The same fatal dilemma exists at the domestic U.S. political level. A levy high enough to cause a significant decline in imports and comfort U.S. protectionist interests would be violently unacceptable to America's trading partners, who would take serious retaliatory measures.

The conclusion is unavoidable. An import surcharge is not a practical medicine for the international payments ills of the U.S. in 1968.

Historically the United States trade balance has been the strongest and most positive element in the overall balance of payments picture. We realize that this is less true in 1968 than it was in previous years, but there is certainly no such trade deficit as would suggest the existence of a "fundamental" disequilibrium. If U.S. costs and prices were rising so rapidly in comparison to those of other countries that the capability of exporting was seriously impaired and U.S. imports greatly encouraged, then a better case could be made for a selective adjustment in exchange rates than for an overall increase in tariffs. There are some economists who believe that an upward adjustment in relation to the dollar of some of the "strong" currencies of Europe—notably the deutschmark and the guilder—is in order. To revalue such currencies would require painful and patient negotiations, but this would be preferable to either unilateral United States devaluation or the imposition of a general import surcharge which would strike impartially at both strong and weak nations.

Either of these drastic alternatives would hit particularly hard and particularly unfairly at Japan, which ships approximately 30 percent of its exports to the United States. Unlike the EEC countries, but like the United States, Japan has a serious balance of payments problem. It must be noted that Japan has consistently used domestic fiscal and monetary measures in recent years to protect its own balance of payments position, and has cooperated in all programs to maintain confidence in the dollar.

To prevent a situation of fundamental disequilibrium from developing in trade, the United States Government, at all levels, must take fiscal measures to slow down the rate of inflation so that United States goods remain competitive with other goods in world markets. It now appears that such measures may at last be taken. Even more important, there is hope at this writing that the drain on human and financial resources of the war in Vietnam may begin to decline. It is these plus the expenditures for the maintenance of military forces elsewhere that are above all responsible for the balance of payments difficulties.

Regardless of the merits of various remedies for the international payments ills, it is essential to avoid drastic measures which have consequences far exceeding their objectives.

TRADE EXPANSION ACT OF 1968

According to Ambassdor Roth, "This bill is not designed like the Trade Expansion Act of 1962 to present a complete program for future action. At the direction of the President, the Executive Branch is studying the whole area of international trading relations so that we can make overall recommendations concerning our future policy."

We might add that we support the Congress in its study of international trading relations as reflected in these hearings. Our association, like others, is pleased at the opportunity to express its views on the world economy as it affects the United States economy, and on the United States economy as it affects the world economy.

Indeed, we hope that future foreign economic policy will truly reflect the national interest of the United States as extracted from the interplay of ideas and facts among members of Congress, the business community, labor, and associations such as ours. But in the meantime, as Ambassador Roth stated before your committee, "There are certain steps that cannot wait. These are incorporated in the bill that the President has asked your Committee and the Congress to consider."

Support extension of President's negotiating authority

The request that the President's negotiating authority be extended until July 1, 1970, within the unexpired authority and limitations of the Trade Expansion Act of 1962 is a modest one. It will simply enable the executive to make tariff adjustments to prevent default in the international obligations that have already been undertaken.