade Agreements and the more recent multilateral adjustments through our participation in the General Agreements on Tariffs and Trade.

And most certainly the nation has benefited from keeping specific tariffs and quotas out of the political arena. It would be national folly, and would be viewed abroad as national hypocrisy to turn inward now and adopt a unilateral set of non-tariff barriers such as the quotas pending before your committee. It would be substituting failure for success. It would harm hundreds of millions of farm and factory workers who produce our exports and market our imports.

The dedicated work of the American delegation at the two-year trade negotiations with other GATT Countries ending in 1967 while, of course, not completely satisfactory to certain United States industries, was a major step toward trade liberalization and included many concessions from our foreign customer nations. These concessions in turn make possible the expansion of existing exports and open up markets for United States products previously barred by tariff barriers of various kinds. The balance of payments will benefit if these concessions open up new markets. The President's bill, H.R. 17551, is designed to honor the United States commitment at GATT; failure to enact certain features of this bill will deny to our exporters the new marketing opportunities which these concessions will open up.

Our industry has been in the forefront of our Export Expansion Program, and has itself contributed nearly $1 billion annually to the plus side of the United States balance of payments. Our contribution is as much a result of increased import cargoes as it is expanded export cargoes. And however exporters view the level of current freight rates on exports from the United States, they would inevitably have to be higher if the import freight revenue were to be decimated by means of quotas. A healthy two-way freight revenue is an essential element in preserving and encouraging investments in U.S.-flag vessels and the Government itself has a stake, through subsidies to most foreign trade vessels, in the outcome.

We therefore urge, not only from the standpoint of our own particular role as a servant of foreign trade, but from the standpoint of our concern for the overall national benefits and freedom of trade, that the Committees of Congress enact in substantial manner the President's bill, H.R. 17551, and reject unequivocally any quota legislation now pending.

STATEMENT OF FARRELL LINES, INC.

Farrell Lines is an American-flag steamship company with forty years experience in U.S. Atlantic Coast/Africa trade. We recently entered the Australia/New Zealand-U.S. Atlantic and Gulf service by purchase from the United States Lines Company of their Australian ships and service.

Farrell Lines appreciates the opportunity to present its comments to the House of Representatives Committee on Ways and Means on a timely subject vital to the interests of the United States, Australia/New Zealand and our organization. The remarks are directed to the overall aspects of import quotas and to the quantitative aspects of the U.S. Australia/New Zealand trade.

In summary, we note—

Inflation will be encouraged by limiting alternative sources of supply.

The balance of payments problem will increase as other nations are unable to purchase American goods and services.

Australia/New Zealand consumers are important customers who purchased over $746 million worth of American products in 1966.

U.S. imports of Australia/New Zealand wool, lead and zinc are not expected to increase and become a threat to American producers.

The imports of Australia/New Zealand meat products are not in competition with the American beef products.

ECONOMIC IMPLICATIONS

The introduction of protectionist legislation will affect U.S. domestic prices, the terms of trade and the balance of payments.

U.S. domestic prices: Consumer price levels are dependent on the relationship between quantity demanded of given product and the amount supplied. When the two are in equilibrium, the market price is established.

Market demand for a product is a function of buyer preferences, income and the price of substitute products. Supply is viewed in the cost of production and the prices offered for the product. If either of the variables (demand or supply) is shifted, a change in the market price will occur.

The introduction of protective legislation affects the supply schedule offered to U.S. consumers because alternative sources are artificially limited. This creates an imbalance as the same quantities are demanded, but the quantity offered by domestic suppliers will not increase at the existing price level. To induce sufficient supplies, the market price is raised and the domestic supplier will then offer more products. At this point a shift in supply occurs and the imbalance between demand and supply is corrected.

The equilibrium, however, is achieved at the expense of the consumer and the net result is inflation and higher market prices to the American public.

Terms of trade: The imposition of quotas will affect the relationship between a nation's exports and imports because the reciprocal demand between trading nations is reduced. This occurs because the ability of the importing nation is directly related to its ability to earn foreign exchange.

Therefore, to increase U.S. exports we must allow other nations to earn monies, which will, in turn, be available to purchase American goods and services.

Balance of Payments: A national imbalance of payments occurs when a nation is importing more goods and services than it is exporting. The net result of this disequilibrium is a dissipation of a country's international reserves, i.e., gold, foreign deposits, drawing rights against the International Monetary Funds, etc.

One of the classic means of correcting a fundamental imbalance is to increase the exports. This can be achieved only if the customer (importing nation) has the foreign exchange to purchase the exports. Thus, if the quotas are introduced, the customer (importing country) will not have sufficient funds to increase imports from the nation with a balance of payments problem. Therefore, Protective Quota Legislation will be a negative influence on export efforts and is a complete contradiction of the U.S. policy promulgated at the recent GATT negotiations.

UNITED STATES/AUSTRALIA/NEW ZEALAND TRADE

An examination of the current U.S.-Australia/New Zealand trade and future trade projections will add perspective to proposed import quota legislation and provide specific data to reinforce the theoretical arguments advanced in the first section of this submission.

U.S. Exports: American products have become a major source of Australia/New Zealand imports. Specifically, this is illustrated by Exhibit "A" which shows a percentage share of the Australian market and a percentage share of the New Zealand market. During the 1959/1966 period, the value has risen from $313 million to $746 million, or an increase of 138%. In addition to the commercial trade, Austrilian defense import expenditures are expected to increase 65% in 1967/1968. The cost of the American military hardware will be over $500 million during the next decade and make Australia the third largest purchaser of U.S. defense equipment.

Turning to the future, Farrell Lines and the Arthur D. Little Company prepared a preliminary trade forcast for cargoes carried by our vessels.

For the American-export/Australian-import moving through the United States Atlantic and Gulf ports, we found the estimated annual compound growth pattern to range up to 11.5%. The accuracy of this forecast is borne out by the relationship between predicted and actual data, as illustrated in Exhibits "E" and "B".

A few comments on methodology may be helpful:

A historical comparison is appropriate, as the maximum error (1962) is only 13% and the average error is approximately 7%. By analyzing this historical data, which is limited to the last nine years, certain relationships between the stated factors (National Income and Terms of Trade) are evident. For a 1% increase in Australia's national income, the average value of cargo has increased 1.5%. The same direct relationship applies to a change in the terms of trade (Australian wholesale price index and U.S. exports price index) as a 1% positive change results in an average 2.5% increase in the value of Australian general cargo import traffic.

For the 1957/1965 period, the independent variables have been on the average positive and increasing. Thus the trend for *value and general cargo weight tonnage is projected at 11.5% annual increase* for the 1966/1975 period. One should remember this is a trend line which expresses a prevailing tendency of the data and individual values for a given year will fluctuate around this line (11.5%).

With regard to the future, it is always possible that the independent variables (national income, wholesale price index, and United States export price index) could change, i.e., new trading partners, tastes, war, major depression, etc., and alter the trend. Nevertheless, the economic model has proven to date to be correct and can, for the present, be considered a reasonably reliable guide, provided artificial controls are not imposed.

Australian exports: In the next decade, exports of primary products (wool, lead, zinc and meat) from Australia to U.S. Atlantic and Gulf are not expected to expand as dramatically as Australian imports, with the notable exception of meat industry exports. (Exhibit "C")

Wool market projections indicate that Australian exports to the United States will decline. Three causes are evident:

Continued substitution of synthetic for natural fibers coupled with a predicted slowdown in the rate of growth of United States national income.

Continued growth of imports of wool fabrics sustituting for raw wool imports.

A probable slowdown in the decline of United States domestic wool production due to higher prices of Australian wool and lamb.

Therefore, it is indicated that:

Imports of raw wool in 1967 should be sixty-two million pounds or 32% of the 1965 level.

Imports of raw wool in 1970 should be sixty-seven million pounds or 35% of the 1965 level. (Please see Exhibit "F")

Lead and zinc exports from Australia to the United States can be expected to remain at low levels. Lead and zinc virtually always occur together in nature and, therefore, the fortunes of one inherently affect the other, although their markets are widely different. Nevertheless, they both have tended to exhibit only very slow growth over the long term. We expect a continuing slow growth in United States consumption of lead, while zinc consumption will probably level off and perhaps decline. In addition, production capacity is being greatly expanded in both the United States and Canada.

The outlook for the meat trade is most encouraging for the American consumer. Our analysis indicates that:

Total meat imports will rise 66%, or an average annual increase of 11.7% between 1965/1970.

The growth rate would not be sufficient to trigger current quotas until the 1970's.

Again, a comment on methodology:

Our forecasts are based on a mathematical model of United States consumption, productions and imports of meat which was specifically prepared for this analysis by Arthur D. Little, Inc. The principal variables in the model are United States disposable personal income, the price of meat in Great Britain and the price of meat in the United States. Two alternative assumptions were made about the future direction of United Kingdom meat prices to span the feasible range of United Kingdom's prices over the coming years. From this we have generated two forecasts of United States meat imports. The high forecast assumes that United Kingdom meat prices will continue to grow at the rate they have been growing for the short term during the last year. The low forecast assumes that price will conform to the lower levels of the long-term trend. The range of projected meat exports is shown in Exhibit "D". The range between the high and low projections is seen to be relatively small because the high projection bumps

against the quota toward the end of the 1960's when the difference between the two projections becomes negligible.

The imports of larger quantities of Australian meat must be examined further and not considered purely in quantitative terms. In brief, there are four convincing arguments for not imposing additional quotas on imported Australian beef.

Imports Not Affecting U.S. Cattle Industry: The current plight of American livestock farmers is related to a cost-price squeeze. In short, this means the cost of producing beef on American farms has increased more than the market prices for the product. Thus it is not a drop in prices that has depressed earning, but rather an increase in operating costs. Therefore, increased imports are not the cause of low earnings.

Different Products: The American home consumer has a preference for high fat content in beef products. This is the so-called "marbled meat" which has 25% to 30% fat content. The demand for this is satisfied by the American farmer. By contrast, the Australian imported beef is a grass-fed product with a fat content of around 10%. These lower Australian fat content meats are used for manufactured or industrial purposes and thus the imported product is not directly competitive with the domestic product.

Increased Retail Prices: If the lower priced imported products are not available to the United States industrial manufacturers, a higher price will have to be paid to American farmers to produce the deficit supply. In turn, the manufacturer must charge the consumer high prices and the net result is an increase in low priced beef products which are used by the lower income families—those least able to afford it.

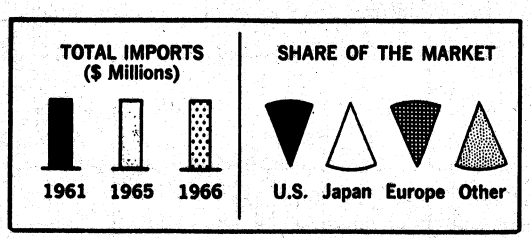
Current Quotas Sufficient: Under Public Law 88–482, imports have never reached the level to trigger quotas. In fact, it is estimated by the Secretary of Agriculture that total meat imports for 1967 would be approximately 860 million pounds or 135 million pounds less than the previously established quota level.

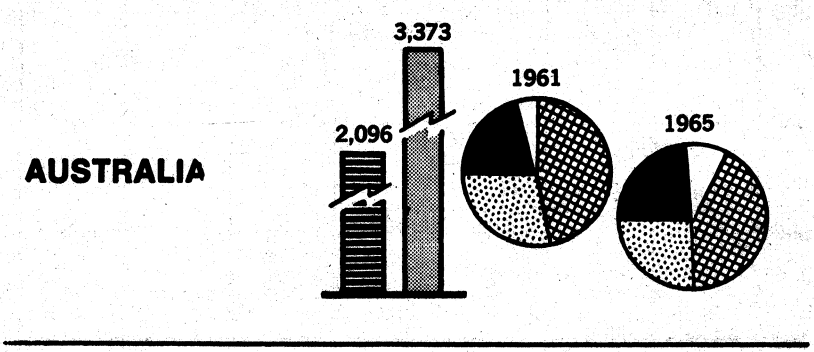
CONCLUSION

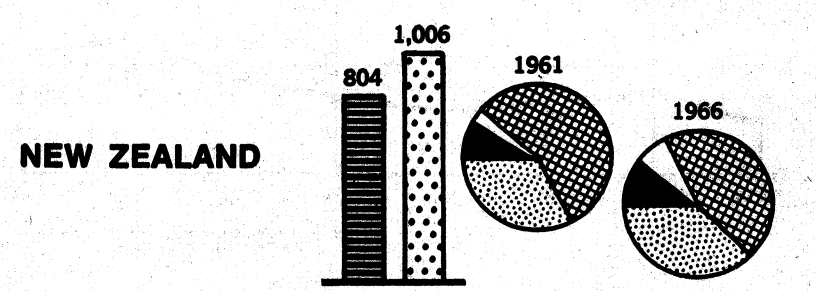
In summary, the net effect of the proposed quota legislation will be to reduce U.S. trade to the Australia/New Zealand area. This would appear to be an unjust penalty for our longtime allies and a negative influence on American economic development. Specifically, we would: (1) encourage retaliatory trade restrictions by our best customers; (2) aggravate the balance of payments problem; (3) increase American consumer prices; and (4) limit the employment opportunities of the segment of the American economy involved in foreign commerce.

EXHIBIT A

Imports of Australia and New Zealand, Total and Chief Suppliers' Shares



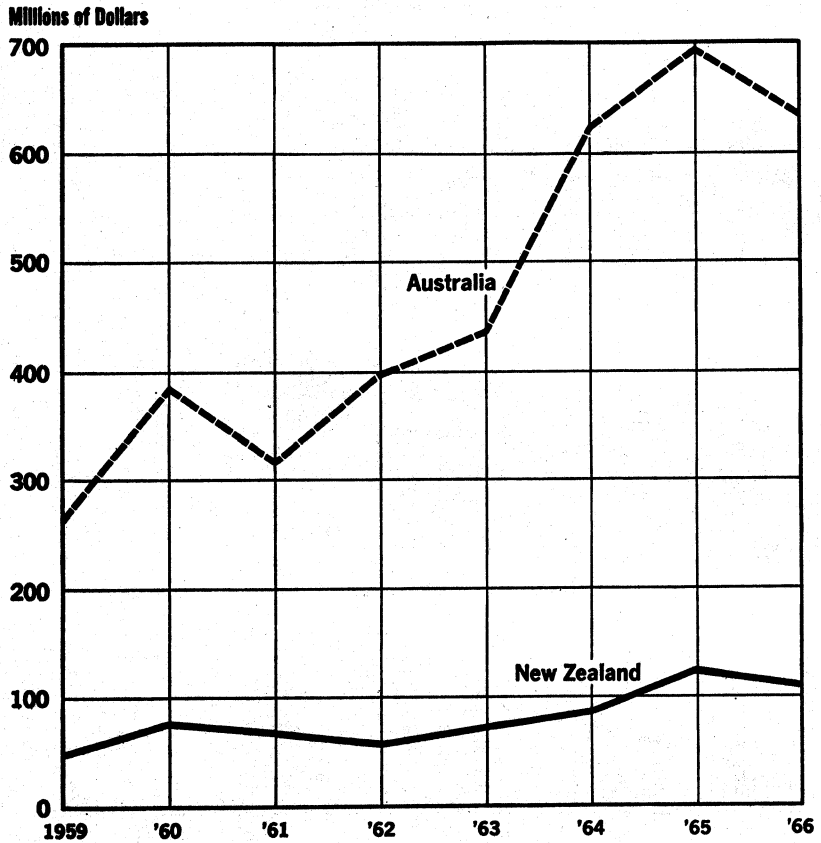




Source: THE GALLATIN LETTER
Vol. 2 No. 28 Oct. 6, 1967

EXHIBIT B

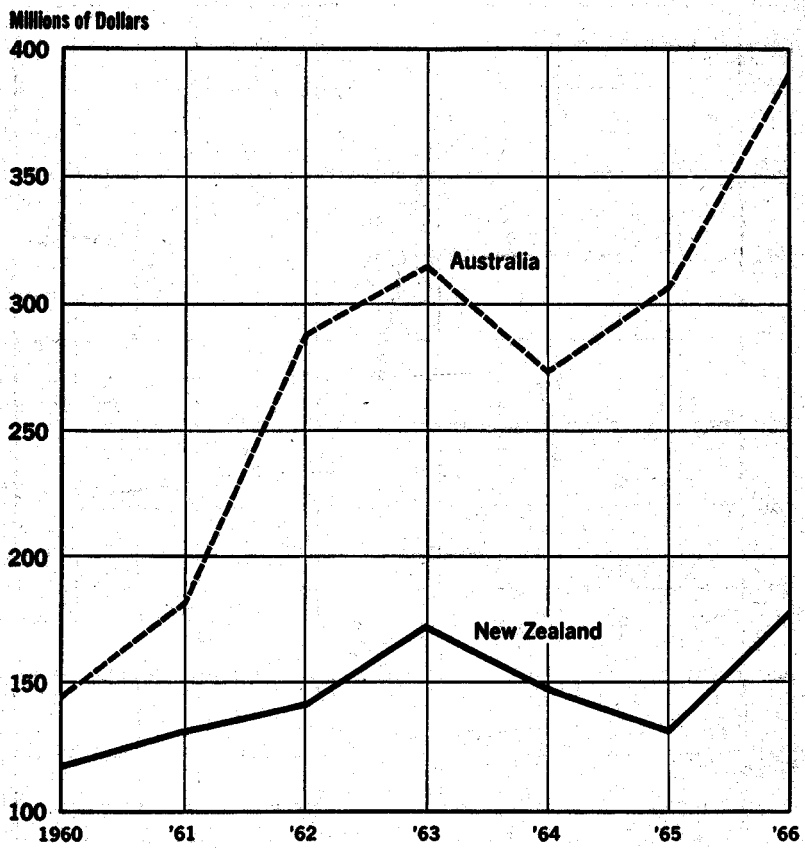
Exports from the United States to Australia & New Zealand



Source: FT 420, U.S. Imports Country by Commodity — U.S. Department of Commerce

EXHIBIT C

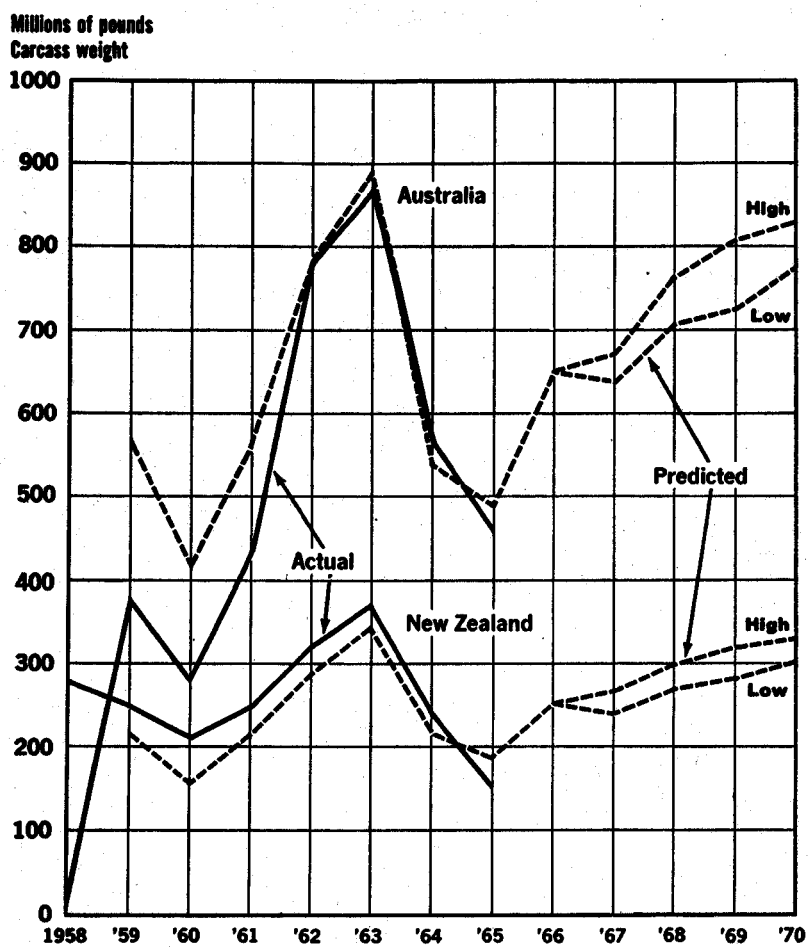
Imports to the United States from Australia & New Zealand



Source: FT 120, U.S. Bureau of Census

EXHIBIT D

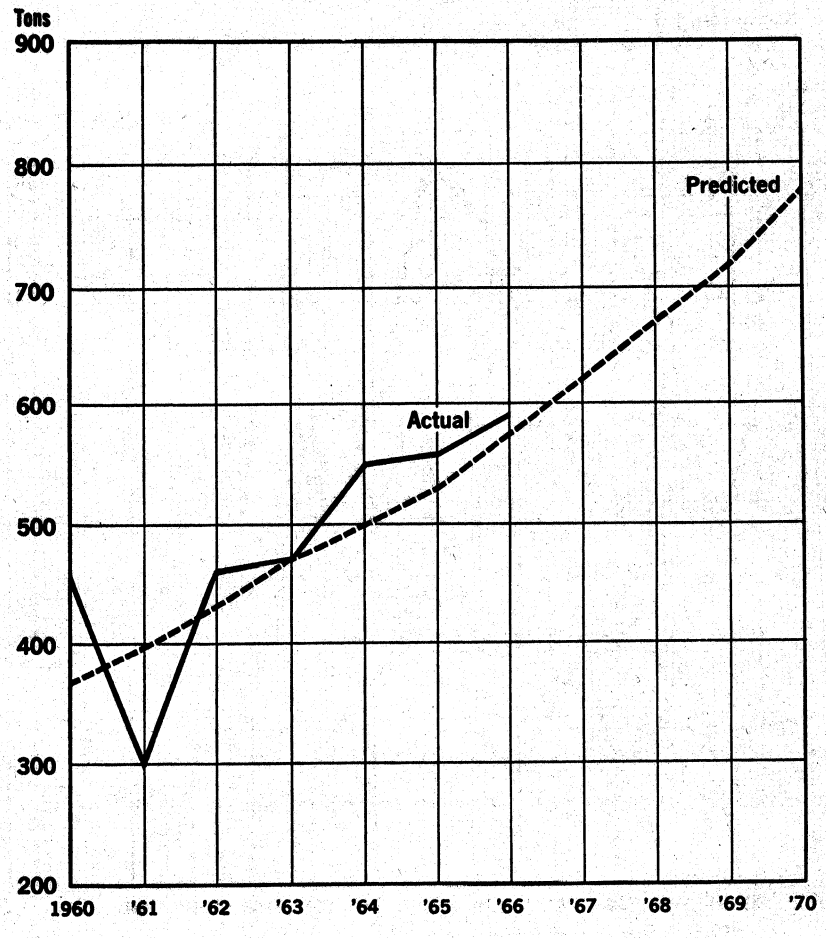
U.S. Imports of Meats, Australia and New Zealand



Source: Arthur D. Little Co.
Working Memo #10 & FT 120,
Bureau of Census

EXHIBIT E

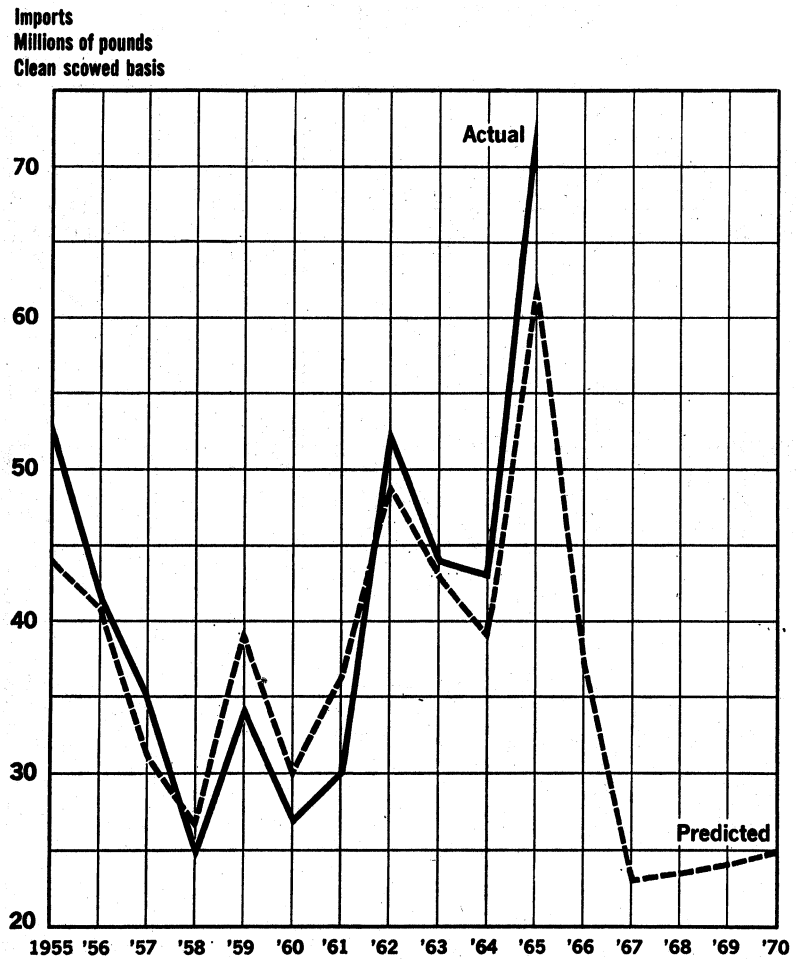
USNA & Gulf Exports to Australia & New Zealand
Total Tons (less bulk) in thousands



Source: Arthur D. Little Co., Memo 14 & FT 420
U. S. Imports Country by Commodity -
U. S. Department of Commerce

EXHIBIT F

U.S. Imports of Wool from Australia



Source: A.D.L. Working Memo #9 and Bureau of Census FT 120

WAREHOUSEMEN'S ASSOCIATION OF THE PORT OF NEW YORK, INC.,
New York, N.Y., June 18, 1968.

HON. WILBUR D. MILLS,
Chairman, Ways and Means Committee of the House of Hepresentatives,
Washington, D.C.

HONORABLE SIR: I am counsel to the Warehousemen's Association of the Port of New York, Inc. This Association wishes to record its opposition to the quota bills for foreign manufactured products which are now under consideration by your honorable body.

It appears that the introduction of these bills was impelled, principally, by those members of Congress who believe that the United States trade balance will be improved thereby. It is submitted, however, that the adoption of quotas might well have an effect opposite to that which is desired or intended. As the implementation of the quotas (if enacted) takes its toll in terms of frustrating foreign manufacturers in their United States trade, retaliation by the foreign countries thus affected seems inevitable. In the face of the probability of such retaliation, it is difficult to see how the balance of payments deficit can be eased. In addition, it is fair to expect that the enactment of quotas would have the result of raising the prices of protected products thus providing an additional economic impediment to our export markets, and the flow of foreign-held dollars back into our economy.

Even if quotas result, at least initially, in strengthening our trade balance, the long range implication is an exacerbation rather than an easing of the problem.

In addition to the above-mentioned likelihood of foreign retaliation, and higher costs, vested interests having an enormous stake in the protectionism afforded by quotas, would undoubtedly seek to have the quotas made more or less permanent, even in the event of a disappearance of the balance of payment deficit. The liberal foreign trade program which has been the keystone of foreign trade policy during the last five national administrations, and which has been beneficial to our national economic interests, would thus be endangered. The international community has been served well by this liberality. Import quotas superimposed upon the import surcharges can well induce a regressive movement toward the evils of unbridled protectionism, i.e., economic isolationism and trade warfare. It is to be hoped that your distinguished Committee will thoroughly ponder the unfortunate consequences of such a reversion.

Moreover, the resultant curtailment of imports would adversely affect the imports industry, and other industries which are dependent upon the importers for their very existence. The creation of unemployment in these industries is too high a price for a questionable short range benefit to our trade balance problem.

I am transmitting simultaneously herewith a copy of this letter to each member of the Committee as well as to its Chief Counsel and Assistant Chief Counsel.

Respectfully yours,

ARNOLD H. SHAW, *Counsel.*

STATEMENT OF FRED S. HABER, PRESIDENT, OCEAN FREIGHT CONSULTANTS INC.

In accordance with specific requirements set forth by your Committee, Ocean Freight Consultants Inc. submits the following statement:

1. Ocean Freight Consultants Inc. (hereafter OFC), located at 112-15 Northern Boulevard, Flushing, New York 11368, a firm incorporated under the laws of the State of New York. Its principal function is the auditing of freight bills, and consultation in the field of International Transportation. These services are offered to the shipping public and among its clients, are such organizations as: The United Nations, Burroughs Corporation, A. S. Beck Shoe Co., Esso International, Gimbel Brothers, International General Electric, Johnson & Johnson, Mead Johnson International, R.C.A. International, and many others.

Worldwide contacts are kept with principal trading centers to extend our advisory services to our clients in as many areas as possible.

2. OFC has actively participated in proceedings before the Federal Maritime Commission (hereafter FMC) and is presently a petitioner and intervenor in Docket 65/5, which is now being considered in the pending rulemaking proceeding for issuance of an initial decision.

OFC was also an active participant in Fact Finding Investigation No. 6. A report was issued by the Federal Maritime Commission on August 16, 1967.

We are very pleased to have the opportunity to present our views being directly and vitally involved in issues in which this Committee has shown interest.

Although this hearing covers seven subjects, we will only comment on Subject 3 and 5 of which we can speak from experience.

SUBJECT NO. 3—PROPOSALS FOR INCREASING OUR EXPORTS

Much has been written in the past years about this subject and it is certainly a most important point to make America a more active and competitive exporter.

We are certain, from past experience, that in matters of oceanfreight rates the American shipping public is not nearly enough protected from the Conferences and the Carriers as they should be.

The total landed cost factor must be considered to make our products competitive, and, in our opinion, the oceanfreight as we will show is part of the often noncompetitiveness of our products to foreign markets. The giant U.S. corporations have, in many instances, this burden on their hands, which however only cuts profits. But, for the smaller U.S. firms this uphill fight against foreign competition is made so much more difficult because of the discriminatory rates leveled against our exporters, and often results in the nonparticipation of many firms in marketing our goods in foreign lands.

During several proceedings before the FMC the carriers have made much of the fact that the freight in itself is insignificant in its total cost picture and thus has really no bearing on the capability to have more U.S. firms compete in foreign trade.

While this do doubt is true in some areas, as perhaps was brought out in the inquiry dealing with the reciprocal rates from and to Japan, it must be stated that the affected U.S. oceanfreight rates indeed have a considerable effect on landed costs and possibly our noncompetitive pricing.

Oceanfreight rates have a tendency to shift constantly upward. If one examines carefully the rate increases that have taken place over the past several years, we would readily see that the picture has become an alarming one.

Rates are normally increased on a general level including almost all tariff items and the level of such increases is from 5 to 10%. There are various categories which are exempt, often because more organized and knowledgeable exporters succeed in having their own commodity exempted. This results in a subsidy where some commodities bear the burden of others, and it naturally would be detrimental to encourage new exporters to enter the field.

It is most unfortunate that the FMC has no control at the present time over the rate making level of the ocean carriers, who, as an industry exempted from the anti-trust legislation of this country, are setting rates as "groups of conferences".

We do not wish to give the impression, or want it to be on record that we are against Conferences as such. We are aware that it has been established that their function as a whole is in the public interest.

One of the mandates of the Shipping Act is the filing of tariffs, which carriers and conferences regularly do. Unfortunately the Commission has no jurisdiction or control over the level of rates, or the justification of increases, either for individual items or on a general rate increase.

The FMC has stated that the filing of a tariff is a ministerial act only and, as such, does not indicate approval of anything contained therein.

The recent initial decision by a hearing examiner of the FMC in Docket 65/45 setting a rate level and declaring certain rates unreasonably high and detrimental to U.S. exports, is presently contested by foreign interests claiming that the FMC has no jurisdiction over the rate level.

It is historically proven that the investigation of a rate to be declared unreasonably high is a long and drawn out process and when eventually so found, it has no *retroactive power*. Therefore, the carriers are in fact fully protected by any rate increase, and can often have the guarantee of such application, which lawfully it must under the provisions of Section 18(b)(3), which reads as follows:

"No common carrier by water in foreign commerce or conference of such carriers shall charge or demand or collect or receive a greater or less or different compensation for the transportation of property or for any service in connection therewith than the rates and charges which are specified in its tariffs on file with the Commission and duly published and in effect at the time; *nor shall any such carrier rebate, refund, or remit in any manner or by and device any portion of*

the rates or charges so specified, nor extend or deny to any person any privilege or facility, except in accordance with such tariffs." (Italic ours.)

When an increased rate was found to be unreasonable, the carriers sometimes collecting this rate for years do not fear paying back such difference between the rate charged and that which should have been charged.

Apathy on the part of many shippers is unfortunately a proven fact. Regulatory agencies such as the F.M.C. have been asking for assistance and only of late more and more individuals are coming forward to complain about inequities. These few complaints are mostly from large and knowledgeable shippers, but almost never do complaints come from small or potential exporters.

It is, therefore, important that all industries, large and small, have the same measure of protection of laws that will not permit the penalization for whatever reason of having to pay a higher price for oceanfreight in detriment to the interest of U.S. shipping.

Rate increases are normally connected with increased costs of carriers. This is understandable. One can not expect any industry to absorb additional costs without raising prices. But are the "level" of such increases justified? While the domestic industries must justify such increases and are under considerable pressure by Government to consider carefully the effects of such increases for consumers and the potential inflationary effect, carriers and their conferences have no such pressures. They simply file a rate increase and if no one complains, it goes into effect. OFC in its years of operation, has seldom seen any increase being contested. But we have seen numerous instances where application for rate reductions to carriers and conferences have fallen on deaf ears. And most shippers would shy away from formal complaints to the FMC to have a rate declared unreasonably high due to the considerable efforts and time involved in such proceedings.

Most conferences have a special form which they issue to shippers who seek a rate reduction. Such forms request information which many customers are reluctant to give. It is information often considered classified by a client and really immaterial in considering a rate request. The statistical data is often most difficult to produce or predict.

If we draw an analogy of the power of the I.C.C. versus the F.M.C. we readily see that the F.M.C. due to regulating "foreign flag carriers" has lesser power than the I.C.C.

If we compare a general rate increase that may be published by a railroad or motor truck with the I.C.C. we can see that invariably the I.C.C. will look into the justification of such a general rate increase. Such general increases are almost immediately the subject of a protest by shipping associations, Commerce of Industries, or shippers themselves, who are much more alert than their international counterpart. While a large U.S. manufacturer may readily protest a rail rate increase, they simply accept as unavoidable an increase on oceanfreight for identical merchandise they export. It is the unknown area that they rather not trespass. The result is often that exports are curtailed when they could be increased or in case of CIF quotation, the profit is invariably reduced. It is not uncommon at all to run into *freight rates that are 50% or more of the factory or seaport selling price.*

Trades and their conferences normally follow suit; once one conference issues a rate increase others will do likewise. It would seem to us that such increases should not be made on such a basis, but rather for legitimate reasons.

To cite the history of one trade route's increase on their rates (U.S. Atlantic and Gulf Australia and New Zealand) we find that the rate level for general cargo and many other specifically named items which were on the rate level of general cargo was $66.00 w/m, effective January 2, 1962. Four general increases took place since then. The last increase will become effective August 26, 1968 and the rate now will reach $91.00 w/m, or a total increase of 37.8%. It is highly questionable that the additional costs to the operator is equal to the rate increase level. At any rate the Commission has no power over the increase; it only "accepts" the rate increase filing.

To further show the detriment of rates to U.S. exporters, we cite that in the reciprocal trade *from* Australia to New York the general cargo rate is $55.00 w/m, while on exports of general cargo the rate is presently $86.75 (and will go to $91.00 on 8/26/68).

If we compare other rate situations such as the charge for a minimum Bill of Lading, we find that the rate from U.S. ports to Australia is $25.00. The British exporter pays about $10.00 for the same minimum shipment.

SURCHARGES

One of the items of additional revenues we question is the so-called "surcharges".

Reviews of tariffs on file with the Commission show us that such surcharges are often questionable as to their—

1. "timely justification";
2. percentage.

A typical point in question is the surcharge situation that existed immediately after the outbreak of the Arab-Israeli war in June 1967. The North Atlantic Mediterranean Freight Conference set a 25% surcharge on all goods exported to Moroccan, Algerian, Tunisian, Lybian, Egyptian, Lebanese and Syrian ports. It became effective 6/23/1967.

To show the penalty that American exporters were exposed to without the possibility of recourse or refunds, one has to look at the sequence of these surcharges. Apparently realizing the unjustication of the original application, surcharges were suspended for Moroccan, Algerian and Tunisian ports, effective 6/27/1967. Consequently all cargoes that moved between 6/23 and 6/27 were obviously without justification charged the 25% surcharge. A further change appeared effective 7/11/1967, where surcharges to "certain Lybian ports" were suspended, but still maintaining the 25% surcharge to the Port of Tripoli, notwithstanding the fact that European conferences did not have such surcharge at all. Therefore exporters shipping from 6/23/1967 to 7/11/1967 to the ports of Benghazi, Marsa el Brega were subjected to the 25% surcharge.

OFC had the opportunity to audit the freight bills of one of America's largest firms, who had considerable freight going to these destinations and was subjected to these surcharges without any possibility for adjustment. Effective 9/22/1967 the Port of Tripoli was removed from the surcharge. Therefore again any exporter shipping to Tripoli from 6/23/1967 until 9/22/1967 was subjected to the surcharge without any possibility of refund.

The surcharge maintained to Egyptian and Syrian ports was reduced to 15% effective 10/24/1967. This surcharge is still applicable. When one compares the action of European based conferences serving the same area and obviously facing the same hazards, they acted entirely more reasonable. So did the Pacific Coast European Conference.

For example the Gulf Mediterranean Conference *never* assessed a surcharge into the Algerian, Moroccan, Tunisian and Lybian ports.

The Pacific European Freight Conference advised us that their only surcharge was to Egyptian, Lebanese and Lybian ports, amounting to only 5% effective 9/6/67 until 12/6/67.

The different treatment of surcharge emergencies is clearly demonstrated here and is considered unreasonable and certainly discriminating as between ports and shippers.

A proposed solution could well work in the same manner as "general average". Each shipper is aware that in case of damage to the vessel they have to face the declaring of "general average" and therefore protect themselves by proper marine insurance coverage.

In a warlike situation we can understand the immediate protection and surcharge application. But as the present surcharge works in the Middle East, it is continuously assessed regardless of whether the vessel completes its voyage and discharges at these ports without having any problems or facing any dangers during voyage.

It would seem to us that the principle of "general average" would be more applicable than a generally applied surcharge.

OFC has brought this situation to the attention of the FMC. Unfortunately at present all the Commission can do is to communicate with the carrier or conference on an "informal basis" urging reconsideration. While this may at times be successful, it is not sufficiently protective to the American exporter, as we are still witnessing today.

Surcharges in most trades are shown in percentages of the applied freight rate. There are exceptions such as in the River Plate Brazil trade, where the surcharge is expressed in dollars per ton, therefore applying it in a nondiscriminatory fashion to all shippers utilizing the traderoute where a surcharge is in effect. The percentage method is to be challenged when one knows what a surcharge covers. If for example the surcharge is applied due to congestion at a foreign port of

unloading, causing a longer layoff time for a vessel, its cargo revenue earning capacity is naturally curtailed. The surcharge should be expressed in actual costs and should not permit the carrier, as it often does, to earn additional profit. The carriers' revenue is obviously compensatory to them when they set their base rate which should be reasonable and competitive and such rates are on file with the FMC. Surcharges should only cover the costs and/or pro rata losses due to the circumstances causing a surcharge. If we take as an example a situation whereby a surcharge is set due to the slow unloading of cargo, we can readily see that a 25% surcharge based on the base rate applied for a particular cargo, works in detriment to the higher rated cargo. In the chemical industry it is not uncommon that standardized drums are used. The stowage factor of such drums is the same, and so the labor costs involved. When we talk about such cargo, we base our comparison on the fact that no inflammable or dangerous cargo is involved, which may require special handling. Based on existing rate structures the rates for various chemicals packed in identical drums (if rated by measurement ton the measurements are identical), vary considerably. To assess a uniform 25% surcharge or whatever percentage level has been set, is unrealistic and unreasonable and in our opinion discriminatory. Fact Finding Investigation #6, in which OFC participated, devoted a special chapter to surcharges, starting with page 69 to and including page 71. OFC has at times objected to certain surcharge levels and notified the FMC, since we feel that this is definitely detrimental to the interest of U.S. commerce.

With the increase of containerization and the further developments and trend of through rates, it will become more and more important to educate and protect small and medium sized firms needing government help to keep rates down. They also need legislation to protect them from loopholes within existing laws.

The Shipping Act of 1916 was amended in 1961 to include Section 18(b)(3) which was very important to the American shipping public. It has, however, also worked to the detriment of the public as pointed out before.

To illustrate how important the oceanfreight and its correct application is, we should look at Docket 65/5. The FMC after our organization officially complained, has instituted proceedings to abolish an artificially-set time limit for filing of overcharge claims against the carriers which presently has to be done within six months. The Shipping Act of 1916 clearly spelled out two years time for reparation, but could not be enforced without going into a lengthy, costly Section 22 Proceeding. This the carriers were and still are able to do by having inserted into their tariffs, filed with the FMC, a rule which is more or less uniformly followed by conferences and carriers.

A typical example reads:

Overcharges: Claims for adjustment of freight charges, if based on alleged errors in weight and/or measurement, will not be considered unless presented to the carrier in writing before the shipment involved leaves the custody of the carrier. Any expenses incurred by the carrier in connection with its investigation of the claim shall be borne by the party responsible for the error, or, if no error be found by the claimant. *All other claims for adjustment of freight charges must be presented to the carrier in writing within six (6) months after date of shipment.* (Italic ours.)

The above self-serving clause in violation of Section 18(b)(3) may have caused millions of dollars in overcharges denied to U.S. shippers, mostly by foreign flag carriers simply as a result of including this rule in their tariffs.

RECOMMENDATIONS

A. To further strengthen the FMC in its control over rates and illegal application of rules rather than its present function of accepting filed tariffs. A general increase should have to be supported by sufficient evidence why the percentage of increase should be authorized. Increases should work in such a way that all shippers should be treated fairly.

B. To further strengthen the control by the FMC over the surcharges in its percentage level. The treatment of surcharges by some conferences assessing a dollar cost per freight ton is much more realistic than a percentage level, for it should represent the *additional cost only* without added profit potential.

C. The time has come where the small and medium sized companies must be stimulated to become export minded. It is the reluctancy of the unknown which prevents them from entering into it. Many of these firms do not have a traffic

manager on their staff and need information and education. We believe that the U.S. Government may best help them by distributing on the very local level to the Chamber of Commerces a narrated film which shows step by step:

1. How to get an export order. Sales leads available from port authorities' various trade publications, commerce and industry and foreign chamber of commerces.

2. Detailed explanation of terms of sale and restrictions, such as license requirements.

3. The Banks' function in an export transaction. The issuance of Letters of Credit, sightdrafts, etc.

4. The role of the foreign freight forwarder. His liaison with steamship companies and airlines, the issuance of dock receipts, B/L's, and other export related documents.

5. The function of the documents and their relationship to the actual receipt of a shipment at destination.

While all the information and guidelines have been made available to potential exporters in reading matter, we believe that the visual aid will be much more helpful to anybody seeking information without any prior knowledge of international trade.

SUBJECT NO. 5—PROPOSALS ON TARIFF MATTERS GENERALLY

In our auditing service covering leading importers, we have found that the manner in which dutiable values are arrived at seem to vary, which could be. and most likely are, discriminatory between importers.

Depending on the sales terms, in numerous instances the appraisers allow the costs from ex factory to FOB seaport to be deducted as a nondutiable item, while making it a dutiable item in other sales. For example, on shipments from Spain in almost all cases all expenses up to FOB seaport become dutiable. This also happens very often on shipments from Japan. We understand that presently investigations are being held to solve this problem as far as Japanese imports are concerned.

While the price of an item is often fixed for more than one prospective purchaser and thus represents the basis for dutiable calculation, the additional costs for delivering goods up to FOB seaports can vary considerably. In many cases the supplier will leave the transportation in the hands of a forwarder he appoints, whose rates may vary. While the inlandfreight rates in the U.S. are I.C.C. controlled, the rates abroad can vary considerably. If a consolidator is involved, he may give one customer a better rate than he gives another. It would seem to us that to eliminate any possible discrimination, the first cost of the item, including the charge for packing, constitutes the only basis for calculation of duties. All related expenses, in bringing goods up to FOB should be treated as for example, oceanfreight or insurance, namely a *nondutiable item.*

RECOMMENDATION

We therefore suggest that all inland transportation costs from ex factory up to FOB sea- or airport be afforded the same status as oceanfreight and marine insurance and be exempt from U.S. customs duties.

To request the Treasury Department, Bureau of Customs to investigate the suggestion of appraisements to establish a uniform practice and thus prevent possible and most likely existing discrimination among importers in the assessment of U.S. cutom duties.

J. E. BERNARD & Co., INC.,
Chicago, Ill., June 27, 1968.

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

SIR: It is our understanding that the President's trade policy proposals and the bill which has been introduced is now under consideration by your Committee and we wish to urge you to support and try to pass the Bill as it is extremely important in submitting the following features:

(1) Support the Administration's proposed Trade Expansion Act which extends the authority of the President to negotiate Tariff reductions

(2) Support the repealing of the American selling price provisions as a part of the valuation of Section 402 of the Tariff Act

(3) Oppose all attempts to improvise import quotas and/or other orderly marketing devices which have the same effect as limiting the amount of imports

In our years of both importing and exporting services rendered to American business, we have found that any attempts to curb imports only make it harder to export and at the same time effects the delicate balance of our relationships with other countries which increases the problems of the State Department and other agencies of the U.S. Government.

Very truly yours,

V. J. BASS, *Vice President.*

STATEMENT OF WILLIAM B. EDGERTON, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Mr. Chairman, my name is William B. Edgerton. I make this statement as a representative of the Friends Committee on National Legislation, a Quaker organization that has been at work here in Washington for the past twenty-five years in an effort to interpret Quaker concerns about legislative issues relating to peace, human welfare, and justice. While the highly individualistic structure of the Society of Friends makes it impossible for any person or organization to speak officially for all Friends, a fairly broad consensus exists among all members of the Society as a result of three hundred years of Quaker efforts to deal with the problems of practical life through the application of our religious beliefs about the nature of man and his relation to God.

On behalf of the Friends Committee on National Legislation I submit this statement in support of the elimination of the restrictions on the President's trade agreement authority that now exist in Section 231 (a) of the Trade Expansion Act of 1962. To say essentially the same thing in positive terms, we support passage of the legislation originally proposed in the East-West Trade Bill of 1966, which would have authorized the President to negotiate most-favored-nation tariff treatment with individual Communist countries.

The principal reason why we favor the elimination of Section 231 (a) of the Trade Expansion Act of 1962 is that we believe it is based upon an unrealistic and inaccurate assessment of the present world political situation, and as a result is an obstacle in the way of our own national interests and the interests of human welfare at home and abroad. This section requires that "The President shall, as soon as practicable, suspend, withdraw, or prevent the application of the reduction, elimination, or continuance of any existing duty or other import restriction, or the continuance of any existing duty-free or excise treatment, proclaimed in carrying out any trade agreement under this title or under section 350 of the Tariff Act of 1930, to products, whether imported directly or indirectly, of any country or area dominated or controlled by Communism."

AMERICAN CONFUSION ABOUT COMMUNISM

Nowhere in the act is the term "communism" defined. Section 231 (b), which exempts Poland and Yugoslavia from this restriction, appears to imply some recognition that there are at least two kinds of Communist countries, but no statement is made about how these two kinds differ. The general confusion among lawmakers as well as the American public at large about the nature of communism has perhaps nowhere been more aptly described than by Representative Otto E. Passman, of Louisiana, at the hearing on the military assistance program for Korea conducted under his chairmanship on April 8, 1968, by the Subcommittee on Foreign Operations of the House Appropriations Committee. Representative Passman said: "Some day I hope we can take the time and run around the world and find out actually how many brands of communism we have and why a lot of Communist nations don't trade, don't agree, hate each other and don't get along, and yet everything we do is designed to try to stop communism. I want to find out what brand we are trying to stop before we go completely broke trying to stop all brands of communism." (Second Supplemental Appropriation Bill, 1968, page 353).

NATIONALISM IN THE COMMUNIST WORLD

I would respectfully suggest, Mr. Chairman, that now is a very appropriate time to make the examination Representative Passman proposes. I have devoted most of my time for the past twenty-three years to study, research, and teach-

ing about the Soviet Union and the Communist countries of Eastern Europe. I have visited that area fifteen times, and I speak three of its languages well enough to dispense with interpreters. My acquaintance with the area and its people convinces me that an examination is long overdue of our present policy of rigid opposition to a communism as ill-defined as it is in our current legislation. To speak in 1968 of a centrally controlled, monolithic world Communist conspiracy is as misleading as it would have been a hundred years ago, when all the monarchs on the thrones of Europe professed Christianity, to draw the conclusion therefrom that all the nations of Europe formed part of one centrally controlled world Christian movement. The Communist faith has shown itself to be no more capable of doing away with nationalistic rivalries among countries ruled by Communists than the Christian faith has been among countries ruled by Christian kings and presidents. Nationalism in large nations—whether Communist or non-Communist—tends to be an expansionist force; and nationalism in small nations, Communist as well as non-Communist, tends to be a force for national independence.

In the 1920's there actually was a world Communist movement, with its headquarters in Moscow. By the early 1930's, when Stalin had consolidated his control of this movement, world Communism was no more than an instrument of Soviet nationalism, a tool of Soviet foreign policy. After the Second World War, when Communists gained control of eleven more East European countries, the ground was prepared for the growth of eleven more kinds of Communist nationalism, and the fruits of those various kinds of nationalism are now beginning to ripen.

ECONOMIC STAGNATION AND POLITICAL FERMENT IN THE COMMUNIST WORLD

But the growth of nationalism is not the only thing that has thrown world Communism into disarray. Another problem it has faced is the stagnation produced by the Communist effort to maintain centralized, bureaucratic control of each national economy. This stagnation has forced the Communist leaders to experiment with a measure of decentralization and with the introduction of certain elements of a market economy. One Communist country, Yugoslavia, has led the way in this direction, and it now has succeeded in making its currency internationally negotiable. Other East Europeon Communist countries are expressing interest in assuming the international responsibilities required for participation in trade arrangements with the West.

Along with pressure for liberalization of the economy, Communist countries have also begun to feel pressure for relaxation of political controls. It is highly significant that the Soviet Union and the other Communist countries of Eastern Europe have their New Left too, just as we have in the United States. But what the New Left in the Communist countries is struggling for is freedom of speech, freedom of the press, freedom to travel, freedom from the arbitrary power of a bureaucracy and police uncontrolled by a system of constitutional government that guarantees justice and personal security under law. In other words, the young dissenters in the Communist countries are struggling to achieve the very rights that the nihilistic revolutionary Left in America seems to dismiss as bourgeois prejudices standing in the way of its effort to take control of what it calls the American power structure.

It will help us to understand the real nature of the Communist problem if we make a clear distinction between its economic aspect, which is socialism, or the ownership and control of the chief means of production by the whole community or the state; and its political aspect, which is merely a rather efficient form of the old-fashioned despotism that has appeared and reappeared all through human history. The socialism in their economies gives Communist countries something in common with such vastly different countries as Sweden, Great Britain, and India. The despotism in their politics gives Communist countries something in common with a wide variety of so-called capitalist countries, such as Spain, Guatemala, present-day Greece, Haiti, and Paraguay.

THE DECLINE OF COMMUNISM AS A PSEUDO-RELIGION

In addition to the economic and political, there is one more aspect of Communism that can perhaps best be called the pseudo-religious. Marxist-Leninist Communism has traditionally claimed to have in its doctrines of dialectical and historical materialism the one infallible key to all truth. The break-up of

the world Communist movement, however, has been accompanied by a profound crisis in atheistic Communist doctrine as an all-embracing rival to religion. "Marxism is outdated," the Yugoslav Communist heretic Milovan Djilas recently declared in an interview with C. L. Sulzberger. "The human being and modern society are too complex to be adjusted to Hegelian dialectics. . . . All versions of Communism are becoming decadent. They must inevitably change into a democratic society" (The New York Times magazine, June 9, 1968). Communist atheism has proved unable to destroy belief in God even in the Soviet Union, where it has been preached more fanatically than in any other Communist country with the possible exception of China.

WHAT IS THE ANSWER TO COMMUNISM?

There seems to be a curious paradox in the thinking of those whose opposition to the revolutionary overthrow of our own government at home leads them to advocate the revolutionary overthrow of Communist governments abroad. If there is one thing in which the Communists should be able to claim real expertise, it is handling revolutionary conspiracies. The evidence of the past few years would seem to indicate that they find it considerably more difficult to cope with evolutionary change.

Violent revolution is like war: both of them are catastrophes that result from a failure to work out adequate solutions to pressing social conflicts. Our best hope for the future, in a world that will probably contain Communist as well as non-Communist governments as far ahead as we can see, will be to encourage the forces within Communist countries that are working for constructive change. Even though our power to influence developments in any foreign country is severely limited, we can at least encourage the forces of liberalization by our own example at home, and possibly also in a number of other ways, mostly undramatic and unobtrusive. One of these undramatic ways is through trade. If the smaller Communist countries of Eastern Europe are to become more independent politically, they must have an opportunity to become more independent economically. That means increased trade with the West, including the United States. If we are to encourage the Soviet Union to move in the direction of international cooperation, then we would do well to encourage her to assume more and more of the obligations required by orderly international trade.

There has been a good deal of talk about the use of trade as a political tool in our bargaining with the Communist countries. I fail to see how we can bargain very effectively with trade if we have no trade to bargain with. I suspect that we would be in a much better position to use trade for political bargaining if we had already granted most-favored-nation tariff treatment to all the East European Communist countries, including the Soviet Union. The threat to withdraw a privilege is a more effective bargaining device than the promise to grant it.

In our efforts to find appropriate ways of encouraging trends toward liberalization in Eastern Europe we might do well to consider the ancient fable about the contest between the wind and the sun over which one could force a traveler to remove his cloak. The harder the winds of American anti-Communism blow over Eastern Europe, the tighter the cloak of Communist repression will be drawn about the population. The warm sunshine of mutually beneficial trade offers a much greater chance of causing the cloak of repression to fall to the ground.

AMERICAN BANKERS ASSOCIATION,
New York, N.Y., June 17, 1968.

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

DEAR CHAIRMAN MILLS: The Administrative Committee of the American Bankers Association has today approved a statement on U.S. foreign trade policy which continues to endorse freedom of trade among nations. The statement approved by the Committee reads as follows:

The American Bankers Association reiterates its strong commitment to maximum freedom of trade among nations.

In recommending to the American public and to Congress the need to reject both a general protectionist policy and provision of relief from foreign competition to specific industries, the American Bankers Association recognizes that U.S. products do not always enjoy free access to foreign markets. For this reason it may be necessary that our trade negotiators have a free hand in considering either countervailing duties or quantitative restrictions on foreign goods for negotiating purposes. At times U.S. policy has failed to use the full power available in order to open other markets because such powers threatened the principles of free trade.

The Association believes that in cases in which we are clearly being discriminated against, our negotiators should be encouraged to employ all measures at their command to open overseas markets for American goods. We do not feel this is a basic contradiction to our overwhelming commitment to the principles of free trade.

I have been directed by the Administrative Committee to bring this statement to your attention for possible use in hearings on the subject.

Sincerely yours,

CHARLS E. WALKER,
Executive Vice President.

FIRST NATIONAL CITY BANK,
New York, N.Y., July 12, 1968.

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

DEAR MR. MILLS: The hearings before your Committee on the Administration's Trade Expansion Bill and other pending trade legislation have considered a number of important questions of U.S. trade policy. I should like in this letter to offer the view of our Bank on three issues—import quotas, import surcharges, and nontariff barriers—for inclusion in the record of the hearings. May I also submit for the record an article entitled "Trade Policy at the Crossroads," which appeared in Citibank's *Monthly Economic Letter* for June.

Let me first comment on proposals for import quotas on manufactured products.

With imports growing rapidly, the rise of protectionist sentiment in some U.S. industries is understandable. But the cost of quotas to the nation would far outweigh the benefits to the protected industries. Enactment of any of the major quota bills for manufactured products would be a signal to the world that the United States had reversed course in its trade policy. Retaliation, sanctioned by the GATT rules, would be inevitable, as other governments sought to protect their trade positions and their domestic economies against the effects of our quotas. In other words, retaliation is a way by which other countries seek to maintain the status quo in trade terms. Other countries could be expected to impose quotas on those U.S. products which are the most competitive in their markets. Thus, we would be hurting our most efficient growth industries in order to give added protection to less efficient industries.

I do not, therefore, believe that protectionist quotas would improve the U.S. trade balance, as proponents sometimes claim. Quotas would be more likely to have the opposite effect, because they would raise the prices of protected products and the costs of industries using them, making our exports less competitive.

The use of import surcharges as a means of improving our trade balance also seems to me inadvisable and probably ineffective. This action, too, would invite retaliation, as it violates GATT rules. Japan and Canada, our major trading partners—also concerned about their trade balances—have let it be known that they would retaliate if the U.S. imposes an import surcharge.

The right way to improve the trade balance is the way which the Congress, under your leadership, has courageously chosen. The trade balance has deteri-

orated, mainly because domestic demand has been growing too rapidly. Elimination of excess demand by fiscal and monetary means can, in my opinion, help to restore a trade surplus of the same order of magnitude as existed in the period 1965–1967. I would expect that the income tax surcharge and spending cuts, if buttressed by sufficient monetary restraint, would accomplish this result sometime next year. In the circumstances, an import surcharge is the wrong way to attack the problem.

With tariffs on most manufactured products soon to be reduced to low levels, nontariff barriers are becoming the most important problem on the trade-policy agenda. This problem raises difficult questions of policy and of technique. One difficulty is that nontariff barriers are so diverse. They include, for example, import quotas, border tax adjustments, various hidden export subsidies, excise taxes designed to discriminate against imports (such as European and Japanese automobile and "road" taxes), and protectionist customs valuation procedures.

Some of these trade barriers have been the subject of international negotiation and agreement. In the Kennedy Round, as you know, agreement was reached to eliminate the American Selling Price method of customs valuation (subject to approval by Congress) and to modify European "road" taxes. A uniform antidumping code was also approved. The important and thorny issue of border tax adjustments is now being considered by a working party of the GATT.

Many other kinds of nontariff barriers remain to be defined and their effects on trade estimated. This essential task of research and analysis should be undertaken as soon as possible—by the Executive Branch and in an appropriate international forum, such as the OECD or the GATT.

Most important, perhaps, is the question of the U.S. bargaining posture on nontariff barriers. In the past, the United States has been inclined to accept other countries' nontariff barriers. If this was understandable and even justifiable in the early postwar years, it is no longer so today. The United States should act aggressively, by every legal means, against other countries' nontariff barriers which hurt our exports.

But we should use a rifle, not a blunderbuss. We should attack specific barriers, one at a time, by means tailored to the particular objective. Ambassador Roth's threat to use countervailing duties against France's new export subsidies is a good example of what our bargaining posture on nontariff barriers should be.

Strong U.S. action is also needed on European border taxes. For example, the United States might take the position that the GATT rule on border taxes should not be used to justify increases in border tax adjustments by countries with persistent balance-of-payments surpluses. If no reasonable agreement can be reached, the United States should be prepared to use countervailing duties in cases where border adjustments are increased in such a way as to thwart the balance-of-payments adjustment process. Action of this kind would not be contrary to the GATT. As you know, the U.S. countervailing duty law antedates the GATT and comes under a grandfather clause in the Agreement.

I would also advocate a much more vigorous and well-publicized use of our antidumping laws—in the case of steel, for example.

U.S. trade policy is at a crossroads. The urgent tasks are to stave off an outbreak of trade warfare and to make a start on the problem of nontariff barriers. But short-range action is not enough. The United States now has no longer-range trade-policy objectives. The Administration lacks even the legislative authority to engage in further rounds of tariff negotiations. We need to rethink our trade policies and to establish new goals, backed up by appropriate legislative authority.

The definition of new goals and proposals for new legislation could perhaps best grow out of a high level reexamination of trade policy by a joint commission of the Legislative and Executive Branches, with appropriate public representation.

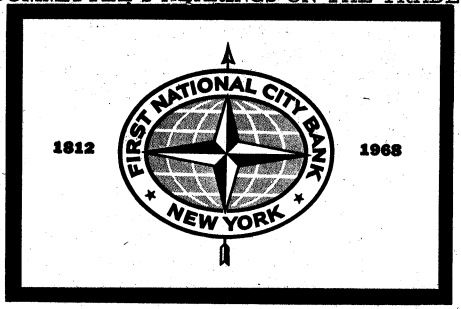
Respectfully submitted.

WALTER B. WRISTON, *President.*

* ENCLOSURE TO LETTER FROM WALTER B. WRISTON FOR INCLUSION IN THE RECORD OF THE WAYS AND MEANS COMMITTEE'S HEARINGS ON THE TRADE EXPANSION ACT OF 1968, HR17551

• *June 1968*

Monthly Economic Letter



General Business Conditions

The heated acceleration of economic activity that marked the first quarter shows little sign of slackening. Production, sales, and profits continue strong. Demands for labor, particularly skilled workers, continue to strengthen. The backlog of manufacturers' orders is again climbing.

The rate of economic growth in the second quarter gives every evidence of matching that of the booming first quarter. Yet this growth in gross national product—at an annual rate of roughly 10 per cent, of which 4 per cent represents inflation—is generally recognized as being unsustainable. Inflationary expectations are stronger and more pervasive than at any time since the Fifties. They show up in high wage settlements and rising prices, including interest rates—the price for borrowed money.

Consumer spending is still growing and is expected to grow further, though not at the unusually expansive rate of the first quarter. Incomes are high and consumers are in a buying mood. Auto sales have been particularly brisk. During May, dealers' daily average sales of domestic cars were up 9 per cent from a year earlier.

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Restraint Is Needed

The inflationary content in the economy shows no sign of abatement.

The Federal Reserve has been exercising monetary restraint since late last year without slamming on the brakes. Demands for borrowed money continue heavy, and interest rates have reached peaks which are among the highest in the past century. This has provoked renewed disintermediation—shifts of household funds from financial institutions to direct investment. In time, this could severely squeeze mortgage lenders and consequently weaken the housing market. Against this background, some reduction in Government demands on the economy would be welcome.

The proposal for a tax surcharge and expenditure restraint has become symbolic of a return to fiscal prudence. If Congress now rejects the tax surcharge and fiscal restraint, the reaction in financial communities here and abroad could be severe. So much publicity and discussion have attended the tax surcharge that high hopes are now riding on affirmative action by Congress. By itself, the fiscal restraint package will not overnight eliminate the inflationary imbalances in the economy. But failure to enact the program might overnight add fresh fuel to inflationary expectations and undermine the willingness of foreign governments to hold dollars.

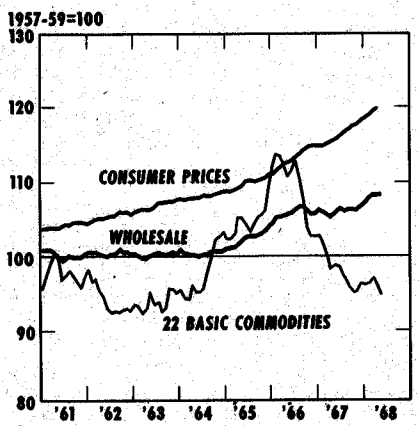
Amidst economic growth and general prosperity, the world has witnessed widespread rioting and strikes, primarily by students, but spilling over dramatically to include organized labor in

France last month. France, which more than any other country has sought to discipline the dollar, now faces a burst of inflationary pressures. There is, however, no room for satisfaction in this turn of events. Economic interdependence today makes economic imbalances in one country a problem for other nations. A strong France and a strong Europe are important to the well-being of our trade and foreign investment.

The Economic Consequences of De-escalation

The beginnings of negotiations with North Vietnam have provided hope for an end to that conflict, however far off it yet may be. The end of hostilities would be welcome on humanitarian grounds, and it might also bring welcome relief to problems of deficits in the Federal budget and the U.S. balance of payments. Neither problem would be solved, but their dimensions would be appreciably diminished. Negotiations are likely to be prolonged and a workable peace agreement uncertain. Even if a truce were worked out, the ensuing demobilization would be slow and cautious. Defense spending has risen $27.5 billion since mid-1965 and may go higher. Much of this rise is not easily reversed, since it reflects higher salaries and prices of defense goods. It has been estimated that the cutback, when it finally comes, will be half to two thirds of the rise, spread over as much as a year and a half after peace is restored.

In absolute terms, an overall decline of $15-20 billion in defense spending could provide considerable opportunity for tax reform, anti-poverty programs, and other constructive measures. Relatively, however, the cutbacks in defense would be only about 2 per cent of the gross national product. Even this decline would probably be offset in large part by the stimulus of an easier monetary policy and by a shift to other types of public and private spending. Such shifts in spending patterns would necessarily be accompanied by interindustry adjustments and added unemployment, but on a local, not a national, scale.



Changes in Consumer, Wholesale, and Basic Commodity Price Indexes

Source: U.S. Bureau of Labor Statistics. Latest figure shown for consumer price index is April; for others, preliminary May.

The general awareness that peace in Vietnam is constructive for the economy runs contrary to the opinion that high military expenditures are a necessary prop to this country's economic growth. At the end of World War II, there was a widespread belief that the economy, without huge military spending, would soon slip back into a depression. That view has not died easily. It was fairly prevalent in the Fifties, particularly when the Korean War came along to provide a new burst of demand. The extent to which we have moved away from the belief that the end of a war brings a recession is demonstrated by the more buoyant mood of businessmen and stock market investors with each step toward ultimate peace in Vietnam. Businessmen and investors are holding confidently to the view that the long-term problem is inflation and not deflation.

Today one frequently hears the comment that we cannot afford to have a business downturn because it would heighten social unrest. This implies we have achieved a high degree of precision in controlling our economic environment. However, there is still widespread disagreement over the causes of recessions. As long as this disagreement prevails, there is a chance that we can from time to time accidentally slip into a business downturn as we have four times since the end of World War II.

It is worth noting that the period in which industrial activity was stimulated by rapidly rising output of defense goods appears to have ended several months ago. The defense production figures implicit in the Federal Reserve index of industrial production have shown little change since last fall. One interpretation could be that the long supply pipelines are at last filled, and, barring further escalation, military demands for defense goods will henceforth be largely on a replacement basis.

At the same time, output of business machinery and equipment has shown very little change since the second quarter of last year. The dollar volume of capital spending has risen and further increases are anticipated, but most of this advance merely reflects higher prices.

The recovery in industrial output has been

concentrated in the consumer sector. Demand for consumer goods has risen rapidly and has been supplemented by retailers' desires to add to their inventories after the heavy sales of the first quarter. Production of materials has been feeling the stimulus of steel stockpiling as well as the rebound after the end of the copper and glass strikes.

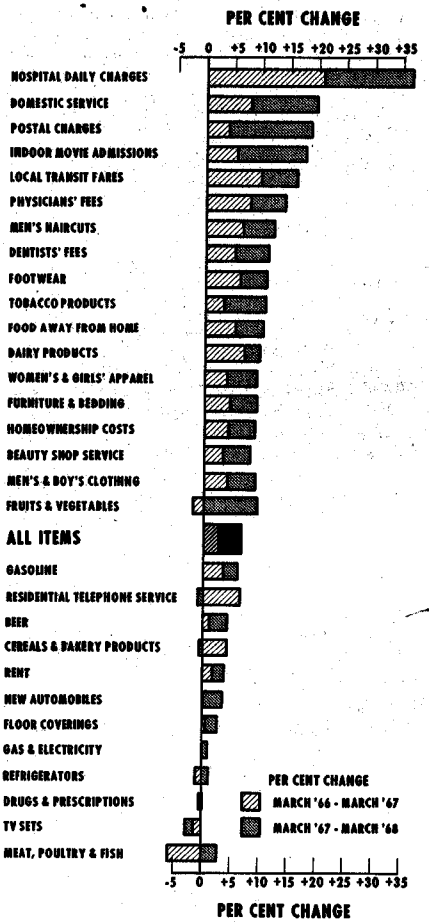
Wages, Prices, and Profits

The rising volume of activity has helped boost corporate earnings to a new high. Pretax profits reached a seasonally adjusted annual rate of $88.8 billion in the first quarter, a gain of $3.7 billion from the fourth quarter of 1967. However, more than half of this rise—$2.2 billion—was the result of inflation, reflecting the upward revaluation of inventories. The remainder of the gain was attributable to increased sales volume. Profit margins have not shown the improvement which is usual in the early stages of an upswing in sales. Rising wages have far outstripped the increase in productivity of labor.

The U.S. Department of Labor estimates that hourly wage costs in the private economy were climbing during the first quarter at a 10 per cent annual rate. Consequently, although productivity increased at a 4 per cent annual rate—double the gain in the previous quarter—unit labor costs were escalating at 6 per cent per year. Commerce Department calculations indicate that a similar upswing in unit labor costs at nonfinancial corporations more than cancelled out a rise in prices and left profit margins after taxes and allowance for inventory markups well below both the fourth quarter and year earlier levels.

The increasing pressure of rising wage costs following a period of monetary inflation has set the stage for a renewed burst of price increases. In turn, the advance in living costs and anticipation of further rapid increases have stiffened labor's wage demands. The first chart highlights the wide disparity in movements of prices at different stages of production. Spot prices of most of the 22 selected basic commodities have trended downward in the past year, and the preliminary May index is the lowest in over four years. Currently, the index is 17 per cent below its February 1966 peak. Prices of wheat, cotton and metals, among others, have drifted lower since the first of this year, as increasing supplies have, in some cases, encountered declining demand.

The wholesale price index not only encompasses a far broader range of commodities, but also includes a greater degree of processing and manufacturing costs, and thus a higher proportion of labor costs. This comprehensive index has risen steadily since last October at an average



Changes in Selected Items in the Consumer Price Index, March 1966-March 1968

Source: U.S. Bureau of Labor Statistics. Items are ranked according to the overall change from March 1966 to March 1968.

annual rate of about 3½ per cent. A resurgence in prices of farm products and processed foods contributed to the latest rise, but the broad-based advance in prices of industrial commodities has been of deeper concern. In the seven months ended March 1968, the industrial price index rose more than it had in the seven years 1957-64. However, the pace of the rise appears to have slowed somewhat in the second quarter,

partly because of lower prices for copper and steel scrap.

Consumer prices have displayed an even sharper advance over the years because of the greater importance in the index of the cost of personal services, retail distribution, and other activities with a high labor content. April consumer prices were 4.0 per cent higher than a year earlier, in contrast to the advance of 2.5 per cent in the preceding twelve months. The past year's increase is the sharpest year-to-year rise in over 16 years.

The large chart dramatizes the wide variety of price movements that go to make up a 4 per cent rise in the cost of living. Year-to-year changes range from the 19 per cent rise in postal charges to a 2 per cent decline in the price of television sets. It is clear, however, that the bulk of the items which have had the largest advances are those involving personal service, where increased compensation is difficult to offset through improved productivity, whether the person involved is a surgeon, a letter carrier, a maid, or a restaurant worker.

On the other hand, in items for which augmented capital investment has been able to improve output per man-hour and where competition is keen—notably in durable goods such as new cars, refrigerators, and television sets—price changes have been small. The broad inflationary pressures of the past year are evident in the fact that three out of five of the prices charted here increased more sharply than in the preceding year. Some, including prices of refrigerators, drugs, meats, fruits and vegetables, which had been declining in 1966-67 have recently increased. The 1966-67 decline in food prices was a reaction from the unusually sharp rise in late 1965 and early 1966. However, the costs of residential telephone service and baked goods, which had been rising in the earlier period, have since declined.

Unfortunately, no letup in inflationary pressures is in sight. Wage contract settlements have been growing larger, and the prospect is that the average first-year raise during the current quarter will equal or exceed even the first-quarter mark of 7.4 per cent. The steel settlement in late summer could ignite a whole new pattern of increases.

Of equal importance are the growing acceptance and anticipation of inflation which are being built into individual and business decisions on spending, saving, and investment. So far, the degree of monetary restraint which is feasible while there is a massive Federal deficit to finance has not been enough to stop the price advance from accelerating. Congress has not yet been willing to supplement the efforts of the monetary authorities with aggressive fiscal restraint. As CEA chairman Arthur Okun reported to President Johnson late last month: "Even with tax action, the route back to price stability will be long and difficult . . . But it is crucial that we begin that journey now."

A Nervous Money Market

Uncertainties about U.S. fiscal and monetary policies and the international monetary system continued to plague the money market last month. With each rumble from Washington about improvement or weakening in the prospects for a tax increase, interest rates would ease down a little or rise. On balance, however, the general movement of rates was upward. Nevertheless, the stock market was quite strong.

Commercial banks have special reason for feeling some uneasiness these days as yields on Treasury bills, commercial paper, and other short-term liquid assets approach or rise above the maximum rates banks are permitted to pay on time deposits under Regulation Q. Large banks are now offering the ceiling rates on large CDs but are unable to stem a gradual decline in the volume outstanding. Consumer-type certificates of deposit, on which the ceiling rate is 5 per cent, and ordinary passbook savings, hobbled by a 4 per cent limit, have stopped growing or are declining at many banks.

Loan demand, on the other hand, is rising, as improvement in business increases working capital requirements of corporations. Furthermore, there is some apprehension about the possible effect of an increase in corporation taxes upon business borrowing. If taxes are increased, it seems entirely likely that companies will borrow more, as well as let more CDs run off, to pay the taxes.

As they did in 1966, when Regulation Q restricted their ability to obtain CD funds in the United States, many banks are increasing their use of dollars gathered in the Eurodollar market. Eurodollar rates, consequently, have risen to very high levels. This has the unfortunate effect of putting the pound sterling under pressure, although it also tends to mop up dollars that might otherwise have to be absorbed by European central banks.

The high level of interest rates in this country is commonly attributed to the current restrictive monetary policy and the general expectation that, if there is no tax increase, monetary policy will become even more restrictive. The Federal Reserve is, of course, now holding expansion of bank credit and money supply to a slower rate than in 1967. This moderation is highly desirable and is necessary if price inflation is to be slowed

down. Nevertheless, it should be recognized that interest rates are also pushed up by good business and by expectations that price inflation will continue for some time.

A tax increase and expenditure cuts should reduce the deficit and consequently reduce Treasury borrowing. But this would not permit the Federal Reserve to ease its policy suddenly and to bring about substantially lower interest rates. To the extent, furthermore, that consumers and businesses offset higher taxes through drawing upon their liquid assets or borrowing, interest rates are likely to be supported. Under the circumstances, therefore, it would be highly desirable to remove restrictions on interest rates throughout the economy to permit markets to make adjustments. Andrew F. Brimmer, member of the Board of Governors of the Federal Reserve System, recently made a strong argument for such liberalization of the markets for mortgage funds. The same prescription would be beneficial in other markets for money.

Pitfalls of Fiscal Finesse

Actions taken by Congress on a tax-increase budget-cut package this month will have fateful consequences in the years ahead. The tax bill unveiled by the House-Senate conference committee on May 8 provides for a sharp turnaround toward fiscal restraint. Even more important, its enactment would immensely brighten prospects for bringing the rapidly rising trend of Federal spending under control. Over the past several years, major miscalculations of budget expenditures and reliance on short-term expedients to minimize the bulging deficit have caused serious disruptions in the financial markets.

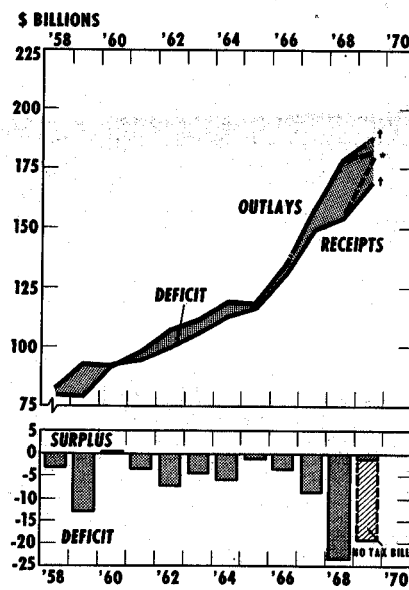
Adoption of the 10 per cent tax surcharge and $6 billion budget-cut package would slash the deficit in the Federal budget from about $24 billion in the current year to $5 billion or less in fiscal 1969. Despite the recent upward revision in Vietnam War spending, the budget economies called for in the bill would limit the growth of Federal outlays to $4.6 billion. Though a significant rise, this would represent a sharp turn in the spending curve which has been climbing at an average rate of $20 billion per year over the past three years.

Moreover, authorizations for future spending in fiscal 1970 and beyond are to be slashed sharply from the Administration's budget requests. The fiscal package would require a cutback of $10 billion from the amount of new obligational authority which the President asked for in January. It would also require the President to submit to Congress next January recommendations for rescinding $8 billion of unexpended funds authorized by Congress in earlier years.

Without such spending restraint, the 10 per cent tax surcharge could turn out to be the death knell of hopes for ever enjoying the full fruits of the 1964-65 tax reduction program. To a considerable extent, that reduction proved to be an illusion, in view of the sharp rise of Social Security taxes and the speedup in corporate income tax payments. Severe disruptions in the economy were caused by misleading estimates of Vietnam War costs at the crucial time when major non-defense programs were being put in place. A scrutiny of the fiscal experience during the last several years is therefore very much to the point if we are to avoid these pitfalls in the future.

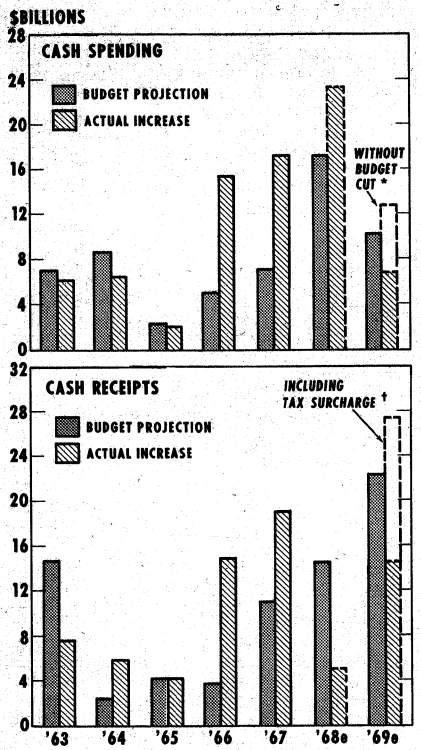
Anatomy of a Fiscal Squeeze

Back in 1964-65, it will be recalled, despite a reduction in income tax rates, the upsurge in economic activity produced a continued increase in



Federal Unified Budget, Fiscal Years 1958-69

* Including a 10 per cent surcharge on corporate income taxes retroactive to January 1, 1968 and on personal income taxes retroactive to April 1, 1968, but with payments beginning in fiscal '69, and a $6 billion expenditure reduction in fiscal '69.
† Without a tax surcharge and without a $6 billion expenditure reduction.



Annual Changes in Federal Cash Spending and Receipts, Fiscal Years 1963-1969

* $6 billion expenditure reduction.
† Assumes a 10 per cent surcharge on corporate income taxes retroactive to January 1, 1968, and on personal income taxes retroactive to April 1, 1968 but with payments beginning in fiscal '69.
Notes: Budget projections measure changes that would have occurred if estimates of receipts and payments in January budgets had been correct. Estimates of actual revenue increases in fiscal '68 and '69 are FNCB projections.

revenues from individual and corporate income taxes from $72.2 billion in fiscal '64 to $74.3 billion in fiscal '65. As a result, worries about the budget deficit were replaced by fears of a growth-inhibiting surplus. In mid-1964, Walter W. Heller, the President's chief economic adviser, warned that the prospects for budget surpluses posed the threat of a "fiscal drag" on the economy in the years immediately ahead.

Counting on the fiscal dividend from revenue growth and a projected decline in defense spending, President Johnson asked Congress to launch a huge expansion of welfare programs in his Budget Message in January 1965. By the end of the year, however, the fiscal outlook was completely reversed. The enlarged commitment to defend South Vietnam made in July 1965 pushed up defense outlays sharply. At the same time, Congress turned out to be even more expansive than the Administration in enlarging domestic programs. Congress added to the requested Social Security-Medicare bill. The Administration's budget proposals were also topped by a $1.7 billion pay increase for servicemen and civilian personnel.

The serious miscalculation of Vietnam War costs occurred at a crucial time when Administration officials and Congress were pushing a major expansion of civilian programs that created severe budgetary problems in subsequent years. Would Congressmen have been less openhanded in approving new programs had they known how fast Vietnam costs were rising? Administration officials, too, were apparently in the dark. The President's chief economic adviser Gardner Ackley, for example, told the American Statistical Association in September 1965 that although "further appropriation requests may be necessary," the rise in Government spending during the first year of our major commitment in the Vietnam War was likely to be only about $3½ billion:

> Figures sometimes quoted in the press—that run to $10 to $14 billion—can at this point only be pure figments of someone's imagination. The estimates we at the Council have put into our tentative projections do not even approach that order of magnitude.

However, the "figment" soon turned out to have a tough core of fact. Defense outlays rose $13 billion during the following year.

Cash spending in fiscal '66 soared $10 billion above the original budget projections. Instead of cutting back civilian programs, however, the Administration kept the budget deficit down through sales of certificates of participation in Government-owned loans—which were entered in the budget as negative expenditures. The deficit was also held down by relying on acceleration of corporate income tax payments, by boosting the withholding rate on individual income taxes, and by speeding Treasury collections of income and Social Security taxes withheld by employers. The speedup in tax collections depleted cash balances of individuals and employers, leading to larger credit demands at a time when the demand for funds was already threatening to overwhelm the money and capital markets.

The upward pressure on interest rates became so intense that in September 1966 the Government decided to stop selling participation certificates until monetary conditions eased later in the year.

In fiscal '68, the budgetmakers provided a much more realistic estimate of Vietnam costs.

Revenues, however, were overestimated by roughly $11 billion, yielding a deficit in the new unified budget of about $24 billion. The shortfall of receipts partly resulted from the failure to win approval of a tax surcharge, which was initially counted on to provide $4.7 billion of revenue. At the same time, the business slowdown caused a $2.3 billion shortfall in corporate profits in 1967 below the Administration's forecast. Fiscal '68 revenues were also dented, as the Treasury had anticipated, by the cessation of the speedup in corporate income tax payments. The new bill provides for further acceleration of these payments in fiscal '69.

An Illusory Tax Reduction

Owing to the miscalculations of fiscal strategy and the huge increases in welfare spending, both businesses and individuals have, in effect, been burdened with a steeply rising tax bite. This makes severe expenditure restraint in the 1969 budget necessary if future tax relief is to be plausible.

When the corporate income tax rate was reduced in two stages to 48 per cent from 52 per cent under the Revenue Act of 1964, the tax payment schedule was speeded up, thus postponing the full reduction in payments for corporations with liabilities in excess of $100,000. In 1963, the Treasury promised that "in no year will any corporation with constant income have to pay more tax than it would have been paying this year." But the stepped-up acceleration imposed in 1966 violated this principle and levied even steeper payments on corporations than those under the old 52 per cent rate. As shown in the table, the percentage of income required to be paid by corporations pierced the 52 per cent rate in 1966 and jumped sharply in 1967.

Individuals and smaller corporations had been led to believe that the reduction in income tax rates would provide permanent tax relief with the intention of stimulating people to greater effort and enterprise. For individuals in the middle and lower income brackets, this tax relief has proved to be short lived. In order to pay for the huge increases in Social Security benefits and the Medicare program, payroll taxes were increased sharply. The taxable wage base jumped from $4,800 in 1965 to $6,600 in 1966 and to $7,800 in 1968. The combined employer-employee Social Security tax rate rose from 7.25 per cent in 1965 to 8.8 per cent in 1967 and is scheduled to climb to 9.6 per cent in 1969. The Tax Foundation estimates that in 1967 roughly one quarter of typical four-person families and a third of five-person families were paying more Social Security taxes than income taxes.

Corporate Income Tax

Tax and Payment Rates for a Large Corporation with Constant Income, Calendar Years

	Tax Rate as a Per Cent of Income	Tax Payments as a Per Cent of Income
1963	52.0%	52.0%
1964	50.0	52.0
1965	48.0	51.4
1966	48.0	55.8
1967	48.0	57.4
1968 present law	48.0	48.0
1968 proposed	52.8	55.7

Tightening the Fiscal Reins

Over the past decade, original projections of budget expenditures have generally turned out to have been too low. New Government programs have been added on to older and often outdated ones with little consideration of their potential costs.

Rapid growth of new programs launched just before the Vietnam War became a serious burden on the budget, creating severe difficulties which were temporarily met only by fiscal finesse. The Government's financial needs were temporarily concealed by devices for maximizing revenue such as stepping up the payment of income taxes and for minimizing budgeted expenditures through sales of participation certificates. These devices, however, proved to be only expedients.

The tax legislation before Congress represents the culmination of a prolonged effort by both the Administration and Congress to reach an understanding on more effective expenditure control. If enacted, it will provide for the spending retrenchment so badly needed if the Budget is to become a stabilizing influence. Moreover, cutting existing unspent appropriations as well as new money authorizations would give the next session of Congress—and those that succeed it—much more control over the Federal purse strings. There is no guarantee that this would mean slower growth of spending in the years ahead. But it would at least mean more clear cut Congressional responsibility.

Trade Policy at the Crossroads

A year after the successful conclusion of the Kennedy Round, the accomplishments of postwar trade policy are in jeopardy. Intense international competition in industrial products—partly the result of earlier trade liberalization—has combined with acute balance-of-payments

problems to weaken the political consensus on which the liberal trading system stands.

The greatest immediate threat to the trading system is the U.S. balance-of-payments problem. Our persistent deficit has not only led to direct controls on capital exports. It has also brought forth proposals for import controls and breathed new life into U.S. protectionism.

But the threats to the liberal trading system are not confined to one country. They are global and many-sided. Agricultural protectionism and the persistence of controls on capital movements by the Common Market countries, for example, thwart the adjustment of our balance of payments. Trade and exchange barriers abroad have added to our deficits and encouraged us to adopt further controls.

The Trade Hearings

The House Ways and Means Committee hearings, which began June 4, will bring all the hardest questions of U.S. trade policy to a head. The first item on the Committee's agenda is the Administration's bill to implement those provisions of the Kennedy Round agreements which require new legislation, including the difficult question of eliminating the American-Selling-Price (ASP) method of tariff valuation, which results in unusually high duties for certain synthetic organic chemicals.

The Committee will also hear testimony on import quota bills, of which the most important are for steel and textiles. A textile quota bill passed the Senate in April as an amendment to the tax bill, but was later eliminated in the conference committee. Nontariff barriers, most importantly European border tax adjustments, are another complex issue likely to be raised.

The atmosphere of the hearings will be colored by the deteriorating U.S. trade balance. The normal, large commercial trade surplus has disappeared. This alarming development is in part the result of special factors—the copper and dock strikes and the anticipated steel strike. But the main cause is the pressure of excess demand in an economy where spending has been growing nearly twice as fast as real output.

The weakened trade balance lends indirect support to protectionist proposals. It also increases the support in the Administration and Congress for a temporary surcharge on imports generally.

The issues before the Committee are affected by a recent proposal put forward by Eric Wyndham White, Director General of the General Agreement on Tariffs and Trade (GATT), on behalf of a group of industrial countries. The proposal is that the Western European nations, Canada, and Japan accelerate their Kennedy Round tariff cuts by one year, while allowing the United States to delay its own cuts by one year. However, the offer is made on the "hypotheses" that the United States eliminates ASP this year and adopts no new protectionist measures.

Although made in response to a U.S. request for help with its trade balance, this offer is not likely to be very helpful to the Administration. The effect on the U.S. trade balance would be small, while the conditions attached to the offer have irked some members of Congress.

Residual Protectionism

In the United States as in other industrial countries, protectionist sentiment is always present, because there are major industries subject to serious competition from imports. In the United States, these are for the most part older industries, where the U.S. advantage over foreign competitors in labor productivity is not large enough to offset higher labor costs. Textiles, clothing and steel are the most important industries in this category, and they are in the forefront of those now seeking more protection from imports by quotas.

These U.S. industries appear to be at the lower end of the scale of comparative advantage (see accompanying chart) mainly because of higher labor costs. Relative to their foreign competitors, these industries do not benefit to the same extent as other U.S. industries from the large size of the U.S. domestic market. They produce largely staple products, for which domestic demand in many other countries is sufficient to permit operation by local producers on an economical scale. And these industries have not been characterized by the rapid technological advance, based on large-scale research and development, which so largely explains the comparative advantage of the U.S. aircraft, machinery and chemical industries.

The automobile industry also appears to suffer competitive disadvantages. But this may have more to do with foreign nontariff barriers than with cost factors, although the U.S. industry apparently is unable to produce small cars as cheaply as its major foreign competitors. U.S. automobile exports are handicapped by excise and "road" taxes in Europe, Japan and other countries which discriminate against larger cars.

The residual strength of protectionism in the industrial countries is evident in the somewhat selective pattern of postwar trade liberalization. For example, many Japanese manufactured products are still subject to quantitative import restrictions (in Europe) and to "voluntary" restrictions on Japanese exports (to the United States). Japan's lower labor costs constitute a serious

competitive problem for the more labor-intensive industries in this country and in Western Europe. Japan, itself, maintains import quotas on some manufactured products.

Textiles and clothing are subject to high tariffs nearly everywhere. Textile tariffs were cut very little in the Kennedy Round. In Europe, textile imports are still subject to quotas and other non-tariff barriers, despite GATT rules which forbid the use of import quotas for protectionist purposes. In the case of cotton textiles and clothing, international trade is also subject to quantitative export restrictions under a multilateral agreement, the Long-Term Arrangement Regarding International Trade in Cotton Textiles, signed in 1962. Several European countries still maintain import quotas on coal, pulp, paper and aluminum, and the United States has import quotas on petroleum.

Yet, despite residual protectionism, the liberal trend in postwar U.S. trade policy seemed too well established to be reversed — until recently.

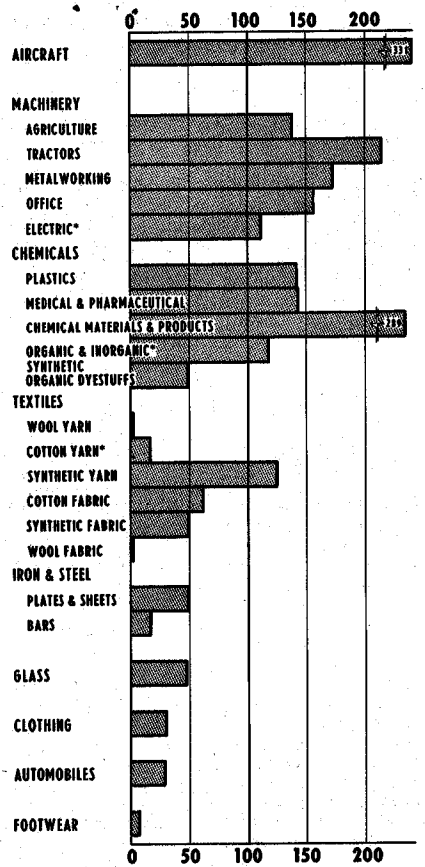
Intensified Competition

The rapid growth of industrial capacity in Continental Europe, Japan and in developing countries has intensified international competition in industrial products. Steel is an example. Until recently, world steel-making capacity outside the United States had not fully caught up with rapidly growing demand. But now there is substantial world excess capacity, which is likely to go on increasing as Japanese capacity grows and developing countries seek self-sufficiency in steel. U.S. imports of steel were negligible until 1959, and exports usually exceeded imports in value until 1963. In 1967, imports of steel mill products accounted for 12.2 per cent of domestic consumption.

In cotton textiles, too, world capacity has expanded more rapidly than demand, and developing countries have become increasingly important exporters. The latter development made the Cotton Textile Arrangement possible, for it gave Japan, which would otherwise have been the lowest cost exporter and the main target of the restrictions, an interest in signing the agreement.

The principal textile quota bill now before Congress is intended to induce European countries and Japan to accept extension of the Cotton Textile Arrangement to include woolen and man-made (synthetic) textiles. The bill reflects the fact that the consensus among the industrial countries which made agreement possible in the case of cotton textiles does not exist in the case of the other textiles.

The lowering of tariffs and the elimination by industrial countries of most import quotas on manufactured products has also intensified competition. Trade in manufactures has been growing more rapidly than output, indicating more intense international competition as well as grow-



Competitive Strength of Selected U.S. Industries in Foreign Trade

(Index of Relative Export Performance)

* Arithmetic average of two classifications.

Note: The index of relative export performance measures the ratio of an industry's share of the world export market for its products to the share of all U. S. manufacturing industries in total world exports of manufactured products, in a recent period. An index greater than 100 means that the industry's share in its world export market is greater than the average share of all U. S. manufacturing industries. An industry whose index is less than 100 has a less-than-average share of the world export market.

Source: Bela Balassa, *Trade Liberalization Among Industrial Countries* (McGraw Hill for the Council on Foreign Relations, 1967).

ing specialization. One consequence is the rising concern about nontariff barriers. As tariffs have gone down and competition has sharpened, attention has naturally turned to other trade barriers—especially the European border tax adjustments, which in the case of some products may now have more effect on trade than tariffs.

The Cost of Protectionism

Understandable as the rise of protectionist sentiment may be, the cost to the nation would far outweigh the benefits to the protected industries. Enactment of any of the major quota bills for manufactured products would be a signal to the world that the United States had reversed course in its general trade policy. Retaliation, sanctioned by GATT rules, would be inevitable, as other countries sought to put pressure on the United States to eliminate the new quotas.

Import quotas might not, therefore, improve the U.S. trade balance. They could have the opposite effect, because they would raise the prices of protected products, and the costs of industries using them. Protectionist quotas, originally justified on balance-of-payments grounds, would create powerful vested interests in their continuation and would therefore be difficult to remove when the balance of payments improves.

Import quotas are normally allocated among importers on the basis of their imports in a base period. Thus, they tend to freeze trade and investment patterns and to restrict competition among domestic producers. If the quotas also are allocated among exporting countries, international political problems are raised, and an importer's opportunity to buy (within his quota) from the lowest cost source of supply is restricted. If the products subject to quotas are classified into many subdivisions, each with its separate system of quotas, these difficulties are multiplied. Experience in the administration of petroleum import quotas and the Cotton Textile Arrangement demonstrates how serious such problems can be.

A Surcharge on U.S. Imports?

Most people would readily concede the inappropriateness of protectionist import quotas as a way of improving the trade balance. Yet with the balance deteriorating, the urge to stem the flood of imports by controls is not easy to resist. The Administration has been wrestling with a proposal for a 5 per cent surcharge on dutiable imports. On June 4, the Administration announced that this and other proposals for import controls had been rejected for the time being, because "none of them carried enough assurance of even a temporary net gain to justify the risks."

Although precedents exist (Canada in 1962 and Britain in 1964-66), import surcharges are illegal under the GATT. For reasons which are more historical than logical, the GATT authorizes a country with balance-of-payments difficulties to impose import quotas (if temporary, nondiscriminatory and reasonably comprehensive) but not surcharges. A waiver would be difficult and perhaps impossible to obtain, since it requires a majority vote of the GATT membership. Alternatively, the United States could impose the surcharge without such approval. But this would be quite likely to provoke our main trading partners, Japan and Canada, themselves concerned about their trade balances, into taking similar action, which would partially nullify the effect on our trade balance. More important, unilateral violation by the United States of this GATT rule would seriously undermine the rule's future effectiveness.

Furthermore, an import surcharge cannot be very effective in reducing imports when domestic output is close to capacity and the short-run elasticity of supply of domestic substitutes for imports is therefore low. In Canada's case, the import surcharge seems to have reduced imports considerably during its brief operation, because there was plenty of slack at the time in the Canadian economy. But in Britain, the surcharge was not very effective under conditions of overfull employment and excess demand.

The deterioration of the trade balance has been mainly the result of excess domestic demand in an economy operating at full or overfull employment. Elimination of excess demand by fiscal and monetary policy would probably be sufficient to restore in time a trade surplus of the same order of magnitude as existed in the period 1965-1967. Although costs have risen faster in the United States than in some other industrial countries in the last two years, our competitive position on trade account has not yet been substantially impaired. The U.S. share of world exports of manufactures has held its own. In these circumstances, an import surcharge is the wrong way to attack the problem.

Border Tax Adjustments

Countries which have indirect taxes on products which move in international trade have long been accustomed to apply the tax to imports and to rebate it on exports. Such border tax adjustments, as they are called, are sanctioned by GATT rules, so long as they are no higher than the tax charged on similar products produced for domestic consumption. The economic rationale of the GATT rule is that taxes on products are allegedly passed on entirely to the purchaser. Thus, the domestic price is raised by the full

amount of the tax, and an equal border adjustment is necessary to prevent the tax from handicapping exports or giving a competitive advantage to imports.

In fact, product taxes are not always fully shifted to the purchaser, while other taxes which do not qualify under the GATT rule (income taxes and payroll taxes, for example) may be partly or entirely shifted. Tax shifting obeys no simple, hard-and-fast rules; it depends on the market situation. Border adjustments may therefore have a considerable effect on international competition.

Despite its shaky theoretical base, the GATT rule, when it was adopted in 1947, was in line with current practice and served to distinguish traditional border tax adjustments from other kinds of export subsidies and import charges which the GATT outlawed. Moreover, in 1947, the significance of border adjustments was minor. Tariffs were much higher than now, and indirect taxes were less comprehensive. Today, however, the trade-diverting effects of border adjustments can hardly be overlooked.

This complex issue has been brought to a head by the decision of five Common Market members and several other European countries to change from gross turnover taxes to value-added taxes on the French model. The change will mean increased border adjustments. This is because, under the gross turnover tax, border adjustments have been based on an estimated tax burden which is substantially less than the actual burden of the tax. Under the value-added tax, the border adjustment will be higher because it will be at the same rate as the domestic tax.

For example, when on January 1, 1968, Germany substituted a value-added tax of 10 per cent for a gross turnover tax of 4 per cent, the border adjustment was raised from around 6 per cent to 10 per cent. Austria, Belgium, Italy and the Netherlands are even raising their export rebates and import charges under their existing turnover taxes in advance of the contemplated shift to value-added taxes.

These increases in European border adjustments will tend to reduce European imports and to increase European exports. How large the effect will be—overall and for particular countries and products—is impossible to say. It will depend on how the tax change affects domestic prices. To the extent that domestic prices are raised, some of the trade-diverting effect of the increase in border adjustments is offset. Overall, there will undoubtedly be some trade diversion. For the changeover does not involve a general increase in tax burden, which would raise the average level of European prices.

It is tempting to argue that border adjustments should simply be outlawed, since it is impossible to make a workable and fair distinction between taxes that are shifted and those that are not. But any attempt to unscramble the border adjustment omelet at this late date would stand no chance of acceptance in Europe. Moreover, border adjustments which have been in effect for a considerable time have had their effect on international competition and trade balances. They have been adjusted to through movements in relative price levels and exchange rates. This cannot be said for recent and prospective *changes* in border adjustments, however.

The U.S. Administration has considered adopting a system of border taxes. The difficulty is that, aside from a handful of Federal excise taxes (some of which already involve border adjustments), very few U.S. taxes are levied on products that move in international trade or on materials incorporated into such products. Moreover, adoption by the United States of such border taxes would probably lead countries like Japan and Canada to do the same. The final result could be a competitive escalation of border taxes from which no nation would benefit.

At the end of April, the United States approached GATT with a proposal that no further changes be made in present border adjustments, pending a study by GATT. The U.S. spokesman suggested that changes in border adjustments ought to be considered in the light of this country's balance-of-payments position. A country with a persistent payments surplus ought not to raise border adjustments, even though GATT rules would allow it. The study itself should aim at determining whether the present rules should be changed or whether a code defining how the rules are to be applied should be adopted.

The U.S. Responsibility

Because the United States is the largest trading nation and has assumed leadership in international trade policy, other countries look to us to set the pace. What we do this year about import quotas and import surcharges will largely determine whether a trading system characterized by declining tariffs and a minimum of quantitative restrictions—a system whose basic tendency is toward greater freedom of international competition—will continue, or whether the world will now slide back into trade warfare and economic isolationism. Without active U.S. support, the liberal trading system which has served the world so well cannot long survive.

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CITIZENS STATE BANK & TRUST CO.,
Hiawatha, Kans., June 20, 1968.

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

DEAR CHAIRMAN MILLS: Small rural communities of this nation are having an exceedingly hard time holding population. This county is known as the finest agricultural county in the state of Kansas, and yet has lost one per cent of its population annually for in excess of 50 years. Long range planners, operating under the Extension Departments of universities and financed by funds from the United States Government, inform us that the only salvation for the rural community is the retention of population through the influx of small industry.

United States Department of Commerce represents in its County/City Data Book that this county has *only* 16% of its population under the age of 21 (1960 figures). Surrounding counties are only slightly better and this in comparison with 28% for Kansas, which does *not* compare favorably with the rest of the country. Conversely, this county shows about 20% of its population *over* the age of 65, in comparison with Kansas of slightly over 11% and this figure again exceeds the country averages.

The 1960 Census figures reveal that 31.6% of rural families have incomes under $3,000. This compares with urban families of only 16.3%. Median income and per capita income figures also reveal that the rural areas desperately need to attract industry to supplement average rural incomes.

This small country town has been able to attract two small industries (one hiring about 60 people; the other about 120 people) in an attempt to participate in the industrial expansion of this great nation. The smaller of these two industries imports soft pine from the West Coast, manufactures and fabricates interior wooden shutters (movable louvers). The local community, through a Development Corporation and the assistance of the Small Business Administration is presently attempting to build a new $320,000 building to enable this firm to increase its efficiency and ultimately hire more people from this area.

If import tariffs are continually reduced, then cheap labor (primarily Japan) will actually influence the hiring of marginal farm operators in this area. Additionally, it is apparent that Japanese purchases of West Coast pine is accelerating the rise in price of this product, even in advance of our "normal" inflationary pressures.

This country has depleted its resources by vast give-away programs to many foreign countries for in excess of 20 years. We have assisted the Japanese in their giant steps to a thriving economy. Now, do we bludgeon down tariff barriers erected to protect small rural industry? Do we destroy the rural effort to survive in America? Our shutter industry must be allowed to compete!

Most sincerely,

WAYNE R. STARR, *President.*

STATEMENT OF ERNEST U. LANG, CHIEF ENGINEER, NATIONAL-STANDARD CO., NILES, MICHIGAN

The proposal which I am making is a single idea which encompasses and provides a potentially universal solution to the subjects under discussion at these hearings. The suggestion is an import duty, import tax, tariff, or whatever it should best be called, which applies in the same way to *all* imports without exception. The annually determined rate for the tax on a given product would depend upon the percentage of our usage of that product that was imported in the preceding year, the higher the percentage of imports, the higher the rate. A suggested rate schedule should automatically limit most imports to between 10% and 15% of our usage while permitting a wide diversity of imports under the provision of *no* tax unless 6% or more of our usage was imported in the previous year. The proposal is one which we could encourage every nation to adopt.

Proposed rate schedule

Preceding year's imports compared to U.S. usage in that period:	*Import tax for current year (Percent)*
Imports less than 6 percent of U.S. usage	None
More than 6 but less than 6.2 percent	5
More than 6.2 but less than 6.4 percent	6
More than 6.4 but less than 6.6 percent	7
More than 6.6 but less than 6.8 percent	8
More than 6.8 but less than 7.0 percent	9
More than 7.0 but less than 7.2 percent	10
Continuing up in similar increments with—	
9.0 but less than 9.2 percent having	20
13.0 but less than 13.2 percent having	40
17.0 but less than 17.2 percent having	60
21.0 but less than 21.2 percent having	80
Until anything more than 25 percent having	100

COMPARISON TO TRADE EXPANSION ACT OF 1968

(1) The President admits inability to handle the problem universally. *Assistance to Firms and Workers* must be reviewed by a panel and then eligible recipients *paid.* Under my proposal *no* assistance need be paid. Further there need be no panel to determine if assistance is needed. On the contrary, U.S. plants idled by foreign competition would in most cases become profitable industries again and presently depressed areas would revive.

(2) *Elimination of the American selling price system* could and should be a part of my proposal as well. If the tax were based on the importer's price the rate would be slightly different from that based on the American selling price. The actual dollar tax, however, would be the same since free enterprise would dictate the percentage of imports to the point where imported products, including the tax, would cost the same as U.S.-made products, assuming quality, delivery, and service are equal.

(3) *Our needs at home* would be served in the best possible manner. It is an obvious fact that imports can supply but very little of our total consumption. There is little concern over our imports as a whole. The real problem lies in the distribution of these imports. It is neither good for us nor our foreign suppliers for them to build facilities to supply all, or even a large share of our needs of a given product. It would be far better for them to have a more diversified economy. From any angle, and particularly our defense posture, we should not depend on a foreign supplier to any great extent.

The argument is raised that tariffs or taxes will raise prices of goods from abroad. Why shouldn't they be raised? Why should American businessmen be expected to compete with foreign employers who pay one third or one fourth the wages, and, in many cases, also receive subsidies from their government? Why should a patriotic American businessman be penalized because he believes he should buy American materials when his competitor has no such concern? Why shouldn't there be an incentive to develop substitutes for materials which we are now wholly dependent upon others? Why shouldn't an American businessman feel free to invest in new developments without worrying about his market being lost to imports from countries not operating with the same ground rules? Why shouldn't Americans compete against Americans and product against its alternatives without begging governments for exceptions and concessions, or, as in many cases, just giving up?

(4) *Trade initiatives* would expand if we, or better every country, adopted my proposal. Everyone would know exactly where he stood, and where he would stand after certain actions. Entrepreneurs would diligently search out new markets for an extremely wide variety of products under the no-tax rule for imports amounting to less than 6% of a country's usage. Everyone's base would be broader and he would be less vulnerable to cyclic variations and obsolescence. Furthermore, sound planning could result in improved production facilities.

(5) *International relations* would improve because everyone would be on the same footing and we could bring to an end the bickering and dickering for concessions. *Devaluation* of other's currencies would have virtually no impact upon

imports to the U.S. An importer would possibly buy from a different country if it had proper facilities. If no other suitable supply were available, imports would automatically seek a *slightly* higher level with its appropriate tax. Admittedly large fluctuations would occur initially where there are surplus world-wide production facilities for a product. This surplus is a direct result of our unrealistic trade policies of the past and has resulted in many depressed areas in the U.S. We can revive these areas without massive government subsidy by adopting my proposal and letting free enterprise do the rest.

COMPARISON TO IMPORT QUOTAS

(1) *Administration* of my proposal should be relatively simple and automatic. I would make *no exceptions* to my proposal. Quotas are nothing but exceptions leading to constant hearings, foreign reprisals, review, etc. Realistically the real work involved in my proposal is the defining of products, but this can be a reasonably objective process. It, of course, will need review and must be brought up to date each year. There also must obviously be a few months lag between the end of "the preceding year" and the start of the "current year" to give time to assemble figures, assign, and publish new rates.

(2) *Universal and equitable treatment* will result from my proposal as compared to that under a system of quotas, or for that matter, under the President's proposed bill. Whoever receives the quota would reap an advantage over his competitor. This may result from individuals' attitudes or simply from some bureau deciding who gets what. It would be far better to let free enterprise settle the issue.

GENERAL CONSIDERATIONS

(1) It is said that *any trade restrictions* we adopt will result in our exporting less. I contend that with my proposal there would be *increased trade* in a vastly *increased variety of products.* In the meantime, we would not lose any trade we would not have lost otherwise. Any country, other than ourselves, that had production facilities for their own needs which were not being used because of imports, has already corrected the matter. We do well on patented products either through direct sale or license agreements. We export some items because foreign usage has not yet expanded to the point where high volume production lines are warranted abroad, and low volume lines cannot compete. Another area is that in which technology is lacking in certain countries; but this will be true only for a time. If we could have assurance development money would not be wasted because of future imports, we could keep ahead and *expand* the "technology gap." We have benefited in all of these areas, not because of our so-called "free trade" policy, but for the reasons cited. We would be ahead further in them if a graduated import tax were adopted.

(2) Our *balance-of-payments* situation should improve for two reasons. The imports for which we have idle capacity would no longer drain our dollars. Also the added revenue on what is imported would help. Furthermore, as stated above, many more new items would be introduced which could be exported until they caught up.

(3) Summary of benefits:

All imports would be handled on the same fair, practical basis.
Administration would be simple.
Many government employees could be freed for other work.
Government revenue would be increased.
Our balance of payments would be improved.
Patriotism would no longer be penalized in this area.
The law of Supply and Demand would prevail.
No competent business would be ruined by imports.
Depressed areas would revive.
There would be drastically less pressure by lobbyists.
Foreign countries would have more balanced economies.
Our national defense posture would be improved because more substitute materials would be developed for resources that are not now available in the United States.

STATEMENT OF NATIONAL COUNCIL OF JEWISH WOMEN, INC., NEW YORK, N.Y.

The National Council of Jewish Women, an organization established in 1893, with a current membership of over 100,000 in all parts of the United States, has had a long standing position in support of a liberal trade policy as an indis-

pensible aspect of social and economic progress. A national resolution to that effect was adopted in 1938 and has been reaffirmed at every biennial convention since then. It states: "The National Council of Jewish Women resolves to urge the United States to support economic development and expansion of economic opportunity throughout the world . . . by continuing to develop trade agreements on a reciprocal basis and by supporting international agreements for the reduction of tariffs and other barriers to the free flow of trade." In accordance with this resolution, we supported the Trade Expansion Act of 1962, as an urgently needed revitalization of our trade program designed to give the President the adequate authority to meet the demands of our national interests, as well as those of the free world. Subsequently our members followed with great satisfaction the progress of the Kennedy round negotiations and hailed its successful conclusion as an encouraging milestone in the further liberalization of world trade.

Today, once again, we feel impelled to support fully the proposed Trade Expansion Act of 1968, designed to maintain the President's authority to negotiate trade agreements, establish a viable program of adjustment assistance for firms and workers affected by imports, and promote the reduction and/or elimination of non-tariff barriers to trade. Our Organization wishes to endorse in particular, amendments to the Trade Expansion Act of 1962 which extends the President's negotiating authority for two years; authorize specific appropriations for the U.S. contribution to GATT; liberalize the adjustment assistance eligibility criteria and give the President final determination of eligibility; replace the American Selling Price system of customs valuation by the "cost to the importer" system. We consider all of the above provisions as necessary to ensure the continuing growth of world trade, the welfare of our own national economy and the implementation of the Kennedy Round agreements.

The National Council of Jewish Women, however, is deeply concerned, as are many other segments of the citizenry—government officials, business leaders and private organizations—by the recent wave of demands for protectionist legislation. It is our strong belief that affected industries should be "assisted" when necessary and "encouraged" to compete as many have, in quality and in price, with foreign goods, through the fullest development of their creative and technological potentials, rather than "isolated" by protective barriers. In fact, we believe that if there is to be any protectionism, it should be directed towards protecting the gains achieved in three decades of a liberal trade policy.

Our strong objections to restrictive quotas are dictated not only by the expectation of inevitable retaliatory quotas by other countries, in turn forcing us to adopt further quotas to protect the industries thus affected, but the possibility of a world-wide trade war, with disastrous consequences to both national and foreign economies. Nor do we fear only the deterioration of the U.S. balance of payments if the volume of U.S. trade were to be significantly reduced. Our greatest concern is for the welfare of American citizens on all economic levels.

The National Council of Jewish Women has devoted a great deal of effort, over the years, to the study of the problems of the consumer and the support of pertinent legislation. This is why we are especially sensitive to the adverse effects of protectionist measures on the American Consumer. This is why we cannot condone provisions which would greatly restrict the Consumer freedom of choice in the market place as well as create a domestic market which would not reflect the demands of the purchaser or react to the shifting conditions of supply and demand. Such a market would, of course, result in a rapid increase in price not only of the protected item but on all related industrial products as well. It is not only the consumer seeking quality and choice who would suffer, but also the low-income consumer who would find himself with a greatly diminished purchasing power for basic necessities.

Economists, industrial leaders, and others acknowledge the lessons of history and accept the fact that the imposition of quotas on a substantial scale guarantees increased inflationary pressures. Even a limited system of quotas carries with it the dangers of a chain reaction of retaliation, additional quotas and so on. At a time when our nation and its citizens are so deeply involved in finding ways to alleviate the problems of poverty, it seems most inappropriate and untimely to eliminate the natural restraints of competition on domestic price policies imposed by imports.

On the other hand, our Organization is concerned with the interests and welfare of all segments of our citizenry, and is keenly aware of the problems being

faced by certain industries which might be affected by the importation of foreign goods. We feel confident, however, that these problems can be helped, for the most part, by an improved adjustment assistance provision, and by a re-energizing of our technological potentials. There seems to be an unfortunate tendency on the part of some industries to "stop trying" and to consider the challenge of competition as insurmountable.

We are backed in these beliefs by the public statements of many business leaders, industrial organizations and other interested and knowledgeable parties. A representative of the Textile Industry was quoted recently in the Congressional Record as saying: ". . . American Industry's ability to meet competition through quality, service, new technology and highly efficient facilities will go far to stem the inroads made by imports."

In conclusion we wish to reiterate our statement of 1962, which emphasized our position that a liberal trade policy is an urgently needed complimentary tool to our Foreign Assistance Program. For by encouraging the economic progress of the less-developed countries, and by affording them the opportunities to sell their products abroad in a market favorable to their advancement, we would be stressing self-help and economic growth with a view to diminishing their reliance on direct U.S. assistance. We can conclude from this that a sound U.S. trade policy which could be considered an important part of our foreign policy would also best serve our total national interests.

For all of the above reasons, the National Council of Jewish Women would urge this Committee to give favorable consideration to the Trade Expansion Act of 1968 and to discourage the adpotion of protectionist legislation.

(Whereupon, at 4:20 p.m., the committee adjourned, to reconvene at 10 a.m. Tuesday, June 18, 1968.)

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