OVERSIGHT OF U.S. TRADE POLICY

JOINT HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

AND THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

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Paul Freedenberg, *Economist*
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CONTENTS

ADMINISTRATION WITNESSES

PUBLIC WITNESSES

ADDITIONAL INFORMATION

COMMUNICATIONS

OVERSIGHT OF U.S. TRADE POLICY

WEDNESDAY, JULY 8, 1981

U.S. SENATE, SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE COMMITTEE OF FINANCE AND SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY OF THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,

Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2221, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Dole, Roth, Heinz, Symms, Grassley, Long, Byrd, Bentsen, Matsunaga, Moynihan, Baucus, Bradley, and Mitchell.

[The committee press release follows:]

[Press Release No. 81-136, May 27, 1981]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE AND BANKING SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY SET OVERSIGHT HEARING ON U.S. TRADE POLICY

Senator John C. Danforth (R., Missouri), chairman of the Subcommittee on International Trade of the Committee on Finance, and Senator John Heinz (R., Pennsylvania), chairman of the Subcommittee on International Finance and Monetary Policy of the Committee on Banking, Housing, and Urban Affairs, announced today that the two subcommittees will hold the first day of oversight hearings on the trade policy of the United States on July 8, 1981.

The hearing will begin at 10:00 A.M., in Room 2221 of the Dirksen Senate Office Building.

Witnesses testifying at the hearing or submitting statements should direct their testimony to the following general concerns: Does the United States have or need a comprehensive trade policy? How does/should such a policy relate to:

1. Increasing U.S. exports of goods and services through: a. Improved access to foreign markets; b. Enhanced incentives and fewer disincentives to export; and c. International use of export credit subsidies.
2. The use of trade for foreign policy purposes through: a. The use of access to U.S. markets and/or access for U.S. exports to obtain nontrade related goals; b. Export controls and embargoes.
3. The use of domestic economic policies that: a. Improve U.S. export competitiveness; b. Provide for import relief and adjustment.
4. Investment and services policy: a. opportunities and restrictions on investment by U.S. firms abroad; b. strategy for reducing barriers to trade in services.

Requests to testify.—Chairmen Danforth and Heinz requested that persons desiring to testify during this hearing make their requests to testify in writing to: Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than July 1, 1981. Persons so requesting will be notified as soon as possible after this date whether they will be scheduled to appear. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.—Chairmen Danforth and Heinz urged all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the committees. This procedure will enable the committees to receive a wider expression of views than it might otherwise obtain. The committees urge very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.—Chairmen Danforth and Heinz observed that the Legislative Reorganization Act of 1946, as amended, and the rules of the committees require witnesses appearing before the committees of Congress to file in advance written statements of their proposed testimony and to limit oral presentations to brief summaries of their arguments.

The chairmen stated that all witnesses who are scheduled to testify must comply with the following rules:

(1) All witnesses must include with their written statements, a one-page summary of the principal points included in the statements.

2. The written statements must be typed on lettersize (not legal size) paper and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than noon of the last business day before the witness is scheduled to appear.

Senator DANFORTH. Today we begin a set of hearings aimed at forcing administration, congressional, and national thinking on the trade policy of the United States.

International trade is a vital component of our economic well-being. I want to focus our national attention on some important, indeed fundamental trade policy questions. These questions need to be answered with clarity and precision.

Among the basic questions are: Should the United States rely exclusively on market forces to govern adjustment in distressed industries, or should we employ appropriate trade tools and economic transfusions for such industries.

Should we confine ourselves to blanket, industry-neutral economic policies for all sectors of our economy, or should we adopt industry specific tax and investment incentives to foster growth industries that face Government-supported competition from abroad.

Should we place primary reliance on market forces for upgrading and adjustment throughout the American economy or alternatively, should we make exceptions for certain sectors that may be important to our national security, that already benefit from import protection or price supports, or that have powerful political backing.

Should we fully enforce U.S. laws and international agreements relating to trade across the board. Should we enforce these laws selectively to account for overriding geopolitical objectives or even the cost effectiveness of enforcement.

Should the United States take a free market, noninterventionist approach to exports, or should we allow nonmarket considerations to take precedence over exports in cases where national security factors, foreign policy concerns, or foreign application of U.S. laws, standards and moral values are involved? Take, for example, the sale of wheat or butter to the Soviet Union.

Should the United States adopt policies in such areas as export credit subsidies, antibribery laws and noninterventionist adjustment policies in the hope that other countries will follow our lead, or should we wait until we have persuaded other countries to adopt such policies before embracing them ourselves.

These and other issues must be raised, debated, and resolved. Senator Heinz.

Senator HEINZ. These hearings mark the first comprehensive effort since the Tokyo round of trade negotiations to review the world trade situation and to examine the experience we have had in the implementation of the 1974 and 1979 Trade Acts. Through this legislation the Congress has defined our general trade policy and delegated authority to the executive branch to implement it.

The Reagan administration in its first 6 months has made landmark progress in presenting a comprehensive domestic economic program of spending cuts, tax cuts, and regulatory reform, moving most of it successfully through the legislative process. It is now time that the administration focus with the same care, attention, and sense of urgency on international economic policy.

The purpose of these hearings is to assess the progress the administration has made in formulating its trade policy and to evaluate it against the standard set by Congress in existing legislation.

For the first 20 years of the postwar period, the United States so dominated the world economy that we could afford to lead by example. To open our markets without regard to the short-term consequences because our domestic economy was strong enough to absorb increased imports.

This policy, along with our bilateral foreign aid program, contributed significantly to postwar recovery in Europe and the Far East.

Now that recovery has caught up with us. Our productivity growth is lower than others, and competitive advantages we have enjoyed are slipping away—to Japan and the newly industrializing countries in particular. The economic world is now multipolar.

In the past decade worldwide inflation caused in part by rapidly increasing oil prices, coupled with major economic strides by the NIC's have significantly increased protectionist pressures. Industrialized nations have added new subsidies and a growing variety of nontariff barriers in an effort to make their own products more competitive and to protect their home markets from imports. The ground we have gained by cutting tariffs has been eroded by these new practices.

These developments call for a reexamination of our policy goals. The appropriate goal, very simply is furthering the commercial interests of the United States. It is my view, that this policy, which is outlined in section 121 of the 1974 Trade Act, is correct. I believe it can be achieved if we adhere to two basic principles, free market economics and reciprocity.

There are of course, in the real world, constraints that inevitably obstruct our best efforts to adhere to general principles. Matters of national security, public health and safety or human rights will have to be taken into account. But in all such cases our policy must be clear, consistent and dependable, the result of open debate and due consideration. These hearings will examine whether the administration understands and will implement these principles in the way Congress has intended.

The American people believe in free trade but also in reciprocity. There is a growing feeling that other nations are abandoning the international system we have worked so hard to create and maintain and that we alone are adhering to its free trade principles while everyone else is shutting their doors.

It is ironic that one reads periodically in the press that our No. 1 trade problem is growing American protectionism. In fact, I believe our No. 1 problem is the existing impenetrable barriers erected by our trading partners in the form of nontariff measures, subsidies, and other trade distorting practices. These activities are omnipresent and create artificial advantages that allow nations to avoid facing their real economic problems. A good e nple is the Japanese practice of severely restricting market a ss to protect their infant industries, only to demand full acces to our markets for their autos, semiconductors or computers when those same industries are big enough to threaten us. This is neither free market economics nor reciprocity and it is time we said so and did something about it.

An ever present concern with respect to free trade and reciprocity is the issue of consistency in policy and implementation. The administration negotiated protection for the American automobile industry. It is ironic, and to my mind somewhat unfair, that only a few weeks later, despite a level of import penetration twice that for autos and in the face of a unanimous ITC finding of injury, that the administration denied protection to the American footwear industry. The administration is now supporting, I am told, import restraints on tobacco. The question is: What kind of a policy standard produces these decisions.

On numerous occasions the administration has sent its officials up to the Congress, to reaffirm their commitment to aggressive and effective enforcement of our unfair trade practice laws; yet, those same commitments appear to have been ignored in a recent decision involving Mexico, shortly after President Lopez Portillo's visit. What was the basis for that decision, and how does it fit with previous commitments to the Congress?

In other words, do we have a trade policy or do we have an ad hoc policy clothed in free trade rhetoric? I believe that we are entitled to a clear, consistent trade policy. We do not want and we cannot afford a policy based on the politics of protecting the powerful and ignoring the powerless. In that regard there are four basic issues I hope these hearings will focus on in depth. First, adjustment. The administration's record on adjustment is short. But to date, the record is confusing and somewhat discouraging. The adjustment assistance program has effectively been eliminated by budget austerity. Extension of import relief for footwear has been denied. At least one administration official has suggested that we would be better off without a multifiber arrangement. It appears to be the administration's view that the only purpose of adjustment and our section 201 escape clause mechanism is to help phase an industry down and out. Seemingly ignored is the fact that another valid purpose of adjustment is to provide a respite so an industry can restore itself to a competitive position. The specialty steel industry is a classic case of the latter, proof positive that the 201 process can do more than provide a dignified death and a decent burial. A narrowly conceived adjustment policy sells both our industry and the administration's own economic program short.

Second, trade law enforcement. Fundamental to our policy and to the health of the international system must be a strong commitment to enforce the law. The domestic manufacturer has a right to seek redress, to receive a prompt hearing of his complaint, to have that complaint resolved promptly under fair and open procedures, and to receive timely and effective relief if he is entitled to it. How does the Commerce Department justify imposing an injury test—most recently in the Mexican toy balloon case—when the imposition of such a test is precluded by law. Internationally we face other cases in the near future, for example, Canada's effort to force the United States out of their energy industry. If the administration wants to waive the existing law for foreign policy considerations, they should say so, and ask for the authority, which in my view they do not now have, to do so.

Third, reciprocity. Fundamental to the idea of free trade is the obligation of others to practice it as well as we do. What they do, and that they do it along with us. The day is past when we can lead by example, opening access to our markets and merely hoping others will follow suit with their markets. We must develop a coherent strategy for reciprical concessions on trade barriers, based on a solid understanding of what we have to negotiate with and what we want to obtain in return. Reciprical market access is fundamental. For example, even after the Japanese have substantially reduced their tariffs, other practices and forms of government guidance effectively restrict imports, as in tobacco, where foreign cigarettes are effectively limited to 1 percent of the market. I believe that we need new negotiations on trade and services, on performance requirements, on export credit subsidies. We want to know whether the administration agrees, and if so, what steps have been taken thus far.

Fourth and finally, export credit subsidies. We must learn the lesson of the continuing poor record of our trade balance, a deficit of over $36 billion on an annual basis in the first quarter and recognize that we have shackled our exporters and shut them off from markets for our goods and services overseas. The administration has already taken some very welcome, very constructive, and very positive positions in this area on export trading company legislation, on reform of the Foreign Corrupt Practices Act and on the taxation of Americans working abroad.

Unfortunately, the policy to combat and eliminate the international growth of export credit subsidies so far appears indecisive or unclear, particularly as to what it expects of the Export-Import Bank.

To be blunt, we are in an export credit war not of our making. Other nations, particularly France, have decided to use credit subsidies at any cost to capture markets for their exports. While the administration, I know, shares my opposition to subsidies, it has yet, so far, to propose a strategy to eliminate them without using the Export-Import Bank which provides the only real leverage we have.

Reduction of Ex-Im funding during an international trade war is like unilateral disarmament when facing the Soviets. We don't advocate it in defense. We shouldn't capitulate in trade either. So I hope our witnesses will report on the status on the export credit negotiations and explain how they expect them to succeed without an active Ex-Im Bank.

These are not the only issues that this committee will take up, I am sure. I know that other members of both subcommittees have agendas of their own. But I want to make clear from the beginning that it is my hope that we will come to grips with the question of the erosion of the world free trade system and the consequent damage to our economy. This issue is as important to our long-term survival as the President's domestic economic program or our national security policy.

[The prepared statement of Senator Heinz follows:]

PREPARED STATEMENT BY SENATOR JOHN HEINZ

These hearings mark the first comprehensive effort since the Tokyo Round of trade negotiations to review the world trade situation and to examine the experience we have had in implementation of the 1974 and 1979 Trade Acts. Through this legislation the Congress has defined our general trade policy and delegated authority to the Executive to implement it.

The Reagan Administration, in its first six months, has made landmark progress in presenting a comprehensive domestic ecomomic program of spending cuts and tax cuts, and in moving it successfully through the legislative process. It is now time that the Administration focus with the same care, attention, and urgency on international economic policy.

The purpose of these hearings is to assess the progress the Administration has made in formulating its trade policy and to evaluate it against the standard set by Congress in existing legislation.

A NATIONAL TRADE POLICY

That standard, very simply, is that the purpose of our trade policy is furthering the commercial interests of the United States. It is my view that this policy, which is outlined in section 121 of the Trade Act of 1974, is correct. And I believe it can be achieved if we adhere to two basic principles: free market economics and reciprocity.

There are, of course, in the real world constraints that inevitably obstruct our best efforts to adhere to general principles. Matters of national security, public health and safety, or human rights will have to be taken into account. But in all such cases, our policy must be clear, consistent, and dependable, the result of open dabate and due consideration. These hearing will examine whether the Administration understands and will implement these principles in the way that Congress has intended.

The American people believe in free trade, but also in reciprocity. There is a growing feeling that other nations are abandoing the international system we have worked so hard to create and maintain, that we alone are adhering to its free trade principles while everyone else is shutting their doors.

It is ironic that one reads periodically in the press that our number one trade problem is growing American protectionism. In fact, our number one problem is existing impenetrable barriers erected by our trading partners in the form of non-tariff measures, subsidies, and other trade-distorting practices. These activities are omnipresent and create artificial advantages that allow nations to avoid facing their real economic problems. A good example is the Japanese practice of severely restricting market access to protect their infant industries, only to demand full access to our markets for their autos, semiconductors or computers when those same industires are big enough to threaten us. This is neither free market economics nor reciprocity, and it is time we said so and found out what the Administration plans to do about it.

An ever present concern with respect to free trade and reciprocity is the issue of consistency in policy and implementation. The Administration negotiated protection for the American auto industry. It is ironic—and to my mind unfair—that only a few weeks later, despite a level of import penetration twice that for autos and in the face of an ITC finding of injury, that the Administration denied protection to the American footwear industry. The Administration is now supporting import restraints on tobacco. What kind of a policy standard produces these decisions?

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Adjustment.—The Administration's record on adjustment is short. But to date the record is confusing and discouraging. The adjustment assistance program has been effectively eliminated by budget austerity. Extension of import relief for footwear has been denied. At least one Administration official has suggedted we'd be better off without a Multifiber Arrangement. It appears to be the Administration's view that the only purpose of adjustment of our section 201 escape clause mechanism is to help phase an industry down and out. Seemingly ignored is the fact that another valid purpose of adjustment is to provide a respite so an industry can restore itself to a competitive position. The speciality steel industry is a classic case of the latter, proof positive that the 201 process can do more than provide a dignified death and a decent burial. A narrowly conceived adjustment policy sells both our industry and the Administration's own economic program short.

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Export credit subsidies.—We must learn the lesson of the continuing poor record of our trade balance—a deficit of over $36 billion for the first quarter—and recognize that we have shackled our exporters and shut them off from markets for our goods and services overseas. The Administration has already taken some constructive positions in this area, on export trading company legislation, on reform of the Foreign Corrupt Practices Act, and on taxation of Americans working abroad.

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These are not the only issues we will take up. I know that other members of the two subcommittees have agendas of their own. But I want to make clear from the beginning that my agenda is to come to grips with the erosion of the world free trading system and the consequent damage to our economy. This issue is as important to our long term survival as the President's domestic economic program or our national security policy.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

I have no statement except to commend you for holding these hearings. You have a very ambitious schedule and program. It is very timely. We have a lot of work ahead of us. I suggest we get to work.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Thank you Mr. Chairman.

I would like to thank you for this opportunity and welcome Ambassador Brock. I hope in the course of his testimony he will address himself to one issue that has troubled many of us in this committee, which is the decision the committee has made and subsequently the Senate made, for tax purposes, to put an end to trade adjustment assistance.

Now you speak of the countervailing duty laws and other measures that have made an open trade policy politically viable in our country.

I think there has been none more central to that concept than trade adjustment assistance, the idea that if the United States makes trade concessions that put people out of work, and does so as a matter of international economic policy, well, then it will compensate them for at least a period of their unemployment.

We have ripped that legislation out of the books for practical purposes.

I know that your predecessor would have thought it a matter of breaking faith in all truth, with those groups, the trade unions, in particular, who supported the Tokyo round and the whole new regime in international trade with the understanding that there would be this protection.

Then, having gotten to the Tokyo round, the next thing the Government took it away from them.

The other thing I would wish to hear from you is, how are those new arrangements working? We were told at great length by Ambassador Strauss about the arrangements whereby an unfair trade practice takes place, and there are codes and governments can take complaints and they will be judged and a kind of common law of trade practices would emerge.

The GATT would no longer be—well, just Eric Windham White and three secretaries on a little chalet, on a hillside outside of Geneva. It would become an organization.

I would like to hear from you whether we have taken any such complaints and has there been any outcome. But mostly, I would like to welcome you to this committee, sir.

Senator DANFORTH. Mr. Ambassador, thank you very much for being with us.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. BROCK. Thank you very much, Mr. Chairman.

I want to join in the accolades to you both for calling this particular session into being. In accepting this responsibility, I have sought to place the conduct of trade negotiations in the context of an overall trade policy for the Nation, in fulfillment of my duty as the President's chief adviser on trade policy and developing a uniform trade policy.

I have met with Members of Congress, had sessions with virtually all members of the Cabinet, the President, and consulted with the leaders of labor, business.

As a result of that process is the statement of U.S. trade policy which I offer in behalf of the administration, today.

If I may, Mr. Chairman, I will excerpt it and try to reduce the time burden of reading the entire statement.

I would like to make certain fundamental points.

A strong U.S. economy is our goal. Free trade, based upon a mutually accepted trading relation is essential to the pursuit of that goal.

International trade is and will continue to be a vital component of the U.S. economy.

The trade policy of the Reagan administration will complement domestic economic programs which are designed to increase employment and output, and reduce inflation.

One of the principal requirements of a strong U.S. economy is the maintenance of open markets both at home and abroad.

The United States is more dependent on the international trade than at any time in recent history.

Exports generate higher real income and new jobs and imports increase consumer choice and competition in a wide range of goods and services.

The United States is increasingly challenged not only by the ability of other countries to produce highly competitive products, but also by the growing intervention in economic affairs on the part of governments in many such countries.

We should be prepared to accept the competitive challenge and strongly oppose trade distorting interventions by government.

We will strongly resist protectionist pressures.

Open trade, on the basis of mutually agreed upon rules is in our own best economic interests and is consistent with the administration's commitment to strengthen the domestic economy.

We will give top priority to international trade.

The President's economic recovery program will strengthen industry and agriculture and improve the U.S. competitive position.

Internationally, we will pursue policies aimed at the achievement of open trade and the reduction of trade distortions while adhering to the principle of reciprocity in our trading relations.

In seeking these fundamental objectives we will initially focus on five central policy components.

First, the restoration of strong, noninflationary growth to facilitate adjustment to changing domestic and international market conditions.

The Congress is sufficiently involved in the debate on our tax and expenditure plans for me not to require elaboration on that particular subject area.

Second, the reduction of self-imposed export disincentives and improvement of U.S. export promotion programs.

Again, I know the members of this committee are familiar with our efforts to liberalize the taxation of Americans abroad, modify and improve the Foreign Corrupt Practices Act and enact export trading company legislation, so I won't elaborate there further.

Third, effective enforcement of U.S. trade laws and international trade agreements.

The United States and its trading partners have negotiated international agreements to reduce barriers to trade and to establish common ground rules to limit trade distorting practices.

These agreements are predicated on the fact that trade must be a two-way street, in a genuinely open trading system.

In the multilateral trading negotiations agreement was reached on international codes of conduct covering a wide range of nontariff barriers.

U.S. trade laws and international dispute settlement procedures provide the means for effective enforcement of these international trade agreements.

We will enforce strictly, U.S. law and international agreements.

Specifically, our antidumping, countervailing duty, and similar structures are designed to neutralize or eliminate trade distortive practices which injure U.S. industry and agriculture.

We regard these laws as essential to maintain the political support for a more open trading system.

Fourth, an effective approach to industrial adjustment problems.

Developments in the world economy over the last few years such as the energy crisis and emergency of new suppliers of manufactured and agricultural products in world markets have triggered major adjustments in the U.S. economy.

Developments in the world economy over the foreseeable future will create the need for continuing adjustment.

Our policies toward the adjustment will take into account the fact that the economic vitality of certain sectors of our domestic economy is clearly essential to national security.

Where other nations have a natural, competitive advantage, U.S. industry must either find a way of upgrading its own capabilities or shift its resources to other activities.

Where the foreign advantage is based upon government subsidy and other trade distorting practices, U.S. policy will be to enforce U.S. trade laws and work to eliminate such practices.

Adjustment assistance and safeguard measures can ease problems of dislocation of firms and workers, but they do not in and of themselves effectuate adjustment.

It is U.S. policy to place primary reliance on market forces to facilitate adjustment in affected industries.

Import restrictions, subsidies to domestic industries and other market distorting measures should be avoided.

A better solution to the problems associated with the shifts in competitiveness is to promote positive adjustment of economies by permitting market forces to operate.

It will be critical to encourage through international negotiations, all governments to adopt adjustment policies which do not have trade and investment distorting effects.

The multilateral trade negotiations achieved agreement on new codes covering a wide range of nontariff barriers and a substantial reduction of tariffs.

There are a number of issues, however, which would not adequately resolve in those negotiations or not addressed at all.

In looking at the priorities that we will seek to follow in that particular area, I would just like to list two or three of primary concern.

Trade and services is of obvious and growing importance in the United States. It comprises 65 percent of our GNP, 71 percent of our employment, and we simply have not established adequate international rules for the conduct of trade and services.

On investment issues, I think it is fair to state that international law simply is not adequate to some of the problems we see developing in investment incentives, performance requirements and other trade distorting actions by nations.

Again, we need to pursue aggressively a multilateral agreement in this area.

On goods incorporating advanced U.S. technology, we need—excuse me, as our industries mature and adjust to international competition, we will need strong performance in high technology industries to maintain the U.S. competitive edge.

Trade in these areas is frequently distorted by various forms of government intervention.

While the codes negotiated in the MTN negotiations deal with some aspects of such intervention, they do not adequately cover either a number of key sectors or certain types of intervention by government.

We will try to press for multilateral negotiation and establishment of a code in this area as well.

One of the areas of great opportunity is in the trade with developing countries. We now do more business with the Third World than we do with Europe and Japan combined.

I think it is important to note parenthetically that the United States is the most forthcoming of all nations in this particular regard in providing access to our markets on the part of poorer countries.

As a matter of fact, if you take the amount of dollars that we pay those countries for the purchase of their product, we provide twice the total number of dollars that they receive from all sources of all foreign aid combined, just for the purchase of their product into the U.S. economy.

So, it is not a light undertaking.

But in trade terms, an increasing proportion of U.S. exports of manufactured and agricultural products is going to the developing countries.

This growing market for our goods is vital to our economic well-being and to theirs.

The developing countries' ability to import our products in turn is dependent on market access for their goods and on the availability of financing.

We will consolidate and expand on the work begun in the MTN of integrating the developing countries more fully into the international trading system.

The United States seeks to insure that the more advanced developing countries undertake trade obligations commensurate with their surge of development and the benefits of differential trade treatment are directed increasingly to the poor LDC's.

At the same time, the United States will recognize the exporting needs of all developing countries. We will carry out our trading dialog with the objective of making genuine trade progress to our mutual advantage.

I might in that context mention specifically trade with North American countries because we do have extensive economic links with our partners in this hemisphere. We will pay close attention to their needs and to the development of stronger trading relationships with the North American and South American countries.

In recognition of these facts, the Congress has asked the President to submit a report on additional steps that could be taken to encourage further economic cooperation with our North American neighbors.

That report will be submitted this month.

Trade with nonmarket economies remains a problem. It has grown substantially in the last few years and it now constitutes a relatively small volume of our total trade.

While taking account the primacy of national security interest, we do need to develop approaches that bridge the fundamental differences between the market-oriented nature of the GATT system and the general absence of market forces in these countries.

We will seek through a more uniform policy and where appropriate through bilateral trade agreements to encourage greater conformity to their trade practices with accepted principles of international trading systems.

We do have a problem, as I mention in the paper, of creeping bilateralism concerns regarding the availability of oil, raw materials, have persuaded an increasing number of countries to negotiate potentially trade-distorting bilateral deals which include supply of commitments for oil and raw materials, investment commitments and processing facilities, and import commitments for processed goods.

When such arrangements are negotiated by governments and when they override multilateral trade commitments, they do pose a serious threat to U.S. commerce and the international trading system as a whole.

We will initiate multilateral discussions to try to limit the potential distortion of such practices.

There is a particular problem with regard to competition policy and safeguards which simply was not adequately elaborated in the Tokyo round.

There has been an increasing tendency in recent years for a large number of countries to face import problems in the same sector.

This has led to the simultaneous application of safeguard measures by a number of nations creating the danger of a significant reduction in competition on a global scale.

To the extent such countries or some countries permit their firms to reach agreement with foreign firms to restrain trade, the potential erosion of competition globally is even more serious.

Differences in national antitrust laws with respect to the treatment of international restraint agreements moreover give rise to inequalities in the standards supplied to companies operating in the world marketplace.

Increasingly, therefore, competition needs to be viewed from an international perspective. I simply cite this because we will pursue an effort to further elaborate a safeguards code in the GATT.

In conclusion, adoption and implementation of this trade policy approach for the 1980's will strengthen U.S. economic performance and our competitiveness in the world markets.

To fully succeed in this area, we will need to muster a strong national determination, a will to persevere and prevail, and a commitment to rely on competition and free markets.

The Government can help create an environment conducive to efficient and profitable production, but it is private individuals and enterprises who have to take the initiative to seize economic opportunity.

Our trade policy is built on the close cooperative relationship with the Congress and the private sector.

Our private sector advisory committees have become a fundamental element in our trade policy process. In implementing the agenda we have outlined, we will work closely with each and increasingly with the 50 State governments in our federal system.

A strong U.S. trade position must be and will be a national priority. It is vital to our domestic well-being. It is essential to our capacity to provide leadership to the free world.

Mr. Chairman, that concludes the statement of the trade policy.

I gather that there was some expression that this was not as sufficiently precise, at least from some press comments of yesterday.

Perhaps it would be productive to just summarize it for you.

What we have said is that it is the policy of this administration to seek the course of free trade in any and all avenues to the extent that we are capable of doing so.

We live in a political world. We are realistic. But where we have a choice and where it is possible to do so, we will in all instances try to move in the direction of freer trade as opposed to less free trade.

We will seek to encourage a similar liberalization of trade on the part of our partners and an essential strengthening of the international trading system in order to accommodate trade within established rules and procedures which allow for predictable results in the settlement of disputes.

Senator DANFORTH. Mr. Ambassador, thank you very much.

The headline in this morning's Washington Post, in the article which describes the white paper, states, "Trade Policy Backs Survival of the Fittest."

That would strike me as being a fair statement of the administration's policy.

Would you agree?

Mr. BROCK. Well, there has been enough debate about Darwin in the recent days.

Senator DANFORTH. In Tennessee.

Mr. BROCK. I think essentially we do believe that competition is the most important ingredient in a healthy economy and that in fact it is not the business of Government to protect against failure.

Senator DANFORTH. Well, it seems to me the heart of the white paper is in the section which is entitled, "Effective Approach to Industrial Adjustment Problems." That fairly well indicates what the administration's policy is. There it is stated, "It is U.S. policy to place primary reliance on market forces to facilitate adjustment in affected industries."

Is this another way of saying to the trade bar forget about section 201 cases. The administration is not going to be receptive to them.

Mr. BROCK. No; I wouldn't say that at all. U.S. law is precise in a number of areas. Where a firm has or an industry has an opportunity or a reason to seek a recourse to the law and where they are—where they have a good, strong case, they have every right to pursue that recourse.

I would not in any way suggest that they don't follow that route.

I have said in other sections of the paper, that enforcement of U.S. law, established by this Congress, is essential if we are in fact going to have continued support of the trade policy.

Senator DANFORTH. But clearly the administration has broad discretion in the area of safeguards. What this says is the administration intends to exercise that discretion in a very cautious way; is that correct?

Quoting from the white paper:

> Import restrictions. Subsidies to domestic industries and other market distorting measures should be avoided. A better solution to the problem associated with shifts in competitiveness is to promote positive adjustment of economies by permitting market forces to operate.

This is to say that it is going to be a rare event when an American industry that is having a hard time gets import relief.

Mr. BROCK. Well, if you look at the range of trade laws presently on the books, if an industry is affected by unfair competition, by subsidized competition, by trade distorting practices of governments in third markets, we have antidumping protection. We have countervailing duty protection. We have 301.

You mentioned 201.

All of those are available. All we suggest is that the case has to be good. But if it is a legitimate case, it will be considered as the Congress has intended when it wrote the law.

The law will be enforced to the best of our ability, by this administration, as it was intended to be enforced.

Senator DANFORTH. Well, I think the question of countervailing duty and antidumping laws is one thing. The administration has made it quite clear that it does intend to enforce the laws with respect to trade distorting effects. That is another line of questioning.

But, what I am particularly interested in is the case of an industry which might not be considered to be vital to the national security. That is to say, not part of the defense industry.

Mr. BROCK. Yes.

Senator DANFORTH. But that industry may be a key part of our economy. It is on the decline. It has been steadily eaten away by imports. Its position as our exporter is nil.

And, as I understand it, it is the administration's basic policy to allow survival of the fittest. Just let it go down. Let market forces work.

Mr. BROCK. I think it is a little bit overstated. I do think, Senator, it is fair to state that we believe the most important thing we can do for individual firms is to have a healthy total economy.

Senator DANFORTH. A healthy what?

Mr. BROCK. Total economy. That it is impossible for anybody to survive with the rate of interest we have today and the rate of inflation we have today.

We have to deal with the fundamentals. To restore a vibrant economy will give an awful lot of people a chance to compete that might not otherwise have it.

But, on other questions, when you ask about a particular industry, we will judge those on an individual case basis and on the merit of the case.

Senator DANFORTH. Thank you.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

I have no questions at this time.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Ambassador Brock, as I stated in my opening statement, one of the purposes the 201 escape clause has been used for is not simply to allow industries to get a burial allowance and to die with reasonable dignity, but to allow industries to recuperate.

Mr. BROCK. That is correct.

Senator HEINZ. To gain some time, some shelter, to invest, to build up their cash flow, to invest that cash flow and to modernize and to become more competitive.

This, as I have pointed out to you before, is what happened with the decision that President Ford made in 1975 in the specialty steel case. It worked very well. The specialty steel industry took advantage of the protection, the respite. They made investments. They kept their prices lower than other people in the economy.

It was a great success story.

Mr. BROCK. Yes.

Senator HEINZ. As I go through your statement, I find absolutely no reference to that as a valid purpose of an adjustment policy.

Now is it not there because you do not believe it is a valid purpose?

Is it not there because you forgot to put it in.

Or is it something you are going to pursue on an ad hoc basis or what?

Why is that not mentioned?

Mr. BROCK. It is not there because it is a part of U.S. law and I expressed our intention to comply with U.S. law.

I could cite the same example as you have as precisely the kind of case that does work. Specialty steel case was a good example of a case that worked.

I will cite you another one with which you and I disagreed on our final decision, but that is the shoe case, where the ITC did make a finding of injury about 4 years ago.

Relief was granted through orderly marketing agreements with Taiwan and Korea. As a consequence, the industry did have 4 years in which to reinvest, to modernize, to change its management practices and they became in fact a very healthy, competitive industry. Their sales are good. Their profits are good and strong.

That is precisely why we believe they were ready to compete, and made the decision to not accept further relief as recommended by the ITC with regard to Taiwan.

That is a good example of the sort of thing we can accept.

All I am saying is we have to judge these on their merits. I don't think it is wise to presume that industry, because it has had a couple of years of good, healthy competition, is in fundamental trouble.

I think we have to be very cautious about the application of a safeguard policy.

We certainly have to be very sure that we are in consonance with our international agreements.

Senator HEINZ. Well, would it be accurate to say that your policy is survival of the fittest, but you will judge who is fit to survive on a case-by-case basis, using as the criteria whether or not protection, whether it is quotas or tariffs or both or something else, will in fact improve the competitive position of that industry?

Mr. BROCK. You know, Senator, you know my political and economic philosophy well enough to know that I don't think Government is competent to make those decisions.

Senator HEINZ. Yet, that is exactly what the 201 system asks Government to do.

Mr. BROCK. No.

Senator HEINZ. After an injury finding, the President has to decide whether he wants to grant the relief recommended by the ITC.

Mr. BROCK. That's right, but——

Senator HEINZ. So a judgment is made and on what basis is it going to be made?

Mr. BROCK. But that is after we go through an extensive process of hearing, factfinding, through a quasi-judicial public body, the ITC, which makes a finding on the facts, on the merit of the case.

Then the submission is made to the President for final determination.

Yes; that is an entirely legitimate approach. But that isn't me making that decision unilaterally on some political whim.

Senator HEINZ. Well, let me ask you.

Mr. BROCK. It is a regular process.

Senator HEINZ. You mentioned the shoe case a while ago.

Mr. BROCK. Yes.

Senator HEINZ. I mentioned it before that.

Mr. BROCK. Yes.

Senator HEINZ. The ITC unanimously found injury. They also recommended relief. But there was a decision made as the President does have the authority to do, not to grant it.

Now, what was the basis of reversing the recommendation for relief of the ITC?

Mr. BROCK. We looked very carefully at the industry and its record of progress in the previous 4 years when restraint was imposed on those two countries.

We talked to the industry and we talked to the importers. We talked to labor. We looked at their financial progress.

We honestly found it impossible to expand the relief suggested by some Members of the Congress to include both Korea and Taiwan when the ITC did not find the industry with injury with regard to Korea.

We found it very difficult to single out one country for action, in this case, Taiwan. I think of greatest importance, we felt that an industry that was making 8 percent profit on sales and 28 percent before taxes on equity, should be able to compete.

We made the determination that with import relief, in this particular case was not in fact warranted and there was an adequate market for both importers and domestic producers.

Senator HEINZ. Mr. Ambassador, my time has expired.

I will take, if I may, Mr. Chairman, 15 seconds, just to make an editorial comment.

You gave two responses. One of them was that a foreign policy consideration, you didn't want to single out one country, was an important factor and the second was that you made an economic decision. You made a decision that the shoe industry was fit enough to survive.

Now, under existing law you are entitled to make the latter decision, and there is no constraint saying you can't in the case of a 201, use a foreign policy consideration.

But, I gather what you are saying is, you will not only decide who the fittest is, but you will also use the overlay of foreign policy.

Now, we can come back and discuss that when we have more time. We will have a second round. But that is what I take away from your statement. You may want to rebut it later.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

Mr. Brock, we will come back to it.

I agree with Senator Heinz that the blind ideological attachment of the Republican administration to abstract academic economic theories is ruining American industry. [Laughter.]

You get these intellectuals in office. It is terrible. [Laughter.]

Mr. Ambassador—and Mr. Chairman, you are the one that got him in. That is the worst of it. [Laughter.]

Mr. BROCK. I appreciate your saying so, Senator.

Senator MOYNIHAN. Sir, two specific questions in the matter of policy.

First, the multifiber agreement. As you know, this has been in place since 1962, when the Kennedy round was agreed to and the Trade Adjustment Act began as a principle.

It was the condition precedent to getting congressional agreement for the Kennedy round. I was one of those who negotiated it with Secretary Blumenthal.

It has become a central aspect of trade policy, an institution of trade policy. It has kept this largest of American industries fair, but it has scarcely prevented the sharp decline in apparel employment and the steady increase in imports.

I believe there is a 20-percent increase in the deficit of apparel imports in the country in the first 5 months of this year.

During the campaign, President Reagan, then Governor Reagan, addressed a letter to Senator Thurmond in which he said that the multifiber arrangement is essential and under a Republican administration, he will work to see that it is renegotiated.

Now the negotiations start again next week, in Geneva.

Does the administration have a position and can we expect a successful outcome? How do you feel?

We are told you don't have a position yet, which is not to say that is so, it is just what is said.

Mr. BROCK. We have a position, Senator. We have been approaching it rather generally to date because other countries with whom we normally would try to aline ourselves in the negotiation and to have a common policy, have not yet arrived at a position.

But, if I may state it in reasonably general terms, we do feel that the multifiber arrangement has been productive, should be extended.

That it has given us the time that Senator Heinz mentioned, to develop in most sectors of the industry, a good competitive viability.

Our mill sector is particularly competitive with any other country in the world. And because of the fact it has worked, and because the alternative to a multifiber arrangement would be a collapse into real protectionism and a total disruption of trade, we think that is a good agreement. We would like to pursue it.

Now there are a couple of questions about the way it is operating today and that relates to the consumption of a significant portion of its allowable quotas by three major producing countries.

Senator MOYNIHAN. Taiwan, Hong Kong, and Korea.

Mr. BROCK. Yes.

The absence of opportunity for smaller and poorer countries. What we would like to achieve in this arrangement is a greater opportunity for competition and production and economic growth on the part of the smaller countries.

Senator MOYNIHAN. Mr. Secretary, could I just say that I very much agree with you. The alternative is protection.

Mr. BROCK. Yes, sir.

Senator MOYNIHAN. It is to be said over and over and over again that this arrangement begins as an aspect of the largest trade expansien measure we have ever taken. It is sending us on the road we have followed and shouldn't be seen as in opposition, but rather as complementary.

Could we ask, the committee hopes we might hear or get a statement from you about what your present negotiating situation is. What you have said is very reassuring. Not to tell us everything, but to tell us why you haven't yet put forward a position, the problem with the three nations taking up so much of that quota, and some of the objectives you will have for the new agreement.

Mr. BROCK. Yes; we will do that. But, I will try to give you some elaboration now, if you like.

Basically, the present stance is that with the change of Governments in France, primarily, we had to wait for a period for them to adopt a policy and then place it in the context of the European community for the overall adoption of that policy on the part of the community itself.

That is well underway now.

We are now in individual conversations with a number of governments, both the European community and individual countries around the world, in an effort to see what is achievable. What are the points of primary discord and how we might ameliorate those.

Frankly, the United States is going to play pretty much of a lead role, because it has to.

Senator MOYNIHAN. A lead role?

Mr. BROCK. Yes.

Senator MOYNIHAN. Because it has to.

Mr. BROCK. There is no alternative.

Senator MOYNIHAN. That is right.

Mr. BROCK. If we don't do it, the possibilities will be slim for an agreement at all, I think.

We do expect to play that role very aggressively. Frankly, it will be more of a mediating role, because we are both importers and exporters. We see the needs of both. We also see the need for an arrangement, a continued arrangement.

Senator MOYNIHAN. That is a very sound and reassuring statement. I appreciate it.

You won't mind if I put the letter to Senator Thurmond in the record?

Mr. Brock, Not at all. I have several copies available if you want one. [Laughter.]

[Senator Thurmond's letter follows:]

Arlington, Va., September 3, 1980.

Hon. STROM THURMOND,
Russell Senate Office Building,
Washington, D.C.

DEAR STROM: The fiber/textile/apparel manufacturing complex provides 2.3 million vitally needed American jobs, including a high percentage of female and minority employees. As President, I shall make sure that these jobs remain in this country.

The Multifiber Arrangement (MFA), which is supposed to provide orderly international trade in fibers, textiles, and apparels, was first negotiated under a Republican Administration. The MFA expires at the end of 1981 and needs to be strengthened by relating import growth from all sources to domestic market growth. I shall work to achieve that goal.

Sincerely,

(Signed) RON
RONALD REAGAN.

Senator MOYNIHAN. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Mr. Brock, I appreciate your being here, Mr. Ambassador. I thank you as one of those that you helped get here. I say, thanks. It is nice to have you here this morning. It is nice for me to be here.

I was interested in the four-panel decision that made complaints against us on the European Community complaints about our DISC program.

What is your plan at the present time on either accepting those complaints or having a meeting with them?

Mr. BROCK. Well, where we are in the DISC, we have met with the three European nations whose tax practices we were criticizing.

There were four tax practices cases, as you mentioned, three European, and of course, the DISC.

We have met with the individual nations whose practices we criticized. We have met, frankly, with enormous help and assistance of the European Community, with them collectively, to see how to resolve the matter.

The basic approach will be to allow the four practices to come before the GATT to be referred to the Subsidies Committee.

At that time, the prospects are for a finding that DISC is not in fact compatible with GATT, and that it will be judged so under what is called a reasonable or under practical difficulties understanding which simply says that they understand the political difficulties that we have and that we will have some time to adjust.

But, in exchange for that, we have gotten an understanding of what arm's-length practices do in fact mean, and that will give us a chance to evaluate their practices and frankly, a much better fashion than we have had before.

So, I am very comfortable with the present style of our problem in this particular area.

Senator SYMMS. Now do I understand you correctly then, we are going to, when we sit down to discuss the problems they have with DISC, we are going to discuss the problems we have with some of their tax practice, all at the same time?

Mr. BROCK. Yes; we have already done that and will continue to do so, yes.

Senator SYMMS. So that we won't end up where they lodge their complaints against us and we are out?

Mr. BROCK. You see, our problem with them has been that we have been unable to define an arm's-length transaction with them or reach agreement on what the definition comprises. I think we have reached an understanding in that regard and that will allow us to make an evaluation of their tax practices as they would make of ours.

That is a good, healthy method of progress, I think.

Senator SYMMS. Thank you.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Dole.

Senator DOLE. Thank you, Mr. Chairman.

First, I would like to ask the chairman if I may put a statement in the record, perhaps preceding Ambassador Brock's statement?

Senator DANFORTH. Yes, sir.

[Senator Dole's statement to be inserted preceding Ambassador Brock's statement.]

PREPARED STATEMENT OF SENATOR BOB DOLE

Mr. Chairman, the trade policy of the United States is a subject which affects the economic and commercial interests of nearly all working Americans. Our farmers depend on foreign countries as markets for their products as do those engaged in the manufacturing and services sector. They are also subject to competition from foreign producers selling in the U.S. market. To each of these producers it is vitally important that our trade policy be clear and consistent in order that they can understand the market conditions under which they must operate.

Mr. Chairman, you and Senator Heinz, Chairman of the Banking Subcommittee on International Finance and Monetary Policy have performed an extermely valuable service in holding these joint hearings on U.S. trade policy. The respective legislative jurisdictions of the finance committee and the banking committee encompass nearly the entire range of international trade issues. Your two subcommittees are the key to the congressional development and oversight of our trade and international financial policy.

The administration and Ambassador Brock and other administration witnesses also deserve great credit for their efforts in appearing here today and presenting the administration's "white paper" on trade policy. While I may have some questions about the policies contained in the "white paper." It represents a vital and necessary step in informing our citizens, the Congress, and our trading partners what our trade policy is. Through these hearings we will develop a further understanding of what the specific implications of these policies are.

For my part, it is my hope that the administration will work vigorously to expand U.S. marketing opportunities around the world. Much of this effort will necessarily involve enforcing the rights of American traders around the world by enforcing the rights obtained through the MTN codes. Unless these code rights are enforced our trading partners will have a greater tendency to take trade restrictive actions. Failure to enforce these rights will also undermine the confidence of U.S. trading interests in the efficacy of the international trading system under which we operate.

It will also be necessary to make certain that our domestic laws are enforced in a strictly impartial fashion. Again to the extent that they are not, both out foreign competitors and our domestic producers will be inclined to disrespect these laws which will lessen their usefulness.

Mr. Chairman, for the last three quarters there has been an increasing deficit in our balance of trade. The last quarterly figures reveal a deficit of over $36 billion on an annualized basis. It is clear that our trading problems are not behind us, notwithstanding our declining oil imports. It is time to examine our trade policies across the board to see if they are serving us well. These hearing are an excellent start in that process.

Prepared Statement of Ambassador William E. Brock, U.S. Trade Representative

Senators and Chairmen, since accepting this responsibility as U.S. Trade Representative, I have sought to place the conduct of trade negotiations in the context of an overall national trade policy. In fulfillment of my statutory duty as the President's chief adviser on trade policy, and in order to define priorities for developing a U.S. trade policy, I have met many Members of Congress, had sessions with virtually all members of the Cabinet, and the President, and consulted with leaders of labor and business. The result of that process is a "Statement of U.S. Trade Policy," which I offer in behalf of the Administration as my opening statement today.

Statement on U.S. Trade Policy

A strong U.S. economy is our goal. Free trade, based on mutually acceptable trading relations, is essential to the pursuit of that goal.

International trade is, and will continue to be, a vital component of the United States' economy. The trade policy of the Reagan Administration will complement domestic economic programs which are designed to increase employment and output and reduce inflation.

One of the principal requirements of a strong U.S. economy is the maintenance of open markets both at home and abroad. The United States is more dependent on international trade than at any time in recent history. Exports generate higher real income and new jobs, and imports increase consumer choice and competition in a wide range of goods and services.

The United States is increasingly challenged not only by the ability of other countries to produce highly competitive products, but also by the growing intervention in economic affairs on the part of governments in many such countries. We should be prepared to accept the competitive challenge, and strongly oppose trade distorting interventions by government.

We will strongly resist protectionist pressure. Open trade on the basis of mutually agreed upon rules is in our own best economic interests, and is consistent with the Administration's commitment to strengthen the domestic economy.

We will give top priority to international trade. The President's Economic Recovery Program will strengthen industry and agriculture and improve the U.S. competitive position. Internationally, we will pursue policies aimed at the achievement of open trade and the reduction of trade distortions, while adhering to the principle of reciprocity in our trading relations. In seeking these fundamental objectives, we will initially focus on five central policy components. These are:

1. Restoration of strong noninflationary growth to facilitate adjustment to changing domestic and international market conditions;
2. Reduction of self-imposed export disincentives; and better management of government export promotion programs;
3. Effective enforcement of U.S. trade laws and international agreements;
4. Effective approach to industrial adjustment problems;

5. Reduction in government barriers to the flow of trade and investment among nations, with strong emphasis upon improvement and extension of international trade rules.

The restoration of strong non-inflationary economic growth

Fundamental to any effective trade policy is the implementation of domestic economic programs that increase incentives to invest, raise productivity, and diminish inflation. The Administration's economic recovery plan provides the framework for achieving these objectives. The four component parts of the plan are: Reduction of the rate of growth in government expenditures, reduction of marginal tax rates for individuals coupled with accelerated cost recovery for business, regulatory reform and a consistent and predictable monetary policy. Implementation of the program will improve the competitiveness of U.S. products both at home and abroad.

Recent trends in U.S. productivity and investment have weakened our ability to compete abroad and eroded our industrial base at home. While the U.S has one of the highest levels of capital per worker and productivity in the world, the U.S. advantage in these areas is rapidly diminishing. A recent survey of 19 industrial countries indicated that the United States now ranked 17th in the rate of productivity growth and 19th in the rate of investment. Other surveys have indicated the United States has had a decline in research and development expenditures, while other developed countries are increasing theirs. The U.S. is losing its technological lead, and this is bound to have serious consequences for the international competitiveness of U.S. products.

The economic recovery program submitted by the Administration can reverse this trend by improving incentives to invest in capital equipment as well as in research and development. Stronger economic growth is also important to facilitate the adjustment to changing international market conditions.

High inflation has also had a strong negative effect on U.S. competitiveness abroad. The Administration's economic recovery plan will reduce the rate of inflation and as a result bring down interest rates, and it will provide the basic economic underpinnings essential to expanding trade opportunities.

The reduction of self-imposed export disincentives and improvement of U.S. export promotion programs

A high priority will be assigned to the reduction or elimination of domestic export disincentives. Confusing, contradictory and unnecessarily complex laws and regulations adversely affect exports. The recent report to the Congress on Export Promotion Functions and Potential Export Disincentives identified three types of policies as the most significant export disincentives—the taxation of Americans employed abroad, the Foreign Corrupt Practices Act and export regulations and controls.

We will act to mitigate the trade-inhibiting effects of regulatory measures without undermining their legitimate objectives. Vice President Bush is chairing the Task Force on Regulatory Relief, which will review both existing regulations and future regulatory proposals.

The Administration will support remedial legislation where it is necessary. In this regard, the Administration supports the basic objectives of the Export Trading Company Bill currently before the Congress. The Administration also supports legislation to change the Foreign Corrupt Practices Act, and to reduce the income tax burden on Americans working and residing abroad.

We will make more effective use of the government's export promotion resources. The Department of Commerce is assigning a high priority to strengthening the Foreign Commercial Service and improving domestic export information efforts. Personnel in the Commerce District Offices will be spending more time in the field counseling exporters, holding "how-to-export" seminars, and developing "how-to-export" manuals. The Department of Agriculture will continue to give a high priority to overseas marketing efforts of the Foreign Agricultural Service and to domestic export-support programs.

Effective enforcement of U.S. trade laws and international trade agreements

The U.S. and its trading partners have negotiated international agreements to reduce barriers to trade and to establish common ground rules to limit trade-distorting practices. These agreements are predicated on the fact that trade must be a two-way street in a genuinely open trading system. In the Multilateral Trade Negotiations, agreement was reached on new international codes of conduct covering a wide range of nontariff barriers. U.S. trade laws and international dispute settlement procedures provide the means for effective enforcement of these international trade agreements.

The Administration will strictly enforce United States laws and international agreements relating to international trade. Specifically, our antidumping, countervailing duty, and similar structures are designed to neutralize or eliminate trade distortive practices which injure U.S. industry and agriculture. We regard these laws as essential to maintain the political support for a more open trading system.

We will insist that our trading partners live up to the spirit and the letter of international trade agreements, and that they recognize that trade is a two-way street. Accordingly, we will closely monitor the implementation of international trade agreements by all governments and we will make full use of all available channels for assuring compliance. We will need full and active support from the private sector in identifying compliance problems and in seeking solutions.

The manner in which the MTN codes are applied will determine the shape and effectiveness of the GATT agreements. We will actively pursue the implementation of the codes in a manner consistent with the goal of reducing trade barriers and trade-distorting measures. We will fully utilize the consultation and dispute settlement procedures of the GATT to assure that MTN principles are applied in practice.

One of the most difficult challenges we must face in seeking to achieve free trade is to develop appropriate responses to the growing intervention of foreign governments in international trade. The nontariff agreements negotiated in the Multilateral Trade Negotiations deal with many aspects of such intervention, and full enforcement of these agreements will help deal with this issue. We will seek new ways of dealing with forms of intervention that are not covered by these agreements.

We are currently faced by a growing subsidization of export credits by many of our trading partners. We will seek to renegotiate the existing international rules regarding official export credits. Our objective is both to substantially reduce, if not eliminate, the subsidy element, and to conform credit rates to market rates. The Export-Import Bank will target its export credits and guarantees where they are most needed to assist U.S. exporters facing subsidized foreign competitors.

Effective approach to industrial adjustment problems

Developments in the world economy over the past few years, such as the energy crisis and the emergence of new suppliers of manufactured and agricultural products in world markets, have triggered major adjustments in the U.S. economy. Developments in the world economy over the foreseeable future will create the need for continuing adjustment.

Our policies toward the adjustment will take into account the fact that the economic vitality of certain sectors of our domestic economy is clearly essential to national security. Where other nations have a natural competitive advantage, U.S. industry must either find a way of upgrading its own capabilities or shift its resources to other activities. Where the foreign advantage is based upon government subsidies and other trade-distorting practices, U.S. policy will be to enforce U.S. trade laws and to work to eliminate such practices.

The economic program outlined by the Administration will support adjustment by encouraging non-inflationary growth and by removing obstacles to the operation of market forces. The Administration will continue taking measures, including regulatory relief and adjustment assistance, in order to further adjust in cases where severe problems exist.

Adjustment assistance and safeguard measures can ease problems of dislocation for firms and workers, but they do not of themselves effectuate adjustment. It is U.S. policy to place primary reliance on market forces to facilitate adjustment in affected industries.

Import restrictions, subsidies to domestic industries, and other market distortion measures should be avoided. A better solution to the problems associated with shifts in competitiveness is to promote positive adjustment of economies by permitting market forces to operate. It will be critical to encourage, through international negotiations, all governments to adopt adjustment policies which do not have trade and investment distorting effects.

Reduction in government barriers to free trade

The Multilateral Trade Negotiations achieved agreement on new codes covering a wide range of nontariff barriers and on a substantial reduction in tariffs. There are a number of issues, however, which were not adequately resolved in the Multilateral Trade Negotiations or which were not addressed in these negotiations. It is U.S. policy to deal with individual problems through bilateral negotiating efforts in the short run, and to seek to negotiate new multilateral disciplines over the longer term. Our objective will be to reduce government barriers, both in the U.S. and abroad, to the flow of trade and investment among nations. The preparations for any new initiatives must be thorough and in some cases could be quite lengthy. Nevertheless, we will give priority attention to those issues described below.

Services.—Trade in services is a growing importance in the United States. The services sector contributes substantially to our exports. Services also are critical to exports of high technology and capital goods. Many service industries, such as the telecommunications, data processing/information, and engineering/construction industries are among our most competitive U.S. enterprises. They offer major new sources of export earnings. To continue a strong U.S. position in this sector, we will pursue these issues bilaterally with our trading partners. We also will work toward future multilateral negotiations that will expand access abroad and set effective rules and procedures for dealing with trade issues in services.

Even in the comparatively strong services sector, some American industries face subsidized competition or restricted access in world markets. The Administration is committed to addressing these problems through active negotiations with our trading partners, bilaterally and multilaterally.

Trade-related investment issues.—U.S. trade policy must address itself to the range of investment issues that distort trade flows just as seriously as do tariffs and nontariff barriers. Trade-related investment incentives and performance requirements (e.g., export performance and local content requirements) have serious trade-distorting effects. They are becoming widely used by developing countries and even by some developed countries. We will deal with these issues and over the longer term seek to negotiate new multilateral disciplines.

Goods incorporating advanced U.S. technology.—As our industries mature and adjust to international competition, we will need strong performance in high technology industries to maintain the United States' competitive edge. Trade in these goods frequently is distorted by various forms of government intervention. While the codes negotiated in the Multilateral Trade Negotiations deal with some aspects of such intervention, they do not adequately cover either a number of key sectors or certain types of intervention by governments. Future negotiating efforts will build on the result of the Multilateral Trade Negotiations by extending the sectors and types of intervention covered by international discipline.

Trade with developing countries.—An increasing proportion of U.S. exports of manufactured and agricultural products is to the developing countries. This growing market for our goods is vital to our economic well-being and to theirs. The developing countries' ability to import our products in turn is dependent on market access for their goods and on the availability of financing. We will consolidate and expand on the work begun in the MTN of integrating the developing countries more fully into the international trading system. The U.S. seeks to ensure that the more advanced developing countries undertake trade obligations commensurate with their stage of development and that the benefits of differential trade treatment are directed increasingly to the poorer LDCs. At the same time, the U.S. will recognize the exporting needs of all developing countries. We will carry out our trading dialogue with developing countries with the objective of making genuine trade progress, to our mutual advantage.

Trade with North American countries.—We have extensive economic links with other North American countries. For economic and political reasons we need to pay close attention to the development of our trade relations with these countries. In recognition of these facts, the Congress has asked the President to submit a report on additional steps that could be taken to encourage further economic cooperation with our North American neighbors. The report which we will submit to the Congress in July will lay out steps that we could take together with our neighbors.

Trade with nonmarket economies.—United States trade with nonmarket economies has grown substantially in the last decade, although it should constitute a relatively small volume of total U.S. trade. While taking account of the primacy of national security interests, we need to develop approaches that bridge the fundamental differences between the market-oriented nature of the GATT system and the general absence of market forces in these countries. We will seek, through a more uniform policy and, where appropriate, through bilateral trade agreements, to encourage greater conformity of their trade practices with accepted principles of the international trading system. We will seek also to provide more uniform guidance to business on the conduct of such trade. Finally, we will monitor trade relations carefully to ensure that trade problems are dealt with expeditiously and that they serve overall United States interests.

Creeping bilateralism.—Concerns regarding the availability of oil and raw materials have persuaded an increasing number of countries to negotiate potentially trade-distorting bilateral deals, which include supply commitments for oil and raw materials, investment commitments in processing facilities, and import commitments for processed goods. When such arrangements are negotiated by governments and when they override multilateral trade commitments, they pose a serious threat to U.S. commerce and to the international trading system as a whole. We will initiate international discussions to limit the potential distortion of trade from such practices.

Competition policy and safeguards.—There has been a tendency in recent years for a large number of countries to face import problems in the same sector. This has led to the simultaneous application of safeguard measures by a number of nations, creating the danger of a significant reduction in competition on a global scale. To the extent some countries permit their firms to reach agreement with foreign firms to restrain trade, the potential erosion of competition globally is even more serious. Differences in national antitrust laws with respect to the treatment of international restraint agreements, moreover, give rise to inequalities in the standards applied to companies operating in the world marketplace. Increasingly, therefore, competition needs to be viewed from an international perspective. We will pursue these problems in international forums including the GATT, in a fashion consistent with competitive principles.

CONCLUSION

Adoption and implementation of this comprehensive trade policy approach for the 1980's will strengthen U.S. economic performance and our competitiveness in world markets. To fully succeed in this area, we will need to muster a strong national determination, a will to persevere and prevail, and a commitment to rely on competition and free markets. The government can help create an environment conducive to efficient and profitable production. But it is private individuals and enterprises who have to take the initiative to seize economic opportunities.

Our trade policy is built on the close cooperative relationship with the Congress and the private sector. Our private sector advisory committees have become a fundamental element to our trade policy process. In implementing the agenda we have outlined, we will work closely with each, and increasingly with the 50 state governments in our federal system.

A strong U.S. trade position must be and will be a national priority. It is vital to our domestic well-being; it is essential to our capacity to provide leadership to the free world.

Senator DOLE. Who now primarily deals with agriculture in your Department? Agriculture trade matters? Do you have someone?

Mr. BROCK. Dan Nelson is the Assistant U.S. Trade Representative for Agriculture.

Senator DOLE. Does he have an agricultural background?

Mr. BROCK. Yes, he does. I am not sure I can give you a litany of the content of that background.

He grew up on a tobacco farm in North Carolina. [Laughter.] I would just as soon not discuss tobacco this morning. [Laughter.]

Senator DOLE. The North Carolina part is all right.

Agriculture is an interest that many of us have, how we fare in trade matters, as well as some of the other things that have been discussed.

With that in mind, are there any specific proposals underway to increase our access to the Japanese markets or the European Community?

Or less developed countries?

You know, we have had a lot of discussion this year about auto imports. I assume that is going along as expected.

Has there been any improvement as far as Japan is concerned or the European Community on accepting more of our products?

Mr. BROCK. We had more conversation than we had progress, Senator.

I met with a number of the Japanese officials when I was in Tokyo. We have had other conversations here, including conversations with the Prime Minister.

They have agreed to move forward the date of discussion on further liberalization on citrus and beef which are presently quoted, as you know.

The agreement was concluded last year on tobacco, which has yet to be implemented or implemented very satisfactorily.

The leather-hides problem remain. We simply have not been able to fulfill the quota that they did allow us.

But the problem remains. It is a serious problem and one we are just going to have to continue to work on, Senator until we have progress.

The same is true with Europe. We have made, frankly, more progress in the Third World than we have in either Europe or Japan.

But, in the larger question that you asked about trade policy in the field of agriculture, while I have responded, Don Nelson had that responsibility. I think it is important to say that both Mike Smith and Dave McDonald, my two deputies who are here, and I, are almost constantly involved in agricultural questions. It is still the major component part of our trade picture.

It is an absolutely fundamentally important part of our economic well-being. I have had just spectacular relationships with the Agriculture Department and Jack Block.

From my own experience in this town over the last 20 years, that has not always been the case between this office and the Department of Agriculture.

I cannot sufficiently cite the gratitude that I have for the kind of relationship that we have. We work very closely together. I can't think of a single occasion in which we have disagreed. They are doing a fine job.

I think we are going to be very healthy in this area and we are going to make some progress.

Senator DOLE. Do you know of any instances in which American producers have unlimited access to foreign markets in which the products they are trying to sell are subsidized by the foreign government?

Mr. BROCK. Well——

Senator DOLE. Are there any countries which are subsidizing imports from American producers?

Mr. BROCK. Not that I know of.

Senator DOLE. Well, I ask that question because there has been a bill introduced in the House by Mr. Frenzel, which you testified in favor of, H.R. 1989, which would in effect subsidize production of Brazilian imported ethylalcohol. I just wonder if there is any reciprocal treatment given to anything we might want to produce and sell in a foreign country.

Mr. BROCK. I am not sure that I would evaluate his bill in precisely that fashion, but no, I am certainly not aware of any comparable example where our products are subsidized by other governments.

Senator DOLE. Well, we had an amendment, I will just take a second, in this committee, I think Senator Curtis was the author of that amendment some years ago, to try to help the gasohol industry in this country.

We found that most of the benefits, the great majority were going to the country of Brazil. We attempted to rectify that in the reconciliation bill last year.

I think it is something that ought to be carefully considered by the trade representative. If there is some country out there that would like to subsidize our producers, we would like to find out who they are.

Mr. BROCK. Well, on ethylalcohol, just looking at a note, we do support the legislation to repeal the additional duties assessed on ethylalcohol imported for fuel use.

I don't see that there is subsidy involved in that particular approach. As a matter of fact, the tariff on ethylalochol was bound against tariff increases under the GATT.

We are going to have some explaining to do and we have been asked for full consultations by Brazil on the very practice which was adopted by the Congress. It is very difficult for me to justify imposing duties on ethylalcohol under those circumstances.

Senator DOLE. My time is up. I think there are some legitimate exceptions to our GATT obligations which have been made by this committee which must be considered.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

Could you tell me, Mr. Brock, how long would interest rates have to remain at their present levels or at least above 15 percent before you would find severely adverse effects on our trade?

Considering that today our goods in West Germany are 25 percent more expensive than they were last year.

In Italy, 27 percent more expensive.

In England, 18 percent more expensive.

How long can the export market in this country take these high interest rates?

Mr. BROCK. Senator Bradley, the change in the value of the dollar has been the factor in increasing the price of our exports and decreasing the price of our imports, not interest rates, per se.

Senator BRADLEY. Well then, let me ask you. What do you think is the reason for the change in the value of the dollar?

Mr. BROCK. I think interest rates are perhaps a part of it, but the larger point is that people have begun to believe that the United States is going to get its inflation under control and they are valuing the dollar higher than they would have otherwise.

Interest rates are a symptom of the problem and not its source.

Senator BRADLEY. Let me just say, I have spent the past week talking to international bankers who——

Mr. BROCK. So have I.

Senator BRADLEY [continuing]. Very clearly state that the flow of money and the appreciation of the dollar is due to the high interest rate policy.

Indeed, we have had a great deal of rather caustic discussions with our allies on interest rates.

Mr. BROCK. Yes: I have been involved in a lot of them.

Senator BRADLEY. So the question is how long do you think that these high interest rates will continue before they begin to have a severe effect on our exports?

Mr. BROCK. Senator, I frankly think that interest rates are hurting already. How you define "severe," I don't know. But I do know that it is not pleasant to pay the rate of interest we had to pay domestically. It certainly doesn't help us internationally either.

But that isn't the question. The question is when are we going to get our inflation under control, because inflation is the base on which interest rates ride.

Until we get a handle on controlling inflation in this country, nothing else is going to work very well.

Senator BRADLEY. You say you already have seen a downturn in exports due to the high interest rates?

Mr. BROCK. Probably we may have seen some early indications on the basis of the value of the dollar. Again, I will cite that as the cause and not the interest rates per se.

But, regardless of that, two points.

First of all, the Europeans who are so concerned about our rate of interest rates, are precisely the same people that were criticizing us for not having enough fiscal restraint 2 years ago.

So, it seems that the United States is going to be wrong no matter what we do. Maybe we better do what is right for us and get this economy straight first of all.

But, second, in terms of the interest rate problem, per se, we are not going to get interest rates down until people begin to have a lower rate of inflationary expectation and we reduce the spread between inflation and the price of money.

Senator BRADLEY. So if a year from today interest rates are still above 15 percent, we could have a pretty bad year in trade; is that right?

Mr. BROCK. It is going to be a difficult year under any circumstances because the dollar is so strong that even if interest rates come down, the relative value of our product is going to be more expensive than in our trading partners' countries.

Their product is going to become more competitive.

I would expect, frankly, some deterioration in our trading balance in the next 18 months.

Senator BRADLEY. Will interest rates be on the U.S. agenda for the Ottawa summit?

Mr. BROCK. They are on everybody else's agenda. I am sure we will talk about them.

Senator BRADLEY. Well, are you going to push for multilateral monetary policy?

Mr. BROCK. We have a number of multilateral institutions to deal with monetary problems, but I don't think the United States could allow others to suggest we reduce our interest rates if the way of reducing those rates is to increase the supply of money. That would, in the long term, raise the price of money, not reduce it.

The only fundamental answer is to reduce the rate of inflation and that we are doing.

Senator BRADLEY. So that as far as I can tell, the administration's commitment, firm commitment from every representative that comes up here, is to encourage interest rates to be as high as they need to be for the mid to long term, to squeeze the economy——

Mr. BROCK. That is not———

Senator BRADLEY. The effect of that on our allies in the absence of trying to talk to them and agree on a multilateral monetary policy will be to raise the interest rates in their country.

Mr. BROCK. Senator, our policy is for low interest rates, not high. We are not trying to drive interest rates up. We have no desire to do that at all.

If you can suggest to me or anybody else in this administration what a multilateral policy would be comprised of and how we could reduce our rate of interest without reducing the rate of inflation, I'll buy you a steak dinner, but I'd also love to hear the answer.

Senator BRADLEY. Well———

Senator DANFORTH. Senator Long.

Senator LONG. I'll yield my time.

Senator BRADLEY. Well, I would just like to make one comment and that is, if it is not the administration's policy to have high interest rates, then it is rather odd that in the economic projections for the next 4 years, you expect to halve the growth in supply of money.

Mr. BROCK. I am not sure that I understand the question.

Senator BRADLEY. If you reduce the growth in the supply of money by half, which is what the projections are for the budget, the implication is that you are going to have higher interest rates.

Mr. BROCK. That is not the implication of that at all. I can't imagine an economist that would suggest that a 6- to 8-percent rate in the growth of money would result in high interest rates if in fact the total complement of our monetary policy and our fiscal policy results in a reduction in the rate of inflation, interest rates will come down.

That is our projection and our economic forecast.

The one thing we can do to insure that interest rates will go up is to increase the supply of money faster than the economy is growing.

That is not what this administration is going to do and hell is going to freeze over before we adopt that policy.

Senator DANFORTH. Senator Long.

Senator BRADLEY. Thank you.

I thank Senator Long.

Senator LONG. Thank you, Mr. Chairman.

Mr. Brock, I am pleased to see you here today. Let me just say that I think I have been vindicated on a position I took some years ago when I contended that the job of Special Trade Representative ought to be Cabinet level, because otherwise we would not be able to get the kind of people we would need and position them the way they would need to be positioned if we hoped to get this job done the way it ought to be done.

I don't think we could have gotten Mr. Dent to give up the job of Secretary of Commerce and take the job of Special Trade Representative.

I don't think we could have gotten Bob Strauss to come up here and be the Special Trade Representative.

I doubt that you would have been interested if this job had been one where in effect it was less than Cabinet level and did not have the dignity to back it and the position to make decisions effective.

84-884 O - 82 - 3

We do hope that it will be respected in that regard. It may be that there will be some policy decisions where needs of international affairs or needs of defense might require that we make some concessions that a simple trade policy wouldn't dictate at all.

If that is the case, the decision will be based on that. But I would hope that everybody at all levels, and the Cabinet, would understand that the Special Trade Representative speaks for us on trade and that decisions should not be made by the Secretary of State or the Secretary of Defense or anybody else in the Cabinet that involves trade, without having been cleared with the Special Trade Representative.

Do you have that understanding with the administration? And the President?

Mr. BROCK. Yes, I do.

Senator LONG. Well, I am pleased to hear that.

Have there been any decisions of that sort made without your advice or made contrary to your advice to this point?

Mr. BROCK. No, sir.

Senator LONG. I hope not.

Now, I have some doubts that you have enough bureaucracy behind you to back you up. That gives me a lot of concern. I don't want to complain about it. I know you are doing the best you can with your job, but some time back I asked for some information. You gave me what you had. I am sure it is the best you had over there. But I didn't think it was very good.

It occurs to me that maybe you need a little more help over there than you have right now to do a job.

Mr. BROCK. Senator, we had to call on the Bureau of Labor Statistics for that information. They did the best they could.

Senator LONG. Well, whoever had the information, it wasn't very good, in my judgment. I would hate to make my case based on what we got as the result of that inquiry.

Now, I want to ask you two simple questions. I doubt that you have the answer. If you do, I would just like you to answer off the top of your head or if you have an assistant there that could answer it, I would like for him to give us that.

Mr. BROCK. All right.

Senator LONG. I want to know what is the tax component of American exports; do you know that?

Mr. BROCK. I am sorry. What.

Senator LONG. What is the tax component of American exports?

Mr. BROCK. You mean our governmental tax receipts from exports?

Senator LONG. I mean out of what we are exporting from this country, what percentage of that cost of exports is the tax component?

In other words, I would hope you have over there somewhere in your files, something that shows how much of our export dollar is for labor, how much of it is for capital, how much of it is for tax?

Mr. BROCK. I will try a top of the head answer, Senator, if that is all right with you. I believe the Treasury estimates that if our exports were entirely taxed worldwide, there would be a $4.8 billion tax that is related to the export.

Some of that tax is deferred because of the DISC. Now that doesn't pick it up entirely.

Senator LONG. I mean assuming I am the average American exporter, what portion of what I am exporting is for taxes?

Mr. BROCK. I don't have the answer to that. It is going to be difficult to arrive at, but we will try.

Senator LONG. Frankly, I would like to get that.

Mr. BROCK. All right.

Senator LONG. On an industry-by-industry basis. If you don't have it, you ought to have it. Or somebody ought to have it who can provide it to you. That is No. 1.

No. 2, what is the tax component of our imports?

I would like to have that too.

You know, that is very important to this committee. We are a tax-writing committee, as you well know. I would like to have that information.

It seems to me as though there——

Mr. BROCK. There would be a marked difference. There is virtually, there is almost no tax component on imports as you well know.

Senator LONG. Well, I think that is so. I believe that to be the case. It seems to me as though we ought to be looking at that, because that is something that is very much of a problem here.

Mr. BROCK. OK.

Senator LONG. I think we ought to get the basic facts. There is one person who once made this point and I think he is probably right, that we shouldn't have to argue about facts. We ought to be able to get together on facts. We can argue about what we do with them, but at least the fact of something we ought to be able to agree on.

My time is about up.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman.

Mr. Brock, I have just this morning returned from Maine where over the past several days I have met with employees and employers in a large number of shoe factories, many of whom will lose their jobs as a result of the administration's decision last week not to extend the orderly marketing agreements.

The reason given was that the administration has a commitment to free trade. I reviewed your statement, but unfortunately was not here in time to hear you read, in which you say you will strongly resist protectionist pressures.

In light of that policy, that explanation and that statement, I wonder if you can explain to me why just a few weeks ago the administration saw fit to request quotas on tobacco imports, because those imports reached a level of 13 percent, and are projected to reach a level of 19 percent by 1985, after having refused to extend the orderly marketing agreements in shoes where imports have reached a level of 51 percent.

Mr. BROCK. Senator, we did not request import restraint on tobacco. What we asked for was a section 22 investigation to find out, under the law, if tobacco imports were in fact undermining our price support program in that particular commodity.

That finding will be rendered probably in August, and submitted to me and from me to the President, for final decision some time in the next 60 days I would assume.

But, there is no determination at this point of additional import restraints on tobacco.

Now with regard to your question on shoes, as we discussed prior to your coming here, with other members of the committee, I——

Senator MITCHELL. Could I just ask.

Mr. BROCK. Yes.

Senator MITCHELL. Just a minute now.

Mr. BROCK. Yes.

Senator MITCHELL. I have before me the statement of the Assistant Secretary of Agriculture in which he said, and I quote, "We therefore recommend that flue cured-tobacco imports be limited by a quota."

Mr. BROCK. He has to make that statement in order to get a section 22 investigation. He has to make a finding that there may be probable cause to believe that these are in fact undermining our price support program.

That is the component part of the law which relates to section 22 inquiries.

Senator MITCHELL. But that is an unambiguous, explicit recommendation.

Mr. BROCK. No, the ITC has to make the recommendation following its finding of fact in the investigation. He requested the investigation based upon assumption. The finding of fact is before quasi-judicial body.

Senator MITCHELL. Well, now, I will read this to you again. "We therefore recommend that flue-cured tobacco imports be limited by a quota."

Are you telling me that you don't think that is a recommendation for a quota?

Mr. BROCK. I am saying that was part of a request for an investigation to see if a quota is in fact justified by law.

Senator MITCHELL. Now, let's get to the ITC. The ITC recommended in the case of automobiles that no action be taken, no relief be granted, and the administration rejected that recommendation, did it not?

Mr. BROCK. No. They accepted it.

Senator MITCHELL. Are you suggesting that no action was taken by the administration on behalf of the auto industry?

Mr. BROCK. I am suggesting we were available for consultation to the Japanese Government which made its own decision.

Senator MITCHELL. Well, you are really denigrating your own influence, Mr. Brock. I think it was substantial. I think it is quite clear to all the people of this country and to the Congress that the action by the Japanese was the lesser of two alternatives that they confronted.

Mr. BROCK. That is correct.

Senator MITCHELL. You made that clear to them in Japan, did you not?

Mr. BROCK. No, sir. I think Senator Danforth made it clear to them when he introduced the legislation.

Senator MITCHELL. Well, at least they understood that, didn't they?

Mr. BROCK. Yes, I think they understood that.

Senator MITCHELL. Right.

And in the case of shoes, the ITC recommended action which you disregarded; did you not?

Mr. BROCK. We didn't disregard it. We rejected their findings.

Senator MITCHELL. You rejected their findings?

Mr. BROCK. That's right.

Senator MITCHELL. So, in three areas the administration has acted with respect to import restrictions, autos, tobacco and shoes. And not withstanding your commitment to the principle of free trade, in two of those areas, you have rejected the findings of the ITC and imposed some form of relief and only in shoes in which you rejected the ITC's findings, the only area in which the ITC has found that there should have been import relief, is the one area that you did not extend any relief.

Is that not correct?

Mr. BROCK. Not precisely, but we certainly did not agree with the ITC finding; that is correct.

Senator MITCHELL. Well, let me just—Mr. Chairman may I just follow this up with a followup question.

Is it not true that in autos the ITC recommended no relief and the administration extended some relief?

Mr. BROCK. No, that is not true. In defense of the decision made by the Government of Japan, the alternative was for far more stringent action on the part of the Congress.

Senator MITCHELL. Right.

Mr. BROCK. I think that was the decision that they made, that it was in their interest to try to maintain an adequate share of the U.S. market and increasing share next year and a defense against legislative quotas that in fact were far more rigid and stringent.

If you want to look at the shoe decision, our finding was not based upon anything other than the fact that we have had 4 years of relief for the shoe industry. That industry has made remarkable progress. Its profits are up to 8 percent of sales, 28 percent on equity, before taxes.

That is an adequate margin. They are competitive. They are aggressive. They are very competent people and they can compete.

We found that was——

Senator MITCHELL. My point is that the only industry of the three mentioned, with respect to which the ITC made a specific finding that relief is warranted, is the one industry with respect to which this administration has seen fit not to give relief; isn't that true?

Mr. BROCK. There may be other examples before this administration is through.

Senator MITCHELL. Well, up until now.

Senator DANFORTH. Senator Bentsen.

Mr. BROCK. Yes.

Senator BENTSEN. Thank you very much, Mr. Chairman.

As cochairman of the trade caucus, I want to congratulate you and Senator Heinz on holding these hearings. We had about $100 billion in deficits over the past 5 years in merchandise. It is time we turned that around.

I also want to say, Ambassador Brock, I am glad to see you here this morning. I was very pleased the other day to see, hopefully in response to my letter, one in which I had requested very strongly that we make our Ambassadors and their embassies overseas really proponents of trade and pushing trade, that the Secretary of State has sort of directed those embassies.

Too often in the past, we have seen businessmen looked on as a bit of a nuisance when they were appearing with our embassies overseas. I think that was beginning to change over the last couple of years.

Our meeting in the Far East with embassies we found businessmen really pleased with the change that was beginning to take place in our embassies.

Mr. BROCK. I appreciate your saying that. I also appreciate your letter, Senator, because it does help. That kind of leadership does make a difference.

The Commerce Department has done a superb job in this area. I just am really grateful for the attitude that exists now in the administration and in every agency in which we deal to support our trade initiatives and our business community. I think we are making progress.

Senator BENTSEN. I notice the Secretary of Commerce nodding behind you. He seems to be pretty much in agreement there. Now let me talk about one of the problems.

Mr. BROCK. Right.

Senator BENTSEN. I am concerned about citrus and what is happening there for Florida and California and Texas. I think we really have a really good case under section 301. This case was brought to the attention of the Special Trade Representative approximately 5 years ago, in 1976, and was apparently thought a meritorious case because it was a part of the discussions of MTN.

You have a situation there where the European Common Market gives a preferential treatment to countries such as Spain and Morocco and Israel.

On citrus they have given them a duty of some 12, 4, and 8 percent, respectively. While the duty for the United States is 20 percent.

That is obviously not fair and it is discriminatory against us.

I recall, in talking to some of the negotiators at MTN, that they said, "Well, look, we really made substantial headway for you because we have cut it from 30 to 20."

But, when I looked at the months they had cut it for those months when we don't market citrus or harvest citrus.

So, obviously the negotiators on the other side were much more knowledgeable in what they were trading for than we were.

So, I am really concerned about the lack of progress. I am asking you is section 301 really working, not just for citrus, but is it working in trying to settle those disputes.

If it is not working, then beyond that, do we find the settlement machinery something that should be getting a major change?

I am really quite concerned at the lack of progress there. I would like your response, Mr. Ambassador.

Mr. BROCK. It is a fair question. Yes, I think it is working, but in fits and starts. We did, under the former administration seek consultations under article 22. They were held I think last October. They were totally unsatisfactory.

Now this was before I was there. I am not precisely sure what the problem was. But I think it is fair to say that even when you have a flagrant violation of these trade rules, it is hard to get a panel judgment that is favorable to your position when you actually file a proceeding before a panel, as we can do, unless there is substantial and concrete evidence of the trade damage and the extent of it.

What we are trying to do now is to develop a strongest possible case and we are asking USDA to develop that, to find out the extent to which we have been adversely affected.

But, I accept the question. I think it is a legitimate question. It does require us to insure the 301 procedure is followed and that it does in fact work.

Senator BENTSEN. If I might comment. I think it is patently, blatently discriminatory. We have a duty of 12-4-8 percent, and we have one at 20.

Mr. BROCK. I don't think there is any question about that; we agree.

Senator BENTSEN. Thank you.

Senator DANFORTH. Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman. I'll pass.

Senator DANFORTH. When do you have to leave?

Mr. BROCK. I am in pretty good shape, but you have some others behind me.

Senator DANFORTH. I know we do. I am cognizant of that.

Senator BENTSEN. May I put something in the record?

Senator DANFORTH. Of course.

[Senator Bentsen's material follows:]

PREPARED STATEMENT OF SENATOR LLOYD M. BENTSEN

These hearings represent the first effort to review comprehensively the state of our trade policy since the beginning of the Reagan Administration. It is also the first review of trade policy since the trade agreements negotiated in the Multilateral Trade Negotiations went into effect. I congratulate Chairman Heinz of the Subcommittee on International Finance and Chairman Danforth of the Subcommittee on International Trade for scheduling hearings on this subject.

We have been running huge merchandise deficits—over $100 billion in deficits in the last full five years. The merchandise deficit this year is running at the rate of about $6 billion in the first quarter. Moreover, this deficit is not just due to petroleum imports. We also show sectoral deficits in forest products, textiles, apparel, footwear, minerals and metals, among others. We also have to recognize that our high interest rates have increased the relative strength of the dollar so that, as against most of our trading partners, our goods and service exports are becoming gradually more expensive for them to imort from us, and their goods are becoming cheaper for us to import from them. This enormous loss of dollars represents new and old markets loss. The consequences of such a failure to compete are a series of economic reverses until eventually we reach the status of a second class economic power.

Anyone who thinks the answers to these problems are simple is fooling himself. The answers that will work are complex. We are going to require action in a great many areas to improve our position.

First: Declining rates of productivity in this country are at the very heart of our declining ability to compete effectively in the international marketplace. They must be improved.

Second: We must act to remove many existing disincentives to American exports while insuring that our industries are not victimized by unfair trade practices.

Third: Part of our problem with competitiveness and productivity resides not in public policy, but in the corporate boardroom . . . in the way American business is managing its affairs. Until the American business community and the American labor movement look beyond the short term, until we develop a greater appreciation of the importance and opportunities in trade, America will have trouble competing no matter what we do in the realm of public policy.

Fourth: We have to convince other countries that the age old system of informal but very effective non-tariff barriers to trade has got to go. We must insist on trade reciprocity.

Some of these actions are under way: The tax bill reported out before the recess by the Finance Committee will provide some of the right kinds of incentives to investment; more is needed. Reducing Government spending will help to control inflation, which would improve our competitiveness. We are removing disincentives to exports, and more will be done as it is shown this freedom pays off in jobs and improved general welfare. Finally, I think there is a feeling of changing attitude among businessmen and financial institutions. As inflation cools and U.S. industry tools for this decade at higher levels of productivity, our goods will become increasingly competitive in terms of price, and in terms of quality, service, terms of sale and delivery.

We can already see some light at the end of this tunnel. In sales of machinery and equipment, the United States increased its already favorable trade balance 52 percent in the first quarter of 1981 over the first quarter of 1980. We are selling aircraft parts, construction, mining and materials handling machinery, machine tools, office machinery and dozens of other articles successfully. And, of course, we are the foodbasket to the world. Indeed, because of these steadily improving merchandise balances, petroleum conservation, and strong services balances, our balance on current account is creeping into the black.

As we remove the disincentives we impose on ourselves, our trading policy ought to be aimed at removing other countries' obstacles to free trade. I am confident we can get our own economy moving again, and I am equally confident we can compete anywhere in the world—and I mean anywhere, even Japan—if we show other governments by our actions that this Government means to enforce international rules of open competition. As far as this Senator is concerned, an open, free international marketplace is as fair a shake as we can hope for. It is reciprocity enough that markets are open to all competitors around the world. But what do we find?

Well, when we look at the trade picture, we find markets that are closed not open. Many of the non-tariff barriers this Committee identified in 1974 are still there. Informal quotas, standards administered so as to exclude imports, and administrative delay and discretion play havoc with so-called free trade.

If we compare the few sectoral import restraints we have in the United States with this worldwide protectionism, what do we find? Our restraints are all public, mostly temporary, and the subject of public proceedings. And we also find that, by comparison, our constraints are mild. There are about half as many people in Japan as there are in the United States, yet look at what we sell them and they sell us. We had a $10 billion deficit with Japan alone last year. We consume more of Japan's exports than any other industrialized country, over one-fourth of their total exports in 1979. Japanese products comprised about 13 percent of our imports in 1979. We are still running a merchandise deficit with Japan of $1 billion a month. And where we have something to export—such as computer chips, telephone equipment, high quality beef, citrus, rice, and so on—Japan and other countries restrict its importation until we put unbearable pressure on them to give us a slightly larger market share. Japan and Europe are not developing countries any longer. They ought to match us stride for stride in opening markets.

So we must either make these new MTN agreements work or change our approach. Making these new codes work is, I recognize, drudgerous, thankless work. The real heart of these codes probably will not be the well-publicized agreements on subsidies, antidumping and countervailing. The codes that can really affect our exports favorably—as well as opening world trade generally—are the little-known and even less well understood codes, such as the Codes on Customs Valuation, Standards, Licensing, and Government Procurement. These are the areas where this Committee identified non-tariff barriers almost ten years ago.

But just signing codes won't change anything. Japan grudgingly gave in to the discipline of the Government Procurement Code, and European governments are still making legalistic arguments about the applicability of the Standards Code. There are literally hundreds of such obstacles to trade. We cannot rely on or expect U.S. companies to unearth these market obstacles and complain about them; that can spell a kind of economic isolation for them in many countries, where it is too easy to ostracize a foreign business that complains to the U.S. Government. Our embassies and the new Foreign Commercial Service have to identify foreign trade obstacles. Of course, they must bring opportunities to the attention of qualified businesses, but they must also bring trade obstacles to the attention of our trade negotiators, so these issues can be raised in the GATT. Once countries around the world know that this Government is not just going to allow exports to happen, but that it is going to make them happen, their reply to United States claims under the codes may change from reprisals against our companies to negotiation with the United States Government. Business will also be more willing to commit funds if it knows the Government is going to enforce these codes actively.

I realize this is a monumental effort, but Japan has done it for years; so have other governments. We have begun to make it happen in a few products. I know we can do it if the Administration will give this matter a high enough priority.

I look forward to the testimony of the witnesses, Messrs. Chairmen, with the hope they will reflect a policy in trade of aggressively making the multilateral system work to improve U.S. export performance.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Ambassador Brock, as you know, last year Senator Ribicoff and others led the efforts to try to create a Cabinet position for international trade. If we all believe the United States should push trade, particularly our exports much more aggressively than we have in the past, in addition, Senator Long, I think very shrewdly noticed that whenever the United States negotiates in Geneva, some provision of GATT, it seems that our negotiators have not been as experienced, are not as expert as some of the other country GATT negotiators.

One of the ways that negotiators tend to be successful is just by exercising extreme patience and over the years waiting out the opposition and finally, if one pursues that approach, sometimes does succeed.

Whereas, we have a high turnover in our negotiators and we don't have that patience and we have change of administrations and change of policy.

The suggestion was that we develop a strong cadre of people, that we have a school or something, some tough negotiators that we keep over a period of time to help us out.

I say all this because I listen to the administration's trade policy and frankly to some of your answers to some of the questions. I am struck that this reliance on competition which we all agree with is going to let us into some policy of business as usual and we are not going to push American products overseas as much as we really should.

Senator Dole raised the question about tariffs to our agricultural products to Japan and the barriers to our agricultural products in Japan, for example.

I firmly believe that Japan does not engage in free trade. It is not fair trade with the United States. I think it is proper that we don't impose high barriers to Japanese products for example in the United States because it is wrong to subsidize inefficiency wherever it occurs.

On the other hand, I don't think we have been tough enough with Japan, in forcing Japan to lower its barriers.

I am wondering if you could tell me either now if you know or at least provide the information to me later, if you don't know, precisely what all the barriers are to American agricultural products in Japan.

My understanding is that they are very severe and it is somewhat complicated. I ask you to be very precise so we could follow in the admonition of Senator Long, agree on what the facts are, and then we can next determine what our policy should be.

Mr. BROCK. It does vary by product. There are virtually no barriers to the grains area, soybeans, things of that sort where we are selling an awful lot of product.

The product restrictions occur principally in the area of citrus and beef. There are restrictions in the area of tobacco and hides, but the major quotas, if you will, are on those two products. We are bound by an agreement that we have with them which establishes that quota level until the beginning of their fiscal year which is in I think at the end of March 1984, as I recall correctly.

So, we are somewhat hamstrung in our ability to address that.

What I have done is to ask them to expedite discussion on further liberalization of those quotas and——

Senator BAUCUS. Well, a 3,000 ton hotel beef quota right now with Japan. There is a 30,000 ton quota overall on beef. A 3,000 ton hotel beef quota is peanuts.

Mr. BROCK. Senator, I would point out that we have not consistently mét the quota that we already have in beef. We could do better ourselves.

Senator BAUCUS. Could you, because I don't think you have the information now, for the record, very precisely outline what the tariff and nontariff barriers are to America.

Mr. BROCK. In agricultural products?

Senator BAUCUS. Livestock and grain to Japan.

Mr. BROCK. OK.

Senator BAUCUS. For the moment just say Japan.

Mr. BROCK. OK.

Senator BAUCUS. Because that is one of our major trading partners.

Mr. BROCK. May I make one other point about the consistency of our negotiating position, though. I accept that judgment and criticism. You may have noticed when I took this job I asked Mike Smith who was our Ambassador for the last several years, in Geneva, to stay on, precisely in order to have that continuity and maintenance of institutional memory which allows for a more effective stance in our trading posture.

I think we are aware of that and are trying very hard.

We also have a very active training program for our people. I think our people are the best in the Government. But I think it is also important to note we do have in this administration an absolutely unified position between Commerce and Agriculture, the primary trading agencies, that is the healthiest that I have ever seen since I have been in this town in any administration.

I think that is a very positive thing.

Senator BAUCUS. One quick point here. I agree the competition should be the major criteria, the principal criteria. But other countries don't follow that criteria the same way we do. Therefore, we have to adjust.

Mr. BROCK. I accept that.

Senator DANFORTH. Mr. Ambassador, in the white paper the following sentences appear:

The Administration will strictly enforce United States laws and international agreements relating to international trade.

We will insist that our trading partners live up to the spirit and the letter of international trade agreements and that they recognize that trade is a two-way street.

In your view, is this a change in Government policy or is this a continuation of existing policy?

Mr. BROCK. It flat is the present policy. What it was in the prior administration, I simply can't comment, because I was not part of that group.

But, looking at some of the people that had to manage that policy, Bob Strauss, and Ruben Askew, they were remarkably fine people and I am sure that that was their attitude as well.

Senator DANFORTH. So it is your view that basically what we are going to be doing is about the same as before with respect to enforcement of antidumping and countervailing duty laws?

Mr. BROCK. Yes. Similar questions you might want to ask of the Secretary of Commerce. Some areas fall under his jurisdiction. Again, it is hard for me to evaluate what was done by previous Secretaries.

I can only say that this administration does intend to follow the letter and the intent of the law.

Senator DANFORTH. But in your view, in the same manner as we have in the past.

Mr. BROCK. Again, I don't know what the level in the past——

Senator DANFORTH. Well, let me ask you this.

Mr. BROCK. I was involved in another incarnation for the last few years.

Senator DANFORTH. Do you believe that our trading partners do live up to the spirit and letter of international trade agreements?

Mr. BROCK. I think most try pretty well. Of course, there are exceptions, but by and large, I think there is a very serious intention to, once they sign an agreement, to live up to it.

We call them to task when they don't.

Senator DANFORTH. They do recognize that trade is a two-way street?

Mr. BROCK. Oh, I think they recognize it for sure. Yes.

Senator DANFORTH. Based on your comments you seem to be pretty well satisfied with things as they are. This really does not enunciate a new get tough policy with respect to enforcing international agreements, does it?

Mr. BROCK. I am not sure that is quite the way that I would phrase it, Senator. I am not satisfied with the way things are because I see so many areas where we need to improve.

There is a terrible void in the services' area that we simply have not come to grips with the need for a better and a more defined safeguards policy.

We haven't dealt with counterfeiting adequately at all.

There are really areas we are pressing, in the OECD, in the GATT, very aggressively.

Senator DANFORTH. Let me ask you this, Mr. Ambassador. There is no safeguards policy now. There is no safeguards code.

Mr. BROCK. That is correct.

Senator DANFORTH. There are those who would argue that international trade is not a two-way street, particularly with some of our trading partners, that it is a one-way street.

But, it appears that the administration's basic policy is that the United States, without waiting for the two-way street to occur; on the basis of the status quo; on the basis of life as the administration finds it today; is willing to adopt a survival of the fittest policy in the hopes that somehow we will be able to survive.

Mr. BROCK. It is true to state that it is this administration's policy that we have to put our own house in order and correct our own problems as a matter of priority, regardless of what others do. We must clean up our own house first.

But, it is not true to draw any implication from that that we are not going to be pressing very aggressively on our trading partners to adopt additional stringent codes and to adhere to those codes.

We believe we can make a great deal of progress in that area in the next few months.

We have already had some very effective meetings and frankly, an awful lot of progress has been made.

Senator DANFORTH. On the basis of the present status of the one or two-way street, whichever it is, and whatever your perception of it is, on the basis of life as you find it now, the administration has proposed to adopt what the Washington Post calls the survival of the fittest program.

Mr. BROCK. We propose to do whatever we can to allow the market system to work in this country.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Yes. Thank you, Mr. Chairman.

Mr. Ambassador, in addition to the statement that Senator Danforth quoted regarding the fact that our allies must recognize that trade is a two-way street, on page 7, you state that one of the most difficult challenges we must face in seeking to achieve free trade, is to develop appropriate responses to the growing intervention of foreign governments in international trade.

On page 9, you say, "It will be critical to encourage through international negotiations," and I emphasize the word "critical," "all Governments to adopt adjustment policies which do not have trade and investment distorting effects."

Again, on page 9, you say, "Our objective will be to reduce Government barriers, both in the United States and abroad, to the flow of trade and investment among nations."

Then, you go on to say that in services, in trade related investment issues, in the export of U.S. technological goods, we have specific problems.

Now, I have two questions.

The first is: Do you know of any countries that have less in the way of barriers to free trade than the United States?

Mr. BROCK. Not many. Hong Kong. Singapore. Just a couple like that.

Senator HEINZ. Is it fair to say then that this country welcomes trade more freely, that our barriers are lower, that we have lower tariffs, fewer quantitative restraints, we are without common agricultural policies.

We do not subsidize our industries. We do not protect our infant industries but that other nations do all of that?

Mr. BROCK. All of that is true.

Senator HEINZ. Now, second, you said to Senator Danforth, "We do not have a new get tough policy with respect to the nonfree market interventionist activities," which you characterize as growing, which you characterize as critical, which you characterize as a matter of priority.

You say we are not going to have a new "get tough attitude." Now——

Mr. BROCK. I am sorry, because either I misspoke myself or you misunderstood, Senator. I said that we are going to be very aggressive and very tough. I simply was unwilling to comment on what a prior administration may or may not have done because I was not here and not privy to their decisions or policy.

Senator HEINZ. All right, fair enough.

You are willing to have a get tough attitude and you do recognize these problems as critical and urgent. I assume you would agree with my opening statement that the No. 1 problem is not American protectionism per se, but protectionism far and away beyond what we ever have dreamed of in most of the other countries of the world; correct?

Mr. BROCK. I think it is correct. But I think it is also important to point out that the trade agreements, the seven rounds of trade negotiations we have had, have led the world in the direction of more liberalized trade.

I think that is an important point to make. We have made some progress in the last two decades.

Senator HEINZ. I am not going to disagree with that. What I seek to ask is the following. If we have already been successful in negotiating our barriers down to next to nothing, and other people still have a lot of barriers up, what do we have left to negotiate with?

Mr. BROCK. Quite a bit. What we have tried to do is to eliminate those barriers which are governmentally imposed in an inequitable fashion.

For example, when we have another country subsidizing exports to a third country which displaces U.S. products, there is a process under U.S. law and under the GATT, which we can follow to protect ourselves against that kind of abuse.

We have two protections. First is the application of U.S. law insofar as our own markets are concerned.

Second, the application of the GATT itself, insofar as the international market place is concerned.

We have no reluctance whatsoever to use either.

Senator HEINZ. I see my time is about to expire. Do you intend to file a 301 complaint against France for its export credit subsidy activities?

That is one of three things I suggested to you and the President, back in March. You have, as I understand it, agreed to the first, to target Ex-Im Bank financing. I am getting some encouraging signs on the war chest bill for Ex-Im. A complaint has been drafted, I know and has been submitted to STR against the French.

What are your plans?

Mr. Brock. I would like to make that decision a little bit off for now for the reason we have a new French Government. They have modified their position.

I think there is a possibility that we can reach an agreement. We are trying very hard to do so. We have an awful lot of support from the European Community. They have been magnificent in this effort.

The individual nations in Europe are supportive.

Our other trading partners at the OECD ministerial when I was there in Paris, 2 weeks ago, we had a unanimous vote of the OECD ministers to take action to alleviate this problem and to reach fair market rates.

I think we are making progress. So, I would rather not make a final decision on 301 proceeding until we have exhausted other remedies.

Senator Heinz. Mr. Ambassador, you have been an excellent witness. I thank you for your comments. There are a number of questions I will submit to you, because we are out of time.

They will cover such things as when the administration is going to come up with an alternative to DISC.

They will cover questions regarding your support for graduation from the generalized system of preferences, and a few other matters.

Senator Danforth. Mr. Ambassador, I am sure a lot of us would have questions to submit to you. We would appreciate the opportunity to do that.

Mr. Brock. Yes.

Senator Danforth. Senator Baucus.

Senator Baucus. Thank you, Mr. Chairman.

I have no questions.

Senator Danforth. Senator Moynihan.

Senator Moynihan. Thank you, Mr. Chairman.

I would like to turn to the second of the two questions I said I would like to address to the Ambassador.

That is the matter of trade adjustment assistance. Mr. Ambassador, I think it is a matter of record that, and not disputed, that one of the bases on which agreement was reached to the extension of our present trade negotiations, the Tokyo round, was the understanding that there would be trade adjustment assistance available to workers displaced in the consequence of agreements which we made.

This is not a regional matter that I speak to. This is nationwide, but central to this committee's concern.

The new administration came forward with proposals which this particular proportion might be disputed, but it is the judgment of the minority staff here in the Finance Committee that would reduce the trade adjustment program by 84 percent in terms of the actual payment.

It would change the criteria for eligibility. It would greatly reduce levels—well, significantly reduce levels of payment. It would leave very little left in the way of a program.

That is why Senator Danforth took the lead on the floor, last month, and I joined him in that, to ask the Senate, which was not prepared to reverse that decision made first in this committee, but was prepared to postpone its implementation of two of the changes in certification criteria by 6 months, such that our bill, if it is accepted by the House will say that these newer standards will take effect six months after the reconciliation bill itself.

That would give us time to hear you on this subject. But, I wondered if we couldn't hear you now. I know Senator Danforth and I would very much like to.

Do you feel that we in this committee and the Senate have done the right thing? Do you think we kept agreements?

Mr. BROCK. Senator, I personally feel that an orderly process of adjustment is important. I do think we have a role to play.

What we tried to do with the administration's approach was to draw a distinction between firm assistance which provides them with market advisors to choose new products and so forth and retaining assistance which is an effort to get workers into a job that does have a future, make a distinction between that and the income maintenance part of the OTAA approach.

I hope that what the Senate has done will allow us to achieve that goal. I don't know.

Senator MOYNIHAN. Well, you will come and testify. You will come before us when we hold hearings on this. I think the chairman aims to do so. Because we don't think people get this retraining.

We think the income maintenance has been just savaged and people will have disappeared and the training won't take place.

Mr. BROCK. Senator, a very high percentage of those people under the old program never got their checks for income maintenance until they were already back on the job. There really were problems with the old program. I think we all recognize that.

Senator MOYNIHAN. We won't dispute that.

Mr. BROCK. What we would like to do is to more precisely target this to those areas of permanent displacement and retraining required for those workers.

We do have, if I recall, $112 million in that bill, for that.

Senator MOYNIHAN. That's right.

May I ask you sir, you will come and give us, having thoroughly analyzed the new bill, and have the Department of Labor join you in that, you will come and tell us you think it will work because you should know our judgment that it won't. That it represents a violation of an understanding that we had.

That is felt in the world of commerce and trade without whom you can't have trade policy any more. We have had 50 years of the trade union movement, working side-by-side with trade negotiators.

If that breaks up, something large is lost and probably irrevocably.

Mr. BROCK. I agree. I shall come.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Mr. Ambassador, I just have one other question I want to ask you. In the Senate Finance Committee bill, in order to close a tax loophole that deals with the futures' industry, there is a section in that bill that will change the taxing policy if enacted into law, on how futures markets will be taxed in the future.

In the case of a construction company, for example, that will make a contract for an overseas construction project they probably would use international futures markets to hedge on the currency so that their price bid would be accurate.

Likewise, it is very important with agriculture. I don't know if you had anybody have a look at that. If you have, I would be interested in their opinion on how it would affect both the ability of international corporations to hedge currencies, as well as any potential that grain markets might have a tendency to try to center their activities in other countries.

Maybe you had a chance to look at it.

Mr. BROCK. I haven't in the specific context of your question. I believe you are referring to the straddle.

Senator SYMMS. The straddle legislation, yes.

Mr. BROCK. Which deals with so-called tax-free loophole as it was described by those who were asking for the legislation.

I really have not had a chance to analyze it in trade terms. I would be delighted to do so and get back to you.

Senator SYMMS. If you had someone who could do that I would appreciate it. It is a little late, I suppose to ask you. We may have the bill on the floor next week. I would appreciate any information or opinions that any of your experts might have on how that possibly could have a positive or negative impact.

Whatever it would be, I would be interested in it.

Mr. BROCK. I will try to get you an answer this week, Senator. If it is within my power, I will do so.

Senator SYMMS. Thank you very much.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Dole.

Senator DOLE. I will submit my other question in writing, Secretary Baldrige has been patiently waiting since 9:30.

I will give you my questions later.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman. I will try to be brief, as well.

I was curious, what would be the administration's trade response if the Soviets intervened in Poland?

Mr. BROCK. Vigorous.

Senator BRADLEY. Specifically?

Mr. BROCK. I would rather not be specific, Senator. I think we have to maintain a freedom of movement in that kind of a decision that will allow us to exercise the maximum leverage we can.

To try to spell out target areas of action would, I think——

Senator BRADLEY. Who is thinking about that? Is there a task force within the executive branch now that is sketching out these scenarios?

Mr. BROCK. A lot of people are thinking about it, have given extensive thought to it, and not only have we done so within the administration, we have had extensive conversations with our allies on the matter.

Senator BRADLEY. But is there a designated task force now or is it just done through your normal interagency coordination?

Mr. BROCK. No, there is not an ad hoc special purpose task force for that purpose. I see no reason for that, frankly.

Senator BRADLEY. Do you support Polish membership in the IMF?

Mr. BROCK. I haven't personally taken a position on it, nor have I——

Senator BRADLEY. Has anyone in the administration thought about that?

Mr. BROCK. I don't honestly know.

Senator BRADLEY. Let me ask and this is really for my own personal edification. I have talked to a lot of people who posed this problem to me and I couldn't give them an answer.

Why is it that when an exporter exports to Western Europe, on each order he needs a whole set of export licenses that has to be processed through the bureaucracy?

What is the rationale for that. I mean, I could understand if there were sensitive national security items, you do not want to export them. But what is the rationale for what appears to be a kind of added bureaucratic burden on exports?

Mr. BROCK. I think perhaps the next witness should answer that for himself. But I don't know of any requirement of export licenses, unless the product is controlled under the COCOM agreements which clearly are a subject of national security concern.

I think I should add our entire policy of export control is under very active review at the moment. And hopefully we can act fairly quickly to simplify that.

The biggest problem our business people have in this area is not getting any answer.

Senator BRADLEY. That's right.

Mr. BROCK. It isn't a yes or no, they don't get any answer. That is because of the complexity of the process that has evolved over a period of many years.

Senator BRADLEY. When do you think you will be through that analysis and come out with some recommendations?

Mr. BROCK. I don't know.

Senator BRADLEY. The next witness. OK.

Mr. BROCK. I don't know. We are pressing very hard on that.

Senator BRADLEY. Are you going to be pushing for this labor component that Senator Moynihan was dealing with?

Economic adjustment is a matter of abundance of capital and also an abundance of skilled labor.

Mr. BROCK. That's right.

Senator BRADLEY. If you don't have the skilled labor you are not going to get rapidly down a learning curve and you are not going to get the growth you want.

The question is: I know there is $112 million in the budget for retraining under trade adjustment assistance, but there is no program right now.

I have heard that the administration is going to come forward with a worker retraining program.

Is that so? If so, when?

Mr. BROCK. That is presently under the Department of Labor. All I can say is that from my point of view, I very much want it and will pursue it and will support it.

Senator BRADLEY. Thank you very much.

Senator DANFORTH. Thank you very much.

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Senator Bentsen.

Senator BENTSEN. Mr. Chairman, just for a short observation. I was impressed with how careful, Mr. Ambassador you were in responding as to whether or not this was a change in policy in this administration to the last.

I think it is not a question of trying to pin responsibilities whether it is Democratic or Republican administrations of the past. But to put it in perspective, a change in the relationship of the United States or its economic powers to the rest of the world.

Following World War II, we were obviously the major economic dominating force in the world, by far. We could afford to make international political decisions where we gave the benefit of the doubt in the trade to other countries we were trying to restore.

But we have had a change over the years. It hasn't happened all at once, it happened over a period of time.

It is time that we not forget the international political consequences, but that we give increasing emphasis to the domestic economic consequences if we are to remain the major force in international trade as a market place and as a producer.

So, it is an increasing emphasis we are talking about and there will be an evolving, changing policy, I hope.

Mr. BROCK. Of course there will.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

Mr. Ambassador, I am happy to note that one of your prime objectives is listed as reduction of self-imposed export disincentives and better management of Government export promotion programs.

I think this is one of the areas in which we very much are behind some of the other exporting countries.

I will just cite one example. I am wondering what we are doing in respect to improving our policy in this respect.

You will recall that during the—you may not recall the negotiation, but the discussions on the foreign imports of automobiles that some complaint was lodged by members of Congress, that they would go to Tokyo and see no American cars on the streets of Tokyo and come back to Washington and know that every other car is a Japanese car.

With this in mind, I did talk to quite a number of Japanese businessmen and asked them why this is so. I was told, and I did bring this to the attention of the witnesses who appeared for the American auto industry, when I came back from Japan.

That is, my question to them was, why. Why don't you allow more American cars into Japan? The response was from the spokesman of the group that I met with, that well, we tell your American auto makers to switch the steering gear from the left to the right and to build smaller cars for smaller streets, in Japan, but they absolutely refuse to do it.

So, when I came back and put the question to auto representatives, auto makers' representatives, here at one of our hearings, and I inquired whether this was true. The response you probably heard about this was, it is true.

My question was, why? The response was, "Senator, our market is here in the United States, not in Japan."

So, that explains to a large degree why we import more cars than we export.

What will you be doing with regard to encouraging our automakers to build some cars for export purposes?

Mr. BROCK. I don't know how to answer that question, Senator.

What they have done in the past, if they want to export cars, instead of exporting, they build a plant and build them in Europe. They have not seen fit to do that in Japan for a number of reasons.

They have built plants all over Europe. They are producing cars and making frankly, a very healthy return on investment over there in most cases, or have until the last 12 months.

It has been not the policy of the U.S. automobile manufacturers to produce cars in this country for export.

If they want to sell cars, they swear they put a plant there. That is pretty much the sum and substance of it.

I don't know how you can always fight a defensive ball game. It seems to me if you want to be aggressive, you want to fight an offensive ball game and that means you have to export.

Senator MATSUNAGA. My time is up, but I think this is one area we should look into and other areas and do what other exporting countries do, go to the country and find out what they want and come back and manufacture for export.

Mr. BROCK. We have some very good American competitors in Japan. We are doing $20 billion worth of business over there. So, there are some fine companies who find that you can sell products in Japan if you go over there and work at it. Others could do as well.

Senator MATSUNAGA. Thank you.

Senator DANFORTH. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

Mr. Ambassador, I will be brief in my questioning, as I know you have been here a good length of time.

One of my interests has been to try to get better coordination between the Government and the private sector, both business and labor.

As you know, in the multilateral trade negotiations we had the Advisory Committee on Trade Negotiations and a number of committees that were created under section 135 of the Trade Act of 1974.

My question to you is, What role do you see these advisory groups playing in this postnegotiation period and what can we do to get closer coordination and cooperation better government and the private sector?

Mr. BROCK. I think before you came in, Russell Long made the comment that he thought we might not have enough bureaucracy in the USTR, and then we got diverted and I really answer the question, but you almost dealt with the same thing.

What I would have responded to him and what I would have respond to you is that I have the strongest volunteer bureaucracy of any agency in Washington. It is outstanding.

I have an act and meet advisory committee on trade negotiations meeting this afternoon. These are very prominent labor and business leaders who come in at their own expense, to work with us, to develop trade policy, to analyze trade flows, trade data, to provide us with idea as to what will happen next year, or 2 years, 5 years out, to help us with negotiations.

I simply could not operate without the access that we have to those 800 men and women who serve on those committees.

There are about 40 of the sectoral and other advisory committees. They are essential to my ability to conduct my job.

Whatever we can do to strengthen that, we will do. We will seek aggressively to use that talent bank of expertise that we simply could not afford. You can't hire that kind of talent.

Frankly, I don't know that I wouldn't be more comfortable with it staying like it is, because it is—we do have market participation to a degree that I find remarkable in Government. I am very proud of it.

Senator ROTH. I think that is very encouraging and very important. I think one of the great advantages that other countries have over the United States is the spirit of cooperation in this area, between the diverse groups.

One of the things I would like to do in the near future with my Senate export caucus is to meet with the ACTN group and you to discuss this area.

Mr. BROCK. Come on over today. We would love to have you.

Senator ROTH. Very good.

Thank you.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Mr. Brock, when your confirmation hearing was held I expressed my confidence in you and I still have that confidence.

Mr. BROCK. Thank you.

Senator GRASSLEY. In fact, I read good reports about things you have been accomplishing, but one of the things that we have also been reading in the paper and it is not just because you are in this position, but it has been somewhat traditional between special trade representatives and other departments of Government, we read about bureaucratic infighting and turf protection between your people and Commerce, your people and Agriculture, and also between the State Department and also the other three combined.

It may just be a fact of life. I think one of the things I am hoping for with the new administration and with you in the position you are in, that we won't be reading reports like that, not because they don't appear in the paper but because there is no point in them being written about.

So, I would like to ask in regard to the reports we have been reading since the first of the year, are they true and if they are true, are there being actions taken within your ranks, as well as those higher up in the administration that can coordinate the things going on in the administration so that there can be maximum cooperation in the efforts to promote international trade.

Mr. BROCK. The answer to the last questions is yes.

In terms of the fundamental question, any administration new on the job has to find how to fit pegs into the respective holes and develop the interrelationships that make it a workable administration.

We have had, I think, very modest bumps for a new team. I am just——

Senator GRASSLEY. Maybe the reports are not accurate then. Is that what you are telling me?

Mr. BROCK. I don't think they are accurate today. I want to tell you something. I have been in this town for 20 years. I have heard people talk about Cabinet Government all of my life and I have never seen it work until now.

But I will tell you for a fact, it is working in my judgment now. I have never seen a process as thoughtful and productive as this particular process is.

The Trade Policy Committee, the Cabinet Council in Commerce and Trade, the Economic Policy Council, and I sit on all three, as does the next witness, have developed relationships.

We do work consciously, daily together. We have our priorities established. We have the sequencing of the assignment of role and responsibility.

The trade component of this administration which would be primarily Commerce, Treasury and Ag. and the USTR are in daily consultation. We work very closely together. I think we formed an effective working program.

Senator GRASSLEY. I think maybe you misinterpreted my question. It was in regard more to the professionals and the sub-Cabinet people and the professionals within the departments are in existence from administration-to-administration more so than it is the people who have been appointed by this administration.

Mr. BROCK. I just don't see today the kind of abrasions I have seen in other years in other administrations. I think our professionals are that. They are professionals. They have acclimated themselves to the new style of this President and it is working.

Senator GRASSLEY. Thank you.

Senator DANFORTH. Thank you, Mr. Ambassador. You have been a very fine witness.

Mr. BROCK. Thank you. I enjoyed it very much.

Senator DANFORTH. Secretary Baldrige.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Senator DANFORTH. Mr. Secretary, thank you for waiting.

Mr. BALDRIGE. May I have my statement included in the record?

Senator DANFORTH. It will be included in the record.

[The prepared statement of Secretary Baldrige follows:]

PREPARED STATEMENT OF MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Mr. Chairmen and members of the Subcommittee, it is my pleasure to have this opportunity to appear before you to discuss United States Trade policy. International trade, and the improvement of our overall trade picture, are of vital concern to the Department of Commerce. The Administration "Statement on U.S. Trade Policy", discussed by Ambassador Brock, has my personal support and that of the Department of Commerce.

Before summarizing the steps we are taking to carry out the Administration's trade policies, I would like to explain the relationship between the Cabinet Council on Commerce and Trade (CCCT), of which I am Chairman pro tem, and the Trade Policy Committee (TPC), chaired by Ambassador Brock.

The President has established five specialized Cabinet Councils to serve as focal points for the Presidential decision-making process on major issues facing this country. The TPC predated the Cabinet Council on Commerce and Trade and has statutory responsibility for advising the President on a large number of international trade policy issues. There are fundamental differences in the missions of the two groups. The TPC will continue to carry out its full statutory mandate contained in the Trade Acts of 1974 and 1979 and Reorganization Plan Number 3. The mandate of the CCCT is broader than that of the TPC, encompassing domestic as well as international issues relating to trade, commercial, and industrial policy matters. The CCCT is the final forum in which the President has chosen to make his decisions in these areas.

Ambassador Brock and I have an excellent working relationship, and we have a clear understanding of the responsibilities of both bodies. When an issue arises touching both domestic and international programs, the TPC will participate to the full extent of its statutory mandate in developing recommendations for action by the President. On major issues falling solely within the jurisdiction of the TPC, CCCT will become involved only when the President wishes to review the issue personally with the Council prior to making a decision. For example, this process was followed in the recent decision on nonrubber footwear when Ambassador Brock presented the recommendations of the TPC to the President and the Council. Ambassador Brock and I are satified that this arrangement has enabled the Administration to develop a coherent trade policy which fully complements other domestic and international objectives of this Administration.

I cannot over-emphasize the importance to the Nation of a fully coordinated trade policy. It is no secret that the United States has been losing its competitiveness. Other nations are currently doing a much better job at the things that make an economy competitive in the world marketplace. We save less, we invest less, we do less basic research, we have lagging productivity, and we are experiencing higher inflation than many of our competitors. As a result our trade performance has been lagging, even as trade becomes more important to us. Since 1976, we have had a record string of trade defícts totaling over $110 billion, and the outlook for this year is for a larger deficit than we had in 1980. The U.S. share of world export markets has been declining. Between 1960 and 1980, our share of the world manufactures trade fell form 25 percent to only 18 percent. Key domestic industries—steel, autos, and semiconductors—have been losing their competitiveness in our domestic marketplace as well as overseas.

Unfortunately, these trends are occurring in a world marketplace that is going to become even more competitive in the 1980s. We face increasing competition from developed countries in high-technology goods, and from the developing countries in low- and medium-technology goods. In addition, we expect the world market to grow more slowly than it has in the past decades. We must act not to improve our ability to compete successfully with foreign firms—both in our domestic and overseas markets.

Ambassador Brock has outlined for you the major points of the Administration's program for United States trade. I would like to discuss the steps which the Department of Commerce is taking to convert goals into achievements.

REMOVAL OF TRADE BARRIERS

U.S. trade policy is rooted in the concept that free trade is necessary for the growth of our exports and our economy. Since the inception of the Trade Agreements program in 1934, it has been U.S. policy to seek reciprocal agreements to eliminate barriers to trade. We have pursued further liberalization of world trade through our leadership role in the General Agreement on Tariffs and Trade (GATT) which entered into force in 1948. The GATT rules provide a framework which governs the trade of its member countries and the conduct of their trade relations with one another, thus helping to ensure both free and fair trade.

The Tokyo Round—the seventh and most recent round of multilateral trade negotiations—was the first broad attempt to address the growing problem of nontariff barriers which distort and inhibit international trade. Six major codes of conduct resulted from the Tokyo Round which extend international rules of behavior to government procurement policy, standards formulation, customs valuation, import licensing, subsidies, and antidumping and countervailing duties. We have now entered the implementation phase of these agreements and one of the Department's more important functions is to monitor the implementation of these agreements by other signatories in order to ensure mutually beneficial results. The Department intends to build on this foundation by improving and extending international trade rules.

One area in which we have not yet been fully successful is in the negotiation of an acceptable Safeguards Code governing the use of import relief measures. The international discipline inherent in such a code is a key element in maintaining on open market system. Without such a code, protectionist measures would seriously undermine the progress made to date in developing an open world trading system.

The major issue delaying effective progress in the safeguards negotiations has been the insistence of the European community that importing countries should be allowed to take safeguard actions against selected supplying countries, rather than applying such measures on a non-discriminatory basis. The United States opposes selectivity because it is inconsistent with the Most-Favored-Nation principle which underlies existing GATT rules. The Administration also believes any Safeguards Code must incorporate acceptable provisions regarding broad coverage of safeguard measures and transparency. We will continue to press for inclusion of such provisions.

The Commerce Department is also responsible for removing trade barriers through prompt and effective administration of the antidumping and countervailing duty statutes. While our countervailing duty law cannot offset fully the damage done to U.S. industry by foreign subsidies in third country markets and in the market of the subsidizing country, it can help to prevent subsidized competition within the U.S. market. The 1979 reforms provided greater procedural protection and judicial review for petitioners, but inevitably led to an increase in the complexity of the law. The Department will ensure that these remedies are available equally to small businesses as well as large ones, while at the same time maintaining the necessary separation between the people who advise businesses on the meaning of the laws and the people who investigate specific complaints.

Service industries are a major growth area in our domestic economy and in our balance of payments. Currently about two-thirds of our GMP and 7 of 10 American jobs are derived from services. The international activities of U.S. service firms (services exports plus revenues of overseas affiliates) grew from $92.5 billion in 1977 to around $130 billion in 1980.

As the world's leading exporter and importer of services, the United States has a vital stake in eliminating barriers abroad which inhibit international exchange of services. To work toward this end, my Department, along with USTR and other agencies, is carrying out a study with our trading partners in the OECD to identify problems in common. In the longer run, our aim is to reach internationally agreed-upon rules of trade on services including the extension to services of existing MTN Codes whenever feasible.

INDUSTRY ADJUSTMENT ASSISTANCE

As a rule, the Administration believes that the business of doing business should be left to the private sector. Nevertheless, there are circumstances in which it may be appropriate to provide assistance to industry to adjust to international competition without interfering with the market system. This assistance can be provided in two forms. Our model program of structural assistance to the American apparel industry is an example of how the government can act as a catalyst in developing new technologies; increasing the utilization of existing technology, and upgrading technical and management skills. Under a grant to the New England Apparel Manufacturers Association, over 30 small apparel manufacturers have received basic industrial engineering technical assistance to improve productivity and efficiency. Two companies on the brink of bankruptcy are now solvent and all companies have reduced costs and increased their earnings. Trade adjustment assistance enables us to assist firms and industries by providing specialized technical and professional help to individual firms to prepare and carry out adjustment plans, and by making limited financial assistance available in the form of direct loans and loan guarantees. We also help industry associations develop new techniques, new products and new markets (including export markets) on behalf of individual firms in the industry.

I wish to emphasize that while trade adjustment assistance for firms and industries is not a large program (we are asking $51 million in obligational authority and $42.5 million in guarantee authority for fiscal year 1982), the program has already helped many firms, and it is becoming well-known. We think that it is an important contributor to private sector adjustment and a key aspect of our international trade policy.

IMPROVING EXPORT CONTROL

Industry groups have noted with increasing frequency that delays in export licensing decisions are seriously hurting the ability of United States firms to plan market strategies and follow through on export contracts. I understand that these concerns have led certain members of Congress to question the continued advisability of export controls. The Administration is pledged to across-the-board reductions in regulatory burdens on the business community that are imposed by unnecessary delays and restrictions. The fundamental difficulty in administering export controls is in striking an appropriate balance between protecting the nation's legitimate security interests and pursuing the nation's legitimate commercial trade interests.

Only a small portion (five percent) of exports is subject to the procedural delays associated with issuance by the Department of a validated license. These commodities are dual-use items which fall into three general categories: (1) Those items judged to have the potential of contributing significantly to the military capabilities of potential adversaries; (2) Certain items which are controlled for foreign policy reasons; and (3) Petroleum and related products that are controlled for short supply reasons, such as gasoline, kerosene, and jet fuel. Exports of these short-supply items are limited to a percentage of earlier export levels.

We are working on the major problems in the export control process, and expect to see considerable improvement within the next 6–9 months. Already, considerable progress has been made. Moreover, with each new policy decision this Administration makes, firmer guidelines are provided our technicians, as well as the other advisory agencies, paving the road for export policies that are consistent, predictable, and easily understood.

REMOVING EXPORT DISINCENTIVES

For our trade policy to be successful, it will clearly be necessary to eliminate unnecessary disincentives to United States exports and we are pledged to do so. There are currently three areas in which the Administration feels that there is room for substantial improvement, and I'm aware that our concern is shared by many in the Congress. I wish to discuss each of these areas in turn.

Foreign corrupt practices

The first area is foreign corrupt practices. While I wish to state unequivocally that the Administration fully supports the premises and purposes of the Foreign Corrupt Practices Act (FCPA), it is also our view that the FCPA has become a significant export disincentive. Costly accounting procedures and considerable ambiguity in the FCPA's provisions have resulted in excess caution which inhibits otherwise legitimate business transactions. While it is not possible to assess with precision the value of exports lost as a result, my view is that it is significant. Legislation currently before the Senate (S. 708) seeks to clarify many of the areas of uncertainty in the FCPA, and would bring the FCPA into line with accepted domestic standards of criminal liability for bribery. We are pleased that the Senate Banking Committee is moving ahead quickly with consideration of this legislation. We look forward to continuing to work with both Houses of Congress to write a bill fairly balancing the national interest in preventing bribery of foreign officials with the need to remain competitive in international markets.

Export trading companies

Export trading companies have an important place in the Administration's program of regulation review. The Administration strongly supports the Senate-passed export trading company bill, S. 734. If enacted, this legislation will be the first law in a decade specifically aimed at promoting a vigorous U.S. export effort. It should spur U.S. exports by removing legal or regulatory prohibitions against bank ownership of export trading companies, and by allowing greater assurance that export trading company activities will be protected against antitrust challenge. We consider that provisions dealing with these two regulatory problems are essential to the success of export trading company legislation. I would also emphasize, however, that the bill contains important antitrust safeguards to insure that export trading companies will not have anticompetitive effects on the domestic economy. The application procedure for which the bill provides requires full disclosure of business plans. The eligibility requirements for obtaining an antitrust exemption restate and clarify existing antitrust standards. The Department must also determine, based on the applicant's submissions, that an export trading company is needed to increase exports. The antitrust enforcement agencies are empowered to seek amendment or revocation of an antitrust certificate if conditions change or anticompetitive practices develop. The Department has similar authority. Finally, the Executive branch has recommended one amendment to the Senate-passed bill which is a further safeguard: an export trading company whose members' shares of the domestic market exceed 50 percent can be certified only by meeting additional requirements. We would hope that the bill, including this amendment, is approved by the Congress.

Taxation of income earned abroad

The third area of export disincentives—also the subject of legislation before the Senate—is taxation of Americans working overseas. Changes in the tax laws in 1976 and 1978 have increased the tax burden on Americans living abroad. Consequently, Americans in positions which are critical to the promoting of U.S. exports have been coming home. They have been replaced, if at all, with foreign nationals who may be paid less because their incomes are not taxed while they are resident of domiciled outside their own countries. Key positions are then occupied by persons who foster exports, not from the United States, but from the familiar and favored source of their own country.

Recongizing the need to have Americans abroad, the Administration has given its full support to major tax relief for Americans working abroad as part of its primary tax proposals for 1981. We support S. 408, introduced by Senator Chafee, which would eliminate the various deductions available in current law and provide instead for exclusion from U.S. taxation of the first $50,000 of foreign earned income, 50 percent of the next $50,000, and up to $6,000 in housing expenses. These changes are essential if our companies are to maintain their American employees in necessary overseas posts without paying a tax penalty that destroys their ability to compete. We urge that legislation accomplishing this purpose be enacted before the end of the summer.

EXPORT CREDITS

Official export credits are also a key concern in the Administration's trade policy. The Administration is making every effort to secure agreement among the OECD countries to reduce or eliminate the subsidy element in export credit. Providing the 8-9 percent interest rates now permissible on export credits diverts government resources critically needed elsewhere: In any event, seeking export advantage through such practices is self-defeating since other countries will match any concessionary rates offered. Should the Administration be unable to secure an agreement, however, it is prepared to defend U.S. economic interests. Our negotiating partners should not underestimate the resources we are prepared to commit, the extent of the credit terms we are prepared to offer, and our resolve in asserting our trading rights.

INTERNATIONAL INVESTMENT

The traditional U.S. policy of neither encouraging nor discouraging U.S. international investment has become the subject of increasing controversy in recent years, especially in relation to large increases in foreign investment in the United States since the mid-1970s. These investments have included the acquisition of significant U.S. corporations—some in quite sensitive U.S. industrial sectors—as well as the attempted takeover of numerous other U.S. businesses. Several bills have been introduced in recent sessions of Congress that would place additional requirements on potential foreign investors, temporarily restrict specific types of inward investment, and even significantly change the environment for such investment. In addition, increasing instances of restrictions—such as performance requirements—relating to outward investment pose new challenges to the U.S. international economic position.

The cumulative effect of these developments suggests that a major reassessment of U.S. international investment policy may soon become appropriate. The last such policy review, approved by the Economic Policy Group in 1977, occurred prior to most of these significant developments. The Department would expect to play a major role in any such reassessment.

CONCLUSION

In conclusion, Mr. Chairmen, let me say that while reducing barriers to trade and gaining more access to foreign markets are essential steps to improving the U.S. export performance, these steps may not be enough. Part of the reason for our relatively poor export performance over the years stems from insufficient commitment, resources and motivation in the business sector. To better accomplish our objective of expanding exports we have established some basic principles and new directions for our trade development programs in an effort to better accomplish our objective of expanding exports.

First, we will encourage the private sector to do more. Our export assistance programs should focus on those activities that the private sector—and particularly small and medium-sized firms—may not have the resources to undertake, such as market research, trade missions, and small trade fairs.

Second, the States, which are closer to the individual exporter, will be encouraged and assisted in their efforts to help firms export.

Third, in order to use our resources efficiently, we must direct our program activities to country and product targets where the opportunities and needs are greatest.

We are pursuing these goals. In the last year, the Department has put on 120 major seminars to acquaint industry with specific export opportunities on a country-by-country or product-by-product basis. As a result of discussions with Secretary of State Haig, he has sent a message to all Ambassadors urging their personal leadership of U.S. export promotional efforts in their Missions.

Mr. Chairman, I believe that our partnership with industry will allow us to become once again a pacesetter in international markets. We can do so without resorting to artificial means of influencing purchasing decisions. While our firms are encountering artificial situations in meeting competition from foreign producers, and while I see subsidization of foreign imports growing in the future, for the most part competition continues to be commercial. The only way to meet those commercial challenges is directly: With better product, better price, and competitive terms of purchase. With the implementation of the President's Economic Recovery Program, our revitalized economy should be able to generate international sales which reflect a rediscovered competitive edge across virtually all sectors.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

Mr. BALDRIGE. Fine. I would be glad to answer any questions you have.

Senator DANFORTH. Mr. Secretary, let me just ask you a very broad fundamental question.

We have been pressing the administration for a trade policy. It is the general widsom that we have to have a trade policy. We have to get our act together.

I see in your prepared statement you say on page 3, "I cannot overemphasize the importance to the Nation of a fully coordinated trade policy."

Then, we look at the first line of the white paper, "Free trade based on mutually acceptable trading relations is essential to the pursuit to that goal," the goal being a strong economy.

You say similarly, in your statement, "U.S. trade policy is rooted in the concept that free trade is necessary to the growth of our exports and our economy."

It seems that what has happened is that the administration has developed a white paper and everyone has been asking, "What is the trade policy?" The trade policy is free trade.

What I would like to ask you then, is this. Is it possible in developing a trade policy to become too doctrinaire, too idealogical?

Is it possible to pursue the doctrine of free trade almost as an end in itself, an objective in itself?

Would such a pursuit of free trade as an objective in itself be truly in the national interest or would it be a mistake?

Maybe the best trade policy is simply a policy which is aimed at converting a trade deficit into a trade surplus.

Maybe a trade policy could be stated in just simple language such as, what works or what serves the commercial interests of the United States.

Maybe instead of pursuing free trade as an end in itself we should instead be pursuing a range of policies which help American business which is the job of your Department and the position that you hold.

So the broad question I would like to ask is, instead of the concept of free trade, should we not be following a more flexible range of concepts which make up a policy that has an objective?

In fact, the objective of the free market which is to work.

Shouldn't we maybe be a little bit less inflexible, a little less accepting the survival of the fittest and follow a more pragmatic approach as we determine what our trade policy is?

Mr. BALDRIGE. Well if I had to write the paper myself, I think I would make it just one sentence, Senator and that is what works, as you suggested, for the good of the American economy.

I think the fact that free trade is one of the emphasis, indicates the clear feeling we have that that is in the best interest of the American economy.

You simply can't export without allowing others to export to you.

If you notice in the statement, in the white paper, the term two-way street is mentioned. The term reciprocity is mentioned. That covers a broad range.

I think those two statements are very specific enough to cover the kinds of practical matters we have to address with our underlying assumption that free trade is in the interest of the United States.

As a matter of fact, there is a case certainly that we are not, it would not be in our best interest to try to run everybody else into the ground in this. We have to have trading partners around the world.

I think the practical pragmatic approach that you suggest is underlined in the statement that we do intend to carry out the trade laws, the international trade laws to the letter.

That is part of the Commerce Department's charge. I assure you we intend to do that. We already are.

Senator DANFORTH. Is it your view that over the past few years, and I am not putting blame on one administration or another, we have tended to permit international trade to be less than a two-way street? That it has been too much of a one-way street and that instead of insisting that it worked both ways we have tended to define free trade as our market being free to other countries and less than vigorous enforcement of our access to theirs?

Mr. BALDRIGE. I think the problem you suggest, Senator, is that of a moving target. I agree with the last administrations on their approach to the whole idea of GATT.

We were able to reduce tariff barriers worldwide. We made a start on nontariff barriers. They are getting more and more visible, easier to negotiate out.

But at the same time we were doing that we were also beginning to run into what is almost a moving target and that is the question of subsidies by other governments for their own exporters.

We certainly have a leg up on that now, but that, as I mentioned before, is truly a moving target. There are new ways found all the time.

That is why I think the idea of a two-way street, reciprocity, while it may sound somewhat vague, gives us the charter to go ahead and do what we can in those areas.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Secretary Baldrige, you are the chairman of the Cabinet Council on Commerce and Trade. A few moments ago I propounded to Ambassador Brock a question which was, what do we in a world that is far more protectionist, country by country, than the United States, have to negotiate with if we have already negotiated away most of our barriers?

Now, as Chairman of the Cabinet Council on Commerce and Trade, you were charged more than almost anybody else in the administration, with the economic health of this country in its international trading relations.

How do you propose to deal with this central issue?

Mr. BALDRIGE. Well, we have all the international trading treaties. I think the most specific answer, after having said that, Senator, lies in the area of countervailing duties and dumping.

That is in our Department now, the responsibility for those. We are staffed up for that. We intend to follow those laws out.

Senator HEINZ. How does that deal with our $12 billion or $14 billion trade deficit with Japan where they won't let us into their markets?

How does that deal with the export subsidy credit war that is going on with the French in the vanguard.

I think enforcement of countervailing duties and subsidies is well and good. So far I don't think anybody has many complaints against the Commerce Department in that regard.

You fully and fairly enforced the law. You are doing some very good things when it comes to removing export disincentives, those things we have imposed on ourselves, such as taxation of Americans working abroad, excesses of the Foreign Corrupt Practices Act, the ability to form export trading companies.

But I am asking how are we going to deal not with subsidized imports into this country, but how are we going to deal with the barriers that exist to our exports into other countries?

Mr. BALDRIGE. We have to negotiate those down almost on a one-by-one basis. We are doing that with Japan. I think it is an oversimplification to say that Japan is closed to the United States.

Certainly it has been closed in the past. It is not completely open now, but we have made tremendous progress in opening that up. I say, "we," not just this administration but previous administrations.

I think it was a very large breakthrough to have the Japan version of A.T. & T., their NTT open up their procurement to U.S. companies.

Under Secretary Olmer, of the Commerce Department, led a mission over there of American businessmen, to explain exactly how to go about getting contracts from NTT. There is a lot of business there.

Senator HEINZ. What you are saying is that you are going to handle it on a case-by-case, ad hoc basis?

Mr. BALDRIGE. No, sir.

Senator HEINZ. Do you see any opportunity for multilateral negotiations here? Do you see anything we have to negotiate with?

Mr. BALDRIGE. Well, we have plenty to negotiate with. Let me take the first part of your question about multilateral.

In cases where there is a common thread, yes, you can engage in multilateral relations, but most countries have their own specific kinds of extant barriers.

Some of them have been negotiated down in the past and some of them are still in existence. Those you just have to get at one by one.

We are doing that now with Japan. There had been strides. Japan trade is not just a one-way derrogation of our ability to move in there. Part of it is the fault of our own manufacturers.

We have people right now complaining on this NTT example I gave you that there was only 30 days to prepare a bid.

Well, I will guarantee you, if you wanted some of that business, you ought to get over to Japan, study that ahead of time, get your bid ready in 30 days and you know, not be complaining about that.

The Japanese do that when they come to our country. Part of this effort is not to put all of our export troubles on the other countries we are exporting to.

The major part of our trouble is in our own management of companies where they never had exporting to live. The world has changed now and all of a sudden they do and we are learning some things the hard way.

But we are gradually breaking down those barriers and any significant ones we will keep working on. It is a two-way street.

Senator DANFORTH. Senator Dole.

Senator DOLE. Thank you, Mr. Chairman.

Secretary Baldrige, I appreciate your being here this morning. I read your statement hurriedly. On page 13 you talk of taxation income earned abroad.

We have addressed that problem in this committee. It is in the tax package passed by this committee which will probably be considered next week on the Senate floor.

We are moving on that. I think there is wide agreement in the committee that is an export disincentive, to say the least.

We have had broad support from Senator Chafee, Senator Bentsen, and nearly everyone else on this committee on that particular item.

We have at least addressed one area of concern.

I assume it is fair to say you are going to enforce domestic trade laws. Are there any exceptions that have been outlined by the administration for foreign policy reasons?

Mr. BALDRIGE. No. We have been—not to my knowledge. We haven't had any exceptions the administration has asked me to make.

Foreign policy controls have been imposed in the past on too much of an ad hoc basis. We haven't had a consistent policy for foreign policy control.

We are developing one in the administration now. But I think part of the underlying policy we will be developing and we are developing will be the recognition of the fact that foreign policy controls don't work unless you have the concurrence of all of your trading partners, allies, so we are all going down the same road.

The ad hoc approach has not been as effective as I think an overall agreement would have made it in the past.

Senator DOLE. I think that is the view shared by many on this committee and elsewhere, that in the past, I don't know if you call it interference, but there is always somebody at the State Department who can figure out some reasons not to do something or to do something.

They are generally wrong in either case.

It would be helpful if they would leave trade up to the trade people like yourself and Ambassador Brock and Secretary Block and others.

As I understand it, there is about $80 million for export promotion activity in the Department of Commerce which includes the Foreign Commercial Services.

Is that producing any tangible efforts? We are looking for places to cut spending. Is that an area we ought to look to? It is $80 million. Can we justify it, that expenditure?

Mr. BALDRIGE. I think it is more than justified, Senator. I think our experience with the Foreign Commercial Service has been too brief for me to be definitive about that.

We actually in the Department had been transferred over so they are working some time last summer. Many of them chose not to transfer over. We were about half strength when I got here. There are 162 slots in 62 countries.

We have now about 140 people in place. And another 20 have been hired and are on the way.

Part of the problem with the Foreign Commercial Service was at least in my opinion, they were never trained professionally. They weren't told specifically enough what their objectives were they were supposed to accomplish.

The Foreign Commercial Service has its share of good people and indifferent people just like any other service. But I think it is a very—it can be a very good outfit. We have the right kind of people there.

The training part of this we are addressing by getting together a correspondence course that will last about 3 months for each one of them.

Then we are going to have intensive 3-day seminars in six parts of the world that will again reach every one of the Foreign Commercial Service people.

So that we will be building up a professional body that will know how to help American industry and exporters.

We are doing this with the benefit of private industrial help in setting these kinds of programs up. I think it was mentioned in Bill Brock's testimony in consultation with the Secretary of State, he was most willing to send a letter to the Ambassador stating to the best of my knowledge, for the first time, that an integral part of every U.S. Ambassador's job is to promote trade and to help businessmen.

That has been honored perhaps more in the breach than in the promise in the past. But this is now made part of their job and part of what they are rated on.

Senator DOLE. Thank you. My time has expired. I may submit additional questions in writing. Thank you.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman.

I want to congratulate the Secretary on the work he is doing and trying to implement this idea at our Embassies abroad to do their job and encouraging exports.

I agree with your idea of a moving target because our position economically in the world changes. We have to adjust our policy. I think we have, as we now stand, put more emphasis than we have in the past, on our own economic base.

But when we talk about quid pro quo's and free trade and I support all of that rhetoric, and much of its implementation, but then we get to an LDC and we get to someone like Mexico and we cannot do that, and we must not.

As I see the picture now, we show a very modest surplus in trade. I rather question that because of the transfer of funds by aliens in this country that is not reported.

You have a country of 70 million people with a very high unemployment down there. The one thing that concerns me is you have such an anti-U.S. press.

Mr. BALDRIGE. Where is this, sir?

Senator BENTSEN. In Mexico, in Mexico City. Of course, one of their favorite sayings is, "So far from God and so near to the United States."

We have to get across our importance to them, too.

As I look at our trade agreements and representing one of those States that borders the United States on the south and Mexico on the north and helps keep them apart and understanding how much that affects industry and agriculture in my State.

I just wish we could get more recognition for what we are doing. We have as many favorable agreements on trade with Mexico as with any nation in the world, I assume.

We face some of the highest tariffs and we face licensing requirements for products. Yet, that doesn't get much attention.

I wish we could find a way to do a better PR job than we are. Because each of these nations is so important to the other. Mexico, even with its great increase in petroleum products, still has much to do in taking care of its people as it wants to and as it is trying to.

We cannot be in a position where we are forcing the kind of trade agreements that we force on other nations.

That picture just isn't told as much as I think it should be told in the American press. Time and time again I hear how we have no trade policy toward Mexico. I just don't believe that is true. I think we work very carefully and closely and tried to with the Mexican Government in developing that trade.

So, it is just an observation, Mr. Secretary, and one concern I am expressing.

Mr. BALDRIGE. Senator, if I may say so, I agree with you wholeheartedly on that. I think we have made some mistakes in our relations with Mexico in the past.

I think there is not the—we have I think an excellent representative in Mexico now with Ambassador Gavin. I think he is going to end up being recognized as a very effective Ambassador for the United States. I think that is going to do some good.

Second, the President, not second, of course, he would be first, but the President desired to establish better relations with our neighbor to the south as witnessed by his two meetings with the President of Mexico, has really been a major step forward in relations between the two countries.

Now that will not be enough unless we remove some of the burrs under the saddle blanket. That becomes a series of negotiations on individual product-by-product kind of things that should end up in some kind of a better working arrangement than we have now.

As a result of his last meeting, we have seen the initiation of a joint committee on trade and commerce between the United States and Mexico. The Mexican Secretary of Commerce is the Mexican representative and Bill Brock and I are representing our side.

There are going to be some difficult negotiations, but I think it is the only possible way to solve our future. It isn't just the desire and the talk, it is the action that is going to decide whether our relations improve or deteriorate.

Senator BENTSEN. So did the previous President. He worked very hard at trying to increase relations with Mexico. I saw us enter into a treaty or tried to, where we were willing to take twice as many of their products as we were going to agree to export to them. They decided that wasn't enough.

So, as we trade I hope we can get recognition for some of the things that we are doing down in Mexico.

Senator DANFORTH. Senator Matsunaga?

Senator MATSUNAGA. Thank you, Mr. Chairman.

Mr. Secretary, the promotion of tourism falls within your department does it not?

Mr. BALDRIGE. Yes, sir.

Senator MATSUNAGA. What are you doing in this respect?

Mr. BALDRIGE. I have suggested that we move the Assistant Secretary for Tourism in the U.S. Tourist Service into the International Trade Administration because I believe it can be properly managed there and we can get the most productive results for the money we have to spend.

As you know, there is some disagreement in the U.S. Senate about whether this is the proper way to proceed.

I view the promotion of tourism as being vitally important to this country. It is a tremendous export aid to us.

Beyond that, it employs a huge number of people and on top of that it is mostly small businesses.

All of those are good reasons for us to do the very best job we can in that area.

Senator MATSUNAGA. Well, I am glad to hear you say that, although I was very much disappointed to find nothing in your prepared statement relative to that, tourism.

I was out in Taiwan just a few weeks ago and one of the things I endeavored to do was to obtain an agreement from the civilian sector of the tourist business to promote tourism to Hawaii. The response was tremendous. The Taiwan Association on Tourism which is a civilian organization and the United Press, one of the largest newspapers if not the largest newspaper in Taiwan, both by a mere getting together and submitting the request, agreed to promote tourism to Hawaii.

As you probably know, had it not been for the increased tourism from Japan, we would have—we would today find ourselves in a sad state because of the drop in tourism from the other 49 States to Hawaii.

There is a vast opportunity in the developed countries where people are looking, as I found, to go places if going to such places are made easier, for one thing.

Then, there is a promotion of what to see, what one could find in going to such places.

I think we are really missing the boat in the area of tourism.

And so that, well, we have found in Hawaii, for example, with the least expenditure we can expect the greatest return in the area of tourism which is now our number one industry as you probably know.

Mr. BALDRIGE. Well, Senator, I agree. I think the reason I want very much to have tourism as part of our whole international trade administration is because it is so important to us in that field.

In the International Trade Administration we have 62 offices in countries throughout the world and 162 Foreign Commercial Service people there who are not involved in tourism now.

The United States right now has I think it is six cities outside the United States, we are represented with tourist promotion offices.

The addition of 62 other cities would be a big help to us. Now these people wouldn't be full time on tourism, but that would be part of their training and as much as they would be part of the same department, the cooperation would be guaranteed.

So that is what I am trying to do, sir.

Senator MATSUNAGA. I am glad to hear that. I had my staff look up the figures. If I may, Mr. Chairman, just cite these figures.

The west bound, from here, the mainland and Europe amounted to 3,052,409 tourists in the last year.

And eastbound, from Japan, Korea, Taiwan, et cetera, 886,866. This figure was down to only about 50,000 just about 10 years ago.

It was through the promotion of tourism that we were able to bring these figures up. Our income from tourism has grown to $1.5 billion from less than $700,000 in the last 10 years.

I think if Hawaii can be taken as an example, there is a great opportunity.

Mr. BALDRIGE. Yes, and it is important this year because the strength of the dollar makes that problem more difficult for us to promote tourism.

Senator MATSUNAGA. They come and each tourist takes a case of pineapple or papaya back with them.

Senator DANFORTH. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

Mr. Secretary, as you well know, I feel very strongly we have to make trade a top priority in this country, both in the private and public sector.

The last time the Senate Export Caucus met with you, one of the concerns that was expressed was that the diplomatic service, and particularly a number of the ambassadors, were not as enthusiastic or vitally interested in trade as they were in other matters, such as security and political matters.

Since then we have, the caucus has written both the President and the Secretary of State urging that a principal task of the diplomatic corps, the ambassadors in particular, should be the promotion of American trade.

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I would also like to point out that as part of the State Department authorization legislation, we included language regarding Ambassadors' export promotion responsibilities, which was adopted by the Senate.

The Export Task Force on the House side has agreed that they are going to support the same language on the House authorization bill.

So, I do think we are moving forward in making it clear that we expect our diplomats to become vitally interested in trade.

I would hope your office would monitor that in the coming months, so we can see how it is being implemented.

Mr. BALDRIGE. Yes. I am very interested in that as you know. I talked to Al Haig on this subject several times, beginning 2 months ago. I am most satisfied with the letter he sent out. It is very explicit on the duties of the U.S. Ambassadors as they relate to trade.

I have no reason to think they won't be followed out. But I am particularly gratified in the early response. I must have had the last 3 weeks, six outgoing Ambassadors stop in to see me and talk about trade.

I don't know if that same number, if this was a year ago, that would have happened. But I think they have the message, Senator.

Senator ROTH. I also feel it important that we make our private sector more trade conscious.

I mentioned earlier these advisory committees of business and labor. I hope they have your enthusiastic, active support too, because I think it is very important we keep them involved in these coming months.

Mr. BALDRIGE. Yes, we have several committees, of course. But I think two of the outstanding ones are the Industrial Sector Advisory Committee that works with Bill Brock and the President's Export Council that works with me.

The President's Export Council is just in the final stages now of being chosen. We have most of the names. We expect to have their first meeting some time in the next couple of months.

Senator ROTH. Mr. Secretary, one of the areas of concern is we have a number of smaller countries, so-called newly industrialized nations who are becoming very competitive, yet they retain treatment as an underdeveloped country.

It seems to me that we need to develop policies, probably jointly, because of the interest shared by Congress and the executive branch, to phase these nations into industrialized or developed country states and responsibility.

Is your office giving any thought to this problem?

Mr. BALDRIGE. Yes, we work with the USTR on that.

The lifting of the GST is the major step there. USTR has taken action on that in several cases in the last year. I would fully expect there to be some more.

Senator ROTH. Is there anything you can do unilaterally in this area or do we have leverage to bring about these changes?

Mr. BALDRIGE. To the best of my knowledge, we can lift them, the administration, if we desire to.

Senator ROTH. Thank you.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Mr. Secretary, statistics show the importance of agricultural exports are hopefully contributing to a more favorable balance of trade even though it is negative at this point.

Following up a little bit on the question I asked Ambassador Brock about cooperation between departments, what is in a very general way your working relationship with the Agriculture Department and the promotion of exports of agricultural products?

Mr. BALDRIGE. Well, it is very close, Senator. I probably personally confer with Jack Block two or three times a month on issues he is interested in or I am interested in.

Of course, we have the whole interagency working group on that. I see absolutely no lack of communication or foot dragging or anything else. I could describe it as—well, no relation is perfect, but I really saw no problem.

Senator GRASSLEY. May I ask then in the Cabinet level task forces dealing with international trade, the extent to which agricultural exports are given priority or where are they on the priority list as far as the efforts made to expand those exports?

Mr. BALDRIGE. There is a Food and Agriculture Cabinet Council, also, as you know. Whenever they take up something that they feel comes under the heading of international commerce or trade or whenever we do in our council, we make sure that both of us are represented.

So that one of the advantages of this Cabinet council form of government that I don't think is clearly understood yet by many, but I am a great fan of it because it works.

It means that you know issues that affects as in your question, the Agricultural Department, can be unilaterally decided by any other department.

It has to go through the whole clearance process in which agriculture may not always win for example, but their views are clearly heard and given a completely fair hearing. I would imagine that has not always been true in the past in the case of any department.

But this works the same for all departments.

Senator GRASSLEY. Would that process and consideration also be given like for instance if we had a potential for a reinstitution of just a grain embargo as an across-the-board embargo of all products with a certain country.

Would that same consideration in this administration be given to the task force as opposed to the National Security Council or the State Department making a unilateral decision?

Mr. BALDRIGE. Absolutely. When it comes down to the point of its important enough for the Presidential decision for the President to make his decision within one of these Cabinet councils, and it is a matter that concerns agriculture, no matter what council it is, Secretary Block would be there and would have a chance to speak his own piece.

Senator GRASSLEY. Well, we did have an example of when our Secretary of State was traveling in Europe that there was some inference, at least it showed up in the press, that the United States would not look with alarm upon France, for instance, selling wheat to Russia. This was about 3 weeks before the grain embargo was lifted.

There was some talk of selling butter, for instance, to Russia. There was a comment by the Secretary of State about that, obviously before there could have been any consideration in council given to it.

So, I use these as a couple of examples in which my question to you is framed the extent to which the food and agriculture task force actually has voice in some of these decisions as opposed to what the State Department might be saying.

I know you can't speak for the State Department but you are part of these higher councils of Government. I would look for you, even though you do not represent just agriculture, your promoting all exports, you would still be inclined, I think, to see the domestic impacts upon the market a little bit more than the State Department.

I want to be hopefully encouraged that that voice is being heard as well that of Secretary Block on these decisions.

Mr. BALDRIGE. You can be encouraged, Senator. That is the truth. That butter problem came up before the whole cabinet, that is how important it is.

Both Secretary Block and I spoke up on it. I don't remember the statement of the Secretary of State, in Europe, on the French, but any decision that we make has got to go through that process.

I know of no case where that has been violated, without everybody having a chance to speak up.

Senator GRASSLEY. You have every indication it will continue that way in the future?

Mr. BALDRIGE. It is stronger now than we have gotten used to it than it was when we first started and people were first beginning to see how it did work.

I can be very optimistic on that area.

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator DANFORTH. Mr. Secretary, three hypothetical cases raise the question of what the administration means by reduction of self-imposed export disincentives in its white paper.

First, assume that a product is manufactured in the United States which is used to treat pajamas and make them fire retardant. It is also cancer-causing, and it is banned for sale in the United States.

Should we follow policies which encourage its sale abroad or at least remove any disincentives from its sale abroad?

Second, assume that a baby formula is made in the United States which is perfectly safe when administered or fed to babies in this country, but when mixed with unclean water supplies in other countries, it causes widespread sickness and death.

Should we encourage the sale, promote the sale of such products in foreign markets, or should we provide disincentives to its sale?

Third, suppose that the Soviet Union invades a neighboring country. Should the United States impose export disincentives or trade sanctions on Americans who otherwise would want to make sales to the Soviet Union?

Mr. BALDRIGE. Well, thanks a lot, Senator. [Laughter.]

Let me take the last one first. If the Soviets invade a neighboring country, I don't know how else to say it except is Katie by the door.

We can't make a policy that is going to be specific enough to cover every single kind of invasion.

Senator DANFORTH. Clearly, we should consider the use of trade as a tool of foreign policy and we should at least consider in a total range of responses, trade sanctions.

Mr. BALDRIGE. Exactly. That is a case where it goes beyond foreign diplomacy controls where I mentioned earlier they won't work unless you have everybody else along with you.

That is a case where we should take the lead, willy-nilly, and, but the decision has to be made at the time. I don't think you can write down every specific response ahead of time, nor do I think we should.

Senator DANFORTH. That is one disincentive that we don't want to remove?

Mr. BALDRIGE. That is right.

The other two, I am really not qualified to answer and I say that with not undue modesty. The problem of the water and the baby food, I haven't personally made enough of a study to know whether more lives are lost or saved in that process.

Senator DANFORTH. I am asking it as a hypothetical for that reason, because I don't want to relitigate the Nestle case or the vote of the United States.

In the TRIS situation or in the Nestle situation, is our position that the business of America is business, and we should remove disincentives and make sales, regardless of the consequences?

Or in the alternative, is it our position that certain self-imposed export disincentives should be utilized.

Mr. BALDRIGE. Well, may I say that is a case of—Senatorial oversimplifcation. I think the—because we are not talking just about one or the other.

The policy up until the act, whose name I can't remember, was the Executive order, was put in in January and then removed, was that to the best of my knowledge, was that if there was any doubt, reasonable doubt about either something like fire retardant pajamas or the formula, that we would inform the Governments involved who were doing the importing and give them the extent of our knoweldge and then let them make the decision.

Because, there obviously are some strong feelings both ways. I am more familiar with the fire retardant pajamas on whether that in fact was a proper sanction or even a proper law.

Our position, as I understand it, was that that should be decided after the pertinent facts were given by the importing country.

We should not just export it without those kinds of proper warnings. I think that part is perfectly proper.

If you get into our deciding what every other country will import from us that we may think is somewhat dangerous and they have a completely different set of views on it, then I would be against it.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Just so that I understand the answer to the last question.

Would it be a fair statement of the administration's position that you would be opposed to the imposition of any export disincentive other than for national security purposes?

Mr. BALDRIGE. Well, no, that is too broad a definition, Senator.

Senator HEINZ. I just want to be sure.

So, there are other reasons you would be willing to impose export disincentives beyond national security purposes?

Mr. BALDRIGE. Yes.

Senator HEINZ. In your statement, Mr. Secretary, you mention we were prepared to get serious in these export credit negotiations.

You indicate that if there is no success that we are prepared to reach into a very deep pocket and show people that we are serious.

Does that mean you support our war chest bill, the standby Exim credit authority that would allow you after a period of time, 12 months, 18 months, to reach into such a pocket so the threat is credible?

Because right now the pocket is not only empty, it has been turned inside out when it comes to the Export-Import Bank.

Mr. BALDRIGE. I have to speak for the Commerce Department. I can't speak for the administration on this, because we haven't, to the best of my knowledge, taken a position on the bill.

But I personally would support it. I think that we may be surprised after the failures we have had in the past in reducing export incentives, we may be surprised because of some of the positions we have taken in the administration at achieving some real success.

I don't want to count any chickens before they are hatched, but I can see some daylight ahead on those negotiations.

Senator HEINZ. I hope so.

You indicated at one point that you felt that U.S. companies hadn't been very aggressive in exporting. You——

Mr. BALDRIGE. That is an understatement, Senator.

Senator HEINZ. There are two thoughts that come to mind. One is not the principal supplier of export credit, the Eximbank which in a good year only supports about 8 percent of American exporters and tells the little people to go fly a kite because it can't be bothered by small transactions, and this year, as I say, has empty pockets, is not exactly a Government mechanism that welcomes the small- or medium-size company to do business with it.

We covered that a little bit here, not sufficiently, but enough.

The other is that most other countries have enormous tax incentives for their exporters. They usually have value added taxes. They say they will rebate them at the border. They do.

Senator Long was asking Mr. Brock what the tax component of our exports is versus other countries. He admitted that the tax component of other countries is about zero in the sales price here.

Ambassador Brock went on to say that the DISC would appear something we would have to get out of. That was the implication of what he said. Let me ask you, since you have to be concerned with these incentives for export. Does the administration have a follow-on for DISC which is consistent with the GATT as it has been interpreted by administrations, particularly the last one, and when will we see it, since the tax bills are about to come to the floor, in both the House and Senate.

Mr. BALDRIGE. We don't right at the present. Ambassador Brock's opinion about DISC was brought about by the fact that in the last administration there was a U.S. Government signature on the separation of DISC from three other imbedded tax problems that—imbedded tax incentives that some European countries have.

I think the way that the DISC negotiation will turn out will be that we will have sufficient delay, we will negotiate sufficient delay so we can come up with a GATT acceptable program like DISC.

That is something we have to start to work on very soon. I wish we had it behind us now, but we do not.

Senator HEINZ. Mr. Secretary what is the problem? Senator Danforth and I have been asking this question for months. We have been receiving signals from the administration that DISC was in trouble for months.

We have urged that the administration come up here as quickly as possible with an alternative, hopefully something better and stronger than DISC.

What is the problem? Why can't we get an adequate replacement or at least know when we are going to get it.

Is there no policy? Is there a problem with developing policy? What is the problem?

Mr. BALDRIGE. First, Senator, we have been in this—when this administration took over in January, first we had to figure out if DISC was in trouble. That was not an easy job. That took some consultations and legal opinions and so forth.

I don't want to go too deeply into that legal ramification. Let us say we do think that because of some past events we are going to have to negotiate a substitute for DISC.

Now that took some time to get that first decision made.

Now it is very important we do not rush into something that either won't work or won't be acceptable under the GATT subsidies code.

I would like to say that would be done next week, but it won't clearly. We will do it as quickly as we can. But I think there are a lot of people to be heard from and a lot of experts to talk to before we can come out with a definitive position.

I think we will have enough delay in the DISC so we will be able to recommend something to the Congress that will be able to shift from one to the other. That is really the main point.

Senator HEINZ. One last comment and question. Mr. Secretary, as you know, I don't exactly agree with the legality, notwithstanding any other virtues it may have, of your actions on the toy balloon case with Mexico.

I don't want to get into a discussion of the legalities because I suspect the simplest way to resolve this dispute, which involves whether or not a nonsignatory to the GATT and a nonsignatory to the subsidies code should be entitled to an injury test.

The law, as I read it, says that an injury test is precluded. But, notwithstanding your views and my views on that, I would like to make what I hope is a constructive suggestion on that.

That is that I think the situation is going to be litigated. That is permitted under the law. I suppose the best thing to do is get it into court and out of court as quickly as possible.

So, I would like to urge you to support a prompt disposition of that through litigation so that this just doesn't hang over you or any of us like a bad cloud.

The reason it is important is because you will be called upon to make all kinds of other decisions on subsidies. And on counterveiling duties. People will begin to worry.

In your case, I think it would be unfounded, but I think people would begin to worry about how committed we were to enforcing the dumping or countervailing duty laws.

Clearly structures like the trigger price mechanism which approximate our antidumping laws for the steel industry would be subject to some question. I don't think you want that.

My understanding is you intend to fully and fairly and strongly enforce the TPM. That is right?

Mr. BALDRIGE. Yes.

Senator HEINZ. I think maybe the best way to handle that toy balloon case is to get it into court as fast as possible.

Would you agree?

Mr. BALDRIGE. Yes, I would agree, Senator. I think that is a good suggestion. Without getting into the legality of the particular toy balloon problem.

Senator HEINZ. That sounded like a Freudian slip, Mr. Secretary. We won't mention it to anyone.

Mr. BALDRIGE. Well, I was trying to put your side first, sir.

We felt it also did serve the purpose of removing any implied commitment in the future so that we could be completely clear on this, in this hazy area. That was made and will be made clear not to just the Mexicans, but to everyone else.

Whether you agree with it or not, whatever implied commitment there was in that Treasury decision, we will have effectively removed with this particular decision.

So, it can't come up again.

Senator HEINZ. Thank you.

Senator DANFORTH. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

Mr. Secretary, as you well know, I am a firm believer we have to reorganize the Federal Government with respect to trade. I want to see all functions in this area consolidated into a department.

I don't intend to ask you a question on this, because I know the administration has taken the position that they want to try out what we already have.

I would just like to congratulate both you and Bill Brock for the job you are doing, but I think you are saddled with a totally incomprehensible, inefficient system.

We are, as you well know, and I just call it to your attention, holding hearings on a Department of Trade which I think is a very important initiative.

There are two questions I would like to ask you. First of all, you mentioned a number of disincentives in your opening statement. I would hope that the administration would set some priorities, because I think it is very important that we get a number of these bills enacted during the current session of Congress.

I would urge you, through your Cabinet council, to do that.

One area in which not much has been done and where I think something needs to be done is antitrust. I would like your advice on this. Many people feel the application of our antitrust laws are hamstringing our trade efforts.

Last year or 2 years ago, Senator Javits introduced a bill creating an international commission to review antitrust regulations. I think Senator Mathias has done the same, this year.

I think it is very important that we take a hard look at the implications of our antitrust laws to determine whether or not any legislation is necessary.

So, I would appreciate your comments now or later as to how you think we might best approach this problem.

Mr. BALDRIGE. I would like our general counsel, Sherman Unger to answer that, if I may, Senator.

Senator Roth. Very good.

Mr. UNGER. We do support that international commission Senator. We have requested and it is clearing at OMB now an amendment to it to include the General Counsel of Commerce on that International Antitrust Commission.

Senator ROTH. Well, I think it is very important we move on that because it will take some time to complete the study.

Mr. UNGER. I believe there were hearings set for this Monday that have been continued. We are prepared to testify.

Senator ROTH. Very good.

My final question is in connection with the financing of feasibility studies through foreign aid. A number of our competitors get in on the ground floor by helping to finance feasibility studies for major projects in some of the underdeveloped countries.

It has been a very successful technique. We have done it in a very small way, in this country, although last year funding for the program was reduced substantially. I am not sure what the situation currently is.

Is this something your Cabinet council is looking at? If not, I would urge that you look into it. As I say, it has been a very effective way of promoting exports of other countries.

Mr. BALDRIGE. This is aid to—setting up projects in third countries?

Senator ROTH. Yes; the trade and development program has been part of the foreign aid authorization and appropriation. I think around $7 million or $8 million was made available 2 years ago to help foreign countries finance major industrial projects within their country.

The advantage has been that the country that helps with those feasibility studies is often in a lead position to promote exports of their own manufactured goods.

Mr. BALDRIGE. I would be glad to look into that, Senator. I am not familiar with it now.

Senator ROTH. I think it is a very useful tool and worthwhile supporting.

Thank you, Mr. Secretary.

Senator DANFORTH. Mr. Secretary, thank you. This has been very helpful.

Mr. BALDRIGE. Thank you, Senator.

Senator DANFORTH. The committee will be in recess until 2 o'clock this afternoon.

[Whereupon, at 12:50 p.m., the hearing recessed, to reconvene at 2 p.m. the same day.]

[Questions and answers supplied for the record by Secretary Baldrige and the prepared statement of Senator Roth follow:]

ANSWERS SUPPLIED FOR THE RECORD BY SECRETARY OF COMMERCE MALCOLM BALDRIGE

SUSPENSION AGREEMENT BETWEEN DEPARTMENT OF COMMERCE AND TOSHIBA

Question. In October 1980, the Commerce Department partially suspended an antidumping investigation involving electric motors from Japan. I understand the suspension (after a preliminary finding of dumping margins of over 32 percent) was based on an agreement by Toshiba Limited to cease importing electric motors from over 5 to 150 hp. Now, I am told, Toshiba is continuing to import major electric motor components for assembly in its Houston warehouse and sale at prices comparable to those involved in the antidumping case.

(a) Are Toshiba's actions not a violation of the agreement between Commerce and Toshiba that Toshiba would stop dumping motors of 5 to 150 hp?

(b) What action is Commerce taking to ensure Toshiba lives up to its agreement which terminated the electric motor and dumping case?

Answer. The Office of Compliance (Import Administration) met with representatives of General Electric Co. (GE) and the National Electrical Manufacturers Association on August 5 in Nashville to inspect a U.S. manufacturing facility alleged to be comparable to Toshiba's facility in Houston.

The Office of Compliance has made arrangements to visit Toshiba in Houston on August 12-14, 1981. We will verify data submitted by Toshiba regarding its sale of explosion-proof pump motors and oil well pump motors which are greater than 5 hp but not more than 150 hp. We will also do a visual inspection of the plant to determine whether or not Toshiba is assembling these motors at this facility. In addition, questionnaires requesting sales information have been sent to Toshiba, Japan. We anticipate receiving and verifying this data in September.

If we find that Toshiba is violating the suspension agreement, we will resume the antidumping investigation.

APPLICATION OF SECTION 202 OF THE 1974 TRADE ACT

Section 202 of the Trade Act of 1974 lists nine factors the President must consider when deciding whether to grant or extend import relief to a domestic industry. The relative importance of that industry to the national industrial mobilization base is not expressly included in those enumerated factors.

Question. (a) Does the existing law adequately enable the President to take into account the strategic importance of the industry concerned in import relief cases?

(b) If so, is that factor typically considered in import relief cases?

(c) Even though consideration of this question may be permitted under Section 202, should the Congress consider explicitly providing for consideration of this factor?

Answer. (a) Yes. Section 202(e) permits the President to take into account "such . . . considerations as he may deem relevant," in determining whether relief should be granted and, if so, what type of relief. This broad grant of authority permits the President to consider the importance of the industry to the national industrial mobilization base.

(b) This factor is taken into account in any case in which it has relevance. The factor may not be relevant in every case, and in those where it is, the President has authority to "rank" factors in importance.

(c) Because the current statutory provision gives the President authority to consider any factor he may deem relevant, explicit provision is not legally necessary. There is no objection to specific inclusion of this factor in future legislation.

SECTION 232 INVESTIGATION OF THE INDUSTRIAL FASTENER INDUSTRY

Question. In light of the Commerce Department's earlier conclusion that imports of industrial fasteners constitute a serious threat to our national security, is the Commerce Department monitoring the industrial fastener industry from the standpoint of its capacity to respond adequately to a national mobilization?

Answer. The Bureau of Industrial Economics and the Office of Industrial Mobilization are monitoring the status of the industrial fastener industry. The monitoring of this industry includes access to quarterly ITC reports concerning this matter.

In 1978, the industrial fastener industry petitioned the International Trade Commission (ITC) pursuant to Section 201 of the Trade Act of 1974 for import relief. In January 1979, an ad valorem duty was imposed for a 3-year period on imports of nuts, bolts and large screws of iron or steel. In July of this year, the industry filed for an extension of this relief.

Question. In light of the fact that the Commerce Department now has primary responsibility for Section 232, are there any plans to reopen the Section 232 investigation with respect to industrial fasteners?

Answer. We have no plans to reopen this investigation in the absence of a request from an interested party in accordance with the regulation promulgated by the Department to implement the Section 232 authority.

However, I note that in July of this year, the industrial fastener industry petitioned the International Trade Commission pursuant to Section 201 of the Trade Act of 1974 for an extension of the import relief granted in January 1979. At that time, an ad valorem duty was imposed for a three-year period on imports of nuts, bolts and large screws of iron or steel.

Prepared Statement of Senator William V. Roth, Jr.

I would like to thank my colleagues, Senator Danforth and Senator Heinz, for conducting these hearings on a most critical issue: U.S. trade policy. The United States is facing a serious competitive challenge in the international marketplace. During the post-World War II period, we have lost global market share to competitors from developed and developing countries alike, and we have seen American prestige and strength dwindle. Here at home, we have seen imports capture markets traditionally supplied by U.S. firms, and we have witnessed an ever-widening gap in our balance of merchandise trade.

During the 96th and 97th Congresses, much work has been done in the Legislative Branch—with the help of American business and labor—to identify the causes of our trade malaise and to develop solutions that will turn this country around. Many of these solutions are contained in my National Export Policy Act introduced earlier this year. However, we have yet to hear definitively from the new Administration regarding its concrete plans for a comprehensive trade strategy that will help our producers operate more successfully in the world marketplace.

The range of issues and policy choices facing those in and out of government is indeed staggering. The means of dealing with OPEC oil price shocks and the resultant worldwide inflation; import treatment for developing countries and ways of "graduating" the newly industrialized countries to developed country status and responsibility; domestic adjustment to rising imports; export financing practices; and implementation of multilateral trade agreements are only the tip of the iceberg. The adequacy and dynamism of our governmental organizational structure for trade; the impact of international investment on trade flows; the means of securing adequate supplies of raw materials at reasonable prices can also be added to the list of "front-burner" issues facing us in the trade policy arena.

In earlier hearings before these committees and other, members of the Administration cited a number of broad policy areas in which they plan to focus attention over the coming years. MTN implementation, agricultural trade expansion, improved services trade rules, enhanced relations with the developing countries, and the adoption of an export policy were high on their priority list.

Given the benefit of the last six months' experience, the Administration should be in a good position now to expand on those broad objectives. I hope they will take the opportunity afforded by today's hearings to apprise us of their issue-specific trade policies.

I hope they have also used the last six months' experience to reflect on whether they are optimally organized to promote our trade interests here and abroad. I believe they are not. They have been saddled with an organizational structure that resembles a hydra, a multi-headed monster whose myriad agencies work at cross purposes, analyzing, developing, negotiating and implementing at-times contradictory trade and investment policies.

The result, notwithstanding the best efforts of even the most able Cabinet members, is confusion, in-fighting and lesser service to the American public.

With this in mind, I will continue to press legislation for the consolidation of trade and investment functions into one Cabinet-level department in the Executive Branch, whose secretary will place trade expansion at the top of our list of national goals.

The challenges and opportunities of an increasingly interdependent global economic system are unprecedented. I believe we can meet those challenges and take full advantage of those opportunities if we formulate a coherent, precise trade policy and develop an organizational structure within government capable of carrying out that policy.

AFTERNOON SESSION

Senator DANFORTH [presiding]. The hearing will resume.
Mr. Strauss, you may proceed.
Mr. STRAUSS. Thank you, Mr. Chairman.

STATEMENT OF THE HONORABLE ROBERT STRAUSS, FORMER UNITED STATES TRADE REPRESENTATIVE

Mr. STRAUSS. Well, it is nice to be here, as you might well know. You may tell by the smile on my face, that I feel very much at home, as I said to you. I am delighted to be here.

I want to talk to you a few minutes, if I can, today, from a perspective of my own background, not inly in trade, but in other jobs and also, my background in working with this particular Committee and working with the Congress, in general.

Let me begin by saying, as most of you know, that I have held a number of positions in my political and public career that demanded considerable partisan loyalty.

In that role, I have tried to be partisan as I could be and also responsible as I could be. But I also have tried always to recognize that there are many areas of—while there are many areas of legitimate partisan difference, there are many other areas that require strong bipartisan support for constructive solutions to problems.

As the members of the Subcommittee well know, because in the Finance Committee in particular, in the trade subcommittee there, I think you set an example that others have tried to follow and few have, if any have.

You have done it in the area of particularly of international trade, because you recognize that that approach was absolutely essential.

Trade does cut across all lines. It is an increasingly important aspect of both our foreign and domestic policy, as economic interdependence has become a fact of lives. It cuts across lines of party and geography, affecting Pittsburgh's steel management and South Carolina's textile workers alike, as well as affecting the Senators and Congressmen and Congresswomen who represent them.

It is important to consumers because it provides reasonably priced goods and importance to growing industries such as electronics, because increased exports provide, as we all know, expanded opportunities.

During the Tokyo round of the multilateral trade negotiations, I benefited constantly from the expressed bipartisan support of the Congress for our goal of creating not only a freer, but a fair international trading system.

Wherever I went, what was important was that our trading partners knew, those who I was negotiating knew, without and beyond any doubt, that I had the support of the committee generally, and specifically of Senators Long and Dole, the then leaders of the full Senate Finance Committee, as well as Senators Ribicoff and Roth, who you will both recall were the leaders of then of the Trade Subcommittee, and of most, if not all, of the colleagues.

From the staff level up, we worked together and negotiated together in a manner which reflected the broad range of our interests in international trade.

Nothing was more important than the time I think I personally took in coming to the Congress at regular intervals to keep the committees informed of our progress.

You will also both recall how well they stayed with me trying to help me solve the problems that I brought before them.

That is one of the main reasons why the Tokyo round was a success.

I believe that the degree of working collaboration between the executive and the legislative branches that we established in the trade area was unique.

I might point out, it would serve as a model for other areas of this Government.

Today, I would like to briefly mention some basic principles that I feel should underline our trade policy and then hopefully suggest some suggestions that or directions our policymakers might note, as well as some ways in which our trade policy structure and execution could be improved based on experiences of trade representatives and in the private sector.

As the members of this subcommittee also know well, the international trading system today scarcely resembles the one we knew just after the Second World War or even the one we knew just a decade ago.

Senator Heinz and I were talking going back 100 years or so, just a few minutes before this hearing began, but that we can't do either.

One reason though that things are different today is the dramatic increase in volume. In the last three decades the volume of trade has increased tenfold in less than 30 years.

Another primary reason, is, of course, interdependence. Trade policy must reflect trade's importance and trade's complexity.

Our policy objective should include freer trade, because all nations of the world have benefited from the postwar trade expansion and fairer trade as well.

These are the broad goals, of course, and the basis for the Tokyo Round of negotiations. I believe there is still a consensus within this country and within, I might say, the international trading community, that trade barriers need to be lowered further and that trade is a two-way street, not a one-way street.

But there is considerable evidence about how they feel in the recent announcement, for example, that the general agreement on tariffs and trade nations will meet in 1982, to again attempt to strengthen trade liberalization.

For generations nations have been sending negotiators to negotiating tables of the world. Out of these sessions have come much experience, much institutionalized expertise and subtleties and nuances of trade.

Yet, for all the vast store of expertise accumulated around the world, first, until the multilateral trade negotiations took place, there had never really been recorded a written set of rules to guide that trade.

It is amazing that all the trade that took place for generations, until we put those codes in effect, there had never really been rules as to how that game should be played and there has not yet emerged a trading system within which the full potential of trade can be fully realized, even though we did make a meaningful step forward in the Tokyo round.

The source of that shortcoming is not the inadequacy of international good will, the primary problem is a very simple one, the international pie of trade has ceased to grow as fast as before and there are more and more nations and individuals to share it.

Each nation is feeling increasing pressure to grab its share any way it can.

Our trade policy, therefore, should have as a major objective, a stronger international trading system and stronger trade organizations such as GATT.

I know there has been a good deal of talk recently in this country and abroad about nations retreating from these organizations because the rules were often ignored.

To this I can only say that if our trade policy doesn't attempt to strengthen the international system and allow trading nations to pursue narrow, often protectionist policies, we will be doing ourselves and the world a great disservice by cutting off one of our best avenues to prosperity.

An imperfect system constantly trying to improve itself is better than none at all.

During the Tokyo round we agreed upon, for the first time, the codes I mentioned earlier, governing nontariff barriers to trade.

These codes, on key areas, such as subsidies and government procedurement, must be made to work. If we insist that they be utilized they will become more and more useful to us and to our trading partners.

We need to again assume a leadership role in strengthening and expanding our trading system because interdependence is meant that developed and developing nations more and more face common problems, inflation, recession, oil import bills, which must be approached with common solutions.

Energy, of course, is the most obvious area where it is true. To it I would add questions such as East-West trade and North-South trade.

I also believe our trade policy must be pragmatic both in dealing with other nations and in dealing with all the segments of our economy that have a stake in it.

Frequently, as you well know, we ignore the practical. We should be especially pragmatic in developing a trade policy that truly reflects our own national interest.

A first step in this effort must be acknowledgement of trade's importance by our policymakers.

We have to realize that our security depends as much if not more on the health of our economy as it does on the fitness of our military.

The health of our domestic economy directly relates to the health of the international trading system and economy, a fact that our foreign policy ought to recognize and too often hasn't done so in the past.

From my experience as special trade representative, I believe we have a trade policymaking structure that can do what I have described, thanks to the work of this committee over the years.

As you know, that policymaking structure has two key elements.

One is a system of private sector advisors established through the foresight of the Congress and the members of this Trade Subcommittee, in 1974.

Representatives of business, labor, agriculture and consumers sat with us at the negotiating tables during the Tokyo round. They traveled all over the world to sit with us. They provided guidance on the important issues to address, on concessions to make, and what to demand of our trading partners.

In this way we negotiated an agreement that was truly in our national interest because it reflected the concerns of all affected and interested parties.

I should like to say here that I think not only this committee, but the Ways and Means Committee of the House, and the foresight that went into planning of that whole legislation, the planning of the involvement of that private sector, meant not only a lot to this Government, but it meant a lot to how we served the private sector and to the confidence they have come to have in our trade policies in this country to the extent we have been successful.

In addition, the Cabinet level trade policy committee, or TPC as we call it, enabled us to achieve a consensus within the Government on trade issues before disputes reach the President, in most cases.

The TPC helped prevent agencies from moving too quickly in their own directions, contrary to overall trading interests, with the President's special trade representative chairing the committee as an honest broker and with direct access to the President when needed, decisions were consistent with overall trade policy.

To the extent that we can have a single voice speaking on trade issues which was the goal in establishing TPC, our trading position will benefit from avoiding confusion.

Nothing is worse than a confused Government.

In addition, I believe there are some improvements in the policy structure which can and should be made to enable us to better implement the Tokyo round of agreements to develop a more coherent and cohesive trade policy and to greatly expand our exports, three primary trade policy goals you are discussing today.

I think we could enhance our ability for long-range policy planning, particularly with regard to export promotion.

We could do so by more active private sector participation in policy planning, just as we have in other areas I have discussed earlier.

By involving our overseas commercial attaches more closely in policy planning and in expanding their number and their quality and by removing Governmental and private sector impediments to exports.

Our foreign commercial service should take a more active role in seeking out problems faced by American businesses.

You will recall I testified to that before—to that extent, before this Committee, over and over again, usually under questioning from Senator Long, that they should take a more active role in seeking out problems faced by American businesses and reporting them back to Washington rather than waiting for complaints to be filed.

From the private sector point of view, these are the most important steps we could take to develop a program for export promotion that we urgently need.

We have been operating at a disadvantage compared to our trading partners for too long, because we really haven't had enough close cooperation and coordination between the public and private sector in the area of trade and we suffer for it.

We need to encourage Government leaders to coordinate more fully with the private sector. Business and labor both and private sector leaders to seek more Government support for their efforts abroad.

To the extent that changes in the policy structure and in the policy itself can lead to this kind of increased cooperation, they will be successful.

Thank you very much. I will be pleased to take any questions.

Senator DANFORTH. Thank you very much, Mr. Strauss.

Your performance in the Tokyo round and then in getting the 1979 bill through Congress ~~was a tour de force. What did~~ you have? Six dissenting votes or four?

Mr. STRAUSS. Something like that, Senator. I am delighted to get that compliment. I haven't had any compliments lately on my public performance. [Laughter.]

It falls on welcome ears.

Senator DANFORTH. Come back to the Finance Committee any day.

Mr. STRAUSS. All right.

Senator DANFORTH. Senator Dole.

Senator DOLE. I have no questions but I would like to make a comment. I think the point that you made in the first page of your statement about the the bipartisan cooperation between your office and this Committee and the general cooperation in the executive and legislative branch is important. We have tried to carry that on with Ambassador Brock. I know you have had an opportunity to coach him a little bit.

Mr. STRAUSS. Yes.

Senator DOLE. We appreciate that. Our interest is still there. We still feel very strongly that we can be of some assistance if we let the world know that this committee works very closely with the special trade representative.

I think that in itself may mean as much as a lot of other things we may spend a lot of time on.

Mr. STRAUSS. Senator Dole, I couldn't agree with you more. As a matter of fact when then Chairman Brock I guess, was discussing this job before he was deciding to take it or not, I told him one of the strengths he would have would be the kind of bipartisan support that he would get and the fact he had been a highly partisan politician would not diminish that bipartisan support he would get from the Democratic side one bit, just as my being in the same role didn't impact any on the support I received from the Republican side.

But, it is important and the public doesn't really know. I think that they would have more confidence in this whole process if they knew just how well we did work together.

I know he has found that to be the case since he has been there. We discussed it.

Senator DOLE. Well, I know. We worked with you. I am not certain whether I got anything, but I think you did very well. [Laughter.]

Mr. STRAUSS. You are not under oath, are you?

Senator DOLE. No. [Laughter.]

I appreciate all your good work.

Mr. STRAUSS. Thank you.

I appreciate your being here.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Mr. Ambassador, welcome back.

As my colleague, Jack Danforth indicated, you are regarded as a most able, skilled and successful negotiator both internationally and here in the Congress. I don't know which is more important. You seem to manage both difficult feats.

I remember personally some of my own encounters with you. I don't know who won, but I had the feeling that you always had a large smile on your face at the end of those sessions.

One of the things you say in your statement is that we should be especially pragmatic in developing a trade policy that truly reflects our national interests.

Now, this morning, the subsequent administration—you, as I recollect were working for some other administration in 1980; I can't remember their name off hand—but this administration says that they are for free trade. They are against intervention.

They appear to have a very modest policy on adjustment and they believe that they should take no action to interfere with trade coming into or going out of this country.

They also agree, however, that there is a growing wave of protectionism abroad that is far worse there than it is here.

Now my question is this. If you think we should be especially pragmatic in developing a trade policy that reflects our national interests, how should we deal with that growing wave of protectionism abroad?

Should we simply open up our country still further hoping that other people will do the like or do we have some other means at our disposal to break down these rather strong walls of nontariff barriers and other things that others are building?

Mr. STRAUSS. Well, I would share the view that—I just returned from Brussels. I heard expression after expression from people who are in leadership roles in the EC talking about the necessity of our keeping our trade doors open.

But, at the same time, it is my opinion, in France, for example, that there is a very strong wave of protectionism growing.

Certainly, it is true, in Great Britain today.

I don't think the way to confront that is to join in with it. I think the way to confront it is for this Nation to continue to take the lead in trying to see that we force doors to stay open, not just on our side, but on both sides.

I think we do that by letting them know, as I talked about a two-way street, that if we don't get it, it isn't going to be a one-way street. If we don't find a proper response, then we are going to start taking some actions.

But I think this Nation, number one, in its own self interest must go the last mile, if you put it that way. I don't think you have to be a patsy. I think you know me well enough to know that I just don't believe in that.

I don't think we ought to permit dumping. I think those codes ought to be used. Where we find dumping, we ought to come to grips with it.

I think we ought to face the subsidies question. Our subsidies code that we adopted and you passed on here is a great deal better than having nothing.

You also know the trouble we had getting any subsidy code in place. We put it in place knowing it was about a C minus code at best, but it was a start.

I think we are going to have to direct ourselves to the question of subsidies. I don't believe in rolling over and leaving our doors open here while we let them run away with the store.

Senator HEINZ. Mr. Ambassador, we have a mechanism that more or less automatically closes the door on subsidies and dumping, but we have no such mechanism on safeguards, there is no code on safeguards.

Mr. STRAUSS. Yes.

Senator HEINZ. You tried to get one. You were unable to do so.

Mr. STRAUSS. That is correct.

Senator HEINZ. When other countries erect more or less permanent safeguards, two results happen. It is tough for our exports to penetrate them. It is equally tough for exports from other countries to penetrate them. So they take the path of least resistance which is, of course, to this country.

What should we do about that? You say it should not be a one-way street. How do we get the traffic going two ways?

Mr. STRAUSS. I think this. We get into a lot of these problems, but first, to back up a bit, I think there is no such thing any more in the world we know today, or at least, there are very few if any bilateral trade problems.

A lot of our problems come from trying to take bilateral trade actions and enter into bilateral trade solutions. I think they are all multilateral.

That is one thing that gets us in trouble.

I think as to the safeguard question, let me answer in this way. I think, Senator Heinz, that the worst mistake we could make is to try to deal with that in terms of general rules. I think you treat them on item-by-item and issue-by-issue.

Well, let us take the common agricultural policy. The common agricultural policy is as protective as a policy can be.

The world pretty well knows that the Europeans cannot without political destruction get rid of the common agricultural policy overnight.

The approach I took to it was simply this.

Senator HEINZ. I don't know of any European that has tried to get rid of it overnight.

Mr. STRAUSS. Gunderloch, the late Minister Gunderloch felt very strongly that the common agricultural policy hurt Europe with a terribly high price they paid for protection over there.

He was constantly trying to figure ways to get out of it, for example.

So, the wiser people over there know when you talk to them quietly, that something eventually has to be done with the common agricultural policy.

On the other hand, they know to get rid of it overnight would be like if we tried to get rid of some of the things we have in this country that you might know would be better off without.

But you can't cure them overnight in the real world.

My approach to that was this—I think it made sense; we weren't making any progress at all until I said to Gunderloch and the others over there, Mr. Minister, we don't intend to destroy the common agricultural policy. We know you can't stand it, but what we intend to do is pierce it a bit more.

Now let's locate some spots where we can continue to get more and more of our agriculture products moving in there.

Keep in mind, that we can't afford to lose the agricultural markets of Europe. We don't want to cut off our nose and spite our face.

The fact that they get 65 or 70 percent protection from their common agricultural policy doesn't mean we can afford to risk the 30 or 35 percent.

So, I say you can penetrate it 5 percent here and 4 percent there. You keep moving in. In those negotiations I would say to you, that whether you are speaking about specialty crops from California or New York or whether you are talking about other more basic crops, we made progress.

We made it with rice. We made it with cotton. We made it with the specialty crops. We made it in any number of areas.

Had we just been stern and said get rid of it or else we would have done nothing.

That's what I call being pragmatic and working on it and doing it issue-by-issue and item-by-item.

Senator HEINZ. Thank you.

Senator DANFORTH. Senator Long.

Senator LONG. I asked a question this morning and I hope Mr. Brock's people will provide the answer. It is the same shop that used to work for you. I asked, "What is the tax component of American exports."

Can you give me an answer to that? What is your guess? How much of American exports, how much taxes is in the average $100 worth of American exports?

Mr. STRAUSS. How much American tax?

Senator LONG. The question I asked was, what is the tax component for American exports?

Mr. STRAUSS. I do not know, Senator.

Senator LONG. That same question I have been raising from time to time. You recognize what I am talking about.

Mr. STRAUSS. I know exactly what you are talking about; yes.

Senator LONG. I also asked what is the tax component of our imports. Mr. Brock said he would try to get the answer for me. He said it is somewhere near zero. I think you know what I am talking about there too.

Mr. STRAUSS. Yes.

Senator LONG. Yes.

Mr. STRAUSS. That is probably true, also. That is subsidy at its best and worst.

Senator LONG. Our exports are carrying the full burden of our social security taxes, that is almost 14 percent of the manpower component. I guess it is 5 percent of sales. I think that ought to be about what they are paying in Federal income taxes.

Then, I don't think we are giving them any rebate what they are paying in State and local taxes. So, I guess they are probably carrying about 20 percent of taxes.

If you look at $100 of American exports on the average, I would assume about $20 of that is taxes.

Now the other fellow collects most of his taxes with those value added or consumer taxes. Then he seeks to rebate it to them at the boundary.

Mr. STRAUSS. Right.

Senator LONG. So that when that product leaves their boundary, headed this way, they have shucked the taxes off of it. The foreign manufacturer is just paying his net cost other than taxes.

There is very little tax involved in what they are shipping to us.

When we are shipping the other way toward them, we not only have all of our taxes, but then we have to meet a value added tax at their boundary, and that adds an additional tax component to what we are shipping in there.

So, to the extent we have taxes in what we are selling them, it works out to being a disparity or disadvantage that our products have compared with the products that they are shipping in our direction.

Mr. STRAUSS. I would certainly agree with that, Senator Long.

I recall that you and I spent 2 or 3 hours one afternoon or one morning in Geneva while we were going through this subject which touched and got us to value added tax. It was related just in this way.

When you look at it in the trade field, it is one of the things that makes a value added tax have certain appeal. It has many negative aspects too, but that is one of the very positive ones and one we have used a great deal.

It is strange, I was going to say when you asked me that, if I had a guess, I would have said 12 to 15 percent in that tax.

I think now I would probably double that now as we start ticking them off. If I had to take a guess it would be closer to 25 than the 12 or 15 I talked about.

Senator LONG. Well, that is sort of like the story this old Kentucky Colonel used to tell about the man who challenged him to a duel.

After he and his opponent stepped off the dueling paces, he turned around. He looked around, and there that scoundrel was, standing behind a tree.

He said, "What did you do?" the other man said, "Quite natural, I throwed me behind a tree."

But now somebody on our behalf, and I am sure they did it with the interest of this Nation at heart when they did it, but many years ago in negotiating that general agreement on tariff and trade, they let them put in that agreement that they could refund at the boundary those value added taxes and those so-called indirect tazes.

So as for consumor taxes, they are supposed to be able to refund those at the boundary and they specifically said in that agreement we couldn't refund our social security tax.

They agreed that our social security tax would be a direct tax, so we couldn't refund it.

Mr. STRAUSS. Yes.

Senator LONG. Although it had about the same impact as far as the consumer is concerned as the value added tax.

You see, that was something that was agreed to back at a time when we could afford to be generous. Today we can't afford to be that generous. We are getting the worst of it in competing with those people.

If their labor is as productive as ours, and they can get the capital on a competitive basis, American companies are willing to go overseas and build factories if they can compete effectively.

It seems to me that we more and more we are at a disadvantage in manufacturing commodities to where with regard to things like shoes and textiles, steel, electronics, household appliances, railroad rolling stock, shipping has been toward our shores for a long time, and now even airplanes.

It seems to me that over a period of time, assuming that our labor is no more productive for the dollar—our labor might produce more, but theirs are paid less—The tax differential leaves us at a disadvantage where I don't see how over a period of time we can afford to continue to take that kind of a beating unless we get out of those industries.

How are we going to preserve our basic industries without resorting to some thing that would be regarded as protectionism?

Mr. STRAUSS. Well, I think there are ways other than protectionism that we can do so, Senator Long.

Let us go back to two or three of those items that you mentioned as you quickly came across that list.

Take aircraft, for example. If we could come to grips with the question of subsidies, then we could come to grips with a great many answers to the question you just asked me. It is in that area we are going to have to do it.

You take, as I say, in aircraft, if we competed head and head without the important subsidies the French and the British provide, we would have no difficulty continuing to get all the aircraft business in the world, more than our share of it, dramatically more.

That is true in a number of other areas too. It is true in steel. We compete very well. You get rid of dumping and subsidies, we do very well in steel.

Now that they are modernizing here and we are getting some modern furnaces in this country, we are more competitive. The steel industry will be that way in a few years.

So, I think the answer to it is not so much in turning to more protectionism. I think the answer is to it is turning to curing some of the evils that are over there in terms of subsidies and improving our own performance here.

We can do that.

Senator LONG. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman.

Ambassador Strauss, Senator Long makes a point I certainly agree with. We had a different world back in 1960 where we were the dominant, overpowering economic force in the world.

That is when we agreed, in 1960, as I recall, to have that classified as an indirect tax. We left the Europeans still to question DISC. It does not operate mechanically the same way, but has the same kind of results, not to the magnitude, of course,

But we were making decisions based on international political consequences which were paramount to us, but now we have changing world conditions where those nations are much stronger economically and we are not totally dominant as we once were.

So, we have a moving target. Obviously, we have to feel more than economic self-interest than we have in the past.

One of the examples, of course, is what we tried to do on section 301, and then to get parochial, the problem of citrus that faced you in the negotiations in Geneva for Texas and California and Florida.

Now that complaint has been filed some 5 years now and I would like to ask you, Mr. Ambassador, from your own experience, if you think that the process of hearings and adjudication of those kinds of complaints is properly served and if it should be strengthened or what should be done about it?

Mr. STRAUSS. I don't think we have worked with it, Senator Bentsen, since we put it in place. I know it wasn't perfect. I recall we had many arguments about it. We improved what we had. We improved it 100 percent. But whether that was enough improvement, I don't know.

Certainly I would like to go further.

Senator Long, you will recall, insisted that we shorten this process and put in——

Senator BENTSEN. I think 301, that is about all we did though, wasn't it? Just to shorten the process.

Mr. STRAUSS. That is what they said we needed.

While that improved it a great deal because you could never get up to bat. It wore them out before they got there.

We finally forced it where a fellow could at least get a chance to hit the ball one time. We thought that would be sufficient.

We knew it would be better, not that it would be sufficient.

I think we ought to see how it is working. I don't know how well it has worked. I don't know who is monitoring those who is carrying it on. I don't know whether—has this committee had the Treasury Department, for example, and the Commerce Department monitoring that up here seeing just what is going on those time tables?

I don't know.

Senator BENTSEN. I asked those questions this morning of the Secretary of Commerce and of Ambassador Brock.

Each of those felt it was not operating to the extent that it should. I think we need something more definitive as to what should be done.

Mr. STRAUSS. Well, I wouldn't want to be that technical here as to what should be done. I sure would like to know what has been done and why it isn't working. It ought to be working better.

If you put the right kind of people in there it will work better. Get them in the habit of following up those things. Get them in a positive instead of a negative way.

You will recall, Senator Bentsen, you will recall that testimony. We had people who didn't think it ought to work before. Those complaints would sit over there for 1 year and nobody would do a darn thing about it. In fact, they wouldn't do a damn thing about it either. [Laughter.]

Senator BENTSEN. Well, of course, I think we have a blatant and an obvious case where, when you have imports into the European Common Market from Spain and from Israel and Algeria and Morocco where they have a duty of 8, 12 and 4 percent, respectively, and we have a duty of some 20 percent; obvious discrimination takes place there.

Something has to be done to change the process even more when we had five years of it.

Mr. STRAUSS. Senator Bentsen, you won't find any argument with me that this country needs to be very pragmatic, needs to be very tough.

In the statement I read I talked about our national interest and that is what I am talking about. I think you take it on a case-by-case basis.

I know we need to do more. I know we take the worst of it.

I would also say to you, on the other hand, though, that if you take a look at what is happening on trade for example between the United States and the European Community you will find that we are doing rather well.

You will also find that in many areas of the community that they are looking to this country and what we are doing in penetrating their markets in the same way we are looking at Japan.

The same kind—when you go over there and read those periodicals and you listen to the testimony they are taking over there, the same things we were saying 4 years ago and say today with respect to what the Japanese are doing to us, you find very responsible people saying people in the United States are doing the same things to the European Community.

Senator BENTSEN. Well, now you are——

Mr. STRAUSS. It is the same old story. It is us. So I look at it one way. But, you look at it issue-by-issue and item-by-item basis and then look at the overall figures, we are doing pretty well.

Senator BENTSEN. Now you have gone to meddling, Mr. Strauss. [Laughter.]

Mr. STRAUSS. Yes, I thought you would feel that way. I have done business with you. [Laughter.]

Senator BENTSEN. But obviously, when we talk about free trade and quid pro quo, we also have to look at our political, international consequences.

Mr. STRAUSS. True.

Senator BENTSEN. But insofar as the Japanese, where we have a substantial deficit and we have seen all kinds of trade barriers within the country itself, we have not done as much as I think we have to.

Mr. STRAUSS. I would like to just say one final thing on this point. I think that sometimes the trouble we get into, fellows like me and a lot of others I might mention, we get in these issues and we just talk. It really comes out and it sounds good and it is a lot of pap.

What we really need to—what I would like to see us do is, damn it, take a hard look at these things. What are we doing here? What is right? What is wrong? What is happening? What are the numbers? Why are the numbers important this way, the same way you do when you are running your business. Why are the sales down? Why is this fellow producing and the other fellow not producing. Why is one department doing well and the other department now.

Until we do that, we are not going to get anywhere just with the lofty trade papers that fellows like me write and sometimes have written for them. They sound reasonably good if you say it real fast.

The time I was in that job, you will recall we tried to do it a little differently.

Senator DANFORTH. Mr. Ambassador, we have been talking about the need for a U. S. trade policy for a long time and the purpose of these hearings has been to focus on what it is and what it should be.

But, it seems to me that we can perhaps become too ideological. It would be possible, for example, to have something we call a trade policy which went something like this.

We believe in free trade. We believe in removing barriers to free trade. We also believe in a free market system at home and in allowing market forces to work. We are going to allow market forces to work and not have any, or as few as possible, artificial hindrances to market forces.

And, if an industry within the United States can't compete, well, that is that. Too bad. It goes under.

If an industry employs a lot of people, but it is not as strong as its counterpart in Japan or some place else in the world, well that is just the way the ball bounces.

That is what we call a free market system. That is what we are going to insist on.

That would be one possible approach.

But, you have always felt and you have said this today, that it is important to put a team on the field in this country, to have the administration working closely with the Congress, with the Finance Committee and the Ways and Means Committee, working closely with the business community and with labor, trying to fashion some sort of total American policy.

The idea that we are all behind the negotiator. I wonder if it is possible to do that?

As a practical politician, is it possible to keep ourselves glued together if the basic policy that we are enunciating is, well, the race is to the swift.

If you can't keep up, why we will just bring in goods from some other country and that is the way it goes.

Mr. STRAUSS. I think that is too broad a statement. Mr. Chairman, I would say this to you. In the first place, you say, "can we really function that way?" I don't think this committee will function. I don't think this Senate Finance Committee and its subcommittees under it, I don't think it will function as well when the men who are the heart and backbone of it are gone. I say it was unique. It is unique. You don't see that in many committees in the Congress on either side.

The individuals make that happen.

When you get individuals, good individuals leading the way, you can bring a lot of people together and bring a lot of troops behind you.

I think, yes, the business community and the labor community and the agricultural community are ready to come in and pull together with Government and carve out policies that will work.

I think we have to look at them.

I don't happen to believe in this philosophy some of you, I know, are for that you call bail outs of industries. You talked about let the weak go under and some of you are not against it.

Well, I think, I am not with either side, very frankly. I think you have to look at them issue-by-issue. As I said pragmatically in dollars and cents, "What do we get for our money?"

It doesn't bother me to assist a business that is going under if it means that we can prevent 10,000 people going out of work and the ripple effect causes 40,000 more. You say, "Well, we can risk a few hundred million dollars or a billion dollars and help an industry through a troubled time."

What does it cost us and what do we get for it.

I think that is the way we have to look at it. I am not philosophically for or against bailing out an industry or a steel mill or an automobile.

If we get our money's worth, let's do it. If we don't let them go if we can't make it work.

Senator DANFORTH. Well, if we believe that the U.S. auto industry is not going to survive, should we restrict imports?

If we believe that the shoe industry and the small towns that are dependent upon it, towns with no other means of employing the people there; just can't make it any more because of Taiwan and Korea.

Should we take the position, well, too bad for the shoe industry.

I mean, that is a possible approach.

Mr. STRAUSS. Yes.

Senator DANFORTH. It seems to me, based on the White Paper that is basically the approach this administration is taking. Maybe——

Mr. STRAUSS. It would not be my approach.

Senator DANFORTH. What would your's be?

Mr. STRAUSS. As I said, I think you look at them and see what do you get and what do you pay for it, just like you do with anything else in this world.

No. 1, you have national defense interests. Let's forget interests like that because where you have national defense interest, of course, you keep them going.

But I think if you find a weak segment of an industry and it is because it is a slovenly industry, there is no real effort being made and you are wasting money on people who really don't care, don't have the ambition, maybe you let them go.

But where you have an industry where it is trying hard and they have fallen behind for certain reasons, beyond their control, and for the investment of so many dollars or risk of so many dollars, you have a chance to save so many jobs which means so many dollars for the Government, I think you go and help them.

We have seen two instances that quickly come to my mind. Lockheed which had an assistance program and it saved a major company.

You have seen Chrysler. I wasn't in a position to be for or against it. But I saw what was done there. I read in the paper they are going to be in the black.

I don't know if they are going to make it or not going to make it. I wouldn't comment if they did. I happen to have a relationship with them.

You see other instances like that. You have to grade each one and see if it is worthwhile.

I don't believe we necessarily need to put—there are some industries, if they go under and disappear, they are not heavy employers, they are inefficient, where we can buy it cheaper than we can get it, that is another case.

If you look at other industries, it is another case. I think more than philosophy, I think it is a case-by-case sense of using hard-headed business sense and commonsense as well as a humane approach to people.

Thank you, sir.

Senator DANFORTH. Anyone else?

Senator HEINZ. Yes.

Mr. Ambassador——

Senator LONG. I have to leave. If you will permit me, Senator Heinz.

Senator HEINZ. By all means.

Senator LONG. Thank you, sir.

Mr. Strauss, I don't think the South should have fought the Civil War to begin with, but I have said on occasion that the South lost the war because it failed to recognize the talents of Nathan Bedford Forest. I think one who analyzed it with that in mind, would tend to agree that was correct.

I really think the Democrats would still be in control of the White House down there and we would still have the Congress, if they had enough good judgment to listen to your advise.

Mr. STRAUSS. Thank you, sir.

Senator LONG. You did a good job wherever something could be done. It is not your fault we find ourselves in the minority around here.

Mr. STRAUSS. I understand that.

Senator LONG. Thank you very much, sir.

Mr. STRAUSS. I would remind you before you leave, the South did rise again, Senator Long. You keep reminding them about that around here. [Laughter.]

Senator HEINZ. Mr. Ambassador, this morning I raised the question of DISC with Ambassador Brock and Secretary Baldrige. They have informed us that DISC is on the GATT hit list. That we have really no hope of maintaining DISC. That, not withstanding the fact that the Europeans rebate their value added taxes, that there is no way we can maintain very modest tax break for our exports.

They say the Europeans are just out to get them.

Now, you had a lot to do with negotiating the MTN. You have been very outspoken, as has Al McDonald, on whether or not DISC is all right.

I have a letter dated February 14, 1979, from you to Mr. Babson, the chairman of the Special Committee on U.S. Exports where at the end you say:

> More to the point raised in your letter, I can assure you that it is not our intention to alter the legal status of DISC either under GATT or as a matter of domestic law.
>
> Frankly, in my opinion, such a code on subsidies and counterveiling duties could have been negotiated without changing the status of the DISC is testimony to the skill with which this entire matter has been handled.

Mr. McDonald, when he was testifying before Senator Stevenson's committee, on September 17 or 18, 1979, said:

> We in special notes to the Code, reserve the status of the DISC as it is, by mutual agreement with our negotiating partners.
>
> If we did not have the DISC at this point in time under the normal provisions of the Code, and had we not in effect grandfathered it, it would be ineligible to be considered under our international agreements.

At which point, Senator Stevenson puts into the record, a letter to himself from the Office of the Special Trade Representative, which is a letter from you.

In it, it says, in the first paragraph, "The only grandfathering which has been done is a special rule for our DISC program."

So the record of negotiations, based on your and Ambassador McDonald's statements, seems to be very clear that we obtained a grandfather clause for the DISC, that the DISC is safe, that we are thoroughly and totally within our rights to insist on it and that the Europeans don't have a leg to stand on because they negotiated it away, because you were such a skilled negotiator.

Is that right?

Mr. STRAUSS. First, Senator, I would like to say to you that the way you characterized my saying I was such a skilled negotiator, offends me just a bit.

But, if that is your desire.

Senator HEINZ. I think you are a skilled negotiator.

Mr. STRAUSS. Then I would just say the way you characterize it doesn't necessarily—if that is what you want me to testify to, that I am a skilled negotiator, I will be glad to answer that any way you want it.

Senator HEINZ. I was just quoting.

Mr. STRAUSS. I think I am pretty damn good. In fact I am pretty damn good. Let the record reflect it.

Senator HEINZ. I was quoting you, as a matter of fact.

Mr. STRAUSS. No; I had people over there doing that, Senator. If you asked me about that record.

Senator HEINZ. Yes.

Mr. STRAUSS. To go on from that a minute, my recollection is, Senator Heinz, just exactly—it has been a long time. My recollection is just exactly as contained in your letters.

My recollection further is, and I haven't looked at it in a couple of years, so I could sure be wrong, is that our general counsel who drafted that document on subsidies, his name is Dick Rivers. He is very competent. I see him regularly. I could inquire further and provide you an answer.

But my recollection is he put an asterisk on the bottom of that page on that document, on the original document, as I recall seeing it done——

Senator HEINZ. You mean the letter from you to Senator Stevenson?

Mr. STRAUSS. No; I mean in—when he was doing his work on DISC, when he grandfathered it. There was an asterisk down at the bottom and it referred to the fact that we retained our position very strongly on DISC.

I could be mistaken on that. That is my recollection. My general recollection is that the situation of DISC is exactly as those representations were made.

What has happened since that time, of course, I don't know. That is where I left it.

Senator HEINZ. But, to the best of your recollection there was—this was not a unilateral decision on our part.

Mr. STRAUSS. I think there was something in the record on it.

Senator HEINZ. It was as Al McDonald says, "by mutual agreement with our negotiating partners," as you say in your letter to Senator Stevenson, "was done by a special rule for our DISC program."

That would imply that it was not something we unilaterally reserved; isn't that right?

Mr. STRAUSS. That is correct.

Furthermore, if Al McDonald said that, and represented that, I would take that as the truth because he is a man of honor and integrity. He is also intelligent. If he said it he believed it. If he believed it, I believe it too.

Senator HEINZ. Can you shed any light on the subject of why we should be in difficulty now as apparently we are defending DISC in front of the GATT?

Mr. STRAUSS. Senator Heinz, I believe today is the first time I thought about DISC in a couple of years. I don't know what you are talking about. I would not want to disagree with them without knowing what they base it on.

I would like to see a record. But so far as I know, the record on DISC is exactly in the correspondence you read and asked me to comment on.

Senator HEINZ. Well, it is troubling as you can imagine.

Mr. STRAUSS. I would take it up with the Secretary of Commerce and STR since they handled it. They bring you that problem. I really don't have that responsibility any more. When I left, the record was like I said.

Senator HEINZ. But to date, neither Ambassador Brock nor Secretary Baldrige nor Secretary Regan have come to you to ask you for any historical material, recollection or help on this issue?

Mr. STRAUSS. Senator Heinz, I find it very traumatic how infrequently any of those fellows come to me and want my opinion on anything. [Laughter.]

I am sure you won't find it quite as difficult as I do, but I do find that. No, they have not asked me for any advise on anything to tell you the damn truth.

Senator HEINZ. Well, I know that Ambassador Brock came to you for employment advise. I figured he may come to you for some others.

Is that right?

Mr. STRAUSS. He talked about the job. Ambassador Brock and I are very close friends, good friends, not close friends. We talk about a great many things. We talked about this job. I encouraged him to take it because he would get to testify on matters like this. [Laughter.]

It would be so pleasant, he would find. [Laughter.]

Senator HEINZ. Mr. Ambassador, I am glad to see that you haven't lost a single step in the 6 months that you have been making money. [Laughter.]

Mr. STRAUSS. Thank you.

Senator HEINZ. It is nice to see you again.

Mr. STRAUSS. Thank you, sir. It is nice to be here.

Senator BENTSEN. Mr. Chairman, I just want to tell my good friend, Bob Strauss, the Ambassador, how much we appreciate having you here today.

Mr. STRAUSS. Thank you.

Senator BENTSEN. I know the other demands upon your time and considering what you charge for your time. I am delighted to have you here free. Thank you very much. [Laughter.]

Mr. STRAUSS. Thank you.

Senator DANFORTH. That feeling is widely shared.

Thank you very much, Mr. Ambassador.

Mr. STRAUSS. Thank you very much. I appreciate it. Nice being here.

[The prepared statement of Ambassador Strauss follows:]

PREPARED STATEMENT OF ROBERT S. STRAUSS

Mr. Chairmen, Members of the Subcommittee on International Trade and the Subcommittee on International Finance and Monetary Policy.

It is a pleasure to join you in discussing the very important subject of international trade, and I am delighted you have given me this opportunity to share with you my experiences as you consider ways in which we can improve our government's performance in this field.

Let me begin by saying that during my career, I have held some positions that demanded partisan loyalty. I have always tried to be a responsible partisan, recognizing that there are some areas of legitimate partisan difference and many other areas of strong bipartisan support for constructive solutions to problems.

As the members of this Subcommittee know well, in the area of international trade such an approach is essential. Trade cuts across all lines. It is an increasingly important aspect of both foreign and domestic policy, as economic interdependence has become a fact of our lives. It cuts across lines of Party and geography, affecting Pittsburgh's steel management and South Carolina's textile workers alike, as well as the Senators and Congressmen and Congresswomen who represent them. It is important to consumers because it provides reasonably priced goods, and important to growing industries such as electronics because increased exports provide expanded opportunities.

During the Tokyo Round of Multilateral Trade Negotiations, I benefitted from the expressed bipartisan support of the Congress for our goal of creating a more free, and more fair, international trading system. Wherever I went, our trading partners knew without any doubt that I had the support of Senators Long and Dole, the leaders then of the full Senate Finance Committee, as well as Senators Ribicoff and Roth, the leaders then of the Trade Subcommittee, and most of their colleagues. From the staff level up, we worked together and negotiated together in a manner which reflected the broad range of our interests in international trade! Nothing was more important than the time I took in coming to the Congress at regular intervals to keep the Committees informed of our progress. This is one reason the Tokyo Round was a success. I believe the degree of working collaboration between the Executive and Legislative Branches that we established in the trade area was unique and could serve as a model for other areas.

Today, I would like to briefly mention some basic principles that I feel should underline our trade policy. Then I will suggest some directions in which U.S. trade policy might move and some considerations our policy-makers might note, as well as some ways in which our trade-policy structure and execution could be improved, based both on my experience as Special Trade Representative and in the private sector.

As the members of this Subcommittee know well, the international trading system today scarcely resembles the one we knew just after the Second World War, or even the one we knew just a decade ago.

One reason is the dramatic increase in its volume. In the last three decades, the volume of trade has increased tenfold. The other reason is interdependence.

Trade policy must reflect trade's importance, and complexity. Our policy objectives should include freer trade—because all nations of the world have benefitted from the postwar trade expansion—and fairer trade, as well.

These were the broad goals, and the basis, for the Tokyo Round of negotiations in which I was involved. I believe there is still a consensus within this country, and within the international trading community, that trade barriers need to be lowered further—and that trade is a two-way street—as evidenced by the recent announcement that the General Agreement on Tariffs and trade nations will meet in 1982 to strengthen trade liberalization.

For generations, nations have been sending negotiators to the negotiating tables of the world. Out of these sessions has come much experience, much institutionalized expertise in the subtleties and nuances of trade. Yet, for all the vast store of expertise accumulated around the world, there has not yet emerged a trading system within which the full potential of trade can be fully realized.

The source of that shortcoming is not the inadequacy of international good will. Rather, at a time at which the international pie of trade has ceased to grow as fast as before and there are more nations to share it, each nation feels increasing pressure to grab its share any way it can.

Our trade policy should have as a major objective a stronger international trading system and stronger trade organizations, such as GATT. I know that there has been a great deal of talk recently, in this country and abroad, about nations retreating from these organizations because their rules are often ignored. To this, I can only say that if our trade policy does not attempt to strengthen the international system, and allows trading nations to pursue narrow, often protectionist policies, we will be doing ourselves and the world a great disservice by cutting off one of our best avenues to prosperity. An imperfect system is better than none.

During the Tokyo Round we agreed upon for the first time, a number of codes governing non-tariff barriers to trade. These codes, on key areas such as subsidies and government procurement, must be made to work. If we insist that they be recognized and utilized they will become more and more useful to us and our trading partners.

We need to again assume a leadership role in strengthening and expanding our trading system because interdependence has meant that developing and developed nations, more and more, are facing common problems—inflation, recession, oil import bills—which must be approached with common solutions. Energy is the most obvious area where this is true, and to it I would add questions such as East-West trade, and North-South trade as well.

A commitment to free and fair trade, and to an organized trading system, are the broad goals a comprehensive U.S. trade policy should pursue within the international community. I also believe that our trade policy must be pragmatic, both in dealing with other nations and in dealing with all segments of our economy that have a stake in trade.

We should be especially pragmatic in developing a trade policy that truly reflects our national interest. A first step in this effort must be the acknowledgment of trade's importance by our policy-makers. We have to realize that our security depends as much, if not more, on the health of our economy as it does on the fitness of our military. And the health of our domestic economy directly relates to the health of the international trading system and economy—a fact which our foreign policy ought to recognize, and too often has not in the past.

From my experience as Special Trade Representative, I believe we have a trade policy-making structure which can do what I have described.

As you know, that policy-making structure has two key elements. One is the system of private sector advisors established through the foresight of the Congress—and the members of this Trade Subcommittee—in 1974. Representatives of business, labor, agriculture, and consumers sat with us at the negotiating tables during the Tokyo Round, providing guidance on the important issues to address, concessions to make, and to demand of our trading paratners. In this way we negotiated an agreement that was truly in our national interest because it reflected the concerns of all affected and interested parties.

In addition, the Cabinet-level Trade Policy Committee (TPC) enabled us to achieve a consensus within the government on trade issues before disputes reached the President, in most cases. The TPC helped prevent agencies from moving too quickly in their own directions, contrary to our overall trading interests. With the President's Special Trade Representative chairing the committee as an honest broker and with direct access to the President when needed, decisions were consistent with overall trade policy. To the extent that we can have a single voice speaking on trade issues—which was the goal in establishing the TPC—our trading position will benefit from avoiding confusion.

In addition, I believe that there are some improvements in the policy structure which can and should be made to enable us to better implement the Tokyo Round of agreements, to develop a more coherent and cohesive trade policy, and to greatly expand our exports—three primary trade policy goals you are discussing today.

I think we could enhance our ability for longer-range policy planning—particularly with regard to export promotion—by more active private sector participation in policy planning, by involving our overseas commercial attaches more closely in policy planning and expanding their number and quality, and by removing governmental and private sector impediments to exports. Our Foreign Commercial Service should take a more active role in seeking out problems faced by American businesses and reporting them back to Washington, rather than waiting until complaints are filed.

From the private sector point of view, these are the most important steps we could take to develop the program for export promotion that we urgently need. We have been operating at a disadvantage compared to our trading partners for too long because we have not really had enough close cooperation and coordination between the public and private sectors in the area of international trade, and we have suffered for it. We need to encourage government leaders to coordinate more fully with the private sector—business and labor—and private sector leaders to seek more government support for their efforts abroad. To the extent that changes in the policy structure, and in policy itself, can lead to this kind of increased cooperation, they will be successful.

I will be happy to answer any questions.

[Whereupon, at 3:03 p.m., the hearing adjourned, subject to the call of the Chair.]

OVERSIGHT OF U.S. TRADE POLICY

THURSDAY, JULY 9, 1981

U.S. SENATE, SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE COMMITTEE ON FINANCE AND SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY OF THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,

Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2221, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Dole, Chafee, Heinz, Durenberger, Grassley, Symms, Long, Bentsen, Moynihan, and Bradley.

Senator DANFORTH. The hearing will come to order.

This is our second day of hearings on trade policy.

Our first witness will be Hon. Murray L. Weidenbaum, Chairman, Council of Economic Advisers.

STATEMENT OF HON. MURRAY L. WEIDENBAUM, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. WEIDENBAUM. Thank you, Mr. Chairman, and members of the committee.

It is indeed, a pleasure for me to participate in your review of U.S. trade policy.

This morning, I am accompanied by William Niskanen, a member of the Council of Economic Advisers.

I would like, with your permission, to briefly summarize my statement and present the full statement for the record, if I may.

My purposes today are to provide some perspective. Perspective on the often overlooked significance of trade to our economy, on the role of the Council of Economic Advisers in setting trade policy, and on the proper position of Government in trade issues.

You already received, through Ambassador Bill Brock the administration's statement on trade policy. This important document, which has my full support, represents the joint product of a thorough interagency review.

I would like to highlight the economic principles essential to that document and to our administration's position on trade.

The primary objective of U.S. trade policy is a strong economy, one that uses our Nation's fundamental economic strengths in the most productive and efficient manner possible.

The maintenance of open markets, both at home and abroad, is one of the principal requirements for achieving this key objective.

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Open trade, on the basis of mutually agreed upon rules is in our best interests and promotes the administration's commitment to strengthen the domestic economy.

Open trade contributes to lower inflation. Open trade minimizes the role of Government in private sector decisions, thus allowing individuals and businesses to respond to the needs and pressures of the marketplace.

Open trade improves the efficiency with which our own resources are used and thereby yields more growth and improves living standards for our citizens.

Foreign trade has become an important factor in U.S. business and employment. Last year, exports and imports each represented over 12 percent of GNP.

Twelve years ago, in contrast, exports were less than 6 percent, imports less than 5 percent.

Interestingly, much of this shift occurred in the past decade when imports and exports as a share of our economy doubled while we maintained a positive export balance.

It is interesting to note two overlooked facts.

One, in real terms, after you boil out the inflation, the rate of growth in our imports was stronger in the 1960's than in the 1970's; 8 percent in the 1960's, 5 percent in the 1970's.

But our export growth, in striking contrast was stronger in the 1970's than in the 1960's; 8.6 versus 6.3.

When we listen to the pleas for protection from individual industries, I urge you not to overlook these fundamental trends.

Our export performance reflects two key factors.

First, our increased trade with developing countries.

Second, our specialization and production in trade of high technology products and of services.

The gradual opening of the world economy to trade in the postwar period has brought major benefits to both this country and our trading partners.

Indeed, the benefits of trade nearly always are a two-way street. Competition, whether domestic or international, fosters more efficient use of resources, better products, and lower prices. Consumer choice is expanded while inflation is reduced.

Thus, national employment and income rise.

Let me say a few words about a close but not generally appreciated connection between imports and exports. In a sense, I need to use a line from the old song, "You can't have one without the other."

A strong trade position is based on both a high volume of imports and a high volume of exports. The only way in the long run to increase exports is to increase imports.

This is true because our exporters need to find foreign buyers with the dollars necessary to buy our goods and services.

They obtain these dollars when Americans import and pay for foreign goods and services.

In the short run, of course, we can lend foreigners the dollars with which to buy our products. When such loans are made at market rates of interest, trade, of course, is properly advanced.

But, when Government-subsidized credit is provided, such funds are denied to other more productive uses.

Thus, imports put dollars in the hands of foreigners which can then be used to buy our exports.

It follows that restrictions on imports will result in fewer dollars in the hands of those in other countries who might wish to buy our products, unless we wish to make up the difference by loans or gifts to foreigners.

In some cases, the connection between imports and exports is even more direct. Import restraints can reduce employment and profits in our more productive export industries, often in the same region of the country.

For example, in the nonrubber footwear industry, U.S. exports of hides to foreign shoe producers probably suffered as a result of our restraints on the import of foreign shoes.

The more open and free trade is, the better for all. This fundamental economic principle, based on the principle of comparative advantage, was originally developed in the 19th century. But this notion has proved itself time and again since.

The 20th century has provided many good illustrations. The most significant, unfortunately a disastrously negative one, was the crippling of trade relationships under the beggar thy neighbor trade policies of the 1930's which contributed so much to the world-wide depression.

By contrast, in the 1960's, when trade barriers were sharply reduced, world trade accelerated and growth in income and well being both here and abroad showed major gains.

The question is frequently asked: Other nations do not have a policy of free trade; why should we?

But rather than ask if other nations practice free trade, I would ask if their trade policies are more open today than they would be without a continued pressure of agreed international rules of the game, rules often developed under the persistence and patience and influence of the United States.

My answer is a resounding yes. Trade policy here and elsewhere is more open today as a result of our efforts and of our example of a relatively open domestic economy.

Is the United States better off with this incremental improvement than without it?

Again I respond, yes.

The goods we import are cheaper than domestic substitutes. Our 225 million consumers have more choice. The markets for our exports are less restricted than they otherwise would be. All this abstracts from the income-generating effects of increased trade.

If trade were still more open, we would be still better off.

On the other hand, increasing our own trade restrictions runs the risk of setting us on a path leading back to the 1930's.

Let me assure you that the administration is not advocating a passive policy toward other nations' trade barriers or export subsidies.

I am in full agreement with the policy, as laid down in our statement on trade, of strong opposition to trade distorting interventions by other governments.

We should and do insist that our trading partners recognize that it is in their interest as well as ours to make trade a two-way street.

It is also necessary to examine critically the various Government imposed obstacles to American exports. Regulatory relief needs to include an effort to reduce needlessly costly U.S. laws and regulations inhibiting our exports.

I have also been asked to discuss the role of the Council of Economic Advisers in trade policy. The Council is a formal and active participant in trade policy in the executive branch.

We are a member of the Trade Policy Committee. The CEA is an active member of the Cabinet Councils that deal with trade issues: the Cabinet Council on Commerce and Trade, for example, and the Council on Economic Affairs.

As part of the Executive Office of the President, we participate in the legislative review process and in budget review questions that deal with trade.

More generally, the Council is looked upon to help provide leadership in maintaining the administration's policy of reducing Government interference in the economy.

Thus, I also serve on the President's task force on regulatory relief.

In all of these trade matters, I have the able support of my colleague on the CEA, Bill Niskanen. On questions of international finance, I rely heavily on the other member of the CEA, Jerry Jordan.

As CEA Chairman, I also serve as the head of the U.S. delegation to the OECD economic policy committee and this year, as the chairman of that committee.

Trade policy issues are frequently a subject of discussion in that important world forum.

The special perspective which the CEA brings to trade policy is that of disinterested and impartial economic analysis. We have no particular constituency to protect, unless you count the interests of 225 million American consumers.

Our objective is to analyze trade issues from the point of view of the national economy. We try to estimate the economic gains and losses associated with trade policy across the entire population.

The importance of independent evaluation cannot be overemphasized. One of the great difficulties in discussions of trade issues is that the beneficiaries of protectionist measures are few, but they have large individual stakes in the outcome.

Thus, their incentive for vigorous political activity is large. On the other hand, the costs of protectionism are distributed among 50 States and 225 million citizens; their individual stakes in the outcome are small. Consequently, resistence at the grass roots level to protectionist measures tends to be less than pressures for their adoption.

Now where foreign barriers to U.S. exports are at issue, support for free trade is more visible. But the emphasis is, as we would expect on other nations' restrictions, not on our own, even though our restrictive policies can be a factor in the adoption of protectionist responses by other nations.

As the U.S. economy participates ever more fully in world trade and investment, we have seen increased interest in the problems of adjusting to regional or industry dislocations arising out of imports.

The most effective and least costly way of dealing with these issues is a healthy and growing economy. That is why the President's program for economic recovery is the key element in easing trade adjustment problems.

The adjustments to import pressures are not always easy. As a result of the spread of technology and of entrepreneurial activity abroad, it may become apparent that we do not have an economic basis for producing a certain product.

In these circumstances, our domestic industry needs to find a way either of upgrading its capabilities or shifting resources to other activities.

In these situations, it is our policy to place primary reliance on market forces to facilitate those adjustments. We should recognize that any trade restraint to help a specific industry is a shift of income and wealth to that industry from U.S. consumers in the form of higher prices, and from American workers and owners of U.S. industries in the form of lower wages and lower prices.

The emphasis in trade adjustment should be just that, adjustment, not preservation of an uncompetitive industrial structure.

A healthy, dynamic economy is a flexible economy where business executives, consumers and workers can invest their capital and find employment in response to market forces without artificial Government barriers or props.

Government assistance to individual workers who have lost employment because of import dislocations should be temporary and oriented toward helping them find new jobs.

The general rule in trade adjustment should be to help people, not industries, per se.

At this point, let me elaborate on a development in trade policy that is most unfortunate, the rise of specific numerical limits on the imports of individual commodities.

Back in the 1960's the Kennedy Round of Tariff Reductions created the most open trade environment of the post-war period.

U.S. economic policies in those years, and that is restrained Government spending, substantial reductions in tax rates, restrained money growth and freer trade, contributed to high economic growth and low inflation.

The President's economic program is similar to many of those policies, but the success of our program could be jeopardized by succumbing to pressures for trade restraints.

Although the Kennedy round was followed by further reductions in tariffs, unfortunately, many quantitative restraints on trade have been imposed since.

Quantitative restraints such as quotas do far more damage to the economy and cost the consumer far more than tariffs which they may replace.

First, although quotas lead to smaller fluctuations in the volume of imports, they also lead to wider swings in import prices.

Second, because numerical limits are usually imposed on each exporting country, they disrupt the overall patterns of world trade and impose costs on all parties concerned.

Third, because each country's quota must be allocated among its own producers, quotas force governments to create cartels among their suppliers, restricting new entrants and increasing the role of government.

Fourth, quantitative limits distort the composition of trade. They lead foreign producers to increase the quality of the import items and to integrate backward toward their own suppliers.

This means for us, greater competition in the higher quality end of the American market. This also reduces demand for U.S. exports of U.S. production materials.

Finally, the value of these quota rights accrues to foreign governments or foreign companies, rather than to the U.S. Treasury, as in the case of tariff receipts.

But whatever degree of protection may be desired, and surely, gentlemen, it is not a plea for more protection, quotas imposed far higher costs on our economy than tariffs.

They also undermine existing multilateral agreements for a progressive reduction in trade restraint.

In closing, economics is a powerful tool in dealing with trade issues. However, other factors are properly interjected in the policymaking process, such as foreign and domestic policy objectives.

However, I view it as my job to make sure that political considerations and their cost in terms of lessened consumer welfare and reduced output, lower employment and higher prices are identified and do not masquerade under the cloak of economic welfare.

Thank you very much.

Senator DANFORTH. Thank you.

Incidentally, do you concur with the white paper?

Mr. WEIDENBAUM. Yes, sir. It is a joint effort. I had an active role in preparing it. I strongly endorse it.

Senator DANFORTH. The No. 1 point made in the white paper, the 1st point made in the white paper is that the economic recovery program of the administration is the key portion of its trade policy.

Mr. WEIDENBAUM. Yes, sir.

Senator DANFORTH. I take it that there are a couple of possibilities for tieing an economic recovery program in with trade policy.

One position would be to say that as the economy improves, as we become more competitive, as our industrial base becomes more modern and so on, all boats will rise with the rising tide, and that it will be of general help to American industry and will generally improve our competitive position.

An alternative position would be to target specific industries for specific assistance of one kind or another. In the high-techology field, cutting-edge-type industries, for instance, we should develop programs which would be of specific help to them, encouragement for research and development, and so on. And for very important, but weaker industries, automobile manufacturers, steel and others, losers, we should use tools such as the refundable tax credit to provide cash to them.

Between those two policies, it has been my impression that the position of the administration is clearly to favor the former, not the latter, and that the basic position of the administration is that targeting is something that is not within its province. The administration is opposed to refundable tax credits and other special methods for getting funds to weaker industries.

Is that a fair statement?

Mr. WEIDENBAUM. Yes, it is, Mr. Chairman. We hold that position because we believe that the general economic recovery program will be far more effective in providing higher levels of employment, production, and income than a host of far less effective, far less efficient, specifically targeted subsidies.

Senator DANFORTH. So if, for example, the automobile industry is in distress, and many of the companies could not avail themselves of accelerated depreciation because they are not earning profits, too bad.

Mr. WEIDENBAUM. Well, I do not take a cavalier attitude to distressed industries. I just try to take the objective role of economist, which is the most effective way of helping them.

Quite clearly, our calculation during that long deliberation on the automobile industry was that reviving the American economy will do more for the automobile industry and the automobile workers than all of the specific targeted subsidies put together.

Senator DANFORTH. The administration would tend to resist such targeted subsidies?

Mr. WEIDENBAUM. Yes, sir.

Senator DANFORTH. Now with respect to potential growth industries, take for example, computers. Other countries target such industries, isn't that right?

It is my understanding the Japanese have a policy of identifying certain industries which they think will be future winners. The Government uses trade policy and in economic policy in general to try to provide either an incubation period or a period of future growth for those industries.

Mr. WEIDENBAUM. Yes, but it has been my observation that this Federal Government does not have any great capability to make that kind of business decision.

In other words, I have very little confidence in the ability of any executive branch to make such decisions, and I'll include, frankly, the legislative branch as well, whether it is now run by Republicans or Democrats. It is truly a nonpartisan statement. I have very little confidence in the ability of Government to pinpoint which industries, which markets are going to be the growth areas of the economy in the years ahead.

Senator DANFORTH. But other countries do try to do that?

Mr. WEIDENBAUM. Yes. I think that one of the reasons we on balance have a stronger economy—perhaps our growth has slowed down—why our overall level of productivity is higher, is that over the years, we have relied on competition and market forces to make those essential decisions.

However, we are not doctrinaire. As the chairman knows, the administration in its current tax proposal has an incremental tax credit for research and development of 25 percent.

Now, we are not presumptious as to try to pinpoint which industry should be the beneficiary, but we do think it is important to have a generalized encouragement for research and development.

I believe this is generally in accord with views that you have been expressing for a long period of time.

Senator DANFORTH. If another country targets an industry, such as the Japanese with semiconductors, and we do not target that industry, does that not put us at a disadvantage?

Mr. WEIDENBAUM. The honest answer is: I am not sure. The reason I say that is, I don't know how efficient their subsidies are. I don't know to what extent we are offsetting those subsidies with comparative advantages of our own.

For example, I hear a great deal in this Nation about Japanese imports. But, when you are in Japan you hear a great deal about the flood of American aluminum exports. How we are flooding their markets because of the lower electricity, often Government subsidized in this country.

I am not sure if the sensible answer is a generalized expansion of those subsidies or just the reverse, to encourage the Japanese and our other friends to refrain from a subsidy competition.

Senator DANFORTH. You started to say something.

Mr. NISKANEN. Mr. Chairman, we should recognize that even in the case of Japan there is no particular relationship between the industries which they have supported and the industries in which they have been successful.

The automobile industry, for example, has developed in a way that is very different from what the various Government agencies have desired for many years, and has received no preferential treatment in its foreign sales.

Conversely, the Japanese put a lot of money into ship building, and although they gained an advantage within ship building, the whole ship building industry is in such bleak shape worldwide these days, that it has not been particularly helpful.

There is no reason to believe that either the Japanese Government or our Government, maybe in part because of the political pressures from different regions and interests will have any record of picking winners.

There is no evidence to date of any government, including the Japanese, of being particularly successful in that regard.

Senator DANFORTH. Senator Long.

Senator LONG. Thank you, Mr. Chairman.

Mr. Weidenbaum, you probably have some knowledge of the fact that we on this committee fought for more than 10 years with the Department of Commerce and the administration, Democrat and Republican, to make them give us what we thought was an honest report on our international trade.

We felt that it ought to be reported on a CIF basis, the same way that 95 percent of all your other nations on earth report it and maybe even higher than 95 percent of them now, because we felt our figures ought to be comparable and we thought that was a correct way to do it. We thought that the reporting of our trade balance on an f.o.b. basis or an f.a.s. basis had the effect of leaving the freight and insurance off of the imports and that caused them to be reporting either a much smaller deficit than actually was the case, and some years they would be reporting a profit, when we had a deficit.

It was a brutal battle to make them finally report those figures the same as the other countries did. That being the case, we finally made them report it the way we thought the honest figures were and made it against the law for them to come out and report these trade figures in a way we felt was deceptive, deceitful and misleading until they had first reported the accurate figures.

Now here those figures are the way we made them report them, by law, because we didn't trust that way of reporting it.

We said, first you report it honestly, you tell us what the honest facts are, the way we would keep our books, and the way everbody else keeps theirs and then, after you tell us that, then we will permit you to go ahead and say any fool thing you want to thereafter. But first, give us about 2 days exposure to the truth, and you can publish it any way you want to.

I am looking at the way they had reported to us, the way we made them by law to report it, which we agreed was the honest set of books, the way everybody else keeps theirs, we had a deficit in 1980 of $36.4 billion. The situation is getting worse.

In 1981, the deficit increased the first quarter by $1.9 billion.

Now, you come in here with the trade balance on some basis I am not familiar with, put together by the Department of Commerce, the same crowd we put under this law I referred to.

On page 3 you have some kind of a table here about our profit or loss on trade. You have us showing a net export of goods and services, in 1980 of $23.3 billion.

Now mind you, by law we made them report that we lost $36 billion. Yet you have it saying we made a profit of $23 billion.

My reaction is that you undermine your credibility as far as this Senator is concerned when you come in here showing us something this crowd came up with by adding a bunch of fuzzy stuff in there to try to make it look like we made a profit while we are going broke as far as our commodity trade is concerned.

I don't see how our basic industries can keep it up.

Would you like to submit us some argument to show that you ought to count all this stuff against the commodity trade, all this fuzzy stuff?

What are we talking about? International hot money that is coming over here because of the high interest rates?

Mr. WEIDENBAUM. No, sir. These are not capital flows. This is just what I call it. It is export of goods and services.

Very frankly, Senator, in an economy that is increasingly a service economy, at home, we find it also increasingly a service economy abroad.

An accurate, comprehensive picture of the flow of American exports, of the flow of imports into America, cannot in my judgment, be limited any longer to just commodities, but needs to include the important category of services.

Senator LONG. Well, it seems to me——

Mr. WEIDENBAUM. What we have done here is to use the official figures——

Senator LONG. You say "official." We made it against the law for them to bring something like this in before they gave us the true figures. We found the kind of stuff they were giving us was so misleading that we just had to pin it down by law and make them report our commodity trade on a CIF basis so we could see what we thought would be an honest set of books first, before they could make their version public.

Frankly, I haven't seen a witness's report before the committee prior to this time that what you are claiming—what, a $23 billion profit——

Mr. WEIDENBAUM. It is not a profit, Senator.

Senator LONG. Official figures, figures that we make them report by law. Those are the ones we show we sustained a commodity balance of minus $36 billion for 1980.

Mr. WEIDENBAUM. Senator, what these numbers are are the foreign trade part of our gross national product. That is, every quarter the U.S. Department of Commerce develops the data on our domestic economy and foreign economy. They add that together to get the gross national product, and precisely these are the data.

I think that the important aspect is to see how I have labeled them.

Very frankly, the data you are describing are also very important and very valid data. They serve a different purpose.

My purpose here is to show how foreign trade, the whole flow of exports of goods and services, the whole flow of imports of goods and services, contributes to the overall American economy.

Therefore, to be consistent, of necessity, I had to take the gross national product statistics, both the total and the exports and the imports, but data on exports and imports that are consistent with and part of the GNP, what statisticians call the national income and product account.

Very frankly, it doesn't mean that a different set of numbers are wrong or right. It says a different set of numbers are just that, different, developed for a different purpose to meet different needs.

Senator LONG. Well, now, I happen to believe that the answer to the trade problem internationally is for every nation to agree that they will settle for a balance. Because, if every nation were willing to settle for a balance, then we wouldn't have these begger-thy-neighbor policies, because the overall international trade picture would work out to be a balance if every nation's account were balanced.

Whoever has a big surplus ought to be willing to absorb more imports, and ought to be willing to agree to policies intended to reduce his exports. They ought to open up their markets and let more merchandise move in if they have a big surplus, like Japan has trading with us.

Following that logic, if your figures were correct, then we ought to be willing to accept an additional impact of $23 billion of more imports or a lesser export figure of $23 billion.

Mr. WEIDENBAUM. The Senator is a far more generous man than the witness, you appreciate.

Senator LONG. That's what these figures would suggest.

Mr. WEIDENBAUM. I am very pleased with a $23 billion surplus of exports over imports. I would leave well enough alone.

Senator LONG. Well——

Mr. WEIDENBAUM. I wouldn't want to reduce them.

Senator LONG. Well, frankly, my thought, if I were you, as one appointed by this administration, I guess I would want to support what is going on, and I guess I would say "Yes, this is great. We are showing a profit of $23 billion." But you are showing a profit of $23 billion against the official figures that your administration and the previous administration were required to submit. They do not show a profit of $23 billion. They show a loss of $36 billion.

Mr. WEIDENBAUM. On commodities, excluding services, for an economy that is primarily a service economy.

I think those are good numbers, but they are only a fraction. They don't tell the whole story.

I have tried to tell the whole story.

Senator LONG. Well, we don't have any agreement between the Congress and the executive branch or between you and between this committee on how these other figures ought to be reported.

But we do have a law signed by the President, perhaps reluctantly, but that was insisted upon by the Congress, saying how you report the official figures on commodity trade.

Frankly, my guess is that if we take a good look at all this, we are going to find that a $36 billion loss comes nearer to showing the picture than your $23 billion profit.

Mr. WEIDENBAUM. I would be glad, if the Senator would like, to submit a detailed statement for the record, explaining the relationship between the commodity figures and my figures.

I would be pleased to submit a reconciliation, if you would like.

Senator LONG. I would be pleased to see it, if you would like to show us how you arrived at this difference. There is a $59 billion difference between the way you show it and the way you are required by law to report it.

I would be pleased to have that.

Mr. WEIDENBAUM. Fine. Thank you, sir.

U.S. TRADE IN 1980—BALANCE OF PAYMENTS AND NATIONAL INCOME ACCOUNTS BASES

[In billions of dollars]

	Exports	Imports	Balance
Merchandise, f.a.s. excluding military, balance of payments	221.8	249.1	−27.3
Less gold	3.6	3.2	.4
Equals merchandise, national income accounts	218.2	245.9	−27.7
Services, balance of payments	119.1	84.7	34.4
Less statistical differences	−2.5	[2] 12.5	−15.0
Less Government interest	N/A	[2] 1.6	−1.6
Equals services, national income accounts	121.6	70.6	51.0
Goods and services:			
National income accounts [1]	339.8	316.5	23.3
Balance of payments	340.9	333.8	7.1

[1] Corresponds to table I, in testimony.
[2] Estimated.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Weidenbaum, I want to associate myself with Senator Long's comments. I really think that the numbers you have shown do not provide an accurate measurement of our export and import performance. I will tell you why, in my judgment.

Your numbers admittedly include services. You say that is defensible because we are living in a service-oriented age. That is true.

But, the largest part, 90 percent of the surplus that we show in the services area is based on investment income and payments that were made in another decade or several decades ago or three decades ago.

Now, it is nice to have that income flow. It does help pay our bills, but it does not measure performance today. It is a measure of performance in a bygone age.

Now, the age we are living in today is a much tougher, much more competitive one. I would like your view of whether or not this country has the least barriers to free trade and whether or not other countries are in fact much more protectionist than we are.

Would you agree with that?

Mr. WEIDENBAUM. I have to say, in all candor, it varies. Quite clearly, Hong Kong sets the standard for free trade in the world. Very frankly, we are a more open economy than Japan.

Senator HEINZ. Well, let me try it this way. Are we more open than Britain?

Mr. WEIDENBAUM. I have not made a specific study of Great Britain.

Senator HEINZ. Are we more open than the Common Market?

Mr. WEIDENBAUM. On balance, I believe so.

Senator HEINZ. Are we more open than Japan?

Mr. WEIDENBAUM. Oh, yes. I volunteer that.

Senator HEINZ. Are we more open than the Soviet Union? The east bloc countries?

Mr. WEIDENBAUM. I am not sure how I would make that comparison.

Senator HEINZ. Very well.

Are we more open than the developed countries as a whole, the OECD members?

Mr. WEIDENBAUM. Well, Senator, the acid test of an open economy is its willingness to take imports. These other nations take more of our imports of goods and services then we take of their goods and services.

Senator HEINZ. Suppose you look at it by sector. Is there any sector in which you know us to have an enormously restrictive policy?

Mr. WEIDENBAUM. Oh, certainly in the agricultural area we have a variety of restrictions.

Senator HEINZ. Should we retain those restrictions?

Mr. WEIDENBAUM. I have always taken the attitude we should minimize those restrictions.

Senator HEINZ. Now we have a multifiber arrangement.

Mr. WEIDENBAUM. Yes, sir.

Senator HEINZ. That is a restrictive arrangement.

Mr. WEIDENBAUM. Yes, sir.

Senator HEINZ. That is a restrictive arrangement. Should we maintain the multifiber arrangement?

Mr. WEIDENBAUM. I think we should extend it; yes.

Senator HEINZ. Should we strengthen it?

Mr. WEIDENBAUM. Well, that is a term of art, you appreciate. I should hope the extension of the multifiber arrangement takes account of the higher levels of production and consumption of textile products around the world.

Senator HEINZ. If the market in the United States shrinks should the import restraint or the import quotas, which is what they are, should they also shrink?

Mr. WEIDENBAUM. I would, very frankly, hope the change goes the other way, to expand the flow of textile trade in both directions.

Senator HEINZ. You would like to see that if the U.S. market shrinks by 10 percent, it wouldn't bother you if imports went up by 10 percent?

Mr. WEIDENBAUM. I am not aware of a shrinkage in our market. The Senator may be better informed.

Senator HEINZ. This is a hypothetical question. But it has happened on occasion.

Mr. WEIDENBAUM. As I see the healthy American economy, you don't promote that health, in my judgment, by restricting imports or exports for that matter, on an industry-to-industry basis.

Senator HEINZ. For national security purposes, the President wants to embargo grain to the Soviet Union should he be forced to embargo everything?

Mr. WEIDENBAUM. The short answer is no.

Senator HEINZ. There is a bill in Congress that will do exactly that. Do you oppose that bill?

Mr. WEIDENBAUM. I haven't read it. I have a longstanding position of not taking a position on a bill that I haven't had a chance to read.

Senator HEINZ. Will you read the bill and provide us with an opinion?

[Response to question by Senator Heinz on an opinion on S. 354:]

Conditioning specific export controls on either a total embargo or prior congressional approval would unwisely limit the President's flexibility to respond promptly and effectively to situations that may arise in the future. Furthermore, legislative encroachments such as the prior congressional approval required by S. 354 are viewed by the administration as unconstitutional.

Mr. WEIDENBAUM. I will be pleased to do that.

Senator DOLE. Could I ask, did you single out farmers for special treatment?

Mr. WEIDENBAUM. No; how comprehensive the embargo should be is a good technical question, precisely.

Senator HEINZ. I think Senator Dole has a legitimate concern. Let me just explain the bill to you. The bill singles out everybody except agriculture for special treatment. I have probably more rural people than any two people on this committee. We have 3¼ million rural people in Pennsylvania. So, we are sensitive to that.

But this bill that is being proposed by Senators from both parties provides that if agriculture is the subject of an embargo, every other thing that we make or sell, including services, I guess, is subject to that embargo.

Whereas, if the President embargoes steel or shoes or something, agriculture is not. That is kind of a one-way street, and strikes me as a little bit selfish, myself.

Mr. WEIDENBAUM. My own feeling, and it is just that, you appreciate, not having studied the pending legislation, is that the embargo power should be broadly based, but used with reluctance and discretion.

Senator HEINZ. Then I think we all agree, we shouldn't single out a specific sector.

On the other hand, we don't want to tie the President's hands, making it an all or nothing matter.

Thank you, Mr. Weidenbaum.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I would like to get back to the chart you have on page 3, of your testimony.

Now, what makes the difference between the commodity schedule we have been using? In other words, we have been indicating that the United States is a net importer of goods. Certainly, in manufactured goods we are a net importer. In overall commodities we are a net importer.

Now, what makes a difference, as you indicate, is the services. In other words, instead of having a $36 billion deficit, you show a $23 billion surplus, which works out to a $60 billion ascribed to services; is that correct?

Mr. WEIDENBAUM. That is correct. I do think that in a sophisticated, diversified economy such as our own, where services represent a much larger part of our economy, than of goods, when we look at the foreign trade sector of our economy, we shouldn't limit the analysis to one piece, and that is commodities, although I do not underestimate the importance of commodities. I think we need to look at goods and services.

Senator CHAFEE. OK, now services is a very difficult thing to figure. Now in services you would have insurance, banking; is that an important part of services?

Mr. WEIDENBAUM. Yes, sir.

Senator CHAFEE. Tourism.

Mr. WEIDENBAUM. Yes, sir.

Senator CHAFEE. Do you think your analysis of your figures under services is pretty accurate?

Mr. WEIDENBAUM. Yes. Very frankly, these are the numbers that American economists traditionally, generally use when they are examining the different sectors of the economy; the consumer sector, the business sector, the Government sector, the foreign trade sector.

Senator CHAFEE. Well, I take it tourism—you are saying tourism is a service, but obviously, that must be a net deficit; isn't it? The U.S. tourists must spend a lot more abroad than foreign tourists spend in the United States.

Mr. WEIDENBAUM. I believe that is the case.

Senator CHAFEE. So the minuses are figured in there as well as the pluses?

Mr. WEIDENBAUM. Oh, yes, sir.

Senator CHAFEE. So, what are the big things that give us a plus? If tourism is a loser, is it insurance, banking, engineering, or architectural services?

Mr. WEIDENBAUM. All of those, indeed, are important contributors.

Senator CHAFEE. Well, I am surprised it comes out to the plus as you have indicated here.

On page 9 of your statement, what Government regulations are you talking about when you say "Government regulations that unnecessarily create barriers to exports need to be identified ~~and~~ where possible eliminated."?

Can you suggest any to us?

Mr. WEIDENBAUM. I have——

Senator CHAFEE. Mr. Brock suggested some yesterday in the early part of his testimony. He states: "We have identified three types of policies as the most significant export disincentives. Taxation of Americans abroad."

Well, we tried to straighten that out in this bill, and the House likewise seems to be in the tax bill.

The Foreign Corrupt Practices Act is linked as another disincentive. Do you favor changes in the Act?

Mr. WEIDENBAUM. Yes, sir.

Senator CHAFEE. Yes.

Mr. WEIDENBAUM. I had some in mind in addition to the suggestions of Senator Brock. To me, the very compelling notion that a part ~~of the~~ problems of Americans, industrial manufacturers, in competing with foreign produced products, either at home or abroad, is that the American products are produced increasingly under expensive, stringent regulatory requirements and the foreign products that our companies compete against are not subject to the same kind of equivalent EPA, OSHA, et cetera, et cetera, regulation.

Therefore, we need to be mindful that the cost that we impose on American industry to meet these important social requirements, social regulatory requirements, do have a tendency to reduce the competitiveness of American products.

That is just a statement of fact, very frankly.

Senator CHAFEE. Well, yes, except that we have made a determination as a Nation that we think these kind of regulatory requirements are worthwhile. I don't think we want to have a factory that three-quarters of it observes OSHA for domestic product and one quarter doesn't observe OSHA because that is for exports and we don't care whether the workers are injured over in that section. We wouldn't expect that.

Mr. WEIDENBAUM. Oh, I would care about worker injuries and illnesses in all of the factory, but very frankly, I would also care about the extent to which there are needlessly burdensome, needlessly costly, needlessly disruptive regulations which aren't having——

Senator CHAFEE. Yes; but everybody is against a needless regulation. The problem is identifying them.

My time is up.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

Mr. Weidenbaum, let me pursue the logical conclusions of the line of thinking that you have outlined here namely that we are going to embrace textbook-fashion free trade.

Let's assume that there are certain basic industries that in the last ten years have not functioned as well as they might. I think there is probably no clearer factual demonstration of that than the fact that of the 19 million jobs created in the last 10 years only 5 percent of those jobs have been in the industrial sector, and only 11 percent have been in any kind of goods producing at all; 89 percent have been created in all the service industries.

Now this trend, taken to its logical conclusion, means we are going to be a service economy. At what point do you feel that other issues enter the picture such as national security, such as how do you have an industrial commercial economy that is robust without a vibrant steel industry, for example?

My question is, where do you draw the line? If you just say "Pursue free trade," you could buy your steel from Japan or Korea and say, "Let's make the cars somewhere else," then we could become nothing but a service economy.

Could you provide a rationale for giving special encouragement to specific sectors?

Mr. WEIDENBAUM. Senator Bradley, you pose a dual question.

When is the time for the Government to take action because of the decline of our industrial base? I would say specifically the time is now. Much of the President's economic recovery program deals with providing incentives for saving and investment and specifically investment in American industry; that is the 10-5-3, that is the 25-percent incremental R.&D. credit.

So, that is a major reason for our program of regulatory relief.

Senator BRADLEY. So your point is that you will have in place, after it is enacted, tax changes that will revive these dying industries?

Mr. WEIDENBAUM. Tax changes that will help foster a healthier industrial base in general. But, very frankly, it has been my observation that closely targeted Federal assistance is counterproductive.

Senator BRADLEY. Do you think it is central that we have a steel industry in this country?

Is it central? Is it absolutely——

Mr. WEIDENBAUM. Of course. But how do you get a healthy steel industry? It is not by propping up and sending out——

Senator BRADLEY. I am not making that argument. I am not making that argument. I am—I just want to get your position.

So, you are saying that simply by enacting the 10-5-3, industries that have been declining would have sufficient new incentives for investment to revive them——

Mr. WEIDENBAUM. They will have an opportunity given the tax relief and the regulatory relief to compete in the market place. I can't forecast which will be the winners in the industrial competition of 1980.

Senator BRADLEY. But do you care if the steel industry management doesn't view it the way that you do and they think they need a lot more special treatment——

Mr. WEIDENBAUM. Well every one of——

Senator BRADLEY. Let me finish. Let me finish. And they don't get it and therefore they don't make the investment. Is there any public policy question here in your view?

Mr. WEIDENBAUM. Yes; and it is how to say "no." I think it is an important ability. Because the roster of sectors of the economy who would like the Federal taxpayers to share the risk of their investment is an ever-lengthening one.

Senator BRADLEY. So, the conclusion is you provide the incentives and if an industry doesn't take them, that is the industry's fault and it declines; right?

Mr. WEIDENBAUM. I have a different view of the response. I see the steel industry has just announced billions of dollars of new investment.

So, I don't see a declining industry. I see a steel industry turning around.

Senator BRADLEY. OK, let me ask you again in the free trade scheme of things. Do you see any rationale for having the American economy as the economy of last resort?

What I mean by that is that in analyzing the depression in the 1930's, a number of academic economic historians have made the point that the reason the world plummeted into a depression is because the British wouldn't or couldn't assert international leadership and the United States wouldn't.

One of the things that this argument implies is that the leading economy has to maintain an open economy so it can absorb sufficient imports that are essential to keep the rest of the world economy moving. That is, become the economy of last resort.

If the United States sets barriers to imports, particularly at a critical time, then it is saying "No," to this responsibility, allowing the rest of the world to use its market that keeps their economies healthy.

Would you agree with that?

Mr. WEIDENBAUM. No, I wouldn't. Because what happened, the Smoot-Hawley Tariff of the United States precipitated a major protectionist wave which did great damage to our economy as well as the economies to most of the other trading nations.

Senator BRADLEY. The United States wouldn't. We didn't.

Mr. WEIDENBAUM. Conversely, look at the Kennedy Round though.

Senator BRADLEY. But your point is you don't want to make that mistake again?

Mr. WEIDENBAUM. Yes, sir.

Senator BRADLEY. Very well.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

I would like to welcome Dr. Weidenbaum and Dr. Niskanen. Sir, we have been hearing from you a very eloquent and very persuasive case, for as you put it, I think, policies that will help the business system as against helping individuals in particular businesses, the latter being something that can only be done at the cost of other businesses and individual consumers generally.

Yet, you, as we, live in a real world of interests and your question, "How do you say no," is the central question in Government. It may distinguish my party from yours, which is alarming me. You take more pleasure in saying "No," than we do, and are admired for it, I fear.

But, it is a fact that you just referred to the Kennedy Round as having begun a great expansion in foreign trade. It looks, if I remember your numbers, something like a 15-fold dollar increase in exports since the Kennedy Round.

Mr. WEIDENBAUM. Yes, sir.

Senator MOYNIHAN. You know, sir, that this was made possible by a prior agreement in imposing quotas on cotton textiles, since extended into multifiber agreement, and without that we wouldn't have one.

Mr. WEIDENBAUM. The Senator from New York was a major negotiator in that agreement.

Senator MOYNIHAN. Well, that is something I may or may not want to be remembered for. [Laughter.]

Thank you. No, I would, because I would think that bill was a good one. This committee has been protective, I think, of that general arrangement.

More recently, we have entered into trade adjustment assistance as a general proposition. I think it is generally agreed, sir, that we could not have got the Tokyo round agreed to without trade adjustment assistance.

Both of these are in a sense up again, having got the Tokyo round, we have to renegotiate the multifiber agreement or we don't. It begins this next week, I guess.

Similarly, this committee, I am sorry to say just devastated the trade adjustment program. Took about an estimated 87 percent of the money out of it.

Could I ask your view on that, and recognizing that these were part of conditions of trade, support for support. We got support from people who were not going to support us absent these measures, and absent their support we wouldn't have the measures.

Mr. WEIDENBAUM. Senator, I think the trade adjustment program has been a useful program, although it is important to eliminate some inequities.

An unemployed worker whose unemployment is attributed to imports, I don't think should be treated differently than an unemployed worker whose unemployment is attributed to some domestic——

Senator MOYNIHAN. You realize there may be a different view there in the sense that if the person unemployed because of a Federal policy to reduce a tariff or make some trade exchange might have a special claim on the Federal Government.

Mr. WEIDENBAUM. The problem is there is such a long list of things that could generate the unemployment; canceling a defense contract, for example.

Senator MOYNIHAN. Yes.

Mr. WEIDENBAUM. What we are concerned about is that there be an adequate length for that adjustment period. So, as you know, the administration has urged revising the trade adjustment programs so that 52 consecutive weeks of unemployment benefits can be provided to workers whose unemployment is attributed primarily to imports.

I think we need to understand it is an adjustment program and that 1 year, in my judgment, surely is an adequate time to tide people over to adjust to some other employment.

Senator MOYNIHAN. Could I ask you about the Multifiber Agreement. Mr. Chairman, it is important to us in this committee and important to the trade program. Do you expect to renew the agreement in Geneva?

Mr. WEIDENBAUM. Yes; I do expect the Multifiber Agreement will be renewed and extended.

Senator MOYNIHAN. There is a question of the concentration in those three, for practical purposes, industrial nations. I would imagine South Korea looks more like an industrial nation than we do in terms of the general image of the distribution of activities in an industrial nation.

The idea should be to get some other countries in on that. About 60 percent of the imports under MFA come from Taiwan, Hong Kong, and South Korea, I believe.

Isn't that so?

Mr. WEIDENBAUM. I, very frankly, have not been involved in the detail——

Senator MOYNIHAN. I think you will find that is so. So this idea of trying to spread the opportunity around the world has been concentrated in two or three very successful economies on the Asian rim there.

Mr. WEIDENBAUM. We may need to pay attention to importers closer to home such as in the Caribbean.

Senator MOYNIHAN. Such as the Caribbean.

May I just say that Senator Danforth and I are both very much interested in that trade adjustment matter. We would hope to hear from you later this year on the question.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. Thank you, Mr. Chairman.

Mr. Weidenbaum, it is good to see you.

We have seen exports increase over the last few years, and yet we have seen our percentage, as compared to other nations, decrease and our lessening of competitiveness.

Yet our problem is a much more serious one than most of our trading partners population-wise, because our population, in our projections of population increase, percentage-wise are substantially more than that of more of our trading partners who have a static population beginning to develop, but sometimes even a decreasing population.

So, it means we have a serious problem in job creation. When you talk about objectivity and a toughness toward domestic producers and industries and the survival of the fittest, I can go along with part of that rhetoric, but I believe that there are times that we have to make an exception when we get to a basic industry of our country.

But what concerns me very much is that I don't see that toughness and that same objectivity toward some of the actions of some of our competitors.

It seems to me that section 301 is really not working to the extent it should.

We made many decisions back in the late 1950's and the early 1960's, based on international political consequences more so than on domestic economic consequences.

I think we ran into that kind of a situation with the determination in 1960 of that being classified as an indirect tax.

Yet, now seeing the DISC open to attack, although nothing of the magnitude of that, some of the same consequences resulting from it.

So, facing these kinds of concerns, I would like to have your comments concerning section 301, and then whether it is adequate and if it is not, such changes as might be made where we can act quickly when we see situations of dumping and subsidies on the part of our competitors.

Mr. WEIDENBAUM. I have not made in my present position any analysis of the program, which, of course, is the essential responsibility of the Department of Commerce.

I, of course, share the standard view that the statutes that Congress has enacted should be fully and fairly enforced by the executive branch. That is our job.

I would urge the Senate to consider the reasons why some of those numbers look as unfavorable as they do. Very frankly, the increase in the price of imports has been far more important than the increase in volume.

In fact, if you tried to do the analysis in what economists call "real terms," boiling out the effect of price increases, you get a very different picture as to the trade flows in recent years.

The increase, not in the volume of our oil imports, but in the price that we pay for oil, that has been the swing factor.

If you adjust for the price changes. If you look in terms of the physical shipments of commodities, you don't get those large trade deficits that appear in the raw numbers.

I think American industry truly is far more competitive than the statistics give it credit for.

Senator BENTSEN. Dr. Weidenbaum, I am not just talking about oil. I am talking about—I looked at the Far East and I looked at what our percentage of the trade was there in merchandise and how trade overall has increased substantially, but our percentage of that trade has gone down substantially.

Let me cite you one that I cited yesterday and not because it is a big trade matter, not because it is a great economic consequence to this country, but I just cited the case of citrus and the problems we have there. I can't think of a more blatant—there probably is one but I don't know it, a more blatant violation.

I look to the European Common Market and what they do for Israel, what they do for Spain and some of the other countries along in there, in that region, where they will have the duty of 4 percent, 8 percent, 12 percent and then turn around and stick us 20 percent. It just doesn't make any sense.

Yet, we filed a complaint 5 years ago, and still, no solution to it.

Mr. WEIDENBAUM. Senator, I strongly share your view. Any time I represent our country in international meetings with other nations, I make that point as strongly as I can that other nations have an important role here to reduce the barriers to our exports to treat our trade more fairly than they do now.

Quite clearly, in domestic controversies, I do take the free trade position that you expect of an economist, that free trade is a two-way street and our trading partners, if they wish to remain good trading partners, have an important responsibility that they are not always carrying out, and that is to reduce the unfair barriers to American exports.

Senator BENTSEN. Well, it is not enough to just ask them to. The question is: What do we do when we find such a blatant violation. What do we do under section 301?

We did something here, as you know, Mr. Chairman, to contract the period of time, but we haven't changed the mechanics of arriving at a decision, it seems.

Thank you.

Senator DANFORTH. Mr. Wiedenbaum. I know that Senator Heinz wants to ask another question. I don't know if Senator Bradley—I would hope we would not detain you much longer.

Senator HEINZ. This is just a followup, Mr. Chairman, to the question of the Multifiber Agreement we talked about earlier.

You said, Mr. Weidenbaum, that you wouldn't mind seeing the level of imports rise even if the domestic market for textiles, of garments went down. That is at variance with what the President thinks.

On September 3, he wrote a letter to Senator Thurmond where he says the following:

> The MFA expires at the end of 1981, and needs to be strengthened by relating import growth from all sources to domestic growth.
> I shall work to achieve that goal.
> Sincerely, Ronald Reagan.

So I hope you will adopt a position consistent with the President on this issue, because according to the remarks you made earlier, it didn't seem to me that you were being consistent with his position.

Mr. WEIDENBAUM. Oh, quite clearly, the President speaks for the administration. [Laughter.]

I am just an adviser. I share the President's view that the Multifiber Agreement should be extended.

Senator HEINZ. He said "strengthened," but you don't share that view?

Mr. WEIDENBAUM. Oh, I wouldn't quarrel with—obviously, with his use of language.

Senator HEINZ. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

Mr. Weidenbaum, following up on Senator Moynihan's question or point, economic adjustment is a matter of abundant capital, and also abundant labor with the appropriate skills; right?

Mr. WIEDENBAUM. Yes, sir.

Senator BRADLEY. My concern is that the administration's support for retraining doesn't really get to the point of retraining, because the potential candidate first is subjected to the unemployment benefit changes, and therefore is required to take a job below his former skill level. As a result, he never gets to the point where his worker retraining goes into effect.

Then, you have other people in the economy who have lost their jobs, but not because of imports; they never even get a chance for the worker retraining.

So, my point is this—and I think all members of this committee are very interested in this—if you are going to have a skilled labor force in the 1980's to deal with the more sophisticated economy, you have to find some way to facilitate their retraining.

I really think you need to look at the combination of the unemployment changes and the TAA changes before you say you are confident that your program will work, because I think that, upon analysis, it won't work.

Do you have any response?

Mr. WEIDENBAUM. Yes, Senator Bradley, and that is, as an educator, my stock in trade is helping to train people to be useful in their life's work.

Now, the primary motivating factor is the availability of good employment opportunities at the end of the training period.

Most of my students pay us. We don't pay them, when I am back at the university. But, what impels them or their parents to undergo this expensive form of training? The expectation that we will have a growing economy, with growing employment opportunities.

Therefore, I am back to the original point, both of my statement and of the administration's overall trade policy statement. The most effective thing we could do is to pursue a program that will restore the overall health of the economy.

Senator BRADLEY. Why then did you put $121 million in the budget for worker retraining? If you believe that workers are going to be retrained because the economy is going to grow and the people see it is in their interest to train, why did you put $121 million in?

Mr. WEIDENBAUM. Because Congress, in its previous action, has authorized that program.

Senator BRADLEY. But you don't have any regrets that the money can never be used, because no one will ever get to the point of retraining. You think that is just as well.

Mr. WIEDENBAUM. No; I believe the program will be used. But if there are incentives to go directly into employment and to bypass the Government's subsidized training program, I think that will be equally desirable if not more so.

Senator BRADLEY. I do too.

I just hope that you and I aren't disappointed.

Mr. WEIDENBAUM. Thank you.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

I wanted to state to Dr. Weidenbaum that there is no reason you at this moment should be familiar with the kind of fallout situation that has come about in the trade adjustment program, consequence of the great whacking it took in this committee and on the floor.

In order to save money, we required people, one, to stay at the regular unemployment rate, and two, for all practical purposes after a very short period to take any job offered them above the minimum wage. And, having taken that job and gone out of the system, then the retraining is no longer available to them.

That is what has concerned Senator Danforth and myself, Senator Bradley, and others. We have arranged, if this should come into effect, if our bill passes as it now stands, it will—certain of these particular provisions will not take effect until 6 months later, and we will want to hold hearings.

I think that when you look at the actual probable experience of the worker, you will see there is a problem here and we will ask to hear from you and we will talk about it.

Mr. WEIDENBAUM. Fine. Because, Senator, as you surmise, I have not examined that specific action.

Senator MOYNIHAN. Yes. Even a Weidenbaum might have trouble figuring it out in its details. But there is no problem at all in the Finance Committee. We are wizards at these things. [Laughter.]

Mr. WEIDENBAUM. Yes, sir.

Senator DANFORTH. Mr. Weidenbaum, just one final question. The press has characterized the administration's trade policy as stated in the White Paper as the survival of the fittest policy. Do you accept that designation?

Mr. WEIDENBAUM. I do notice that one newspaper among thousands has used that designation. I don't read too much into it. That isn't a phrase I would use. That is, what we are really talking about is a policy primarily oriented toward competition, toward market forces.

The alternative to that is a policy of supporting inefficient losers, so to speak, and I think very frankly, the consumer, and that is, I think, our overriding concern, the consumer is benefited by policies that encourage companies and individuals to compete in the marketplace. And, yes indeed, there are winners and losers. The most economically viable do the best.

But, I have different choices of language.

Senator DANFORTH. You might choose different words, and I am sure you would, but could you successfully dispute that characterization?

Mr. WEIDENBAUM. Well, I don't mean to quibble, but there are many economic institutions that aren't what I would call the fittest, and they surely survive. But I think the greatest rewards go to those that make the greatest contribution to meeting consumer needs. That is how you promote a healthy economy.

Very frankly, if I were the headline writer, I would have used less emotional, more neutral terms.

Senator MOYNIHAN. Mr. Weidenbaum, is this administration proposing to start controlling the press this early on in its administration? [Laughter.]

Mr. WEIDENBAUM. No; it is just the frustrated journalist who is testifying before you.

Senator DANFORTH. Thank you very much, Mr. Weidenbaum.

Mr. WEIDENBAUM. Thank you, Mr. Chairman, and gentlemen.

[Statement follows:]

STATEMENT OF HON. MURRAY L. WEIDENBAUM, CHAIRMAN, PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS

Mr. Chairman and members of the committee, it is a pleasure for me to participate with other members of the Administration in your review of U.S. trade policy. The subject is an important and timely one. These hearings reflect the increasing importance of foreign trade and investment to the American economy.

My own purposes today are to provide some perspective: On the often overlooked significance of trade to our economy; on the role The Council of Economic Advisers plays in setting trade policy; and on the proper position of Government in vital and often controversial trade issues.

You have already received, through Ambassador Bill Brock, the Administration's "Statement on U.S. Trade Policy." This important document, which has my full support, represents the joint product of a thorough interagency review of the issues that are associated with trade policy. As you are well aware, the number and variety of such issues in recent years have increased as the share of U.S. economic activity associated with international trade and investment flows has risen substantially. While I do not want to review the entire statement with you, I would like to highlight some of the economic principles which are central to that document and to the Administration's position on trade matters.

The primary objective of U.S. trade policy is a strong economy, one that uses our Nation's fundamental economic strengths in the most productive and efficient manner possible. The maintenance of open markets both at home and abroad is one of the principal requirements for achieving this key objective. Thus, open trade, on the basis of mutually agreed upon rules, is in our best interest, and is consistent with the Administration's commitment to strengthen the domestic economy through the President's Program for Economic Recovery.

Open trade contributes to lowering inflationary pressures;

Open trade minimizes the role of government in influencing private sector decisions, thus allowing individuals and business firms to respond to the needs and pressures of the international marketplace;

Open trade improves the efficiency with which our own resources are allocated and thereby yields more growth and an improved living standard here at home.

TRADE IN THE U.S. AND WORLD ECONOMY

Foreign trade has become an important factor in U.S. business and employment. Last year exports and imports of goods and services each represented over 12 percent of our gross national product (see Table I). Twenty years ago, exports were less than 6 percent of GNP; imports, less than 5 percent. Much of this shift has occurred in the past decade when imports and exports as a share of GNP have about doubled and a positive export balance has been maintained. Little wonder our awareness of trade has heightened.

TABLE I.—TRADE IN THE U.S. ECONOMY, 1960–80 [1]

[Dollars in billions]

	1960		1970		1980	
	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
Exports of goods and services	$28.9	5.7	$65.7	6.6	$339.8	12.9
Imports of goods and services	23.4	4.6	59.0	5.9	316.5	12.1
Net exports	5.5	1.1	6.7	0.6	23.3	0.8

[1] Data are on a National Income Accounts basis.

Source: Department of Commerce, Bureau of Economic Analysis.

It is interesting to note often overlooked facts: (1) In real terms, the rate of growth in U.S. imports of goods and services was stronger in the 1960s than in the 1970s, and (2) U.S. export growth, by contrast, was stronger in the 1970s than in the 1960s (see table II, p. 4). When we listen to the pleas for protection from individual companies or industries, we tend to overlook these fundamental trends. While the reasons have not fully been explored, it seems likely that our export growth performance reflected two key factors:

Our increased trade with developing countries, whose GNP growth slowed less in the 1970s than that of the developed countries; and

Our specialization in production and trade of high technology products, and of services, as well as the evolving ramifications of the trade liberalization of the postwar period.

TABLE II.—REAL GROWTH OF U.S. TRADE, 1960–80

[Average annual percentage increases]

	1960–70	1970–80
Exports of goods and services	6.3	8.6
Imports of goods and services	8.0	5.0
GNP	4.0	3.2

Source: Department of Commerce.

The gradual opening of the would economy to trade in the post-war period has brought major benefits to both the U.S. and our trade partners. Indeed, the benefits of trade are nearly always a two-way street. Competition, whether domestic or international, fosters efficient allocation of resources into relatively more productive activities; better products, at lower prices, appear in the marketplace. Consumer choice is expanded; inflationary pressures are reduced. With time, national employment, and hence income, rise.

EXPORTS AND IMPORTS

At this point, let me say a few words about a close—but not generally appreciated—connection between imports and exports. A strong trade position is based on both a high volume of imports and a high volume of exports. In fact, the only way in the long run to increase our exports is to increase our imports.

Let me explain this rather provocative point. Our exporters need to find foreign buyers with the dollars necessary to buy our goods and services. In general, these dollars are obtained when Americans import and pay for foreign goods and services.

In the short run, it is true that we can and do lend foreigners the dollars with which to buy our exports. When such loans are made at market rates of interest trade, of course, is properly advanced. But, when government-subsidized credit is provided, such funds are denied to other, more productive uses.

Thus, imports put dollars in the hands of foreigners—which can then be used to buy our exports. It follows that restrictions on imports will result in fewer dollars in the hands of those in other countries who might wish to buy our wheat, aircraft, chemicals or machinery—unless we wish to make up the difference by loans or transfer payments to foreigners.

In some cases, the connection between imports and exports is even more direct. Import restraints can reduce employment and profits in our more productive export industries, in many cases in the same region of the country. For example, in the non-rubber footwear industry, U.S. exports of hides to foreign shoe producers probably suffered as a result of our restraints on the import of foreign shoes.

THE CASE FOR FREER TRADE

The more free and open trade is, the better for all. This fundamental economic principle, based on the principle of comparative advantage, was originally developed in the nineteenth century. But this notion has proved itself time and again since. The twentieth century has provided a good number of supportive illustrations. The most significant—a disastrously negative one—was the crippling of trading relationships under the "beggar-thy-neighbor" trade policies of the 1930s, which contributed to the worldwide depression.

By contrast, in the 1960s when tariff barriers were sharply reduced, world trade accelerated and growth in incomes and well-being in the U.S. and elsewhere showed major gains. We continue today to reap benefits from the policies initiated in the 1960s.

I grant that the world today is far more complex than that of the nineteenth century, perhaps more so even than that of two decades ago. Necessarily, therefore, further progress in liberalizing world trade may have to be made in smaller increments.

The question is frequently asked, "Other nations do not have a policy of freer trade, why should we?"

But rather than ask if other countries practice "free" trade, I would ask if their trade policies are more open today than they would be without the continued pressure of agreed international "rules of the game"—rules often developed under the persistence and patient influence of the U.S. Government. My answer is a resounding yes. Trade policy, here and elsewhere is more open today as a result of our efforts and of our example of a relatively open domestic market.

Is the U.S. better off with this incremental improvement than without it? Again, I respond positively. The goods we import are cheaper than domestic substitutes. Our 225 million consumers have more choice. The markets for our exports are less restricted than they might otherwise be. And all this abstracts from the income-generating effects of increased trade. Yet it is also true that if trade were still more open—as it will be when further progress is made—we would be still better off. On the other hand, increasing our own trade restrictions—whether for retaliatory reasons or otherwise—runs the risk of setting us on a path leading back toward the 1930s.

At this point, let me assure you that the Administration is not advocating a passive policy toward other nations' trade barriers or export subsidies. I am in full agreement with the policy, as laid down in our Statement on Trade Policy, of strong opposition to trade distorting interventions by other governments. We should insist that our trading partners recognize that it is in their interest as well as ours to make trade a two-way street. It is also necessary to examine critically the various government-imposed obstacles that, so often unwittingly, have been placed in the way of American exports. A comprehensive program of regulatory relief needs to include an effort to reduce confusing, contradictory, and needlessly complex U.S. laws and regulations affecting our own exports.

We must also avoid "creeping bilateralism". Concerns regarding the availabilty of oil and raw materials have persuaded some nations to negotiate potentially trade-distorting bilateral deals. When such arrangements are negotiated by governments and override multilateral trade commitments, they pose a serious threat to U.S. commerce and to the international trading system as a whole.

ROLE OF CEA IN TRADE POLICY ISSUES

I have been asked to discuss the role of the Council of Economic Advisers in trade policy issues. The Council is a formal and active participant in the process of making trade policy in the executive branch. We are, by Executive Order, a member of the Trade Policy Committee, now under Ambassador William Brock's able Chairmanship. The CEA is an active member of the Cabinet Councils that deal with trade issues—particularly the Council on Commerce and trade and the Council on Economic Affairs. And, as part of the Executive Office of the President, we participate in the legislative review process and in budget-related questions that deal with trade issues. More generally, we are looked upon to help provide leadership in maintaining the Administration's policy of reducing governmental interference in the economy.

Thus, I also serve on the President's Task Force on Regulatory Relief, which is chaired by Vice President George Bush. Government regulations that unnecessarily create barriers to exports, or to imports, need to be identified and, where possible, eliminated or reformed. Interestingly, there are international counterparts to this effort in the movements within GATT and the Organization for Economic Cooperation and Development toward "transparency" and discussions of government standards in the international trade area. In all of these trade matters, I have the able support of my colleague on the CEA, Dr. William Niskanen, who specializes in "micro" matters. Likewise, on questions of international finance, I rely heavily on the "macro" Member of the CEA, Dr. Jerry Jordan.

As CEA Chairman I also serve both as the head of the U.S. delegation to the OECD Economic Policy Committee, and, this year, as the Chairman of that Committee. Broad trade policy issues are frequently a subject of discussion in this forum.

The special perspective which the CEA tries to bring to questions of trade policy is, of course, that of distinterested and impartial economic analysis. We have no particular constituency to protect—unless you count the interests of 225 million American consumers. Thus, our primary objective is to analyze trade issues from the point of view of the national economy. We try to estimate the economic gains and losses associated with trade policy issues across the entire population of the United States.

The importance of this function of independent evaluation cannot be overemphasized. One of the great difficulties in public discussions of trade issues, particularly where protectionist steps are being proposed, is that the intended beneficiaries generally are small in number, but they have relatively large individual stakes in the outcome. Thus the incentive for vigorous political activity is large.

On the other hand, the costs of protectionism are usually distributed among 50 states and 225 million citizens; their individual stakes in the outcome are relatively small. Consequently, resistance at the grass roots level to protectionist measures tends to be considerably less than pressures for their adoption. Of course, where foreign barriers to U.S. exports of goods or services are at issue, support for freer trade is more visible, but the emphasis is, quite naturally, on other countries' restrictions, not our own, even though our policies can be a factor in the adoption of protectionist responses by other nations.

TRADE ADJUSTMENT ISSUES

As the U.S. economy participates ever more fully in international trade and investment, we have seen increased interest in the problems of adjusting to regional or industry dislocations arising out of imports. These adjustment problems, for reasons I have alluded to previously, are visible and sensitive ones, and it is proper to ask what economic policies are appropriate for dealing with them.

By far the most effective and least costly way of confronting these issues is to have a healthy and growing national economy. This is why the President's Program for Economic Recovery is, in a very direct way, the key element in easing trade-related adjustment problems in all parts of the economy. For example, in the case of the automobile industry the Presidential task force on this issue, of which I was a member, quickly identified a strong American economy as the number one remedy for the problems of the U.S. automobile industry. While the program of voluntary restraint by Japanese exporters will make a contribution toward curing the industry's ills, it is dwarfed in its potential effects by a healthy, growing U.S. economy and by the package of needed regulatory relief which we were able to fashion for the industry.

In certain situations the adjustments to import pressures are not easy. For example, as a result of changes in resource endowments or the spread of technology, know-how, and entrepreneurial activity abroad, it may become apparent that we do not have an economic basis for producing a certain product. As our Statement of U.S. Trade Policy suggests, in these circumstances our domestic industry must either find a way of upgrading its own capabilities or shift resources to other activities. And in these situations, it is our policy to place primary reliance on market forces to facilitate those adjustments in the affected industries.

We should recognize that any form of trade restraint to help a specific industry really is an internal transfer of income and wealth to that industry from U.S. consumers (in the form of higher prices for domestically-produced goods and services) and from American workers and owners of our export industries (in the form of lower wages and lower profits).

The emphasis in trade adjustment policies should be just that: adjustment, not preservation of an uncompetitive industrial structure. A healthy, dynamic economy is a flexible economy, where businessmen, consumers, and workers have a continuing opportunity to invest their capital, tailor their budgets and find employment in response to market forces unaffected by artificial government barriers or props. Thus, while there may be a role for government assistance to individual workers who have lost employment because of import dislocations, this assistance should be temporary, and oriented toward facilitating their search for new employment in other industries and, conceivably, in other locations. The general rule in trade adjustment situations should be to help individuals, not industries per se.

QUOTAS AND TARIFFS

At this point, let me elaborate on a development in the trade policy of the U.S. and other nations during the last twenty years that I regard as most unfortunate—the rise of specific numerical limits on the imports of individual commodities. Back in the early 1960's, the "Kennedy Round" of tariff reductions created the most open trade environment of the post-war period. U.S. economic policies in these years—restrained government spending, substantial reductions in tax rates, restrained money growth, and freer trade—contributed to both high economic growth and low inflation. President Reagan's Economic Recovery Program is similar to some of the policies promoted by President Kennedy, but the success of our program could be jeopardized by succumbing to pressures for increasing trade restraints. Although the Kennedy Round was followed by further reductions in tariffs, many quantitative restraints on trade have been imposed in the last twenty years. However, quanititative restraints, typically in the form of quotas, should be recognized as capable of doing far more damage to the economy than the tariffs which they often replace.

Let me spell out why this is so. First, although quotas generally lead to smaller fluctuations in the volume of imports, they also lead to wider swings in import prices. Second, because numerical limits are usually imposed on each exporting country, they disrupt the overall patterns of world trade, and impose costs on all parties concerned. Third, because each country's quota must be allocated in turn among its own producers, quotas force foreign governments to create cartels among their suppliers, restricting new entrants and increasing the role of government in other nations. Fourth, quantitative limits distort the composition of trade: they lead foreign producers to both increase the quality of the exported items and to integrate backwards toward their own suppliers, increasing the value added abroad. This means greater foreign competition in the higher quality end of the American market (examples: specialty steel, apparel, footwear). This reduces the demand for U.S. exports of the production materials (examples: coal, hides, textiles, machinery). And fifth, the value of these quota rights accrues to foreign governments or foreign suppliers, rather than to the U.S. Treasury—as in the case of tariff receipts.

In short, for whatever degree of protection may be desired, quotas generally impose far higher costs on the U.S. economy than tariffs, They also undermine existing multilateral agreements for a progressive reduction in trade restraints. I specifically urge the Congress to review whether such quantitative restraints serve our interests.

In closing, let me point out that I have emphasized analysis and perspective on trade policy as seen from my position as Chairman of the President's Council of Economic Advisers. Economics is an extremely powerful tool, I believe, in dealing with trade issues. And my associates on the Council and I are not reticent about sharing our insights with colleagues on the Trade Policy Committee and other forums for trade policymaking in the Administration.

However, I am also fully aware that other factors are quite properly interjected into the policymaking process. For example, considerations of national security, other foreign policy objectives, and regional or sectoral income distribution questions. In other words, international and domestic political considerations are frequently necessary elements in the considerations of major trade policy questions. However, I do view it as my job to make sure that political considerations—and their potential costs in terms of lessened consumer welfare, and long-run trends in reduced output, lower employment and higher prices are identified as such, and do not masquerade under the cloak of economic welfare.

Senator DANFORTH. Secretary Block.

Mr. BLOCK. Mr. Chairman.

Senator DANFORTH. Mr. Secretary, thank you very much for being with us.

Mr. BLOCK. Thank you.

Senator DANFORTH. Please proceed.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE

Mr. BLOCK. First, I want to say that I appreciate the chance to testify this morning, Mr. Chairman, and express our views to this joint subcommittee meeting, as I understand it.

I will, with your permission, read more or less a summary of my statement, rather than reading the full statement.

Senator DANFORTH. Right. All statements will be included in the record in full. So, proceed to summarize any way that you want.

Mr. BLOCK. Thank you, Mr. Chairman.

I have with me, Bud Anderson. He is the Assistant Administrator of International Trade Policies for FAS. So, some of the questions, if they are a little technical, then I may turn to him, with your permission.

I welcome this opportunity to meet with you and discuss the agricultural trade policy of this administration.

Trade policy plays a central role in the President's economic recovery program. More and more jobs at home depend upon our success overseas.

In no area is this more true than in agriculture. Over 1 million Americans are employed in raising, processing, shipping, and financing our farm exports.

One third of the U.S. corn crop and over one-half of our wheat and soybean crops are sold in foreign markets.

Farmers now use 1 out of every 3 acres of crop land to produce food for export.

Since the early 1970's our agriculture export trade has soared. We anticipate a record $46 billion in exports during fiscal 1981, a 14-percent increase over last year.

We expect an unprecedented agriculture trade surplus of $28 billion.

Long-term forecasting of food supply and demand is not precise. However, indications are that although both population and economic growth rates are expected to decline in the 1980's, changing per capita food needs and increases in the absolute number of people to be fed are likely to expand foreign food demand at a record rate of 2.5 to 2.7 percent annually.

On the supply side, increases in foreign food output in this decade are likely to slow the 2.1 to 2.4 percent per year.

Given this supply and demand situation, purchases of food, feed, and fiber by other countries will continue to increase. There are some problems that are clouding the export horizon.

First, the growing value of the dollar will make our exports increasingly expensive for overseas consumers.

Second, the threat of increased protectionism is always present.

Third, major producers in South America, Europe and other areas are giving us more intense competition, most notably, as an aftermath of the recent Soviet embargo.

Fourth, the cost of credit is making it harder for American producers to compete.

To meet these challenges, the Reagan administration has made the expansion of exports the No. 1 priority for U.S. agriculture.

At the U.S. Department of Agriculture our policy is to expand exports by encouraging increased participation by the private sector and by decreasing Government interference in the market.

Our three specific goals of the Department are, to insure market access, give exporters better market information, and cooperate with the private sector in export promotion.

Clearly, the administration favors free trade and is opposed to protectionist policies. We believe that the market offers better solutions to trade problems than bilateral or multilateral agreements that allocate supplies, set prices or divide up the world market.

The administration endorses bilateral agreements only under very special circumstances.

At present, we support this type of agreement only with the Soviet Union, China, and Mexico, for reasons that are outlined in my printed statement.

The administration is concerned that export subsidies, import restrictions and other protectionist devices will limit trade growth.

In recent discussions with ministers of the European Community, I expressed our opposition to these trends. Among the issues was the possible expansion of aggressive European Community export subsidies for wheat and other commodities.

European Community talk of unbinding the zero duty on corn gluten and proposed European Community internal taxes on vegetable oils that would hurt U.S. soybean exports.

The Department is establishing an early warning system to alert us to restrictionist actions abroad.

In addition, we plan a departmental study of nontariff barriers related to health and environment and other considerations.

We also begin a special Government-industry effort to review trade policies that are objectionable to us and devise strategies to deal with them.

Market information and promotion—the success of America's agricultural exports depends more and more on accurate information, market information.

The U.S. Department of Agriculture is updating its global telecommunications system to provide better and more timely information to agricultural marketers and Government policymakers.

The Department also stepped up its activities in trade promotion, including the export credit program funded at $2.3 billion, this fiscal year.

We expect to increase that by $200 million in fiscal 1982.

As part of the farm bill we recommend that 4-year extension of Public Law 480, the Public Law 480 programs have played a very important role in building new markets for American exports. A number of nations graduating from Public Law 480 assistance to commercial buying, continues to grow each year.

USDA has a number of new initiatives aimed at market development, working with the State Department, our agriculture and are export cooperators.

One seeks to expand sales of U.S. processed and semiprocessed agricultural products focusing mainly on developing countries with high per capita income such as the OPEC countries.

Also in the works is a new food systems development program aimed with private sector help, at low-income countries where inadequate marketing systems act as barriers to U.S. farm products.

Another strategy is an intensive campaign to expand grain exports which we started by sending trade teams to countries with growing market potential. Our goal is to beat the competition with better trade servicing, improved credit programs, and precise marketing plans to move specific amounts of grain in 1981 and 1982 marketing years.

These are only a few of our market promotion efforts. With greater cooperation between the Government and the private sector, I am confident we can keep up the pace of farm exports through the 1980's.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you might have.

Senator DANFORTH. Mr. Secretary, thank you very much. The United States is the premier food producer in the world. We know how to do it. We do it with great success. We have an abundance, an overabundance of food, generally, produced in this country.

There are other parts of the world which are disasters I have seen that myself on the border of Cambodia. That situation was largely caused by political forces.

There are other parts of the world right now, including Africa, where world food production is very low. They have a drought. They also have political problems.

I am reassured by people periodically, that say, Egypt and the Sudan could become a real breadbasket for Africa if somehow a better job were to be done to increase food production.

Is there a conflict within this country, an economic conflict as far as agriculture is concerned, between wanting to help other parts of the world increase their own food production and wanting to improve our markets for food exports?

Mr. BLOCK. Well, Mr. Chairman, I used to think that that was a conflict some 10 or more years ago, maybe 15. But I have come to concede it is not a conflict. It seems as we help other countries become better producers of food, their economies expand and they become able to pay for food and the demand expands, and the final analysis, they become more prosperous and they are better customers of ours for some reason.

So, I don't really think it holds true. At one time I was concerned that we help everyone and then we don't have any market when we are done.

But I think we can be humanitarian and desire a higher standard of living for countries all around the world and it can only serve us well in the final end.

Senator DANFORTH. It has proved to be the case, hasn't it, that where we have provided assistance in food production, helping other countries be more productive, they have in fact become better markets for American agriculture?

Mr. BLOCK. A case in point would be countries like Korea and Taiwan and many other countries in the Far East really come along. They are still coming.

Senator DANFORTH. This has been my great frustration for the last 1½ or 2 years. I don't think we are doing a very good job of increasing world food production, but every time I ask the question exactly what should we be doing, it tends to draw blank expressions.

Would you agree we could do a better job of carrying out this mission?

Mr. BLOCK. Yes.

Senator DANFORTH. In fact, if we were to do it, it would not only help other countries, not only create markets for American food exports, but also tap the idealism of the American people which I think is so important to us.

Mr. BLOCK. Mr. Chairman, it is my opinion that when the need arises and really surfaces for more food production, it will happen. It will happen because we will see a greater demand for food which will increase the price of the commodities.

Once the price of the commodities is increased, there will be an unbelievable number of countries and people come to the rescue and produce the food. There may be a year or two of lag time, we might be running in circles screaming that we are all going to starve, but it won't happen. You mentioned Sudan and some other countries, but take for example, Argentina. With incentive for selling more products at a premium price which they have been able to receive from the Soviet Union, they have increased their production substantially. I guess their exports went up about 40 percent in one year.

So, there is I think a great amount of potential there but it is going to require a little higher prices. Really, the prices right now are telling the people, well, you can raise it, but this is all you are going to get for it.

So there is only a certain amount of land or countries that are able to come into the picture, because some of the others can't afford to do it.

But, there will be a day when they can, if the need ever arises.

Senator DANFORTH. Let me ask you about a subject that I guess you are asked about with great regularity, namely, grain embargoes.

Do you take the position and does the administration take the position that embargoes in grain sales are always wrong or is it that they are usually wrong but there are exceptions when they can be necessary tools of American foreign policy?

Mr. BLOCK. It is hard for me to imagine a case where a unilateral embargo of grain sales singling out food products would be useful for us.

This administration stands against embargoes that would single out agricultural products. If the threat or the problem were so grave this administration would support a broad, across-the-board embargo, with cooperation of our allies.

I have said that on many occasions. I stand behind that. I know the President has said it also.

Senator DANFORTH. Well, then, supposing there is an across-the-board embargo of all trade, and no certainty whether or not the allies are going to fill the vacuum or not, would it be the administration's policy that trade should be used as a weapon of foreign policy under the circumstances of an across-the-board embargo but not on a product specific embargo?

Mr. BLOCK. In effect, you are right. Trade would be used as an instrument of foreign policy, but not specifically food production or the food or grain sales.

This administration believes in a freer trade approach and believes only in imposing embargoes when the circumstances are extremely grave and severe.

As I said, in that case, if it is worth doing at all, it is worth doing across-the-board.

Senator DANFORTH. Well, let's suppose that the Soviet Union were to invade Poland. Would you support and would the administration support an across-the-board embargo?

Mr. BLOCK. Yes. I think that is true. I can't say—you know, the administration is not going to say what they are going to do in such a circumstance.

Senator DANFORTH. Right.

Mr. BLOCK. But personally, I would not have any problem with that kind of an action.

Senator DANFORTH. The argument would then be made, well, if we don't make the sale, Argentina will; or if we don't sell whatever the other product is, say some industrial product, France will. Would that be in your mind, an adequate argument against using an embargo?

Mr. BLOCK. Well, that is an argument against using it, but in the case you mentioned, I feel very 4uch convinced that we would have support and backing from our allies, because, as I said before, we wouldn't impose it except in extreme circumstances which would probably be circumstances that would warrant allied support.

Senator DANFORTH. But you can never be sure the allied support is going to be forthcoming or that there aren't going to be all kinds of holes in the solid wall.

Mr. BLOCK. I must concede that grain flows like water. It is very hard to control it.

Senator DANFORTH. Right.

Mr Block. And I——

Senator DANFORTH. But given that, it would seem that if the Soviet Union were doing something which we viewed with great alarm, and the military option wasn't available to us because I don't think too many sane people would advocate that, what is available?

Despite the fact that water is like grain, that it is fungible, that other countries could and probably would find a way to come in and fill the vacuum, it would still, under those circumstances, be your view that a grain embargo would be a way to go, a tool available for use provided that trade sanctions were not limited to agriculture, but extended across the board.

Mr. BLOCK. Yes, a total embargo would be appropriate, probably.

Senator DANFORTH. Yes.

Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Secretary, do you see that there is ever a case for a selective embargo?

Mr. BLOCK. I cannot visualize that case, myself.

Senator HEINZ. There was a selective embargo in the case of grain until very recently. You would rather have had a full grain embargo?

Mr. BLOCK. You are talking about part of the grain being embargoed and not all of it and selective?

Senator HEINZ. I thought you just said you favored all or nothing?

Mr. BLOCK. Yes.

Senator HEINZ. Now we just had a partial embargo on grain to the Soviet Union. You, therefore, would have favored a total embargo on grain?

Mr. BLOCK. If we were going to do anything at all, I would have favored a total embargo on everything.

Senator HEINZ. Including a total embargo on grain?

Mr. BLOCK. Yes.

Senator HEINZ. You would have made it tougher.

Mr. BLOCK. Yes, everything.

Senator HEINZ. Everything.

Mr. BLOCK. If it is worth doing, it is worth doing.

Senator HEINZ. You would—if there was an embargo on steel, you would favor, in addition to steel, including grain in that embargo?

Mr. BLOCK. I would think so. It is hard to imagine that too.

Senator HEINZ. I agree with you, but you never know.

Mr. BLOCK. I know.

Senator HEINZ. This day and age what is going to crop up.

Mr. BLOCK. Yes.

Senator HEINZ. Now, there is a bill, S. 354, which you are familiar with?

Mr. BLOCK. Yes.

Senator HEINZ. It is written by Senator Dixon and Senator Percy.

Mr. BLOCK. Yes.

Senator HEINZ. Now it is said, although I don't have anything in writing on this from you, it is said by the sponsors that the Department of Agriculture supports that bill.

At the same time, the Secretary of Commerce and the Secretary of State oppose that bill. I ask that the letter from Secretary Baldrige and Secretary Haig go in the record at this point.

Senator DANFORTH. It will be so done.

[Material follows:]

THE SECRETARY OF COMMERCE,
Washington, D.C., June 29, 1981.

Hon. JOHN HEINZ,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HEINZ: Thank you for the opportunity to respond to S. 354, a bill to "Amend the Export Administration Act of 1979."

S. 354 would require prior Congressional approval of foreign policy controls on the export of agricultural commodities to any foreign country unless such controls were imposed in connection with a prohibition of all exports to that country. In addition, it would prohibit controls on the export of agricultural commodities for national security reasons.

The Administration has previously expressed its concerns relative to this legislation in a May 11 letter from Sherman Unger, General Counsel of the Department of Commerce, to Senator Garn. Although that letter was actually drafted before the President lifted the partial embargo on grain sales to the Soviet Union on April 24, the lifting of the embargo has not altered our opposition to the enactment of this bill. The Departments of State and Commerce, with the concurrence of the Department of Agriculture, agree that by conditioning agricultural export controls on either a total export ban or prior congressional approval the bill would unduly limit the ability of the President to impose flexible, prompt and effective export controls in response to a specific provocation or need.

A total embargo would not be an effective policy response under most circumstances because controls would include lower performance manufactured items which are readily available for purchase from a large number of nations. On the other hand, the application of selective controls to a few items can be relatively effective either on a unilateral basis where the United States is the primary source for the item, or with the cooperation of the major suppliers of those items. The existence of authority under the Export Administration Act to impose promptly selective foreign policy or national security controls could in some cases serve as a deterrent against other nations taking actions unfavorable to us.

It should also be noted that the agricultural products which we continued to sell to the Soviets in 1980, while the partial grain embargo was still in place—primarily the 8 million tons of wheat and corn allowed under the bilateral grain agreement—accounted for 70 percent of total U.S. exports to the U.S.S.R. Thus, if the proposed bill had been in effect when sanctions were imposed, a total embargo on exports to the Soviet Union would have still affected agricultural commodities more than manufactured products.

Sincerely,

MAC, *Secretary of Commerce.*
AL, *Secretary of State.*

Senator HEINZ. What is the Department of Agriculture's position on that bill?

Mr. BLOCK. I have not read the bill specifically, but in principle I support some legislation of that nature.

Senator HEINZ. What the bill does——

Mr. BLOCK. I do concede that the administration as a whole has not taken a position on it, and I have talked with Secretary Baldridge. We just have a kind of little difference there of opinion; we haven't ironed it out.

Senator HEINZ. Well, let's be clear on what the bill does. The bill is inconsistent with the policy you just stated. It does part of what you state. It says that if agriculture is embargoed, everything else has to be embargoed.

But, if steel is embargoed, agriculture isn't, necessarily. Now that strikes me as a one-way street. You said you didn't favor that, therefore, I don't see how you could support this bill.

Mr. BLOCK. Well, it depends on—I think we have to expect some embargoes of some items. I don't know them to be steel, but some items that might be——

Senator HEINZ. I just choose that because it is made in Pittsburgh.

Mr. BLOCK. Yes; well, I am thinking of items, materials that would be strategic in nature like computers or high military technology.

Senator HEINZ. Steel used to be considered strategic in nature.

Mr. BLOCK. Well, I guess it depends on how you want to classify it. I would not classify it to be that, myself.

Senator HEINZ. How about grain? Is that strategic in nature?

Mr. BLOCK. No; I don't think it is at all.

Senator HEINZ. Well, let me just say that the work you do is terribly important. Most people think of Pennsylvania as a heavily industrialized State. You know, we have 3¼-million Pennsylvanians living in rural areas. It is the largest population of rural people in the entire United States in any one State.

The activities of the Department of Agriculture, including the Farmers Home Administration and others are extremely important to our State.

I know you come from the Midwest. We always talk of the Midwest as being our breadbasket, and indeed it is. The food and fiber that is raised and harvested and produced there is really unrivaled and it is extremely valuable to us internationally. I just wanted to take this occasion to remind you of the importance of what you do to our State, in Pennsylvania.

Now, does the Agriculture Department seek any new powers? Do you anticipate seeking any changes in any of our trade laws to strengthen your negotiating position overseas?

Are you satisfied with the common agricultural policy of the Common Market in terms of allowing us to export there?

Are you satisfied with the way our citrus can get into Japan? I assume you are not terribly satisfied.

Mr. BLOCK. No.

Senator HEINZ. With any of those things.

Mr. BLOCK. We are seeking to strengthen our position in all of these aspects. I can't speak specifically to certain laws we are looking to change, but I would speak specifically to the efforts we intend to make and have already made in trying to protect the markets that we already have and work toward opening new markets.

I spent about 2 weeks in Europe, 10 days, 2 weeks, and met with the Ministers of Agriculture in Germany and France and England and Holland and Belgium.

The EC president, I talked with him. In every case, I stressed the intention of the United States protecting the zero binding that we have on our soybean products and on our grains.

We talked to them about our intention to support liberalization of the citrus problems we have with shipping our citrus in there. They give preferential treatment to the Mediterranean citrus.

Finally, of course, our grave concern is that the European agricultural policy, the Common Market has high price supports and that is fine, but they have encouraged so much production by their high price supports that they are becoming a surplus producer of some basic commodities such as wheat and several other things and they sell them in competition with us.

This is hardly fair competition. It wouldn't matter so much if they just did it one year when they had a nice crop, but I told them, and it is true, we fear that they are on a collision course with us if they maintain this kind of a policy.

We intend to talk to them more in the future about this and try to arrive at some accommodation; but I don't know what the end result will be.

Senator HEINZ. From your point of view, it would be fair to say that where agriculture is concerned, we have pretty darn low barriers and others have pretty darn high barriers; would that be a fair statement?

Mr. BLOCK. I agree; that is absolutely right.

Senator HEINZ. By the way, please have a chat with Mr. Weidenbaum some time, just to make sure he fully understands the problems of the American farmer in that regard. He is a bright guy. He does come from St. Louis. That is not a bad place to come from today, especially, since the chairman has given me a couple of extra minutes to pursue this line of questioning.

Mr. BLOCK. That is right.

Senator HEINZ. But more to the point——

Senator DANFORTH. Or Illinois.

Senator HEINZ. Or Illinois; yes. But more to the point, Ambassador Strauss was here before the committee yesterday. He did more than anyone else to negotiate the Tokyo round so successfully.

Mr. BLOCK. Right.

Senator HEINZ. He made the point that when you go out into that tough protectionist world, that if you are going to be successful you have to have everybody behind you. You have to have the entire administration, the Council of Economic Advisors, the OMB, the Senate Finance Committee, the Trade Subcommittee, the Ways and Means Committee. You go out there with a unified team all playing together and then you are going to have some success negotiating down these protectionist barriers.

Frankly, listening to our good friend who we all think very highly of, Bill Brock, and Mac Baldrige and Murray Weidenbaum, all of whom said, "We are for free trade. We are for survival of the fittest. We are never going to raise even a hint of retaliation—we are not going to propose anything in effect that is going to make other people know that we are serious;" I think you have a problem. If you have a problem, we all have a problem.

My question to you is: What do you think you can do about getting a more united team on the field that understands just how protectionist the rest of the world is and how difficult it may be to reach basic object of free trade. It is that——

Mr. BLOCK. It is a two-way street.

Senator HEINZ. It is the object we seek. How do we get there from here?

Mr. BLOCK. I think we have and can have, if there is some doubt, a very united effort. I do know that in terms of the united effort on what we were telling the European Community, Ambassador Brock was over there just ahead of me. At least one thing they did tell me when I was there, they said, "Well, one thing, you are all telling us the same thing, anyway."

I think we were telling them the same story. Now the next step is if we—if they should try to take away some of our zero bindings, are we prepared to retaliate? I think we have to be in some way, to make sure they know we mean business.

I don't anticipate they will take them away. I think we have made our case. But if there is any doubt as to whether we mean business, I will work with these other people that you suggest, because I think we mean the same thing.

Senator HEINZ. I have no doubt that we all say the same thing. I am sure that everybody goes over there and sings the same song, but when they look back at what we are doing over here——

Mr. BLOCK. Are we ready to take action?

Senator HEINZ. I think they wonder exactly what we are prepared to do.

Mr. BLOCK. Right.

Senator HEINZ. Thank you very much.

Mr. BLOCK. It is a good point you made. I will take advantage of it.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I hope I am not going over something you may have already covered. I apologize if I am.

In your first 6 months in office, you have had one overseas trip, or two?

Mr. BLOCK. I have had one.

Senator SYMMS. That was in Europe?

Mr. BLOCK. Yes, sir.

Senator SYMMS. Do you feel the Foreign Agricultural Service people are in our embassies around the world, are getting a renewed enthusiasm to be aggressive? What is your appraisal after 6 months in office?

Mr. BLOCK. Yes.

Senator SYMMS. How has that been going and has it been aggressive enough in the past and do you have any plans to implement any more aggressive action on the part of the Foreign Agriculture Service people in our embassies around the world now?

Mr. BLOCK. I think that we can do more than we have done in the past. But, I am not critical. I think we have done a pretty good job in the past in the Foreign Agricultural Service. In fact, it is probably one of the really shining lights in all of Government in terms of assisting a segment of the economy to capture a market and move forward in this direction.

But that doesn't mean we will rest on our laurels. I had occasion in the European trip to meet in the Hague with a conference we had of agricultural counselors and attachés, those that work in Europe and in Africa and in the Middle East. I spoke to them and made every effort to convey to them a spirit and made them aware of my support for their efforts and this total administration support for expanding exports and reassured them that we would be standing behind them to do this and we will be working to protect the markets, as I talked about here, that we already have and working to secure greater access to new markets.

I know it is not easy. I am certainly no pro at this but I have watched from the sidelines how others have worked to insure greater access to markets. It is a hard, tough battle.

Senator SYMMS. What does the potential appear to be for the sale of more soft, white wheat to Communist China?

Mr. BLOCK. Deputy Secretary Lyng just returned yesterday afternoon to—on a trip to the People's Republic of China. His objective over there was to see how much more, if we can sell more wheat to China or anything else that they will buy.

He comes back feeling very good about the potential. They have increased their purchases from us from I suppose $300 million worth of agricultural products now up to $2 billion.

They assured him they would purchase every bit of the agreed amount of grain that we have in agreement with them. They may be able to buy some more. They would like to buy some more. They would give us nothing in terms of any specific commitments.

If I may expand on that a little bit. We are making a diligent effort every where to find more markets for wheat and other products. We have sent out teams involving a cooperative effort between our Foreign Agricultural Service and industry teams.

They have visited in South America, Venezuela, Chile, and Brazil. We targeted those countries because we thought there might be some opportunities there.

In Africa we have been to Algeria and Morocco.

And, then as I said, we sent Deputy Secretary Lyng to China.

We have been working with India, trying to surface something there, because we understand they have some problems with their cropping.

In my remarks here, I did point out that there are some problems with high interest rates and the value of the dollar making it more difficult to sell.

But I am not discouraged entirely, because a lot of countries are buying hand to mouth right now, as we have seen our markets decline. Everyone wants to buy at the bottom. If this market starts to turn up, as it has in the last 10 days, there may be a lot of people get in and buy because they certainly wouldn't want to buy at the top if it starts moving up.

Senator SYMMS. That is encouraging. That—we certainly, from the farm States——

Mr. BLOCK. I know, Senator Symms. More bullish market—there is not any question about it.

Mr. Chairman, could I ask one more question? Mr. Secretary, I suppose you would agree with me, I am sure we have had the most efficient, not only production from the farmers, but marketing system of any other country in the world. I think that has possibly made it possible for us to be a leading agricultural exporter, is our marketing system probably as much as our productive capability.

Last week, when the Finance Committee passed the tax bill, in order to close a tax loophole on commodity tax straddles, there is a complete change of our taxing policy is involved in the bill with respect to how to handle taxes on commodity future transactions, so that we will be actually have a system where we will be taxing unrealized gains for the first time in the history of the Republic on people.

I wonder if your economists at the Department have had an opportunity to see what impact this might have on the agriculture markets, A, and B, what would the impact be if the people that I have talked to that are very concerned and looking at it from the most pessimistic point of view, if it were signed into law as it now is, which I hope it is, and I hope that it can be corrected.

But, if it were signed into law, and we drove our futures markets to Toronto, for example, and our metal markets to London, which very likely could happen, because of course, the way the law is, I guess we can apply that same tax to those commodities.

But what will the impact be on the American farmer if hedging liquidity is removed and that there is a lesser capability of a liquid market and a price discovery that we now enjoy as farmers?

Mr. BLOCK. I don't have with me any specific figures. We have looked at that. It is kind of hard to determine specifically. But the change in the law that you are talking about gives me a great amount of concern. We would support some moderation in this change, certainly not as severe as it looks like it may be.

We are concerned that it will, No. 1, reduce the liquidity in the market to an excessive degree, and No. 2, there may be some cases where legitimate hedges could not be transacted because of the change in the law. This would hurt farmers and grain elevators or people in the grain industry that need to utilize this program.

Senator SYMMS. You know, I have wondered how the Treasury ever thinks they are going to actually make this thing work when they find out there are people up in Chicago that do nothing but run hedges and arbitrages between Kansas City and Chicago just to keep the price even. That is a benefit to the farmer who lives out there.

I mean, as you understand. So they actually have transactions in two different exchanges as an arbitrage. I wonder how they are ever going to apply that law.

So, if you have any recommendations, I would certainly be interested and I think the committee would be interested because there is a legitimate concern to have an equitable tax system, we don't—so we don't have some people who really aren't paying any taxes.

But there is also, I think, a voice concerned by some of us on the committee and most of the committee, really don't want to have, I don't believe that this committee wants to pass some tax law that would destroy agricultural markets.

So, this is coming up pretty fast. If your economists have any recommendations, I would appreciate if you would send them over to us so we could take a look at it.

Mr. BLOCK. Yes, sir, we will.

Senator SYMMS. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Mr. Secretary, I am going to followup in a very general way on some questions I asked Secretary Baldrige and Ambassador Brock, yesterday, which involve to some degree the extent to which there is adequate policymaking determination for all Departments to feed into policy decisions being made, for instance, whether or not a grain embargo ought to be imposed or lifted.

I get a little more specific with you, because being agriculture and speaking for the American farmer and your relationship to the State Department, I can be a little more specific than I was yesterday.

But the farmers in my State feel that the Secretary of State has more to do with agricultural export policy than the Secretary of Agriculture does. That is not detrimental to you or any other Secretary of Agriculture, it is just a perception.

Now where that perception, whether it is true or not, whether it is fact or fiction, it is still an attitude that the people have. Maybe it is related to statements that the Secretary of State makes about whether or not butter ought to be sold to Russia or whether or not the United States would look negatively or not at France selling wheat to Russia.

Those are just a couple of the examples that I have in my mind. There are probably many more that could be given.

So, I need to know whether or not you think that the relationship between the State Department and the Agriculture Department are going to be any different under this administration than it has been under previous administrations, but more importantly than just your general comment on that, I need to know whether you consider the administrative machinery, whether you speak about—let me give you a couple of examples, whether we are talking about your relationship with the Secretary of State as being one way or whether it would be task forces within the Cabinet is another way or whatever formal or informal relationship there is between the various departments that decide trade policy.

Is that machinery adequate so that the voice of the farmer and the voice of food and fiber is going to be adequately heard and respected. I think I will put greatest emphasis upon the word "respect." I think I can legitimately do that because of the large part that agriculture plays in our total exports, percentage-wise as well as quality-wise.

Whether or not that machinery is adequate for that voice to be heard.

I guess the final answer and more specifically, is do you personally feel you have a chance to get your oar adequately into the water so that the full thrust of the power of agriculture is heard in this administration on these matters that I brought to your attention?

Mr. Block. I think that is a good question because we read a lot of speculation by the press as to where we are at and who is making the decisions and who is making the shots.

Senator Grassley. Well, so this gives you an opportunity to state what the facts are?

Mr. Block. That's right. I am pleased to do that.

I think first we need to background the situation very quickly. We needn't dwell on it. But I think that it is not uncommon or unusual, and I think it is very natural to understand how the position of a Secretary of State might differ from the Secretary of Agriculture on trade issues on occasion.

The Secretary of State's vantage point has to be the foreign policy implications, whatever they are, and really probably has lesser concern for the economy or for agriculture.

Whereas, my vantage point has to be the American economy and agriculture and jobs and more domestically oriented.

So, this automatically creates a situation where there can be a difference of opinion.

Now, when there is a difference of opinion, eventually, certainly a decision has to be made as to how to resolve it.

I think we have a pretty good machinery for resolving those differences right now. We work in Cabinet councils either through the Food and Agriculture Council or the Trade Policy Committee or it might go through some other council.

In that case, you have several other secretaries helping with the decisionmaking process. I might say from my vantage point, as having—as feeling one of my gravest concerns is safeguarding the interests of agriculture in the halls of Government, wherever they might be.

I think this mechanism affords to me, and to agriculture, a unique opportunity to have strength, assuming the position we have is a good one. We have a lot of allies, the U.S. Trade Representative, Secretary of Commerce, and many others. I could go down the list.

If we do have a difference here, I think I am in a position to voice my case very strongly to build allies and strength among others, if I have a good case, then I have a chance to win it.

Of course, the final decision, if it should become that great or that much of a difference would have to fall in the hands of the President.

But in no case since I have been a Secretary of Agriculture have I had an issue that I felt strongly about and that I wanted to have decided in one way or another, that I have not had adequate opportunity to voice my opinion and my position.

I think I have been fairly heard. I would say I do not give up easily and I don't expect to lose very many if I am in the right position.

Senator GRASSLEY. I have to ask one more question. It won't take us long. All right?

Senator DANFORTH. Sure.

Senator GRASSLEY. In regard to the efforts of your department—now still on foreign trade.

Mr. BLOCK. Yes.

Senator GRASSLEY. But oriented a little different, the resources of your department and specific amounts of money in your department that are being directed toward promoting agriculture exports, and I use that term very generally, is that at a higher level or a lower level or about the same as in the previous administration?

Mr. BLOCK. We have about a 15-percent increase in the budget for 1982, which is a pretty healthy increase for our Foreign Agricultural Service.

Furthermore, when you consider how strong the dollar has become. A lot of this money is spent overseas. It will go farther now than it did before. I think we are in a good position to strengthen our program. I think it is vitally important.

This is one thing when I came here, first of all, and got this pile of papers which was the budget to adapt, we sorted it out and I changed emphasis. One of the emphasis changes that I made was to put more emphasis on agricultural export resources so we can push the programs.

Senator GRASSLEY. Does that involve any other measureable effort in your department other than the budget, the 15 percent? Is there anything else you are doing that you could say is putting increased emphasis upon agricultural exports as compared to the previous administration and I guess I must use that as a guideline because it is most near.

Mr. BLOCK. Well, I can't stress any other than some new programs that I have talked about in some of my testimony and the perception and the enthusiasm that we are displaying for it and our efforts to work with the State Departments of Agriculture.

They have a close contact with a lot of small companies that we want to get into the exporting business.

Senator GRASSLEY. You are saying the visibility that you are personally getting within your department?

Mr. BLOCK. We are giving personal attention.

Furthermore, we have the very finest cooperation. I tell you it is the finest cooperation you can ask for from Secretary Baldrige, in trying to reduce the redtape and there is too much of it and we know it.

Furthermore, in terms of working on trade with Ambassador Brock, he is very knowledgeable about agricultural trade and is a great supporter of it. I could not ask for a more loyal and stronger ally than Ambassador Brock.

Senator GRASSLEY. Thank you.

Senator DANFORTH. Mr. Secretary, thank you very much.

Mr. BLOCK. It has been my pleasure.

Thank you.

[Statement follows:]

STATEMENT BY JOHN R. BLOCK, SECRETARY OF AGRICULTURE

Mr. Chairman and members of the Committee. I welcome this opportunity to meet with you and discuss the agricultural trade policy of this Administration.

As you know, trade policy plays a central role in the President's Economic Recovery Program. Two important goals of the program are reducing government barriers to trade and improving export promotion. It's critical that we reach these goals because more and more jobs at home depend on our success overseas. In no area is this more true than in agriculture. Over 1 million Americans are employed in raising, processing, shipping, and financing our farm exports.

America's farmers are more dependent on the export market today than ever before. One-third of the U.S. corn crop and over half our wheat and soybean crops are sold to foreign buyers. Farmers now use one out of every three acres of cropland to produce food for export and they rely on foreign sales for one-fourth of their marketing income.

American agriculture has taken the lead in world markets. Since the early 1970's our agricultural trade surplus has soared. This surplus has played a significant role in improving our trade balance and strengthening the dollar. We expect even more growth in agricultural trade and anticipate a record $46 billion in exports during fiscal year 1981—a 14 percent increase over last year. Imports, on the other hand, should amount to about $18 billion in fiscal 1981 which will give the United States an unprecedented agricultural trade surplus of $28 billion. I don't have to tell you how important this surplus will be in offsetting our chronic trade deficits in other areas. Those who say we are buying oil wheat are not far from the truth.

How long can the American farmer keep up this export pace?

What is the outlook for foreign markets in the 1980's?

As you might expect, long-term forecasting of food supply and demand is not precise. A number of important variables—such as weather, international relations, and the economic health of purchasing countries—will affect actual market conditions, and these variables becomes more indefinite the further you project into the future. Nonetheless, we feel that we have a pretty good handle on what world market conditions are likely to be in the eighties, and particularly during the next 5 years.

In the 1970's, foreign demand for U.S. agricultural products grew over 8 percent per year, compared to annual growth rates of 1.5 percent in domestic demand and 2.8 percent in U.S. output. These figures underscore our need to anticipate future world food needs and supplies. Although both population and economic growth rates are expected to decline in the seventies, changing per capita food needs and increases in the absolute number of people to be fed are likely to expand foreign food demand at a near record rate of 2.5–2.7 percent annually. We expect the demand for products in the eighties to be 25 to 50 percent greater than in the seventies.

On the supply side, increases in foreign food output in this decade are likely to slow to 2.1 to 2.4 percent per year. We anticipate that foreign producers will face dramatic increases in production costs and they will bring more marginal land into production. They also will have to place greater emphasis on accelerating growth in productivity. The cost of productivity gains is likely to increase as energy consuming inputs—including fertilizers, pesticides, and fuels as well as irrigation and machinery—become more expensive.

Given this supply and demand situation, purchases of food, feed, and fiber by other countries will continue to increase. The USSR and developing countries seem most likely to have larger food deficits. This will heighten demand for our exports and put increased pressure on U.S. production over the long term.

There are some problems down the road that are clouding the horizon for our agricultural exports in spite of the world's increasing demand for food. First, the growing value of the dollar will make our exports increasingly expensive for overseas customers. For example, the relative price of U.S. wheat on world markets is rising because of the strong dollar, while the price of French wheat is declining because of the weakened franc. It is clear that we will have to redouble our efforts and market our products more aggressively. Second, the threat of increased protectionism is always present, as our trading partners and competitors seek to shift the burden of adjusting to changing world economic conditions. Export subsidies, particularly by the European Community, have begun to interfere with the free flow of trade. Some bilateral agreements have had the same negative effect on trade. Third, major producers in South America, Europe, and other areas are giving us more intense competition, most notably as an aftermath of the recent Soviet embargo. Argentina and Brazil, for example, have now become increasing factors in world grain and soybean markets. And fourth, the costs of credit are making it harder for American producers to compete. For example, the costs of CCC loans are often higher than the costs of certain loans available to producers in the European Community. Some EC loans have interest as low as 8 percent over a two-year term.

To meet these challenges, the Reagan Administration has made the expansion of exports the number one priority for U.S. agriculture. Too often in the past trade policy has been little more than trade restraints in disguise. Portions of the Foreign Corrupt Practices Act and tax provisions for Americans overseas are two good examples of these kinds of restraints. I was pleased to hear that this committee recently acted on the tax issue. Exporters have often complained to me about how the double taxation of Americans abroad has restricted their market promotion work.

At USDA our policy is to expand exports by encouraging increased participation by the private sector and by decreasing Government interference in the market. We are restricting Government actions to areas where they best support the farm exporter—credit programs, negotiating with foreign governments and buying entities, and market intelligence. Our three specific goals at the Department are to: (1) ensure that American producers have access to foreign markets; (2) give exporters the market information they need; and (3) cooperate with the private sector in export promotion.

MARKET ACCESS

The Administration's views on market access are clear. We are opposed to protectionism and favor freedom to trade. We believe that the market offers better solutions to trade problems than bilateral or multilateral agreements that allocate supplies, set prices, or divide up the world market. The Administration endorses bilateral agreements only under very special circumstances. At present we support this type of agreement only with the Soviet Union, China, and Mexico.

The bilateral agreement with the Soviet Union was based on the need to offset that nation's variable production and its tendency to disrupt world markets. The agreement augments our ability to prevent such disruptions, particularly in the grain trade. The previous Administration signed a minimum supply agreement with

China and we intend to honor that agreement. Last, we have an agreement with Mexico that supports important foreign policy goals and recognizes the special relationship we have with our neighbor to the south.

The Reagan Administration is concerned that export subsidies, import restrictions, and other protectionist devices will make world trade more unstable and limit its growth. In recent discussions with ministers of the European Community, I expressed our opposition to these trends. Among the issues I raised was the possible expansion of aggressive EC export subsidies that are already costing us markets for wheat and threatening our trade in other commodities. Other topics we discussed were EC talk of unbinding the zero duty on corn gluten, proposed EC internal taxes on vegetable oils that would hurt U.S. soybean exports, and the Community's slow implementation of a 10,000-ton quota for U.S. beef imports that was set by the Multilateral Trade Negotiations back in 1979.

I assured the EC ministers that we would respond aggressively to the unfair use of taxes or subsidies as trade restraints. On the beef issue, I am happy to report that Agriculture Commissioner Dalsager reaffirmed the EC's commitment to the 10,000 ton quota. I came away from my European meetings with the belief that Community leaders now realize the full extent of this Administration's commitment to more liberal trade.

As part of our effort to maintain and expand access to foreign markets, the Department is establishing an early warning system to alert us to restrictionist actions abroad. In addition, we plan a Departmental study of nontariff barriers related to health, the environment, and other considerations. We will also begin a special government-wide effort to review trade policies that are objectionable to us, devise strategies to deal with them, and reestablish the image of U.S. strength in trade policy.

MARKET INFORMATION AND PROMOTION

The success of America's food exporters depends more and more on accurate market information. At USDA we are updating our global telecommunications systems to provide better and more timely information to agricultural marketers and government policymakers. It will give producers and traders timely production and marketing data, and it will make trade leads more readily available to U.S. exporters and their foreign customers.

The Department has also stepped up its activities in trade promotion. Among the actions we proposed is an expanded and more efficient export credit program. As a start, the President's budget includes an additional $300 million in export credit guarantees in fiscal 1981 which will bring total guarantees to $2.3 billion. This funding has been increased another $200 million in fiscal 1982.

As part of the Farm Bill we recommended a four-year extension of Public Law 480. Although the P.L. 480 programs are often viewed as strictly food aid, they have in fact played a very important role in building new markets for American exports. The number of nations graduating from P.L. 480 assistance to buying U.S. food exports commercially continues to grow. Among the former recipients are Japan—now approaching $7 billion market for U.S. farm goods—and Spain, Taiwan, and South Korea which are three other billion dollar markets for America's farmers.

USDA has a number of new initiatives aimed at market development. One seeks to expand sales of U.S. processed and semi-processed agricultural products. This effort focuses primarily on developing countries with high per capita incomes, namely the OPEC countries and a few others. These nations have the foreign exchange to pay for processed agricultural commodities and generally lack the facilities to process farm products domestically.

Also in the works is a new Food System Development program aimed at low income countries where inadequate marketing systems act as barriers to U.S. farm products. The U.S. private sector will be asked to join us in solving problems such as shortages of port capacity, lack of grain processing facilities, and poor distribution.

Another strategy for boosting sales is an intensive campaign to expand grain exports. The Soviet embargo caused stepped up production by our competitors. To counter this, we have targeted certain countries with growing market potential—beginning with Algeria, Brazil, Venezuela, Chile, China, and Morocco. We have recently had high level consultations with officials in these countries. Our goal is to beat the competition with better trade servicing, improved credit programs, and precise marketing plans to move specific amounts of grain in the 1981-82 marketing year.

These are only a few of our market promotion efforts. At every level we are working closely with producers and state departments of agriculture to generate more interest in exports. Producers who are cooperators with our Foreign Agricultural Service are being asked to join our trade teams and become even more intensively involved in USDA's promotion efforts.

With greater cooperation between the Government and the private sector, I am confident that we can overcome trade barriers, beat the competition, and keep up the pace in farm exports through the 1980's.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., July 22, 1981.

Hon. ROBERT J. DOLE,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: Enclosed are responses to the questions you submitted for the record in connection with my testimony before the joint hearings of the Subcommittees on International Trade and International Finance on July 9 dealing with the Administration's trade policy.

I appreciate your comments in support of an early date for initiating negotiations with the Soviets on a long-term agreement. The lifting of the embargo was, as you know, my highest priority upon taking office. I am fully committed to restoring more normal, stable trading with the Soviet Union and to pursuing the steps necessary to do so.

It was a pleasure to participate in the hearings and to appear before the distinguished members of these two Subcommittees.

Sincerely,

JOHN R. BLOCK, *Secretary.*

Enclosures.

Question. Do you feel that 101 and 102 loan guarantee programs, even at the increased funding level of $2.5 billion for fiscal year 1982, are adequate to ensure that the U.S. will be competitive in world markets?

Answer. The Export Credit Guarantee Program (GSM-102) has performed effectively to support both domestic and export commodity market needs in fiscal 1981. Because of the department's commitment to export market expansion the original fiscal 1981 ceiling on financing guarantees was raised from $2.0 billion to $2.3 billion. The fiscal 1982 ceiling for the GSM-102 program has been tentatively set at $2.5 billion based on the department's current estimates of the international supply and demand situations among commodities. This program is adequate to ensure the U.S. position in world markets.

Question. Would you be receptive to efforts by Congress to provide funding for more competitive programs such as the direct credit programs (GSM-5) or Intermediate-term credit programs (GSM-201) and GSM-301)?

Answer. This would be an unpropitious time to reinstate either short-term or intermediate-term direct credit programs. Reinstatement of these programs would increase federal expenditures and conflict directly with the President's budgetary objectives in fiscal 1982.

Question. What measures will you recommend if the EC continues to reduce the U.S. share of world wheat and flour markets through its aggressive price-cutting? Where do you draw the line on EC export subsidy practices?

Answer. I, along with the U.S. Trade Representative and other high level officials of the Administration, have registered strong concern to EC officials, including EC President Thorn, and EC Agriculture Commissioner Dalsager, about the EC's aggressive export subsidy policy. They are keenly aware of the political sensitivity to us of their subsidizing exports of wheat and flour to markets which have been developed by U.S. exporters.

They are also aware of possible Congressional legislation which would authorize U.S. subsidies to meet subsidized foreign competition. However, this Administration strongly favors a free-market-oriented system instead of export competition with subsidies.

This Administration has encourage the EC to take internal measures to reduce surplus wheat production and to build larger wheat stock in lieu of disposing of surplus production with excessive export subsidies. We understand the Community may take steps to increase its stock levels.

The USG has made strenuous efforts to resolve the pending 301 petition concerning the subsidization of wheat flour by the European Community. The petition was filed in 1975, and consultations under GATT Article XXII were held during 1977 and 1980. The issue was temporarily set aside in the hope that the MTN negotiations on subsidies would lead to a solution. Unfortunately this did not occur. That was the situation this Administration inherited.

The issue is being pursued through bilateral channels on every possible occasion. I raised it repeatedly during my recent European visit. We will continue to work with USTR to ensure a resolution of this issue. At present we are examining the possibility of seeking a GATT settlement.

Question. There is evidence that a decision may be taken to place an import duty or quota on U.S. corn gluten feed or other feed substitutes entering the Community to reduce foreign exchange outlays and increase revenues to pay for a more expensive export subsidy program. If the EEC moves to restrict imports of U.S. grain distillates or soybeans, or to place a tariff on these commodities, have we developed an effective response—either through unilateral action or under the appeals procedures of the GATT—and communicated our intention to use these measures to the EEC?

Answer. The EC has expressed concern over increased imports from the United States of feed grain substitutes particularly corn gluten feed. They claim that these imports, currently totalling $600-$700 million per year are undercutting their internal grain regime and forcing them to increase their subsidized exports of grains.

We have told the EC at every opportunity that it is the EC system itself which makes EC imports of corn gluten so attractive to EC users. We have made clear that the United States will not accept any EC action which would negate our GATT bindings on feed grain substitutes or soybeans and transfer the cost of internal programs onto the market place at the expense of our producers.

Senator DANFORTH. The next witness is Dr. John H. Gibbons, Director of the Office of Technology Assessment.

STATEMENT OF DR. JOHN H. GIBBONS, DIRECTOR, OFFICE OF TECHNOLOGY ASSESSMENT

Dr. GIBBONS. Thank you, Mr. Chairman.

My statement this morning summarizes the principal findings of OTA's report on "U.S. Industrial Competitiveness: A Comparison of Steel, Electronics and Automobiles."

This report is being released today.

I would appreciate, Mr. Chairman, the opportunity to insert a somewhat longer statement for the record, if I may.

Senator DANFORTH. Of course.

Dr. GIBBONS. Thank you.

I am accompanied this morning by the gentleman who directed this work at OTA, Dr. John Alic. I asked him to join me at the table. He knows a lot more about this subject than I do.

The premise of our study is that a successful international trade policy and indeed, American prosperity in general, requires that our major industries be competitive but that the roots of competitiveness, in fact, are domestic. Only a competitive industry can export at a profit, or indeed, resist foreign inroads into U.S. markets. We have examined in this study, in detail, the situations of three industries. Thus, we are able to report to you today on how our domestic conditions, that is, technology, Government policy, and other factors affect in turn the ability of the United States to be competitive in international markets.

Our work on competitiveness began with a study of the role of technology in the competitiveness of the American steel industry, published about a year ago. We expect to complete another report this fall on international competitiveness in electronics. For our comparison of the three industries, we have drawn as well on several past OTA studies dealing with the automobile industry.

Comparing these three industries, which at first seem so different, has led us more broadly into U.S. economic policy, both domestic and foreign, and to the effects that policies of the Federal Government have on U.S. industries—on their competitiveness, their productivity, and their economic efficiency. These are questions we would label industrial policy.

Let me emphasize that industrial policy need not imply Government planning or increased intervention by the Federal Government in the activities of the private sector. It certainly does not have to mean Government efforts to pick winners or losers among various industries. Rather, industrial policy encompasses the wide array of public policies that affect industry. These include taxation, regulation, trade policies, economic adjustment, education and training, and science and technology policies.

In the past, the United States has made independent decisions on policies in each of these categories, ranging from broad macroeconomic and tax measures to environmental regulations aimed only at one industry, such as automobile emissions standards. There has been little coordination between policies of various types, and often little continuity even within a given category of policy.

One reason is that competitiveness and productivity, per se, have seldom been explicit objectives for policy makers.

The result has been a de facto industrial policy, one that worked rather well in earlier years when our economic and technological strength was unchallenged. But if we wish to maintain or increase U.S. productivity and competitiveness, an ad hoc industrial policy may no longer be sufficient. We may now need a more conscious effort by the Federal Government to formulate and implement policies that will help improve the competitiveness of American industry without sacrificing other objectives that our society also judges important, such as environmental protection, worker safety, and open markets.

For this study we compared three industries, Mr. Chairman, all three critical to the U.S. economy. At first these seem rather different in their competitive positions. While the steel industry has faced intense import competition since the sixties, serious problems for the automotive industry are quite recent. In electronics, U.S. firms continue to dominate some world markets, but only some. Still our comparison of these industries shows that declining international competitiveness is a problem in all three. The problems in these and other industries will get worse if Congress ignores them. There are no easy answers, but there are many things that Congress can do.

In examining the three industries and the ways in which Government policies have affected them, OTA found little evidence that dramatically new approaches are needed or would be effective. To function more effectively, industrial policy in the United States needs first to be better integrated and better coordinated, with more explicit attention to impacts on productivity and competitiveness. Our report outlines an approach to this task, one that we term macroindustrial policy. Macroindustrial policy would seek to build upon the established strengths of the American economy. These include the capacity to innovate, the flexibility to respond aggressively to shifting conditions, and the ability to commercialize new technologies ahead of foreign competitors. It would do so by providing a framework for analyzing the competitive posture of each of our industrial sectors and for evaluating the effects of existing and proposed policies.

I will now turn to the three industries themsleves. Because they are so diverse, the causes of their competitive declines are quite different, as are their future prospects in world markets. Examples from each illustrate that decreasing competitiveness does not always result from a weakening here so much as a strengthening abroad. OTA has no quick fixes to prescribe for any of them. But our study does indicate that the kinds of problems which have surfaced in the steel, electronics, and automobile industries have counterparts throughout the rest of our economy, and that a long-term effort to restructure U.S. industrial policy may be needed to attack them.

If I may summarize briefly the main points from the three industries that OTA studied.

First of all, steel. Labor productivity in the American steel industry remains high compared to most other countries, but wage levels here are also high and they have grown faster than productivity. American steel firms have capital plants and equipment that are as much as one-fourth obsolete. As one result, the industry has not been able to increase productivity and reduce costs fast enough to compete as effectively as it might with countries having lower labor costs. Although there are readily available technologies such as continuous casting that would help American steel makers to modernize, technologies that would improve productivity, cut costs and save energy, the steel industry has been unable to generate or to attract the necessary capital at a time when other sectors of our economy offer more attractive returns.

Nonintegrated, so-called minimills and also specialty steel are an increasingly important part of the U.S. steel industry. Specialty steel, as Chairman Heinz mentioned yesterday, was able to take advantage of a limited period of trade protection provided by voluntary restraint agreements to rebuild its competitiveness. Such firms have often been able to attract capital and grow rapidly.

Turning now to automobiles—unique technologies are seldom an important source of competitive advantage in either the steel or the automobile industry. The situation is different in electronics. In both steel and automobiles, the technologies are largely universal; that is, they are available to any firm that can pay the price. The competitive problems facing American automakers stem from a mismatch between consumer demands, which has turned toward small, fuel efficient cars, and the product lines of domestic firms, which are still skewed toward larger cars. In the past, when auto sales decreased because of recession, import sales dropped along with domestic sales. But since 1979, sales of domestically produced vehicles have dropped while import sales have continued to rise. The suddenness of the market shift to small cars, which caught American automakers by surprise, was caused in part by public policies that kept gasoline cheap during the mid-1970's.

Imports still greatly outnumber domestic models in the subcompact end of the market. Small cars from Japan are not only well-established in the market place, but continue to increase their penetration. Consumers perceive them as good values, high in quality, and with good resale value. They have the backing of strong and effective dealer organizations. Moreover, Japanese firms in subcompact automobiles, as in steel, are now the low-cost producers in the world. As U.S. automobile manufacturers continue to redesign and retool to make new lines of small cars, they face expenditures that will strain their ability to generate or obtain capital, much like the situation that American steelmakers are now in.

Finally, electronics. The competitive situation of the U.S. electronics industry cannot be so easily summarized because of its diversity. American consumer electronics firms have been facing strong import competition since the late 1960's, competition that has driven many weaker firms from the market, often to be replaced by foreign firms that assemble televisions and similar products here in the States.

In semiconductors and computers the United States remains preeminent, but our technological advantage has been shrinking. Japanese firms still lag in some types of integrated circuits, such as microprocessors, but in many respects their technologies are at or near a par with the United States. Much the same is true with respect to computers. As the technological advantages of American firms shrink, they are facing stiffer competition across the board, in price, quality, and reliability and customer support and service.

With respect to industrial policy, OTA's analysis of the effects on these three industries illustrates the ad hoc nature of U.S. industrial policy and shows that impacts of tax, regulatory, and other policies on competitiveness have seldom been of primary concern to policymakers. In recent years, the decentralized character of our policymaking system, which involves a large number of committees of the Congress and agencies in the executive branch, has produced too many examples of policies that have been ineffective and sometimes even contradictory. For example, tax credits for energy conservation have not been made available to steelmakers to install energy efficient continuous casting equipment. Today there is considerable agreement that the situation must be changed, but no consensus has emerged on the form that an improved industrial policy for the United States should take, nor is there even agreement on what industrial policy means.

Our study led us to believe that a more coherent industrial policy for the United States could pay major dividends, but that its development would have to be approached as a long-term undertaking. Changes in tax policy, in incentives for R. & D. and its commercialization, and in economic adjustment policies might all be positive steps. But if these changes are approached and implemented as a continuation of past practices, that is, on an ad hoc basis with little attention to coordination and continuity, the resulting improvements in our competitive posture would be limited. On the other hand, an ongoing effort to build an institutional framework and mechanisms for formulating industrial policy—to evaluate its impact and to monitor its effects—would be more likely to help American industries meet future competitive threats.

Prerequisite to an improved industrial policy for the United States are, first, the development of relatively broad agreement on the objectives of such a policy. Second, we would need a strengthening of the analytical capability within the executive branch to formulate and to evaluating policy measures.

An ongoing effort to build political consensus on the broad goals of industrial policy is a necessary, but not a sufficient, condition for success. hile adversarial traditions among government, business, labor, and public interest groups tend to work against consensus on industrial policy in the United States, there is more widespread agreement now, in 1981, on the need to improve productivity and competitiveness, than existed even at the end of the last decade. Different firms and different industries, as well as consumer groups and labor, will continue to advocate different policy measures. An explicit framework for industrial policy could help set priorities and evaluate the claims of the affected parties.

Improved analytical capability is needed for a viable industrial policy because the approach and skills would be different from those that traditionally exist within the Federal Government—for instance, in macroeconomic fiscal and monetary policies. Industrial policy demands more concrete and practical understanding of the workings of the affected sectors, including their technologies. This means empiricism along with theorizing, and hard experience along with statistics.

Although industrial competitiveness can only be evaluated on a sector-by-sector basis, this does not mean that policies based on such analyses need be implemented on a sectoral basis. The elements of industrial policy can range from broad, aggregate measures that affect many sectors, such as tax policy, to regulations directed at only one industry, such as automobile fuel economy standards. Foreign industrial policies sometimes emphasize sectoral measures, such as Japan's well-publicized support programs for industries like electronics. But sectoral measures are not always necessary, and many countries have found that they can sometimes do more harm than good.

I have sketched out briefly some of the findings that our report discusses in detail, Mr. Chairman. That is, international competitiveness is a problem, and some Federal Government policies over the past two decades may have done as much to aggravate the problem as to solve it. The question then is, What should the Government do differently? How can legislation or oversight by Congress help?

Our report emphasizes that if policymaking is to function well, it must be based on practical understanding of what actually happens in the affected industries. Slogans can point to problems, but are poor guides to solutions. I must stress, therefore, that the points I will close with this morning should be viewed only as chapter headings. Effective action by Congress must reflect subtle but critical details. With that caveat, I would summarize with the following points.

Industries that approach their markets on a world scale are more likely to remain competitive than those that restrict themselves to the domestic market.

Federal Government policies should support such a global outlook.

Public policies that affect competitiveness, notably trade, tax, regulatory, R. & D., economic adjustment, and educational policies should be made with conscious recognition of these impacts on competitiveness.

To do this would require, among other things, institutional changes and a better developed analytical capability within the executive branch.

American industries compete with each other for capital, for the best people, for markets, for favorable treatment by Government. Success in international competition still rests with the efforts of individual firms and industries, despite the efforts of governments in some countries to support or even subsidize targeted sectors of their economies.

There is no such thing as a policy that will assist equally the competitiveness of all industries. Government need not pick winners and losers, but must accept the fact that winners and losers will always result whatever policies are adopted.

Maintaining international competitiveness also means accepting the fact that employment opportunities will decrease in those industries that cannot make their markets grow fast enough.

What the United States needs is not radically new policies, but better integration of existing policy tools. OTA's analysis suggests an approach we call macroindustrial policy. The basis would be a preference for aggregate policy measures whenever possible, with reliance on sectoral measures as a last resort. More concretely, macroeconomic policies—fiscal, monetary, tax—would be the tools of first choice. The second choice would be market promotion policies, that is, aggregate policies that work on specific markets such as those for capital—for example, through investment incentives or loan guarantees—labor markets—such as incentives for mobility and for job retraining—and product markets—for instance, in the areas of innovation or antitrust. Sectoral policies, such as tax breaks for particular industries, import quotas, or policies directed at particular firms would be the third and last choice. Such a structure would help to frame the political judgments that will always be a part of industrial policymaking.

Mr. Chairman, we hope that our detailed study will be helpful to the committee. Dr. Alic and I would be pleased to answer any questions.

Senator DANFORTH. Dr. Gibbons, thank you both for your testimony and your report.

I just had an opportunity to skim through the report. I think it will be a very valuable report for us. It will play an important role in our decisions about what to do about our present situation.

Let me see if I can flesh this out a little bit.

Let's suppose that Congress believes that our country needs to have more than just a service sector. We have to be a country that makes merchandise, sells merchandise at home and abroad.

Let's suppose that we also conclude that for the past century the production of automobiles and the sale of automobiles has been a major part of the economy and that we are unlikely to have a healthy economy if we are not able to compete in the automobile market.

We further conclude that large areas of the country are particularly dependent on it and we want to try to restore the health of the automobile industry.

And that is all we decide. And we come to you and we say, well, how do we do this? How do we pull this off?

Now the administration's general position, like your own, is insofar as possible stick with general economic propositions rather than specific ones. The administration says enact the President's economic program, it is important to the whole economy, while we are not very good at cutting out industrial policy and earmarking what should grow and what should not. So they enact a general policy.

Well, once that is said with respect to automobiles, we know that the tax incentives for investment designed for the economy as a whole don't really help the automobile industry, with the exception of General Motors. That is, Ford and Chrysler are losers. Accelerated depreciation will not mean very much to them in the foreseeable future. They have to come up with $70 billion in 5 years. Where is this money going to come from if it can't come from the general sort of tax policy?

So, what do we do? How do we handle this? You are called in to consult on this problem based on this report. What would your suggestions be?

Dr. GIBBONS. While there are a few comments I would be tempted to make, I think it might be more appropriate for me to ask the man who has dwelled on this for a number of months to respond.

If I might ask Dr. Alic to respond.

Dr. ALIC. I think that a critical factor in the declining competitiveness of the American automobile industry has been manufacturing costs, which as near as we can tell are substantially higher than costs for making comparable cars in Japan.

Yet, it has been impossible for us to document those cost differences because nowhere within the Government is there a group that has made available a careful, detailed analysis of the relative costs and the sources of the differences. Without that kind of information, we would feel it is very difficult to make informed policy judgments.

There is a great difference between an industry that has made some questionable short-term decisions on the kinds of cars to build, from which it can recover, and one facing massive, long-term cost disadvantages. The policy implications are not at all the same.

This is an example of our feeling that there is a real need to strengthen the ability of the Federal Government to understand these industries on a very detailed level.

Senator DANFORTH. Based on what you do know, though, and supposing we don't have mechanism in place, how do we implement it?

Probably the only case that can be made for following the general tax program of the administration with respect to the automobile industry would be based on a sort of trickle down theory.

Do we take that into consideration in addressing tax legislation? Do we take that into consideration in drafting the tax bill? Do we use bailouts? Do we attempt to bail out a major depressed industry to get it over the hump?

What do you recommend?

Dr. GIBBONS. Government assistance can sometimes help a troubled industry facing transient problems, as Senator Heinz pointed out yesterday in the case of specialty steel. OTA's suggested macroindustrial policy would not rule out rescue operations for firms or industries—but we do think that the Federal Government needs a clear idea of what it hopes to accomplish—of the costs, the benefits, and the probabilities of success. There is little indication that the Chrysler loan guarantees, for example, were grounded in an understanding of the long-term structural changes facing automobile manufacturers here and elsewhere in the world. It was a decision aimed at an immediate crisis. Crises must be dealt with, but good policy should be based on a long-term perspective as well.

Now, about bailouts themselves. There is a wide range of alternatives that the Government can choose from. The Reagan administration so far has focused on, as you say, a trickle-down effect from the economy as a whole. Along with this, they have proposed relaxed regulatory standards—at least some of which would probably help foreign manufacturers more than American firms. Import restraint by the Japanese will have only a marginal impact. We would not call this a bailout.

To give a bigger boost to the auto industry, the Federal Government could directly subsidize capital investment through, for example, loans and loan guarantees, or refundable tax credits. The Government could also subsidize investment indirectly by reducing risks to investors, or increasing their potential rewards. Tax cuts do the latter. Government can reduce risk by creating greater stability in the marketplace, for instance, by using regulations. If it chose to continue automobile fuel economy standards past 1985, the Government could narrow the size mix that the domestic automakers would have to plan for, protect them against the possibility of a market shift back to bigger cars, and cut down the range over which competition would take place without cutting into the intensity of competition. This would reduce capital investment needs and also the resources that would have to be committed to R. & D., engineering, and testing.

The Government could also encourage new car purchases by subsidizing purchase loans or offering tax rebates to new car buyers—perhaps keyed to fuel economy improvements.

To make these kinds of decisions, the Federal Government needs to understand an industry well enought to pick policies that will work. By and large, the Government does not now have that understanding.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Mr. Chairman, thank you.

First, I would like to commend the OTA for its work. I note that sitting in the back is Joel Hirschhorn, hiding, who is one of the real experts in the American steel industry.

He came up, as I recollect, to Pittsburgh and testified on the export potential for the American steel industry. He did a good job then and I understand he is going a good job now.

On page 9 of your statement, you make distinctions between macroeconomic policies, market promotion policies and sectoral policies.

Could you make the distinction between macroeconomic policies and market promotion policies a bit more clear?

For example, it seems to me that what you are talking about, maybe I misunderstand you when you talk about capital, labor, and products, is making inputs relatively more attractive, like investment incentives do. They help form savings, a pool of capital.

You are really talking from what I understand about inputs and how those really differ from macroeconomic policies.

Is there a difference between that and a credit for research and development aimed at product development. Is that any different from a macroeconomic policy?

Dr. GIBBONS. Let me ask Dr. Alic to make the first response to that, if I might, Senator.

Dr. ALIC. We would call an R. & D. tax credit an example of a market promotion policy, provided its explicit intent as a policy was to encourage R. & D. or some subset of R. & D. activities—for example, going from basic research to product development. We would make a distinction between a targeted tax policy, and I mean targeted now toward a market such as the products of manufacturing industries, and targeting a certain firm or a certain industry. But we would also distinguish between these kinds of targeted tax policies and tax policies whose purpose is to work on the aggregate economy, either on the supply side or the demand side.

Senator HEINZ. Is the investment tax credit, the former or the latter?

Dr. ALIC. It is the latter in the sense of our hierarchy.

Senator HEINZ. The latter is the market promotion.

Dr. ALIC. The latter is the market promotion; yes. The purpose is to encourage capital investment in industry.

Senator HEINZ. Well then, in a certain sense, we right now do have a mix of strictly in the Reagan economic policy of macropolicies and market promotion policies.

What policy would you add that would be beneficial?

Dr. ALIC. We are not suggesting new policy tools. We are suggesting a different way of looking at them, using them, and evaluating their effects, a better way of dealing with the fragmentation that seems to us to afflict industrial policy in this country.

Senator HEINZ. One difference that your testimony I think makes clear, and it may not always be clear to have been clear in other forums, is the difference between an industrial policy and a sectoral policy.

Sometimes you tend to get the two confused. Sectoral policies really fall into your, they are your third choice category. They are, for want of a better term, bailouts of industries.

Yet, you can have an industrial policy that could go very far to giving industries like autos, steel, electronics, and others a good deal higher chances of success without resulting in bailouts; is that right?

Dr. ALIC. Absolutely.

Senator HEINZ. May I continue for 1 minute?

Senator DANFORTH. Sure.

Senator HEINZ. Just as Senator Danforth is particularly interested in the auto industry. We certainly are suppliers to the auto industry, in Pennsylvania, although we don't assemble too many of them. We have a Volkswagen plant, a Fisher auto body plant among other things. Steel is closely associated with my State, although it is manufactured in many other places, as well.

I note your kind comment of my remarks yesterday.

What you really are saying and what I was saying is that there are situations where adjustment policies work in the very best sense. They are not bailouts. They allow an industry the opportunity to literally retool, to rebuild its cash flow, its investment base, its competitiveness.

Do you believe that the auto industry and/or the steel industry need some kind of adjustment policies beyond what now exists to rebuild their cash, their capital base to modernize and if so, what might such a policy consist of?

Dr. ALIC. Perhaps we might start with the automobile industry. Our report illustrates that part of the problem with the automobile industry from an industrial policy standpoint is that we were caught by surprise. We had to react in a short period of time. We didn't have enough information to make the best decisions. We are still grappling with that kind of problem, as I indicated in my comment about manufacturing costs.

OTA has not attempted to look at specific policy remedies for any of these industries. We have attempted to make the point that too often our policies have been too little and too late, whether they are economic adjustment policies, trade policies, or whatever, and that they have had outcomes that have been unexpected or unanticipated because we have not understood well enough how these industries function and what differentiates one industry from another.

I think that industrial adjustment or economic adjustment policies have the potential to function effectively in industries such as steel and automobiles. But I also think one has to make a careful case for the kind of policy that is to be adopted, and that we need a better sense of the political and economic tradeoffs involved in these decisions. This requires the long-term development of industrial policy in this country, else we run the risk of going from one emergency situation to another.

Senator HEINZ. In your report you indicate that the per capita productivity of the American steelworker is as high or higher than any other steelworker, including the Japanese steelworker.

You mention that that may be offset somewhat by a higher wage level, but even taking that into account, I gather that the U.S. steel industry is way, way more competitive than on the average, the European steel industry.

Yet, the American steel industry has gone through a period over the last decade of serious problems and it has suffered, as you document, from the inability to modernize, expand, get into continuous casting and do all the other things that it should do or that it wants to do.

What other factors were present that put this industry into a very precarious position?

It wasn't labor productivity.

What was it?

Dr. ALIC. Production costs, on the average, for making steel in the United States are substantially higher than those in countries such as Japan. Productivity in the United States is high but not high enough. We have to be ahead in productivity not just equal, to offset high wages and other cost disadvantages.

Even in the absence of unfair trade practices by countries in other parts of the world, I think the cost situation is evidence of the problems that this industry has faced for more than a decade because of the obsolesence of their capital plant and equipment.

American steelmakers, even though their productivity is high, need manufacturing costs that are competitive with other countries—countries that do not necessarily follow the same trade practices that we do.

The steel industry hasn't had that. American steel simply costs too much to make.

Senator HEINZ. Well, why hasn't it had the capital?

Dr. ALIC. Because other industries offer better returns to investors.

Senator HEINZ. It sounds like there is a circularity.

Dr. ALIC. Sure.

Senator HEINZ. The steel industry had too high costs, it didn't have the profits, so it couldn't attract the capital and because it couldn't attract the capital it couldn't get its costs down.

That cycle can't be broken?

Dr. ALIC. That cycle could be broken by, among other things, the Government policies that would subsidize investment, if I could use the word subsidy.

Senator HEINZ. That is, of course, what we are trying to do in the tax bill.

Do you think the tax bill is a strong step in that direction?

Dr. ALIC. I think that the effects of a tax bill such as we are now considering are likely to benefit other industries as much or more than the steel industry. It may benefit the steel industry, but the position of steel with respect to other industries in our economy may not improve substantially.

Senator HEINZ. Are you in favor of a refundable tax credit? Refundable investment tax credit?

Dr. GIBBONS. I would favor such a measure if the best evidence showed it would improve the competitiveness of the U.S. steel industry without carrying excessively high costs elsewhere in the economy. But OTA has not done that analysis.

I would emphasize that experience, and a track record in making these kinds of decisions with a clearer vision of what we are trying to achieve, would, over time, lead to better decisions and a more effective industrial policy.

Senator HEINZ. Thank you.

Senator DANFORTH. Gentlemen, thank you very much.

Dr. GIBBONS. Thank you.

Senator DANFORTH. Thank you.

[The prepared statement of Hon. John H. Gibbons follows:]

STATEMENT OF JOHN H. GIBBONS, DIRECTOR, OFFICE OF TECHNOLOGY ASSESSMENT

Mr. Chairman, Mr. Chairman, and Senators, my statement summarizes some of the principal findings of OTA's report to Congress on U.S. Industrial Competitiveness: A Comparison of Steel, Electronics, and Automobiles, which is being released today.

The premise of OTA's study is that a successful international trade policy—and indeed American prosperity in general—requires our major industries to be competitive, but that the roots of competitiveness are domestic. Only a competitive industry can export at a profit—or indeed resist foreign inroads into U.S. markets. We have examined in detail the situations of several industries. Thus we are able to report to you today on how domestic conditions—technology, Government policies, and other factors—affect the ability of the United States to trade.

OTA's work on competitiveness began with a study of the role of technology in the competitiveness of the American steel industry, published a year ago. We expect to complete a report in the fall on international competitiveness in electronics. For this comparison of three U.S. industries, we have also drawn on several past OTA studies dealing with the automobile industry.

Comparing these three industries—which at first seem so different—has led us more broadly into U.S. economic policy—both domestic and foreign—and to effects that policies of the Federal Government have on the competitiveness, productivity, and economic efficiency of American industries. These are questions of "industrial policy."

Let me emphasize that industrial policy need not imply Government planning or increased intervention by the Federal Government in the activities of the private sector. It certainly does not have to mean efforts by Government to pick "winners" and "losers" among industries. Rather, industrial policy encompasses the wide array of public policies that affect industry: taxation, regulation, trade policies, economic adjustment, education, science and technology policies.

In the past, the United States has made independent decisions on policies in each of these categories—ranging from broad macroecomomic and tax measures to environmental regulations aimed at one industry, such as automobile emissions standards. There has been little coordination between policies of various types—and often little continuity even within a given category. One reason is that competitiveness and productivity have seldom been explicit objectives for policymakers.

The result has been a de facto industrial policy—one that worked rather well in earlier years when American economic and technological strength was unchallenged. But if we wish to maintain and increase U.S. productivity and competitiveness in the future, an ad hoc industrial policy may no longer be sufficient. We may now need a more conscious effort by the Federal Government to formulate and implement policies that will help improve the competitiveness of American industry without sacrificing other objectives that our society also judges important—such as protection of the environment, worker safety, and open markets.

For its study, OTA compared three industries—all critical to the U.S. economy—that seem at first to be in quite different competitive positions. While the steel industry has faced intense import competition since the 1960's, serious problems for the automobile industry are quite recent. In electronics, U.S. firms continue to dominate some world markets. Still, our comparison shows that declining international competitiveness is a problem in all three. The problems in these and other industries will get worse if Congress ignores them. There are no easy answers, but much that Congress can do.

In examining these industries—and the ways in which Government policies have affected them—OTA found little evidence that dramatically new approaches, such as targeting some sectors for Government support are needed or would work well. To function more effectively, industrial policy in the United States needs first to be better integrated and better coordinated, with more explicit attention to impacts on productivity and competitiveness. Our report outlines an approach to this task—one that we term "macroindustrial policy." Macroindustrial policy would seek to build upon the established strengths of the American economy—the capacity to innovate, the flexibility to respond aggressively to shifting conditions and to commercialize new technologies ahead of foreign competitors—by providing a framework for analyzing the competitive posture of each of our industrial sectors, and for evaluating the effects of existing and proposed policies.

COMPETITIVENESS

The three industries we have examined are diverse, the causes of their competitive declines different—and so are their future prospects. Examples from each show that decreasing competitiveness does not always result from a weakening here so much as a strenghtening overseas. Japan, for instance, is now on a par with the United States in many fields of technology—in part because of her success in importing technology, but also because of her rapidly increasing capability for indigenous technological developments.

OTA has no "quick fixes" to prescribe for any of these industries. But our study does indicate that the kinds of problems which have surfaced in the steel, electronics, and automobile industries have counterparts throughout the economy, and that a long-term effort to restructure U.S. industrial policy may be needed to attack them.

Steel. Labor productivity in the American steel industry remains high compared to most other countries. But wage levels here are also high, and have grown faster than productivity. American steel firms have capital plant and equipment that is now as much as 25 percent obsolete. As one result, they have not been able to increase productivity fast enough to compete as effectively as they might with countries having low labor costs. Although there are readily available technologies such as continuous casting that would help American steelmakers to modernize—technologies that would improve productivity, cut costs, and save energy—much of the industry has been unable to generate or attract the necessary capital at a time when other sectors of our economy offer more attractive returns.

Major exceptions have been the nonintegrated "minimills" and specialty steel firms that are increasingly important parts of the U.S. industry. Such firms have often been able to attract capital and grow rapidly. As Senator Heinz mentioned yesterday, one reason is that specialty steelmakers were able to take advantage of a limited period of trade protection provided by voluntary restraint agreements to rebuild their competitiveness. Competitive decline, or shrinkage in the size of a sector of our economy, need not be absolute or irreversible.

Problems in the steel industry are not new. During the late 1960's and through the 1970's, many U.S. industries found themselves increasingly pressed by international competition. Steel was one of the first. Between 1960 and 1980, while world steel production doubled, the U.S. share of world output decreased from 26 percent to 14 percent. Over the past two decades, much of this growth took place in Europe and Japan. In the future, newly industrializing countries like Brazil and South Korea will play an important role in the international steel industry. The relative importance of U.S. firms seems bound to decrease still further regardless of the success of their efforts to rebuild their competitiveness. This is not a prediction of doom but a reflection of the reality that other nations are growing stronger economically—in some industries the United States may need to run hard just to stay in place.

Although spokesmen for the industry often focus on dumping by foreign steelmakers as the source of their difficulties (as do other U.S. industries threatened by imports—e.g., consumer electronics), this is only part of the story. A more fundamental problem for American steelmakers is their generally high production costs, attributable in part to out-of-date plant and equipment, and in part to wages that are more than 50 percent above the average for U.S. manufacturing. Again, nonintegrated firms are frequent exceptions. Some have remarkably low steelmaking costs; although such firms produce only a limited range of products, their market share and relative importance within the American steel industry will continue to increase. In any event, foreign steel sells in the United States not only because it is cheap, but because its quality is often high and because only importers are able to supply some types of steel products that American purchasers demand. Similar factors are at work in other industries suffering from import competition—small cars, small TV sets, semiconductor memory circuits.

Automobiles. Unique technologies are seldom an important source of competitive advantage in either the steel or the automobile industry. In both industries, the technologies are largely universal—available to any firm that can pay the price and has people who can apply the technology. The competitive problems facing American automakers stem from a mismatch between consumer demand—which has turned toward small, fuel-efficient cars—and the product lines of domestic firms, which are still skewed toward big cars. In the past, when automobile sales decreased because of recession, import sales dropped at least as fast as sales of American-made cars. But since 1979, sales of domestically produced vehicles have dropped while import sales continued to rise. The suddenness of the market shift to small cars, which caught American automakers by surprise, was caused in part by public policies that kept gasoline cheap during the mid-1970's.

Imports still greatly outnumber domestic models in the subcompact end of the market, and small cars from Japan are now well-established in the marketplace. Consumers percieve them as good values—high in quality, and with good resale value. They are backed by strong dealer organizations. Moreover, Japanese firms—in automobiles as in steel—are now the low-cost producers in the world (for the subcompact models in which they specialize). As U.S. automobile manufacturers continue to redesign and retool to make new lines of small cars, they face expenditures that will strain their ability to generate capital—much like the situation American steelmakers are now in.

Imported cars have been significant factors in the U.S. automobile market since the 1960's, just as imports of steel have been in the range of 15 percent of U.S. consumption since the late 1960's. In fact, most of the growth in the domestic auto market over the past two decades has been taken by imports. But evidence of real problems for the U.S. automobile industry has come more lately and suddenly.

At a time when the product lines of American automakers are still thin in small cars, Japanese manufacturers have applied lessons in product differentiation learned from U.S. firms to the small car segment of the market—since 1979 a much bigger portion of the whole. Here, even after the 1981 model introductions by American manufacturers, the Japanese offer many more models. Although the $4 billion plus losses by American automakers last year stem in part from a drop in sales of 21 percent, they also reflect a higher than normal cash outflow in the form of capital expenditures for R&D and new plant and equipment totalling some $15 billion. These expenditures will help to build future U.S. competitiveness by expanding and strengthening the product lines of American manufacturers in the small, fuel-efficient cars that the public is now demanding. But Japan's automobile manufacturers are also working hard to broaden and strengthen their product offerings to compete with the new domestic small cars. In 1980, Japanese importers may have netted a windfall from the sudden shift of the U.S. market toward small cars—but they were able to benefit because of the groundwork they had laid in our market. Japanese imports will not yield U.S. market share easily; their competitiveness is illustrated by recent sales gains in Europe.

As in steel, changing patterns of competition are transforming the international automobile industry. Here too the relative importance of American firms is decreasing, though U.S. automakers are stronger internationally than our steel firms. Ford and General Motors have large and successful foreign subsidiaries, in contrast to American steelmakers—which are primarily oriented toward the domestic market. All the U.S. automobile manufacturers have ties of some sort to foreign firms (more than 70 joint ventures now link automobile firms throughout the world). Also like the world steel industry, developing countries will play an increasing role both as markets for cars and trucks and as sites for their production. While the number of cars in the United States doubled over the past two decades—and the number in Western Europe quadrupled—over the next twenty years it is the auto fleets of Eastern Europe and the Third World that will triple or quadruple.

The changing conditions of international competition in automobiles are affecting producers in Europe and Japan just as they are those in the United States. But only U.S. manufacturers need to redesign and retool their entire product lines. Foreign firms already make small cars. They must adapt, but the changes will be less drastic and slower paced, the investments less.

Electronics. The competitive situation of the U.S. electronic industry cannot be so easily summarized if only because of its diversity. American consumer electronics firms have been facing strong import competition since the late 1960's—competition that has driven many weaker domestic manufacturers from the market, often to be replaced by foreign firms assembling TV's and similar products here.

In semiconductors and computers, U.S. companies remain preeminent, but their technological advantages have been shrinking. Japanese firms still lag in some types of integrated circuits—e.g., microprocessors—but in many respects their technologies are at or near a par with the United States. Much the same is true in computers. As the technological advantages of American firms shrink, they are facing stiffer competition on price, quality and reliability, and customer support and service.

Imports of several types of high-technology semiconductor devices—a product often thought to epitomize U.S. competitiveness—have risen dramatically over the past two years. As is the case for steel and automobiles, many of these imports have come from Japan. But consumer electronics imports began to increase in the 1960's; today, virtually all the videotape cassette recorders sold in the United States are made in Japan, including those sold under American brand names. U.S. computer manufacturers expect stiffening competition in the future, both domestically and in their export markets. Although U.S. semiconductor and computer firms continue to lead the world in technological innovation, they are not as far ahead as before.

Again, Japanese firms have shown they can build their products not only inexpensively, but to high standards of quality and reliability. In computer hardware, though not yet in software, Japanese firms now have a technological capability that is in many cases on a par with the United States—as in semiconductors. And, in contrast to European firms—which have often had good basic technological capability, but have seemed unable to capitalize on it—Japanese electronics manufacturers have demonstrated that they can successfully commercialize the results of their R&D to design and build products that the market wants. Japanese firms, in electronics and in other manufacturing industries, also orient many of their development activities toward the production process, with benefits in both costs and quality. In industries like steel they emphasize process technologies more strongly than American firms.

Foreign government policies may help our competitors develop or purchase the technologies they need to enhance their positions. But success in international competition still rests with the efforts of individual firms—the ups and downs of which are staples of management folklore—as any examination of the variability in profit levels from firm to firm and over time, in Japan or the United States, shows. Japanese industrial policy—which is more complex and less directive than many American observers conclude—is attentive to the needs of Japanese industry in many ways. But Japanese firms are autonomous; they compete strongly among themselves—though sometimes cooperating on R&D efforts such as the VLSI (Very Large Scale Integrated circuit) Cooperative Program—as well as with foreign rivals; they differ in management styles and marketing strategies—just as do American forms—and they have not all been successful in international competition.

INDUSTRIAL POLICY

OTA's analysis of the effects of public policies on these three industries illustrates the ad hoc nature of U.S. industrial policy—and shows that impacts of tax, regulatory, and other policies on industrial competitiveness have seldom been of primary conern to policymakers. In recent years, the decentralized characer of our policymaking system—which involves a large number of committees in Congress and agencies in the executive branch—has produced too many exemples of policies that have been ineffective, even contradictory. For example, tax credits for energy casting equipment. Today, there is considerable agreement that the situation must be changed. But no consensus has emerged on the form that an improved industrial policy for the United States should take—nor is there even agreement on what "industrial policy" means.

Our study has led us to believe that a more coherent industrial policy for the United States could pay real dividends—but that its development would have to be approached as a long-term undertaking. For example, changes in tax policy, in incentives for R&D and its commercialization, and in economic adjustment policies might all be positive steps. But if these changes are approached and implemented as a continuation of past practices—on an ad hoc basis and with little attention to coordination and continuity—the resulting improvements in our competitive posture would be limited. On the other hand, an ongoing effort to build an institutional framework and mechanisms for formulating industrial policy, evaluating its impacts, and monitoring its effects would be more likely to help U.S. industry meet future competitive threats.

Prerequisite to an improved industrial policy for the United States are: (1) the development of relatively broad agreement on objectives; and (2) a strengthened analytical capability within the executive branch for formulating and evaluating policy measures.

An ongoing effort to build political consensus on the broad goals of industrial policy is a necessary—but not sufficient—condition for success. While adversarial traditions—among Govenemnt, business, labor, public interest groups—tend to work against consensus on industrial policy in the United States, there is certainly more widespread agreement in 1981 on the need to improve U.S. productivity and competitiveness than existed even at the end of the last decade. Different forms and different industries—as well as consumer groups and labor—will continue to advocate different policy measures. An explicit framework for industrial policy could help set priorities and evaluate the claims of the affected parties.

Improved analytical capability is needed for a viable industrial policy because the approach and skills would be different from those that traditionally exist in the Federal Government—e.g., in macroeconomic fiscal and monetary policies. Industrial policy demands a concrete, practical understanding of the workings of the affected sectors, including their technologies. This means empiricism along with theorizing, hard experience along with statistics.

Although industrial competitiveness can only be evaluated on a sector-by-sector basis, this does not mean that polices based on such analyses need be implemented on a sectoral basis. The elements of industrial policy can range from broad, aggregate measures that affect many sectors—such as tax policies—to regulations directed at only one industry—such as automobile fuel economy standards. Foreign industrial policies sometimes emphasize sectoral measures—e.g., Japan's well-publicized support programs for industries like electronics. But sectoral measures are not always necessary, and many countries have found that they can sometimes do more harm that good. In Europe, sectoral policies have often failed—whether intended to manage the decline of industries such as steel, or to stimulate the growth of "sunrise" sectors such as computers or aircraft. West Germany is an example of a country that has done well relying mostly on aggregate measures rather than targeted support for particular industries. Consistency in signals by government has been a hallmark of the more successful foreign industrial policies.

MOVING TOWARD GREATER COMPETITIVENESS

I have briefly sketched out some of the findings that our report discusses in detail: international competitiveness is a problem, and some Federal Government policies over the past two decades may have done as much to aggravate the problem as to solve it. The question then is: What should the Government do differently? How can legislation or oversight by Congress help?

Our report emphasizes that, if policymaking is to function well, it must be based on a concrete, practical understanding of what actually happens in the affected industries. Slogans can point to problems, but are poor guides to solutions. I must stress, therefore, that the points I am about to make should be viewed only as chapter headings—effective action by Congresss must reflect subtle but critical details. With that caveat, OTA has found that:

Industries that approach their markets on a world scale are more likely to remain than those that restrict themselves to the domestic market. Federal Government policies should support a global outlook.

Public policies that affect competitiveness—notably tax, trade, regulatory, R&D, economic adjustment, and educational policies—should be made with conscious recognition of impacts on competitiveness.

To do this would require, among other things, institutional changes and a better developed analytical capability within the exectuve branch.

American industries compete with each other—for capital, for the best people, for favorable treatment by Government. Success in international competition still rests with the efforts of individual forms and industries, despite the efforts of governments in some countries to support or subsidize targeted sectors of their economies.

There is no such thing as a policy that will assist equally the competitiveness of all industries. Government need not pick "winners" and "losers," but must accept that winners and losers will always result, whatever the policies adopted.

Maintaining international competitiveness also means accepting the fact that employment opportunities will decrease in those industries that cannot make their markets grow fast enough.

What the United States needs is not radically new policies, but better intergration of existing policy tools. OTA's analysis suggests an approach we call "macroindustrial policy."

The basis for macroindustrial policy would be a preference for aggregate policy measures wherever possible, with reliance on sectoral measures as a last resort. More concretely, macroeconomic policies—fiscal, monetary, tax—would be the tools of first choice. The second choice would be market promotion policies—aggregate policies that work on specific markets: capital (e.g., investment incentives, loan guarantees); labor (e.g., incentives to mobility, job (re)training); products (e.g., innovation, antitrust). Sectoral policies such as tax breaks for particular industries, or import quotas—or policies directed at particular firms—would be the third and last choice. Such a structure would help to frame the political judgements that will always be a part of industrial policymaking.

As examples of policy measures that might find a role in macroindustrial policy, OTA suggests the following:

Market promotion policies aimed at strengthening U.S. technology by rewarding innovation, supporting R&D directed at commercial as well as military applications, speeding the diffusion of technologies especially to smaller businesses, and supporting the development of more productive manufacturing technologies (e.g., robotics) as well as new product developments.

Tax and regulatory measures that encourage productive investments in industry, and that stimulate capital formation in general, without favoring one industry over another.

Educational policies that seek to upgrade the U.S. workforce to meet future needs for both white collar and blue collar employees skilled in advanced technologies.

Economic adjustment policies designed to improve the mobility of capital and labor, but with no attempt by Government to judge which industries (or geographic regions) will grow and which will decline.

A more coherent set of export-related trade policies that would encourage competitive American firms to export without subsidizing the inefficient, and that support, where appropriate, efforts by U.S. manufacturers to invest in foreign markets.

Import policies that are more timely and effective in protecting American industry against "unfair" inport competition (as defined by U.S. law and international obligations).

Let me emphasize that this list is only an illustration of several possible ingredients of an industrial policy that might be designed to maximize the existing strengths of the American political and economic systems—pluralism and diversity, flexibility and adaptability, aggressive market-oriented commercialization of new technologies, entrepreneurship.

The problems exist today. Institutional changes, improved analytical capabilities, and a national consensus on objectives will take time to develop. Hearings such as these, involving more than one Committee—and looking beyond the problems of individual industries—are a step in the right direction. If we decide to pursue a more coherent industrial policy, the starting point is to recognize that problems of competitiveness can only be understood by looking at each industry separately—but that they can often be solved by looking at industrial policy as a whole. The competitive success of U.S. industry rests primarily with the efforts of private firms. But an effective industrial policy by the Federal Government—coherent, consistent, and farsighted—could be a vital support, and contribute to the prosperity of the American economy in many ways.

[Publication Brief, Vol. IV, Issue 5, July 1981]

U.S. Industrial Competitiveness—A Comparison of Steel, Electronics, and Automobiles

A reorientation of Federal industrial policy could help the performance of the U.S. economy. Government policies that affect the international competitiveness of American industry—including those dealing with trade, taxes, technology, and regulation—suffer from fragmentation and lack of continuity. This puts U.S. industry at a disadvantage compared to several of our international rivals. There are no "quick fixes" to problems of economic efficiency and productivity, but unless the government takes positive action, U.S. competitiveness will probably continue to deteriorate.

Although the causes differ, U.S. competitiveness in steel, electronics, and automobiles has in fact declined. Steelmakers are still closing facilities, steelworkers losing their jobs. Many of the TV sets—and all of the home video recorders—sold in the United States are now imported. In 1980, as American automobile firms lost more than $4 billion, imports from Japan continued to rise.

In steel, productivity has not grown fast enough to offset rising wage levels. Public policies have not directly addressed modernization and productivity improvement.

Even in high technology portions of the electronics industry—such as computers and semiconductors—domestic firms have been unable to maintain the technological advantages on which their leadership in world markets depends. Government policies in support of R&D and innovation have had only limited positive effects on high technology industries—although the future strength of the U.S. economy depends on their continued success.

The automobile market in the United States has turned away from the larger cars that have been the heart of the domestic industry. The suddenness of this shift, which caught American automakers by surprise, was caused in part by Government policies that kept gasoline cheap and plentiful during the mid-1970's.

In all three industries, the conditions of international trade and competition are changing, with overseas rivals getting stronger.

Improving productivity, economic efficiency, and competitiveness have seldom been conscious objectives of Government policymakers. Such objectives cut across the jurisdictions of many congressional committees. Fashioning a more coherent industrial policy may require that Congress create a new institutional focus such as a select committee or task force. That new focus would enable Congress to explicitly consider the impacts of particular policies on the competitiveness of U.S. industries. Such policies include: taxes, for example, modified depreciation schedules for industrial plant and equipment; regulation, such as automobile standard-setting; technology, for instance, Government funding supporting the education and training of engineers and scientists; and trade, e.g., export financing and export trading companies.

Moving toward a more consciously developed industrial policy does not imply Government picking "winners" and "losers" or relying on aid or support for certain sectors or firms. It does imply a broad redirection of policies affecting technology and innovation; savings and capital investment; regulation, training, and economic adjustment; and international trade. Such an approach—which OTA terms "macroindustrial policy"—could help to maintain and strengthen U.S. competitiveness, increase employment opportunities and living standards, and moderate inflation.

[News Release of the Office of Technology Assessment, Thursday, July 9, 1981]

OTA Says Better Industrial Policy Could Revive U.S. Competitiveness

U.S. industrial competitiveness in both world and domestic markets probably will continue to decline unless the federal government takes positive action, according to a report prepared by the Congressional Office of Technology Assessment (OTA).

OTA Director John H. Gibbons delivered the report's findings today in testimony at a joint hearing on U.S. trade policy held by the Senate Subcommittee on International Finance and Monetary Policy (Banking, Housing, and Urban Affairs Committee), and the Senate Subcommittee on International Trade (Finance Committee).

"This study should contribute to the renewed debate and interest in the effect that govenment policies have on the ability of American businesses to compete at home and abroad," said Senator Ted Stevens (D-Alaska), Chairman of OTA's Congressional Board.

"Certainly the need to modernize the steel industry (which Congress recently addressed in the Steel Industry Compliance Extension Act of 1981) shows the need for Congress to more carefully assess how its actions in writing tax law, anti-trust policy and environmental inprovement statutes affects industries. By looking at the steel industry, the auto industry and the electronics industry, this study has provided a valuable source of new material and thought which the Congress can use in the months and years to come."

The OTA report concludes that the ad hoc approach to industrial policy followed in past years may be inadequate at a time when the U.S. no longer enjoys the overwhelming technological lead or relative economic strength of two or three decades ago.

Government policies affecting the international competitiveness of American industry—both the ability to export and to compete with imports—are fragmented and lack continuity, according to the report. This puts U.S. industry at a disadvantage as compared to international trading partners like Japan.

Improving the competitiveness of American industry implies a broad redirection of policies affecting technology and innovation; savings and capital investment; regulation; education, training, and economic adjustment; and international trade. Such an approach, which OTA terms "macroindustrial policy", could help maintain and strengthen U.S. competitiveness, increase employment opportunities and living standards, and moderate inflation.

The report emphasizes that moving toward a more consciously developed and coherent industrial policy need not imply an increase in government intervention. In order to help American industries improve their competitiveness, government would not have to pick "winners" and "losers", or give aid or support to some sectors but not others.

The OTA report compares three industries—steel, electronics, and automobiles—and discusses the implications of their competitive positions for government policies toward industry. It concludes that competitiveness in these industries has declined. Each has been influenced in a different manner and to a different degree by government action, but even where government actions have had distinctly secondary effects compared to private sector decisions, they can sometimes tip the balance.

Some steelmakers have production costs that are too high for them to compete effectively with imports. Many TV sets and all of the home video recorders sold in the U.S. are now imported. Imports of semiconductors have also risen, and some foreign firms are now at or near techological parity with the U.S. in computers and other advanced electronic systems. Last year American automobile firms lost more than $4 billion as Japanese imports continued to rise.

Productivity in the steel industry has not grown fast enough to offset rising wage levels. Yet public policies have not directly addressed modernization and productivity improvement.

Government policies in support of R&D and innovation have had only limited positive effects on the high technology portions of the electronics industry—such as computers and semiconductors. Domestic firms have been unable to maintain the technological advantages needed for continued leadership in world markets.

Automobile manufacturers have been more directly affected by public policies than steel or electronics firms. U.S. energy policies that kept gasoline cheap during the mid-1970's contributed to the suddenness of the market shift from large to small cars, which caught American antomakers by surprise. At the same time, total demand for automobiles has decreased in part because of a gradual change from a growth market to one more nearly a replacement market, and because of a recession marked by tight credit. The results have been declines in domestic production and employment.

Long term decreases in domestic employment opportunities are occurring in mature industries such as steel, consumer electronics, and automobiles. The report warns that the U.S. faces a fundamental dilemma: improving competitiveness implies higher labor productivity, but higher productivity can cost jobs unless market growth keeps pace.

The report suggests that Congress may need to create a new institutional focus to fashion a more coherent industrial policy. Improving productivity, economic efficiency, and competitiveness cut across the juridictions of many congressional committees, and have seldom been conscious objectives of government policy makers. Potential policies could include: taxes—for example, modified depreciation schedules for industrial plant and equipment; regulation—such as automobile standard-setting; technology—for instance, government funding supporting the education and training of engineers and scientists; and trade—e.g. export financing and export trading companies.

The report notes that although regulatory policies have had significant impacts on the steel and automobile industries, they cannot be blamed for the majority of the problems these industries face. Regulatory expenses in the steel industry, for example, account for only a small fraction of the capital that would have been needed to maintain competitiveness.

Commenting on the OTA report, Senator Danforth (R-Mo.), Chairman of the Subcommittee on International Trade, said: "U.S. exporters face growing competition overseas even in areas where we have traditionally dominated the world market. Domestic producers of an increasing number of products are seeing intensified competition from imports.

"Assuming that tax policy is never industry-neutral—because different tax formulas can benefit heavy industry experiencing losses, or profitable heavy industry, or high-technology firms—a central question for policy is what account we will take of American competitiveness in international trade in formulating our tax program."

Senator John Heinz (R-Pa.), Chairman of the Subcommittee on International Finance and Monetary Policy, said: "OTA's study on U.S. competitiveness draws together much-needed information on conditions in three of our critical industries—steel, automobiles, and electronics. All three face serious threats from foreign competitors, and the study will give Congress useful guidance in determining how to deal both with those particular industries and with the development of a broader industrial policy.

The report draws on recently completed and ongoing work at OTA, "Technology and Steel Industry Competitiveness," released in June 1980, and "The Impact of Technology on Competitiveness of U.S. Electronics Industry," scheduled for release later this year.

OTA is a nonpartisan analytic support agency which serves the U.S. Congress. Its purpose is to help Congress deal with the complex and often highly technical issues that increasingly confront our society.

The OTA report, "U.S. Industrial Competitiveness: A Comparison of Steel, Electronics, and Automobiles," is available at the U.S. Government Printing Office (GPO), Superintendent of Documents, Washington, D.C. 20402. The GPO stock number is 052-003-00814-9; the price is $6.00.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., August 12, 1981.

Hon. JOHN C. DANFORTH,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DANFORTH: Enclosed is the response to the questions you submitted for the record in connection with my testimony before the joint hearings of the Subcommittees on International Trade and International Finance on July 9 dealing with the Administration's trade policy.

It was a pleasure to participate in the hearings and to appear before the distinguished members of these two Subcommittees.

Sincerely,

JOHN R. BLOCK, *Secretary.*

Enclosure.

Question. We understand that the EEC has indicated that it prefers continued informal consultations to resolve the 301 petition on wheat flour, but past experience indicates that such discussions are not very productive. Does the Administration now plan to move forward either under the dispute settlement provisions of Article XXIII of the GATT or the Subsidies Code to resolve this longstanding case of the U.S. wheat flour industry? Have you discussed resolution of this matter with the U.S. Trade Representative's office? Do you share the view that the United States should move quickly and aggressively in the wheat flour case so as to signal to the EEC that we intend to follow through on our commitment to oppose the EEC export subsidies when they have the effect of precluding us from competing for world markets?

Answer. I, along with the U.S. Trade Representative and other high level officials of the Administration, have registered strong concern to EC officials, including EC President Thorn, and EC Agriculture Commissioner Dalsager, about the EC's aggressive export subsidy policy. They are keenly aware of the political sensitivity to us of their subsidizing exports of wheat flour to markets which have been developed by U.S. exporters.

They are also aware of possible Congressional legislation which would authorize U.S. subsidies to meet subsidized foreign competition. However, this Administration strongly favors a free-market-oriented system instead of export competition with subsidies.

The USG has made strenuous efforts to resolve the pending 301 petition concerning the subsidization of wheat flour by the European Community. The petition was filed in 1975, and consultations under GATT Article XXII were held during 1977 and again in 1980. The issue was temporarily set aside in the hope that the MTN negotiations on subsidies would lead to a solution. Unfortunately this did not occur. That was the situation this Administration inherited.

The issue is being pursued through bilateral channels on every possible occasion. I raised it repeatedly during my recent European visit. We are working closely with USTR to ensure a resolution of this issue. At present we are examining the possibility of seeking a GATT settlement.

Responses by Hon. Murray L. Weidenbaum to Additional Questions Submitted After the Hearing

Question. Will U.S. industry be supported in their use of Section 301 to eliminate foreign trade barriers to U.S. export opportunities.

Answer. Yes, where industry's claim is substantiated the President shall take all appropriate and feasible steps to obtain elimination of the foreign restraint.

Question. Will the Reagan Administration self-initiate complaints under Section 301 to support U.S. industry's efforts to eliminate such barriers to trade?

Answer. Self-initiation of complaints by the Administration is consistent with the Administration's trade policy; that policy reaffirms section 301(c) of the Trade Act of 1974.

Question. In acting on a 301 complaint that involves a foreign trade barrier, will the Administration use the threat of retaliation, assuming consultations have been unsuccessful, to persuade the foreign government to eliminate the barrier?

Answer. Yes, the Administration will threaten, and lacking response will implement retaliation when it is determined that consultation and other appropriate means have failed to obtain elimination of foreign trade barriers.

Question. How can the government, in good faith, encourage the use of Section 301 when the Executive branch has been so slow in obtaining relief on the broadcasters' complaint filed in 1978 when relief was recommended over a year ago?

Answer. Action on the Canadian border broadcasting case is now being seriously studied and an appropriate response is being developed.

Question. If reciprocity is to be a component of our trade policy—and I agree that it should be—how does the Reagan Administration propose to persuade a major U.S. trading partner, which had adamantly refused to negotiate on the issue, that its unfair and discriminatory barrier to the sale of broadcast advertising must be eliminated?

Answer. As a first step, we are seriously considering legislation that "mirrors" the offending Canadian legislation alluded to; it denies tax deductions for advertising purchased from Canadian broadcasters but aimed at U.S. markets. The Treasury has also been asked to study the possibilities for more general legislative measures to provide authority to act when foreign tax practices are found to discriminate against U.S. citizens or corporations.

Question. In view of these discrepancies and their potential impact on U.S. competitiveness in high technology products, what measures does the Administration intend to take to insure that the U.S. remain competitive in the high technology sector?

Answer. The U.S. high technology industry is highly competitive and successful internationally. Its continued success will be heavily influenced by the dismantling of tariff and nontariff barriers to this trade, both at home and abroad. Indeed, we and the Japanese have recently agreed to a reduction in tariffs on semiconductors. We would like to see this agreement set a precedent for others. Recent tax legislation which includes provisions for stimulating research and development spending by U.S. firms should also be helpful for our industry.

Question. Is a "macro-industrial policy" needed? What form should it take?

Answer. This Administration rejects the concept of narrowly-targeted "industrial policies." However, the President's Economic Recovery Program should be viewed as a wide-ranging series of legislative and administrative actions designed to strengthen our economy's industrial base. Its interdependent, mutually reinforcing elements—consistently restrained monetary growth, curbed government spending, tax reduction and regulatory relief—will provide what is required to maintain and stimulate the international competitiveness of U.S. industry. Our trade policy is fully consistent with this program.

[Whereupon, at 12:25 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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