

continue to be a large and growing role for the American watch industry in this picture.

Developments in 1967 confirm that the domestic producers are perfectly capable of competing effectively at current rates of duty. As reflected in Table 1, domestic production in 1967 reached 16,599,000 units, an all-time high and an increase of 9.2 percent from the 1966 level. Dutiable imports amounted to 22,913,000 units, only an increase of 6 percent. Shipments from U.S. insular possessions, which are entered free of duty under a special tariff provision, dropped 30.6 percent to 3,782,000 units.

As the Committee knows, shipments from U.S. possessions are controlled under a system of quotas enacted by Congress in 1966. It is important to note, however, that the decline last year was greater than that required by the quota system. Because watch movements produced in the islands must be able, in order to qualify for duty-free treatment, to sell on the mainland for more than twice the value of their foreign components, the rollback in the tariff on dutiable watch movements had a substantial impact on insular production. Many watch companies in the Virgin Islands and Guam failed to produce up to their quotas in 1967. In fact, most observers are convinced that if it had not been for the desire of operators in the islands to keep their production as high as possible in order to retain their quotas for 1968, insular watch production would have been even lower in 1967.

Thus, in spite of the tariff rollback, which might naturally have been expected to stimulate imports relative to domestic production, the total number of watches and watch movements entering the United States from offshore sources—i.e., dutiable imports plus shipments from the U.S. Virgin Islands and Guam—actually declined 1.3 percent last year. As I pointed out a moment ago, domestic production in contrast rose 9.2 percent. This development substantiated the prediction which the AWA made in 1964 in its testimony before the U.S. Tariff Commission. We said at that time that the principal result of restoring the 1936 tariffs would be to limit production in the Virgin Islands and Guam and that the domestic companies, particularly U.S. Time, would pick up a substantial share of the market vacated by merchandise from the islands. Experience has demonstrated that we were correct.

I have dwelt on this point at some length because developments in 1967, following the rollback, tend to prove that the President was entirely right in his assessment of the industry's situation. That the domestic producers have made a successful adjustment during the 12½ years while the escape clause was in effect is shown by their resilience in dealing with the consequences of the rollback.

Spokesmen for the domestic producers respond by pointing out that there are fewer domestic watch producers today than there were in 1950. They call attention to the recent decision of the Elgin National Watch Company to quit domestic production as evidence that the prosperity of the domestic industry is a false glow. On the surface, the argument is a highly plausible one. But only on the surface. The fact that there are only four surviving U.S. automobile manufacturers is scarcely a sign that the automobile industry is failing. Nor does the dominance of General Electric and Westinghouse foreshadow the decline of the electrical industry.

Elgin got into difficulty because of bad management decisions. Elgin's domestic production was highly inefficient, utilizing old-fashioned methods and obsolete machinery. For example, Elgin had cutting machines which cut one tooth at a time without using automatic feeders. A worker could produce 1,800 parts a day on these machines. On the modern cutting and milling equipment employed by Elgin's competitors, a worker can produce 10 to 15 times as many parts. Many other examples of inefficient production practices could be cited.

In the early 1960's, Elgin also experienced serious financial difficulty because of what were described as substantial "cost overruns" on defense contracts. The company lost \$13.9 million in the 1962-66 period, and shareholders' equity—that is, net worth—dropped from \$19.7 million in 1963 to \$8.9 million in fiscal 1965. The company's troubles, resulting from an ill-advised attempt at diversification, sparked a bitter proxy fight leading to the ouster of Elgin's previous management and the company's complete reorganization. The company abandoned its defense operation entirely and cut back its sales from a high of \$66.2 million in the year ended February 29, 1964 to \$38.7 million in the year ended February 29, 1968. Indeed, Elgin's sales in fiscal 1968 were 11 percent below fiscal 1962.

With the company in a weakened position financially, the new management decided that instead of investing in a costly modernization program it would