Mr. HOCHSCHWENDER. It does not need to. It very often does.

Mr. BYRNES. By holding the price at $8 he is just knocking himself out of a market.

Mr. HOCHSCHWENDER. In that case you just got an inflationary element, that's all.

Mr. BYRNES. I would like to ask Mr. Stobaugh about another item. At several points in your testimony you talk about the advantage market availability for new products provides to the American producer. Doesn't the foreign producer also enjoy this same market?

I wonder why you use that phrase instead of the fact that the Americans put more effort on research and development. You keep talking in your statement about the fact that we have a bigger market here and that is why we have new products. I wonder whether it is the market or whether it is just that our people spend more on research.

Mr. STOUBAUGH. Let me say I did not mean to necessarily separate the idea of research and development expenditures from the large market and in my study I detailed the importance of R. & D. to some extent.

Mr. BYRNES. Just to insure that we are on the same wavelength, refer to page 7 of your statement. Your point there is that the wage differentials are offset. You say:

> These same studies indicate that new product development expenditures, resulting from a large domestic market, are much more important in explaining chemical exports than are unit wage rates.

Mr. STOBAUGH. Right.

Mr. BYRNES. You are talking about our exports.

Mr. STOBAUGH. Right. Here is what happens. This large market in the United States particularly the per capita income as well as having a lot of people to multiply the per capita income by, induces a lot of the R. & D. expenditures.

Mr. BYRNES. The German producers, though, also see this large market here.

Mr. STOBAUGH. The U.S. market is some five times as large as the German market and traditionally a manufacturer likes to introduce a product in his own home country. One of the main reasons for this is that there is a lot of communication required between the marketplace and the manufacturer when a new product is introduced. Typically the products that the Germans have introduced have been introduced in Germany.

The products that the U.S. manufacturers have introduced have typically been manufactured here first. For example, take Du Pont's announcement last week of a new synthetic fiber. Regardless of what wage rates are in Europe, Du Pont is going to build the first commercial plant for that fiber here in this country because this is where the market is.

Now, that is for two reasons. One, they need the communication with potential users and, two, they are reluctant to invest that much money abroad in order to serve a market here.

Mr. BYRNES. You are talking about an American company. I can understand that.

Mr. STOBAUGH. Let me continue on the American and then we can handle the others if you will. Is that OK?

Mr. BYRNES. Surely.