plants and in the opportunity to import and export goods freely precisely because these various international operations are serving this Nation's best interests. Not only can Fairchild state that it is helping to increase the United States' favorable balance of trade and thereby decrease this country's unfavorable balance of payments, but it is also opening a growing number of export-import related jobs. We estimate that from 1964 to 1967, the increased international sales of just our Semiconductor Division created over 2,100 new jobs at that Division's plants in the United States.

With this background in mind, it is now possible to examine the problems which might arise for a variety of American industries, and for the electronics industry in particular, if quotas or various other types of import restrictions were to be adopted by this Congress and if the present controls on direct investment were to be continued indefinitely.

II. THE EFFECT OF UNILATERALLY-IMPOSED TRADE AND CAPITAL-RESTRICTING MEASURES

A. Import Quotas

In general, the imposition of import quotas for a wide variety of industrial products would have the following disadvantageous features for this country:

First, quotas are both inflationary and discriminatory. They will normally cause sharp decreases in supply and concurrent increases in prices, and thus impose hidden taxes on consumers while subsidizng favored domestic industries.

Second, quotas will not, in the long run, aid the industries for whose benefit they are adopted. They will make technologically innovative companies lazy and will provide little incentive for backward companies to modernize rapidly.

Third, quotas produce great administrative difficulties and resist moderation or removal once enacted.

Fourth, countries whose products are subject to new quotas will normally retaliate by raising their own trade barriers against goods from the quota-imposing nation. Since such retaliation could not be expected to be at a carefully measured level of reciprocity, a spiraling trade-restricting process would begin in which no country could emerge as the winner and the United States, with so much at stake, would be the biggest loser.

Fifth, adopting import quotas places this country in the position of threatening the results of the Kennedy Round of tariff reductions. As the Canadian-American Committee has recently noted, such a step would be taken as a "signal" of a "retreat from leadership in world affairs into economic nationalism." The result would be an impairment of this country's bargaining position in its delicate negotiations to obtain international cooperation in dealing with its balance of payment problem.

All of these disadvantageous features are highlighted if we turn to the proposals which have been made in Congress to place quotas on electronic products.

First, quotas would raise the price of various consumer electronic products thereby squeezing low-income purchasers out of the market. In the case of Fairchild, this process would come about in two stages. Quotas on semiconductors or integrated circuits would drive up our price to end use producers. The resulting increase in the prices of such products as radio and TV sets would ultimately reduce end use sales and then the sales of Fairchild to these consumer goods producers.

Second, the electronics industry—like many other industries for which import quotas have been proposed—is prosperous and capable of meeting the challenge of foreign competition both at home and abroad. In general, the industry does not need protection since it is not being injured by imports which in fact hold a relatively insignificant share of the domestic market. Those companies which feel threatened by imports must undergo a process of improving their technology. Import quotas will not induce them to undertake this necessary modernization process but will merely reward their past failures.

Third, the changing technology of electronics leads to a constantly changing range of products. Under such circumstances, the administrative difficulties in determining specific quotas for individual items would be almost overwhelming.

Fourth and fifth, import quotas for electronic products could only have a damaging effect on our trade relations with the rest of the world—and inevitably on our balance of payments problem. For if the rest of the trading nations of the world should bear witness to this Congress' act of imposing quotas on electronic products—and on other products similarly situated—they will be driven to retaliatory action. There will be no way of justifying protectionist policies to