

THE BALANCE OF PAYMENTS

The balance-of-payments problem is also often obscured by emphasizing growth rates without reference to the base to which they apply. Let's use Mr. Gerstacker's figures. If chemical exports of \$2.8 billion continue to grow at their present rate of 7 percent per year (and it is worth noting in passing that exports are expanding faster than domestic production), while imports of \$1 billion grow at 14 percent, it is still true that the favorable trade balance, now \$1.8 billion, will continue to increase into the foreseeable future. While the rate of import growth is faster, the base is so much lower that the amount of growth is less. Seven percent of \$2.8 billion is \$196 million; 14 percent of \$1 billion is \$140 million. This improves our trade balance by \$56 million.

EXPORT POTENTIAL

The domestic industry, however, insists that the ASP bill will increase imports even faster, while not improving exports at all. Said Mr. Gerstacker on Friday, "There will be no significant gains in exports as a result of the additional cuts of 30 percent." (p. 8) Why? Mr. Gerstacker said it was true "for a number of reasons" (p. 8) but the only one he mentioned was "the rationalization of the indirect tax system in Europe," which is absolutely unrelated to the Kennedy negotiations.

Let us assume, and I believe it is a totally false assumption, but let us assume that harmonization will raise European barriers but just as much as a 30 percent tariff cut will lower them. Let us assume an illustrative European tariff rate of 20 percent at the present time. Let us assume that this bill is passed. The European duty will fall to 14 percent. Let us assume, as I said, that harmonization nullifies this tariff cut. The combined barrier goes back to 20 percent. Granted this will not help our exports.

But, let us assume alternatively that this bill is not passed. European duties will remain at 20 percent. Harmonization under this assumption will raise the combined barrier to 26 percent. This will obviously harm our exports significantly. Are we better off not passing the bill?

The inescapable conclusion is that regardless of what happens to rationalization or any other nonrelated matter, our chemical exports will face a 30 percent lower European trade barrier if this bill is passed than if it is not passed.

Du Pont seems to be the only company that has examined its export prospects in depth, and it seems to be in a peculiar position inasmuch as the great bulk of its present exports are in classifications for which no duty reductions were negotiated at Geneva. It is therefore not typical of chemical exporters as a class, for whom the weighted average reductions were 22 to 26 percent.

For the remaining portion of their exports they give several reasons for their pessimism. The largest exports go to their own plants abroad for further manufacture, and the volume depends on "expansion of sales in Europe of the finished product" (p. 7). It doesn't seem to occur to them that lower raw material costs can lower the price of the finished product and thereby promote sales. If they didn't lower such