

tariffs, means that it will cost American chemical producers more to sell in the German market after the Kennedy Round is fully implemented than it did before the negotiations began! That protective wall was raised still further by the 6% jump in the border tax. We are unable to understand how Administration spokesmen can characterize these facts as providing the chemical industry with wonderful new export opportunities!

Another aspect of the border tax as employed by our European friends is the fact that they receive a tax rebate on their exports. For example, a German chemical manufacturer who exports his product to the United States (or any other third country) now receives a 10% tax rebate, *i.e.*, a *government subsidy* which our Treasury Department inexplicably ignores despite the clear statutory mandate to impose *countervailing duties*.⁵ Furthermore, the German chemical exporter does not bear any United States tax burden. On the other hand, American chemical exports are not subsidized and they bear full United States taxes plus the full indirect tax burden imposed by Germany.

An interesting current statistic dramatically illustrates the value of this tax rebate as an export incentive. During the first quarter of 1968, German exports to the United States totalled \$659.7 million, an increase of 50.7% over the comparable 1967 period. It is not just coincidence that this dramatic rise coincided with the fact that in 1968 German exporters received a 10% subsidy from their government rather than the 4% received in 1967. Those figures alone are enough to indicate that the subsidy is hurting United States business at home; but they are equally or even more damaging to the hopes of American exporters. One of our strongest competitors in the fight to obtain chemical business in third markets is being heavily subsidized. This fact bodes ill for the United States balance of payments and the balance of trade!

C. Balance of payments and trade balance

This Committee is quite familiar with the unfortunate condition of this nation's balance of payments. Sometimes forgotten, however, is the fact that historically the one bright feature in this sad story has been our favorable trade balance. In 1967, the chemical industry provided approximately \$1.8 billion or about 45% of our nation's gross merchandise trade surplus. In early January President Johnson identified as a national goal a half-billion dollar improvement in our trade balance. Scarcely 3 months had elapsed before all hope for achievement of this goal had disappeared. As of today no one, except perhaps the fabled "cockeyed optimist", believes there is even a remote chance of achieving last years' figures.

There is no cut and dry answer as to why our traditional favorable trade balance has disappeared. The situation as it exists today was described clearly by Mr. Kenneth M. Spang⁶ in an article published in the May 20 issue of the *Journal of Commerce*:

"Insofar as 1968 is concerned, I believe we will improve on the exceptionally poor first quarter showing and that the export surplus for the entire year may run between \$800 million and \$1.7 billion. *If Government-financed exports (which totaled \$3.2 billion last year) are left out of account, the commercial trade balance this year is likely to show a deficit of \$1.5-\$2.5 billion*, compared with a small commercial surplus of \$250 million last year . . ." (emphasis added).

Some observers (including the Commerce Department) in reviewing the first quarter international trade results, have indicated that the trade balance suffered by about \$300-\$500 million because of strikes actual (in the copper mines, on the New York docks) and threatened (in the steel mills). To focus on these special factors, however, is delusive, tending to obfuscate rather than illuminate our search for meaningful answers to the undeniable decline in our trade balance.

There undoubtedly are many answers, all of which must be examined. A well-known problem area relates to wage rates increasing at a rate far more rapid than productivity. However, we suggest another meaningful answer to the deteriorating trade balance lies in the fact that on January 1 the United States implemented the first of the five Kennedy Round tariff cuts. An additional answer may be found in Germany—their border tax increase applicable to imports from America compounded by the subsidy paid to their own exporters.

⁵ Section 303 of the Tariff Act of 1930.

⁶ Kenneth M. Spang—Vice President, First National City Bank (N.Y.); 1968 Chairman of New York World Trade Week Committee; Chairman of Foreign Commerce and Affairs Committee of the New York Chamber of Commerce.