Mr. BARNARD. I would now like to introduce to the committee Mr. Richard Davies, president of Klein & Saks, who has a brief statement to submit.

## STATEMENT OF RICHARD DAVIES

Mr. DAVIES. Mr. Chairman, my name is Richard L. Davies. I am president of the economic and management consulting firm of Klein & Saks, Inc. I appreciate the opportunity of appearing before this committee in connection with the careful study the committee is making of foreign trade policies for the United States.

Over many years, Klein & Saks has served the governments of several countries in problems involving their balance of payments.

With regard to the recent U.S. balance-of-payments problems, we have made general studies at the request of the American Bankers Association, as well as studies of specific sectors. Now, at the request of the Synthetic Organic Chemical Manufacturers Association, we have studied the effects of the Kennedy round benzenoid agreements on the balance of payments of the United States.

Balance-of-payments studies would seem to be of great importance in current U.S. trade policy formulation. During the 5 years of Kennedy round activity (June 1962 to June 1967) our balance-of-payments deficit became of general and steadily increasing concern, with Presidential emphasis on the need to increase the merchandise trade surplus and with the imposition of a variety of controls on capital movements.

However, despite continuing U.S. deficits and the important relationship to balance of payments, in the presentations to this committee by the Kennedy round negotiators there has been included no meaningful study of the effect of the Kennedy round negotiations on the balance of payments.

Nor have we been able to find that such a study was made by the U.S. negotiators.

A study of the "probable economic impact" of proposed tariff concessions on the benzenoid industry within the United States was made in September 1966 for the Organic Chemical Group of the National Council of American Importers, by Prof. Walter W. Haines. We believe that the approach Professor Haines used in his study resulted in understating the unfavorable trade effects of the tariff changes. Moreover, he omitted consideration of balance-of-payments effects of the tariff cuts, but the methodology is of value. However, when even Dr. Haines' conservative methods are applied to the Kennedy round benzenoid agreements balance-of-payments projections, as was done in our study, very serious effects on thte U.S. balance-of-payments are indicated.

Our total foreign trade (that is exports plus imports) in benzenoids would be projected to increase from $334 million in 1964 (the year used as a base by the Kennedy round negotiators to $1.691 million in 1975. Increased total foreign trade is generally a good thing, for banking institutions, shipping companies, and for the whole world economy. But from a balance-of-payments point of view it is extremely important which way the trade is flowing. During this period our balance of trade in benzenoids would be projected to deteriorate from a positive $236 million in 1964 to $282 million deficit in 1975, and the U.S.