

which the Secretary of the Treasury indicated came to the United States, but it also is indicated by the reduction in European interest rates that it flowed to Europe. This increased their supply substantially, keeping the interest rates down, but this put a terrific burden on Canada. So what we did was to say capital shall not flow from the United States, causing it to flow out of Canada, and now causing us to be concerned with the Canadian balance of payments. So these things have various repercussions which need to be traced out.

Representative WIDNALL. How much of a serious decline in our trade surplus during the fourth quarter of 1967 do you think is accounted for by deterioration of our competitive position in the world? What were the key factors?

Mr. MACHLUP. I would attribute it chiefly to two things. First to the increase in business activity and employment in the United States, the increase in incomes and spending within the United States, which increases our imports.

I attribute it, secondly, to the slack business activity in some of our European markets; especially Germany had a very bad year and, therefore, their purchases, their imports, fell, which means that our exports could not rise as much as they would otherwise have. So I attribute the recent decline in our export surplus less to a permanent deterioration of the competitiveness of our industry, and more to the changes in business activity here and abroad.

I must, however, add immediately that we have had a rate of wage increases during 1967, and expect a rate of wage increases for 1968, which may actually lower our competitiveness relative to foreign countries.

Representative WIDNALL. Mr. Butler, the figures that you have been compiling show enough to indicate where our competitive position has deteriorated. There are a number of items as against where our competitive position has held firm or has improved. Do you have any figures on that?

Mr. BUTLER. I am afraid I do not have them in mind. I think there has been a clear deterioration in steel, for example, in shipbuilding, some lessening of our competitive position in the general machinery area. I think it has not as yet affected things such as business machines. In the so-called high technology areas I think we remain very competitive.

Part of our problem in the fourth quarter was the copper strike and to some lesser extent the forthcoming labor-management discussions in steel which led to an increase in steel imports, but these two things can be fairly big in a fairly short time.

I think our problem is not that our competitive position has eroded so very greatly so far. It is that if we continue these policies and continue the rise in our costs, our competitive position in a few years will be very seriously eroded. If we could check it now, then I would have quite good confidence in the future. But, if we do not check it, I think we are clearly headed for trouble, and the time to deal with it is now and not 2 or 3 years from now.

Representative WIDNALL. Isn't there almost an alarming increase in the amount of services furnished as against goods produced? With the production of goods going down in many areas but balanced to some extent by the furnishing of services, that part of our economy is the healthiest as against the production of goods?