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A STRATEGY FOR INTERNATIONAL TRADE NEGOTIATIONS

REPORT

BY

Senator ABRAHAM RIBICOFF

TO THE

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

FEBRUARY 9, 1973

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Letter of Transmittal

U.S. SENATE,
Washington, D.C.,
February 9, 1973.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance.

DEAR MR. CHAIRMAN: During last November and early December, I travelled to Europe and Israel on behalf of the Committee to discuss trade problems with foreign officials, industry spokesmen and American diplomatic representatives.

In London I had private meetings with Member of Parliament Peter Walker, Secretary of State for Trade and Industry; Sir Max Brown, Secretary (Trade), Department of Trade and Industry; John Davies, Minister for European Affairs; George Thomson, now a member of the Commission of the Common Market and Mr. Campbell Adamson, Director General of the Confederation of British Industry.

My Administrative Assistant, John Koskinen, also met with Sir Eric Roll, Director of the Bank of England, and Louis-Francois Duchene, Director of the International Institute for Strategic Studies.

In Paris, among others, I called on previous acquaintances, Jean Rene Bernard, Economic Advisor to President Pompidou; Pierre Uri of the Atlantic Institute, and met with a group of French industry leaders, including Paul Huvelin, President of Patronat (the French NAM), and Jean de Precigout and Gerard Gruson of Patronat.

In Italy I discussed outstanding trade issues with Gianmatteo Matteotti, Minister of Foreign Trade and Ambassador Cesidio Guazzaroni, Director General for Economic Affairs, Ministry of Foreign Affairs.

In Israel I had private meetings with, among others, Prime Minister Golda Meir, Finance Minister Pinhas Sapir and Foreign Minister Abba Eban.

In addition to these talks with foreign officials, my briefings from our diplomatic representatives in these capitals were extremely useful as well as my private meetings with Europeans.

In the attached report I have summarized my impressions of the mood in the enlarged Common Market and the prospects of trade negotiations and have offered some recommendations for our own government and the Congress. This report purposely does not include much of the general discussion contained in my report to you almost two years ago, "Trade Policies in the 1970's".

Sincerely,

ABE RIBICOFF.

A STRATEGY FOR INTERNATIONAL TRADE NEGOTIATIONS

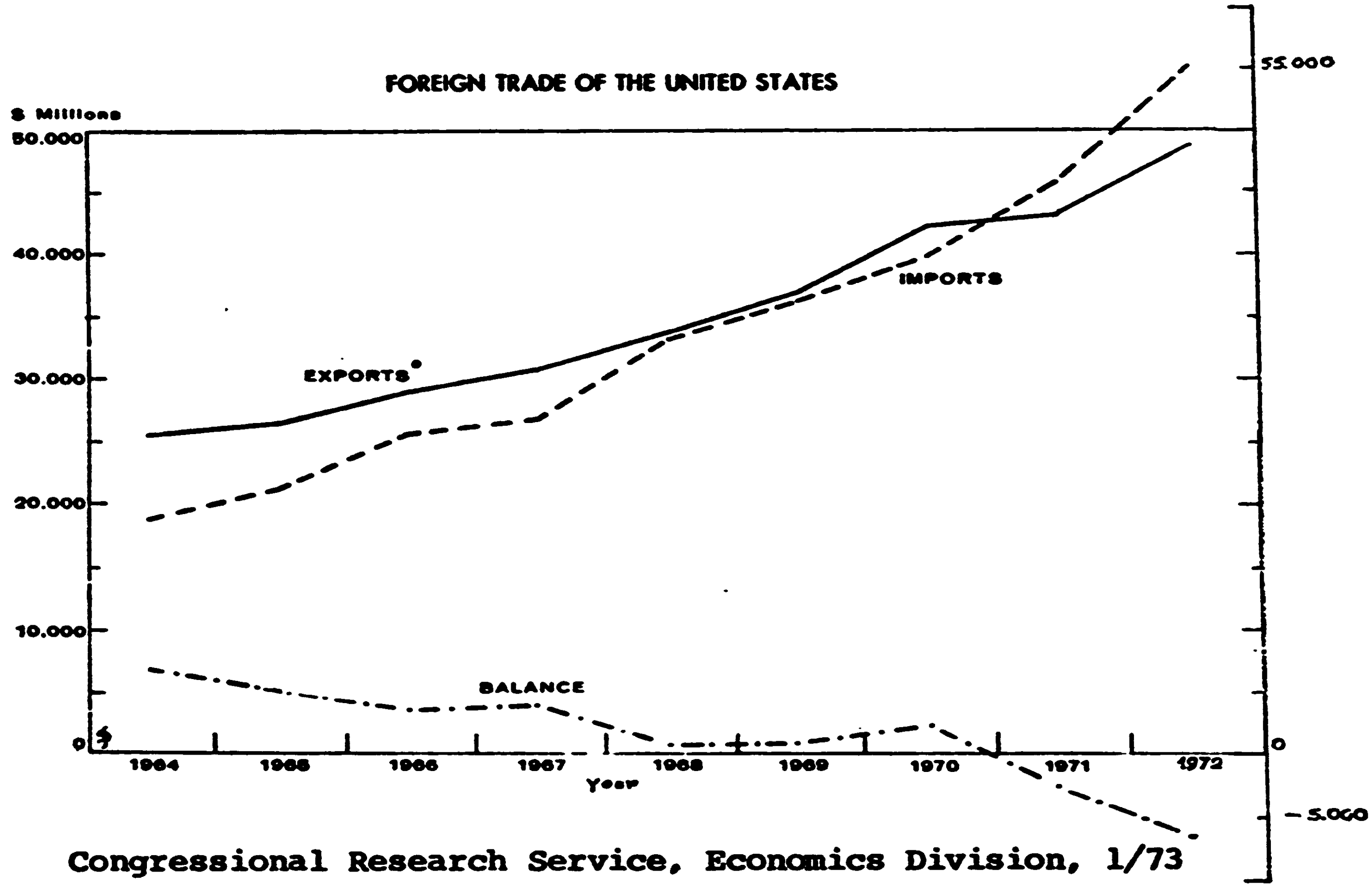
I. Introduction

Two years ago, after a similar visit to Europe, I wrote that it was becoming obvious that ecopolitics were replacing geopolitics in the affairs of nations. Recent events confirm this development. In the last few months newspapers in the United States and abroad have been full of discussions of the need for wide-ranging trade and monetary negotiations between the nations of the free world. Monetary talks are already underway, spurred by the currency crisis of 1971. In October at the Paris Summit meeting of the Common Market, European leaders issued a call for such global trade negotiations beginning in September of 1973 and ending in 1975.

Here in the United States there have been rumors of broad, wide-reaching trade legislation to be introduced by the Administration to give it the authority to negotiate. While details are still lacking, obviously a great deal of effort has been going into the preparation of a trade bill.

During my trip, I discussed with various government leaders what they hoped would happen during these negotiations, what they were prepared to offer and what they were expecting from the United States. I was impressed by the obvious sincerity of the top trade officials in all these countries in their expressed desire for meaningful negotiations with the United States. On the other hand, it was discouraging to note that virtually no one had a clear idea about the overall framework and goals for these negotiations. The thrust of their remarks was simply that the negotiations should take place.

Upon returning to the United States, it becomes equally clear that United States trade policy, not only for the upcoming negotiations in Geneva in September but for the next few years, remains undefined at the highest levels of our own government. Our trade policies in recent years have developed basically in response to pressures on and from certain industries. We seem content to continue on this case-by-case, crisis-by-crisis basis, confusing the issue at home and abroad. The inadequacy of such an approach can readily be seen by our declining foreign trade balance, culminating in a record $6.9 billion deficit in 1972. The following chart illustrates this growing U.S. trade gap:



Congressional Research Service, Economics Division, 1/73

On a wider political level, dramatic initiatives have recently been taken to develop a new relationship with the Soviet Union and the Peoples' Republic of China. But we cannot continue to ignore or place on a second level the state of our relations with Western Europe, Japan and Canada. Unfortunately our ties with these countries have seriously deteriorated.

No one nation is to blame. We have all contributed to this unhappy situation. Our present relations with the European Common Market have been described as "a dialogue of the deaf"—and for good reason. We all seem more interested in reciting our own complaints without relating them to the problems of other nations. The time has come for all the industrialized nations of the world to seriously address themselves to the important task of repairing and redefining their economic relationships and developing new methods of conducting ecopolitics.

Western Europe clearly remains central to American foreign policy interests and objectives. Unless our relations with these traditional allies are marked by a spirit of cooperation and common purpose, we cannot successfully pursue a policy of global detente. The success of our efforts to build a more rational and peaceful world may well founder not because of friction with China and Russia, but because of a continued deterioration in our relations with cur old friends.

II. The Climate Today

My conversations with European officials and industry leaders convinced me that we are in for tough sledding in the upcoming trade talks unless both sides are willing to take the chips off their shoulders. Instead of thinking of new forms of cooperation, the preoccupation seems to be with bolstering one's case. American officials involved on a day-to-day basis with trade problems assert that the Common Market is becoming increasingly inward-looking and protectionist, as shown by the evolution of the Common Agricultural Policy, and the proliferation of preferential trade arrangements with third countries.

Europeans see the United States in much the same terms. The unilateral 10% surcharge on tariffs in August, 1971 is used as an example of U.S. high-handedness in dealing with its trading partners and of growing protectionism and isolationism in the United States. The most recent U.S. approach to the Europeans of threatening them with "massive retaliation" has solidified leaders of the Common Market in their desire to develop a stronger union independent of the U.S. The enlarged Common Market of nine nations has enormous resources at its disposal as the following comparative figures demonstrate:

Comparisons of the Enlarged European Community, the United States, Japan, and the U.S.S.R.

	The European Community of Nine	United States	Japan	U.S.S.R.
Area 000 square miles	1, 523	9, 363	370	22, 402
Population (millions) (1970)	253. 3	205. 4	103. 5	244. 0
Gross national product ($000 million at market prices) (1971)	694. 5	1, 068. 8	219. 8	(1970) 288
Primary energy production (million metric tons coal equivalent) (1970)	500. 2	2, 154. 4	71. 4	1, 386. 1
International trade: European Community trade with nonmembers (in millions of dollars):				
Imports (1971)	64. 2	[1] 45. 6	19. 7	12. 5
Exports (1971)	63. 2	[1] 44. 1	24. 0	13. 8

[1] The United States had a trade deficit on an f.o.b. basis in 1972 of $6.9 billion, with imports of $55.6 billion, and exports of $48.7 billion. If imports were measured on a c.i.f. basis, the deficit would be closer to $12 billion.

Sources: OECD, EC, ECSO, and Department of Commerce.

This atmosphere of mutual recrimination and suspicion reflects the existence of certain real problems. But what I found notably absent during my trip were coherent, long-range policies directed at resolving these problems and an underlying philosophy based on mutual long-term advantage.

In Europe I could not find evidence of the development of appropriate policies that would apply five, ten and twenty years from now. Nor could I find any clear expression from Europeans as to what they expected to achieve at the upcoming negotiations. The only agreement I could find was that the Europeans welcomed the negotiations, and hoped that the Congress would give the President a broad enough mandate so that all outstanding issues could be discussed. The consensus was that if the Congress did not grant the President a sufficiently broad mandate there was little value in having these negotiations at all.

I explained to these officials a fact of life that is often overlooked—that the Congress in its present mood is not about to give the President or anyone else in the Executive Branch a blank check to negotiate on matters of such direct concern to the economic vitality of this country. This is particularly so when the Administration has not put forward a broad conception of the objectives of such negotiations nor any explanation how they will fit into our overall foreign policy goals.

Important segments of the Congress have been totally ignored by the Administration while it has been developing in recent months its trade legislation for this new year. In fact, doubt apparently exists within our own Government about whether there should be any comprehensive trade legislation notwithstanding the commitments made to other governments at the highest levels and the unwillingness of the Europeans to proceed without some clear indication from the United States about its future course of action.

The business of trade policy in Europe as well as the United States is still being transacted at a governmental level where concerns are limited to narrow issues and subject to bureaucratic fragmentation. In a moment of candor, one highly placed Frenchman admitted that the reason for French reluctance to discuss trade and monetary issues together was that the two competing bureaucracies had too much of a stake in keeping these issues narrow and separate.

Another part of the problem is that the United States institutionally is ill prepared to deal with long-range trade policy. Wherever I went, foreign officials noted that there was no single source in Washington to which they could turn for an authoritative description of the American position on trade matters. For some issues, they went to the State Department, for others they went to the Office of the Special Trade Representative. Sometimes they dealt with the Council on International Economic Policy in the White House, and on other occasions the Treasury Department, the Department of Commerce, or the Department of Agriculture.

The Council on International Economic Policy (CIEP) in the White House has not functioned in practice as it was meant to when it was established. At its inception in 1971, I welcomed the creation of a coordinating body for foreign economic policy. Despite the fine contributions of its first Executive Director, Mr. Peter Peterson, the Council has never really orchestrated our foreign economic policies. In fact, the orchestra has never been assembled in one room and told it must play the same tune.

Today the issues still remain fragmented among a host of bureaucracies. Our relative unfamiliarity with international economic issues compared to the Europeans and our tendency to assign such issues a much lower priority than national security problems has inevitably meant that we have often come off second best in trade negotiations. More importantly it has also meant that we have been unable to present a united front to our trading partners and are incapable of developing a rational, coherent, long-range policy blending together our economic, political, and security interests.

The President has now stated that Secretary of the Treasury Shultz is to be a super-counsellor for all economic problems. I would recommend that the Finance Committee should at some time in the very near future discuss with Administration spokesmen in public hearings the relative roles in this Administration of Mr. Shultz as Secretary of the Treasury and Economic Counsellor, of Secretary Rogers in the State Department, Secretary Dent in the Department of Commerce, Ambassador Eberle in the Office of Special Trade Representative, Secretary Butz in Agriculture, Mr. Volcker on the monetary side of Treasury, and Mr. Flanigan, now the head of the CIEP.

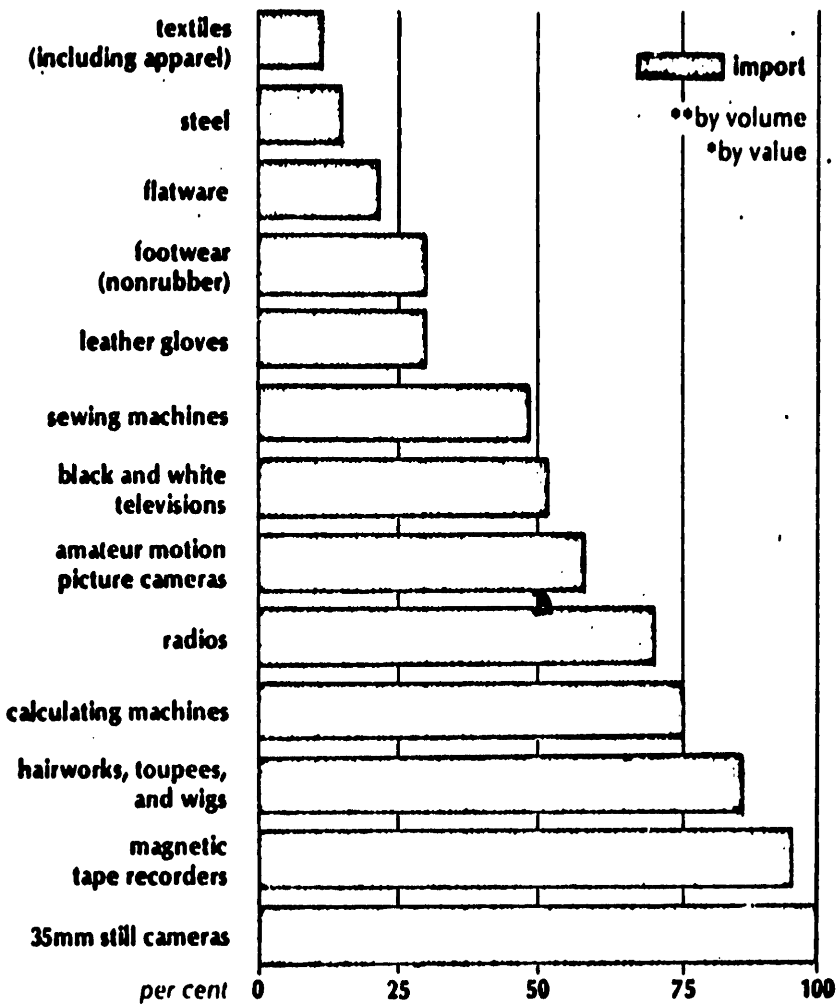
We should expect that our trade policies will be integrated with our overall foreign and domestic policy objectives and that, particularly, our trade and monetary policies will not be treated separately. I would also recommend that executive privilege should not be invoked by Mr. Shultz or Mr. Flanigan in their testimony to the Finance Committee on economic matters.

But the fault is not only with the organization of economic institutions in the United States. Europeans seem unable or unwilling to understand the political forces operating in the United States in the area of trade. Most officials with whom I discussed the matter recognized that many features of any trade agreement to be negotiated with representatives of the Executive Branch of the United States had to be ratified by the United States Congress. Many of these officials, however, only vaguely appreciated or seemed to care about the legitimate interests of Congressmen and Senators in seeing that their own constituents are not harmed by international agreements.

The Congress often appears to foreigners to be more restrictive regarding trade matters than our State Department representatives. But our State Department representatives do not have to deal directly with the problems of a 50-year-old mill worker who has been laid off because of the impact of foreign imports.

At a time when 5 million Americans are out of work, many of them blaming their predicament on foreign imports, political leaders as well as trade negotiators of other nations are going to have to recognize the political realities in the United States. The following chart illustrates the inroads certain imports have made in the U.S. market:

Major Import Products in U.S. Market



The graph shows how deeply imports have penetrated the U.S. market in 13 product categories. The figures show the ratio of import sales, by value or volume, to all the sales of those products in the United States in 1970. Included as imports are goods manufactured abroad by affiliates of U.S. companies and sold in the United States.

SOURCE: Council on International Economic Policy

The Europeans are already dealing with the political realities of their own Common Market. If President Pompidou and Chancellor Brandt can worry about protecting the livelihood of French and German farmers, Congressmen and Senators can legitimately be concerned about the future of highly skilled and trained workers throughout this country. As a nation, we must all be concerned about preserving a viable and dynamic economy capable of generating enough jobs for all Americans and a high standard of living. Our trade and investment policies must be coordinated to that end.

III. Issues That Must Be Resolved in any Future Negotiations

A. Common Agricultural Policy

One major point of continuing friction is the European Community's Common Agriculture Policy (CAP). With the enlargement of the market from six to nine nations, the problem for United States farm exports has obviously been magnified. At the same time, however, it is also an expensive and inefficient policy as measured by Europe's own interests.

The food bill of every family in the Common Market countries is significantly higher because of the Common Agricultural Policy. British consumers are finding that one of the costs of entering the Common Market is a significant increase in their food bills, in the range of 10 to 15%. While the European consumer pays higher prices, the American farmer has to adjust his production and indeed pays part of the bill to subsidize European farmers. This represents a serious distortion of international trade.

In my earlier report I described the Common Market's variable levy system on agricultural imports and the subsidization of exports as "mercantilistic." It is still so today and still obviously unacceptable as a continuing policy. Nations cannot unilaterally pass on the costs of their own domestic problems to other nations with whom they trade without generating conflict.

The variable levy system, which covers a major portion of Common Market agricultural production and a major portion of its trade automatically makes U.S. exporters residual suppliers to Europe with American products permitted to enter only to cover the shortfalls in domestic supply. With high price supports—and no production limitations—the CAP cuts off imports while encouraging domestic production and the subsidization of exports.

Although U.S. agricultural exports to the EC have increased 50% over the past decade, over this same period imports subject to the variable levy have declined about one-third—a testimony to the restrictive character of the system.

From my own conversations I gained the impression that there might now be greater flexibility in the European Community's position on the CAP if both sides are pragmatic, rather than ideological, in their approach. The sooner these hints are translated into reality, the sooner a major irritant in our political and trade relations will begin to fade.

It may be argued with some justification that agricultural trade policy represents a special case, not because trade in agriculture should be immune from the general trade rules applicable, but because more direct social and political problems are involved. At issue are the various forms of import restrictions and export subsidies which go to the heart of different domestic programs to support farmer incomes. These issues cannot be solved unless countries are prepared to negotiate the levels of price support which they give domestic farm products.

B. Preferences

The Economic Community (EC) has developed a network of special tariff preferences with more than 50 countries, most of them located in Africa and the Mediterranean, but now spreading to the Caribbean and elsewhere. This is a highly discriminatory system that constitutes a major departure from the principle of most-favored-nation treatment. Under the system, not only does the EC accord preferential treatment to the participants, but even worse it receives what are known as "reverse preferences" in exchange, which allow its traders to ship their own goods to these countries at lower tariffs than those applied to our own shipments.

While the actual trade effects of these reverse preferences have been limited so far because the preferences have been accorded mainly to less developed countries with limited markets, their long run effect will be to channel most of the purchasing power of these countries to Europe in the future. A more immediate problem is the inclusion of industrialized countries such as Sweden and Switzerland, in this system. This will have a significant impact on the trade of nonparticipants such as the United States, Canada and Japan and damage our present trade position. What is at issue is the basic principle of nondiscrimination, the very basis of the GATT.

Our country has always encouraged Europe to play a more active role in the Mediterranean. But legitimate trade needs of the developing countries in the Mediterranean can and should be met without reverse preferences and without hurting us and other third country interests.

The Situation of Israel

In Israel I discussed its economic development problems with a number of high officials including Prime Minister Golda Meir and Finance Minister Pinhas Sapir.

The dynamic character of Israel's economic development impresses most foreign visitors. But this remarkably rapid growth has not been accomplished without certain imbalances and adjustment difficulties. Israel's crushing defense burden—which absorbs one-quarter of its GNP—and the costs of absorbing new immigrants, places unusual demands on its economy. It is therefore no surprise that Israel has an almost two to one trade imbalance overall and an even less favorable ratio in its trade with the United States.

While 25% of Israel's exports go to the U.S., 40% go to the European Community. It was explained to me that these latter exports were not switchable to other countries and that Israel's own production system is becoming increasingly geared to Europe.

The Israelis, with their highly skilled population, scientific expertise and managerial talents, feel that they could become a catalyst for economic programs throughout the Middle East. Already, their "open bridges" policy with Jordan has reaped economic benefits for both countries. What is often overlooked by our own foreign policy makers is that these kinds of economic ties can ultimately bring about a more durable peace in this region than interventions by outside powers.

C. Nontariff Barriers

The significance of nontariff barriers to trade cannot be overemphasized. A good example of how they operate was provided recently in a speech by my colleague on the Senate Finance Committee, Senator Talmadge.

"An American mini-car called the Pinto retails for about $2,200 in the United States but sells in Japan for over $5,000. The tariff in Japan is now only 8 percent. The commodity tax, which is discriminatory, runs several hundred dollars per car. The cost of the Pinto when it reaches the port of Yokohama is about $2,700, already somewhat higher than comparable Japanese products, but still within the outer range of being competitive. Then what happens? The dealer markup on a $2,200 Pinto is over $2,000. The dealers, of course, are Japanese who must also sell Toyotas and Datsuns. It is said that the exhorbitant markup is due to 'high distribution costs' because of the low volume. Now, obviously, the Japanese are intelligent people—they produce fine quality low-priced cars of their own. It would be very foolish for the Japanese to buy a Pinto for over $5,000 when he has a comparable car in his own country for one-half that price. It is begging the question to suggest that the dealer markup and the so-called high distribution costs are responsible for the low volume of sales. If the markup were reduced substantially and the discriminatory nature of the commodity tax and shipping rates were removed, there is no reason why the Pinto could not sell in Japan. The volume of sales in any business is dependent on the price competitiveness of the product. Notice I have not mentioned the tariff because our problem is not the 8 percent tariff. How would it benefit the United States to negotiate an elimination of the Japanese tariff on automobiles, when our exports could remain noncompetitive because of distribution costs, dealer markups, and discriminatory commodity taxes and shipping costs?"

Our objective should be the elimination or harmonization of such nontariff barriers. These barriers cover a complex array of governmental measures affecting trade, such as quantitative restrictions, product standards, import licensing, discriminatory taxes, etc. Aside from the cases in which the barriers should be removed entirely, what is needed are procedures for complaints and compliance. It is in the area of nontariff barriers that the ingenuity of trade negotiators will be tested.

D. Other Issues

A. BALANCE OF TRADE

The issues of agricultural policy, preferences and nontariff barriers by no means exhaust the list of items on the agenda. I was often reminded by Europeans of our traditional trade surpluses with the Common Market. But even these modest surpluses over the past few years have now dwindled to the vanishing point, with a $400 million U.S. deficit with Europe recorded last year. It is also appropriate to note in this regard the European success in keeping out Japanese imports. This, of course, has aggravated the problems faced by American producers whose domestic markets have been flooded by highly competitive Japanese products.

B. EUROPEAN MONETARY INTEGRATION

Establishment of an EC monetary union has been promised for 1980. I am not certain whether this momentous step is motivated by the logic of economic integration or is directed at equipping the EC to pursue a more independent policy toward the U.S. In fact, it might be argued that progress toward monetary union by the EC threatens the vital negotiations for overall international monetary reform now underway because European monetary union implies fixed exchange rates within Europe and a phasing out of use of dollars.

C. COMMUNITY-WIDE INDUSTRIAL POLICY

The EC is considering adopting a policy to promote and encourage the development of European-wide industries in advanced technology sectors such as computers and aircraft. These are precisely the areas in which U.S. industry is still especially competitive. This raises the threat of greater competition for American companies, even greater trade deficits, and new discriminations against U.S. industries as a result. It is difficult to say what could be done. But at the least there should be some international review of the use of special aids to industry and their effect on world trade and investment.

D. MULTINATIONAL CORPORATIONS

The Europeans I spoke to appeared much less concerned about the operations in Europe of giant U.S. multinational companies than in the days when everyone was talking of the "American Challenge". But with the enormous economic power of these corporate giants, ample opportunities for friction persist.

The following listing gives some idea of the size of the largest multinationals:

Nations and Corporations

One way to show the size of today's large multinational corporations is to compare their gross annual sales with the gross national products of countries. This table uses 1970 figures for all except the centrally planned economies (excluding China) and General Motors Corp., for which 1969 figures are used. The amounts are shown in billions of dollars.

1	United States	$974.10
2	Soviet Union	504.70
3	Japan	197.18
4	West Germany	186.35
5	France	147.53
6	Britain	121.02
7	Italy	93.19
8	China	82.50
9	Canada	80.38
10	India	52.92
11	Poland	42.32
12	East Germany	37.61
13	Australia	36.10
14	Brazil	34.60
15	Mexico	33.18
16	Sweden	32.58
17	Spain	32.26
18	Netherlands	31.25
19	Czechoslovakia	28.84
20	Romania	28.01
21	Belgium	25.70
22	Argentina	25.42
23	GENERAL MOTORS	24.30
24	Switzerland	20.48
25	Pakistan	17.50
26	South Africa	16.69
27	STANDARD OIL (N.J.)	16.55
28	Denmark	15.57
29	FORD MOTOR	14.98
30	Austria	14.31
31	Yugoslavia	14.02
32	Indonesia	12.60
33	Bulgaria	11.82
34	Norway	11.39
35	Hungary	11.33
36	ROYAL DUTCH/SHELL	10.80
37	Philippines	10.23
38	Finland	10.20
39	Iran	10.18
40	Venezuela	9.58
41	Greece	9.54
42	Turkey	9.04
43	GENERAL ELECTRIC	8.73
44	South Korea	8.21
45	IBM	7.50
46	Chile	7.39
47	MOBIL OIL	7.26
48	CHRYSLER	7.00
49	UNILEVER	6.88
50	Colombia	6.61
51	Egypt	6.58
52	Thailand	6.51
53	ITT	6.36
54	TEXACO	6.35
55	Portugal	6.22
56	New Zealand	6.08
57	Peru	5.92
58	WESTERN ELECTRIC	5.86
59	Nigeria	5.80
60	Taiwan	5.46
61	GULF OIL	5.40
62	U.S. STEEL	4.81
63	Cuba	4.80
64	Israel	4.39
65	VOLKSWAGENWERK	4.31
66	WESTINGHOUSE ELEC.	4.31
67	STANDARD OIL (Calif.)	4.19
68	Algeria	4.18
69	PHILIPS ELECTRIC	4.16
70	Ireland	4.10
71	BRITISH PETROLEUM	4.06
72	Malaysia	3.84
73	LING-TEMCO-VOUGHT	3.77
74	STANDARD OIL (Ind.)	3.73
75	BOEING	3.68
76	DUPONT	3.62
77	Hong Kong	3.62
78	SHELL OIL	3.59
79	IMPERIAL CHEMICAL	3.51
80	BRITISH STEEL	3.50
81	North Korea	3.50
82	GENERAL TELEPHONE	3.44
83	NIPPON STEEL	3.40
84	Morocco	3.34
85	HITACHI	3.33
86	RCA	3.30
87	GOODYEAR TIRE	3.20
88	SIEMENS	3.20
89	South Vietnam	3.20
90	Libya	3.14
91	Saudi Arabia	3.14
92	SWIFT	3.08
93	FARBWERKE HOECHST	3.03
94	UNION CARBIDE	3.03
95	DAIMLER-BENZ	3.02
96	PROCTOR & GAMBLE	2.98
97	AUGUST THYSSEN-HUTTE	2.96
98	BETHLEHEM STEEL	2.94
99	BASF	2.87

The operations of the multinationals transcend national boundaries. The emerging conflict between these companies and host governments has been described as being potentially as momentous as the Church-State conflict hundreds of years ago. There is increasing interest in examining the effects of the multinationals on national economies, and on world trade and development generally. The Finance Committee's Subcommittee on International Trade will be holding hearings on this subject in the near future.

E. EAST-WEST TRADE

Some Europeans apparently felt threatened by the recent U.S. trade initiatives toward the USSR. They seemed resentful of the unilateral nature of the U.S.-Soviet trade agreement. Perhaps this is because they have long regarded trade with Eastern Europe as their special preserve. All the major European countries have been carrying on lucrative trade with the East, including China, for years. Now there exists a risk of the U.S. and Europe competing with each other to transact trade with the East on increasingly concessionary terms to the advantage of the USSR and to the overall disadvantage of the West. What is needed is a joint examination of the problems of dealing with nonmarket economies before competition becomes costly and politically irritating.

F. ECONOMIC DISLOCATION

Having introduced legislation (S. 3739 in the 92d Congress) embodying a new concept of expanded adjustment assistance, I was interested in the experiences of foreign governments in dealing directly with the problems of economic dislocation. In general, the European countries seem to be better able to cope with economically depressed areas where unemployment exists. Great Britain, for example, has taken a substantial step forward with the development of its regional policy. Under this program the government spent about $750 million in 1970–71 to encourage industrial growth in depressed areas. Thought is now being given to reshaping British regional policy to make it even more effective, and the British in turn are trying to encourage community-wide policies of the same character.

Either by use of the carrot or threat of the stick, other European countries have induced companies to locate new facilities in depressed regions. There are also programs of retraining and direct assistance to workers.

In the United States, imports of shoes, textiles, steel and ball bearings, to name a few, have seriously harmed these industries, and put many American workers out of jobs. In addition, changes in government procurement patterns have produced the same unfortunate results. While we should be developing more effective and realistic programs of adjustment assistance, at the same time it must be recognized that there are limits beyond which the American economy should not be expected to "adjust" in any brief period of time.

No great nation like our own can do without its basic industries. I have faith that our basic industries can, over the long haul, compete effectively. But in order to preserve their future viability, interim protection, including quotas, may be necessary as a result of changing trade patterns. Such steps, however, must be combined with a willingness to consult with our trading partners and with the introduction of forward-looking domestic policies to keep American industries competitive and American workers retrained for new jobs which actually exist.

The problem of temporary import relief and domestic adjustment assistance ultimately should be negotiated on a worldwide basis. No single country should be forced to bear the burden of economic shifts necessitated by the expansion and development of international trade. The cost of adjustment programs must be made part of the cost of development of international trade and recognized as such during any future negotiations.

Thus, international as well as domestic safeguards must become part of a new trade negotiation.

IV. Conclusions and Recommendations

A. Negotiating Strategy

The United States should vigorously pursue its interests vis-a-vis the Europeans in any forthcoming negotiations. But being tough implies being realistic. The United States must not approach these negotiations with an attitude of "you owe us something". Certainly we did a lot for Europe 20 years ago—but we cannot realistically expect a payoff for this in terms of unilateral concessions today. Trade negotiations by themselves are not going to solve our serious balance of payments problems. On the other hand, these negotiations should not aggravate them.

Trade and monetary problems are linked together because they involve the basic economic relationship that must be established between the U.S. and Europe. Our balance of payments problems can only be resolved through a combination of internal measures plus the development of improved monetary adjustment mechanisms.

Our other outstanding problems with Europe cannot be viewed in isolation from these economic questions. It is contradictory to argue, as some Europeans do, that the U.S. must maintain troops in Europe while, at the same time, insisting that Europe must pursue a trade and monetary policy harmful to the interests of the United States. These questions are all interrelated even if specific price tags are not put on some of our policies.

To develop a broad, new economic interrelationship with Europe, without weakening the confidence of Europe in its security ties with the United States, will require imaginative, high-level diplomacy, and real coordination within our own Executive Branch. I urge the President to put foreign economic policy and the need for reforms of both the monetary and trading systems at the top of his agenda in meetings this year with European heads of state. He should emphasize the need for action on both the monetary and trade fronts, lest the problems here spoil the whole political mood in Atlantic relations.

As a matter of global policy, and in the wake of our diplomatic success in approaching China and the USSR, we should seek improvement in our relations with all the major trading nations and avoid being caught up in the creation of antagonistic trade blocs.

The United States and Europe must avoid creating the impression that they are ganging up on third countries, particularly Japan. Such combined action was in fact proposed by some Europeans I spoke to. We have an interest in seeing that Europe removes its discrimination against imports from Japan, just as we have an interest on the removal of the considerable nontariff barriers which Japan still applies against our exports. Both these objectives can only be satisfied in the framework of truly multilateral and reciprocal negotiations, not by the formation of competing economic blocs.

These negotiations should not only be broad in their geographic coverage, but should also encompass all outstanding trade issues, tariffs, nontariff barriers, safeguards and agriculture. Most important, they should be conducted under the broadest mandate and be based on the overriding principle of nondiscrimination. A small effort can only bring small results. Only if negotiations are grand in design would it be possible to resolve the very difficult problems bedeviling trade relations today.

B. The Need For Safeguards for Certain Industries

Creation of an international code of conduct governing the use of various safeguard measures to protect American industries and workers from injurious import competition should be a major goal of any future negotiations. The best remedy is, of course, the maintenance of a vigorous, full-employment economy. But even in a full-employment economy, transitional adjustment problems can arise.

To secure the benefits of expanded trade, it is a practical political reality that adequate safeguard measures for affected industries now be available. The trouble arises when countries apply such measures without regard to some sensible rules of conduct, with the effect that the burden of adjustment is passed on to the exporting country. This is an invitation to retaliation. As a rule, safeguard measures should be invoked for a transitional period with a requirement that each country must provide effective adjustment assistance to firms and workers to facilitate the transition to new activities. All nations must eventually be included—communist countries and developing countries as well as the major trading nations. In an increasingly interdependent world, any negotiations which do not include all of these countries will be deficient.

C. Executive Reorganization

The disparate policy strongholds in economic policy in the Executive Branch must be brought together under a coherent management structure. This must be done openly, so that everyone knows where to go for answers, be they businessmen, workers, foreign diplomats, or Congressman. After this is done, coordinated policies must be implemented throughout our government so that everyone in an official capacity gets the word. It is not a matter of making trade policy under new headings, but moving trade up to the level of other considerations. Anything less than such an effort will be harmful to our most vital economic, political and security interests.

D. Consultation With the Congress, Labor and Business

If any negotiations are to be successful, the Administration should begin an active process of consultation with the Congress. If major trade negotiations are to take place, new legislative authority will be necessary. Under our Constitution the Congress has the power "to regulate commerce with foreign nations . . ." It must be involved in the process of policy formulation.

We must also involve the private sector in these negotiations. While I was in England, I had a long and fruitful conversation with the Director-General of the Confederation of British Industry about the relationship between his organization, the British government and the labor movement in England. He told me that once all parties were able to agree on a particular action, there was nationwide cooperation. More importantly, the government was thoroughly advised before implementing a policy about particular difficulties that could be expected or needed to be considered in one segment of the economy or the other.

There is an abysmal lack of long-range economic planning in our own country and insufficient cooperation between government, business and labor. Too often in the past, we have negotiated international agreements in the trade area without sufficient input from the business community, from labor unions and from the Congress. The men in our Executive Branch who have handled these negotiations in the past, and will be handling them this time, are skilled diplomats and negotiators. However, there is no reason to expect them to appreciate all of the political and economic impact of the decisions they are making.

Experience under the Kennedy Round revealed great disillusionment on the part of our trading partners when agreements negotiated by American negotiators turned out to be unacceptable to either the business community, the United States Congress or labor, and as a result were not adopted. If we are to avoid further disappointment in the future following any trade agreements negotiated, the Administration must include representatives of labor, business, agriculture, and the Congress on the United States delegation to the GATT talks in Geneva in September.

E. The Institutional Framework

The GATT, because of its past experience and the breadth of its geographic coverage, will provide the institutional framework for the trade negotiations. The GATT is certainly not a perfect instrument, but it is clearly the only one we now have for this purpose. If it is to be improved and changed to meet new challenges, it will require greater support by the major participants in the negotiations. Since the success or failure of the negotiations will depend on the roles played by the United States, the European Community and Japan, these three entities should constitute an informal steering committee to guide the negotiations.

What is needed most at these negotiations is a singleness of purpose on the part of all the players to join in a game where all can win. Unless this spirit is there—all can lose. I am hopeful that the high degree of statesmanship needed will not be lacking, and that together all the nations of the world will begin to cooperate with each other for the lasting benefit of all.

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