Calendar No. 2424

84TH CONGRESS 2d Session } SENATE { REPORT No. 2401

DOMESTIC INDUSTRIES AFFECTED BY FOREIGN IMPORTS

JULY 2, 1956.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany S. Res. 236]

The Committee on Finance, to whom was referred the resolution (S. Res. 236) relating to textiles and textile products, report favorably thereon with amendments and recommend that the resolution as amended do pass.

The amendments are as follows:

(1) Add a new whereas clause as follows:

> Whereas the Senate is gravely concerned over the acute distress existing in segments of the domestic textile industry and the greatly increasing importations of foreign textiles and textile products, and recognizes, with equally grave concern, that the impacts of imports of foreign articles may be causing or threatening serious injury to domestic producers of textiles and other products; and

(2) Amend the body of the resolution to read as follows:

> *Resolved*, That in the light of the acute distress existing in segments of the domestic textile industry, it is the sense of the Senate that the President should give immediate consideration to the impact of imports of textiles and textile products on such industry, with a view to determining whether the authority granted to him under section 22 of the Agricultural Adjustment Act, as amended, section 204 of the Agricultural Act of 1956, the Trade Agreements Extension Act of 1951, as amended, section 350 of the Tariff Act of 1930, as amended, or other law, should be exercised with respect to imports of any textiles or textile products;

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Resolved further, That the United States Tariff Commission is directed to expedite and, wherever practicable, to give priority to, investigations now pending, or which may hereafter be instituted, under section 7 of the Trade Agreements Extension Act of 1951, as amended (escape clause investigations), relating to textiles or textile products or any other articles or products.

GENERAL STATEMENT

Senate Resolution 236, as referred to the Finance Committee, would have directed the Tariff Commission to initiate escape-clause investigations on all commodities in the textile or textile products categories. The committee in executive session consulted with the Chairman of the Tariff Commission and his aids as to the feasibility and effectiveness of the proposal and discussed that an alternative measures.

It was brought out that such a directive would necessitate some 790 concurrent and separate investigations and that imports of foreign textiles were concentrated on relatively few classifications. The committee, although in sympathy with the purpose of the resolution, deleted the requirement that the Tariff Commission conduct investigations on all textiles and textile products, choosing to rely on the capability of the executives of business enterprises to make their own appeals to the Tariff Commission under the escape clause when and if they feel that imports are causing or threatening injury to their respective industries.

The committee wishes to emphasize that the Tariff Commission is required to conduct these investigations and to report within 9 months whether initiated by an appeal from an affected industry or by direction of the Senate.

The committee, although fully aware of the gravity of the problems of the textile industry, and of a number of other industries, took note that there may be contributing factors in those problems other than the rapidly mounting volume of imports. It is not anticipated that any closer supervision or regulation of imports could cure all of the ills of any industry, but it is evident that in certain segments of the textile and other industries there is increasing distress concurrent with substantial increases in imports.

Imports may be a very important contributing factor to injury of segments of an industry when plants are closing and hundreds of workers are being laid off when it is known that the increase in imports is of such magnitude that many hundreds of workers would be required to make domestically that which is entering from abroad.

The committee is aware of the difficult international situation and of the sacrifices that must be made to preserve the trade and friendship of foreign countries. At the same time it notes that many small factories and mills, the economic lifeblood of whole communities, are being forced to close and the imports of the 1 or 2 types of products made in those plants have taken over a large percentage of the United States market. Large plants may diversify to some extent, or may absorb losses in 1, 2, or even several lines, but small companies frequently have no choice but to cease operations. In such cases imports may be a very substantial contributing factor in the injury being suffered, and a whole segment of the industry may be seriously endangered.

The committee-approved resolution would direct the Tariff Commission to expedite escape-clause investigations regardless of how initiated, and to give such investigations precedence wherever practicable.

The committee also approved a provision which called attention to the fact that the President has authority under several laws to take remedial and, where necessary, emergency action to relieve distress in industries being affectd by increasing imports. No mandate was placed upon the President to take any specific action, but the resolution if adopted as reported would indicate that it is the sense of the Senate that the President give immediate consideration to the impact of imports of textiles and of other products upon the domestic market.

The President has ample authority to take emergency or other action when he deems it advisable without in any way abrogating our trade agreement commitments.

The committee urges the adoption of Senate Resolution 236 as amended and believes that such adoption would serve as an additional stern warning that continued widespread unemployment resulting from excessive imports may endanger the whole trade agreement program.

MINORITY VIEWS

The Senate Finance Committee has properly told the textile industry, by this resolution, that it should follow appropriate procedures under the escape clause provisions of the Reciprocal Trade Act. Further, by its action the committee recognizes that the problems of the industry center in certain selected areas. Yet, while accepting these points, the committee in reporting this resolution fails to appreciate the facts which the Tariff Commission report outlined and gives the impression that the industry as a whole is in some way seriously damaged by the imports of textiles and gives credence to the exaggerated claims of the industry that it is being harmed.

If this resolution is passed by the Senate, it will greatly increase the pressure upon the President and the Tariff Commission to impose import quotas and higher tariff duties upon the importation of foreign textile products.

The forces of high tariffs and protectionism which were in general retreat from 1934 to 1952 will be greatly strengthened and further pressure for similar action for chemicals, toys, plastics, pottery, and so forth, will be hastened. We should therefore look very carefully at what the results of such action would be.

The advocates of high tariffs and of further import quotes apparently see only the textile industry and have highly exaggerated fears of what Japanese and other foreign textiles have done or will do to their domestic market.

I have great sympathy for the workers and management in this industry but we should look at the problem with a steady eye. We should ask ourselves just how much trouble has actually been caused by the importation of foreign textiles, and what would be the effect upon our exports of thus limiting our imports by means of higher tariffs and import quotas. We should also take into consideration what effect such a policy would have upon the confederation of free nations which are trying to build up to resist Communist aggression.

1. The facts show that the claims of the textile industry about the losses they have suffered as a result of the importation of Japanese and other textiles have been greatly exaggerated.

In the first place there has been a technical revolution in the manufacture of textiles so that problems faced by a few sections of the industry are the result, in large part, of the new synthetic fibers—rayon, dacron, orlon, and nylon.

Second, as the Tariff Commission itself has stated (memorandum for the Senate Committee on Finance on S. Res. 236):

> The United States exports cotton manufactures to a far greater extent than it imports them; * * *

and—

> It should be noted, however, that an exceedingly small part of the domestic consumption of cotton manufactures is sup-

plied by imports and that Japan accounts for only a part of such imports.

The Commission then adds in a footnote—

> The raw cotton content of those imports from Japan in 1955, for example, was equivalent to only about one-fifth of the raw cotton that the United States shipped to Japan in that year.

The Commission further states that though the ratio of United States imports to exports of cotton manufacturers has risen during recent years, "* * * that ratio is still very much lower than it was in the years immediately preceding World War II," and concludes by stating

> * * * it is clear that textile manufacturers in Japan do not have an "across the board" competitive advantage over the textile manufacturers in the United States.

A few facts to substantiate these points are in order.

(*a*) In 1955 domestic production of cotton cloth was about 11 billion square yards. Total imports of cotton cloth in 1955 were 133 million square yards—or 1¼ percent of domestic production.

(*b*) Exports of cotton cloth were 542 million yards in 1955 or four times the volume of imports.

(*c*) Sales, profits, and profit margins for the industry were substantially higher in 1955 than in 1954, and the upward trend has continued in 1956. Yet it is during this period that imports have increased.

The proper method of approaching the problems of the industry in specific lines where it is claimed imports are providing serious injury, is to instigate escape-clause procedures under the Reciprocal Trade Act. The reluctance of the industry to accept this approach and instead to seek rigid quotas on all cotton imports, indicates their lack of confidence in their ability to make their case where facts, rather than fictions, are involved.

2. The restriction of imports which is suggested in this resolution will greatly reduce our exports and thus work hardship on a number of American industries including raw cotton and tobacco.

This is something which the high tariff advocates and the trade restrictionists find it almost impossible to understand or take into account. They fasten their attention upon the industries which they seek to protect and they neglect to notice the export industries which they injure.

And, more important, they often fail to recognize the interest of their own industry when looked at as a whole instead of by the jaundiced-eyed method of looking at a very few specific items. In 1955, for example, our exports of raw cotton were 2½ million bales of which one-fourth or about 647,000 bales went to Japan. The raw cotton content of our textile exports was an additional 523,000 bales whereas the raw cotton content of our textile imports was 130,000 bales, of which only about half came from Japan. Thus, certain segments of the cotton trade have difficulty in recognizing their own self-interest.

And yet the truth is that we cannot export unless we import and the more we restrict our imports, the more we cut off our exports. The high tariff advocates and those who would restrict international trade proceed on a mistaken assumption, namely that we can continue to export to other nations even though we cut off or greatly reduce the exports of those nations to us.

This is impossible.

In the old days of the international gold standard the balance between exports and imports was automatically effected through gold movements and the operational national price levels. Thus if we curtailed our imports, the foreign countries could not pay for the goods which they imported from us by their export of other goods. They would then have been compelled to send us gold. This would have increased the supply of money in this country and have decreased the supply abroad. This in turn would have meant that our prices would have risen and theirs fallen. This in itself would cut down our exports and would increase those of the other countries above the immediately prior level, after our higher tariffs had been in effect. Ultimately a balance would have been struck between exports and imports but with smaller quantities being traded than before the imposition of the restrictions upon imports. Our export industries would have lost a portion of their market. If we completely cut off our imports then our exports would ultimately cease.

In any event, the advantages of the international division of labor would have been lessened and the gains which we derived from such international exchange would be greatly reduced. All countries including our own would lose.

3. At the present time, under the almost universal system of managed currencies and more or less pegged exchange rates in which gold plays a somewhat minor role, the results of increasing tariffs and imposing import quotas are the same, although the process is somewhat different.

The amount that any one country can purchase from abroad is limited by the amount of foreign credits which it holds at its disposal. These foreign credits are, in the main, obtained by selling goods to other countries. If the sale of these goods is reduced by the imposition of tariffs or import quotas, then the amount of foreign exchange which a given country holds is correspondingly decreased. This reduces its ability to buy from other nations so that the net volume of international trade diminishes. Since it cannot export as readily to other countries, other countries cannot as readily export to it.

A country which raises its tariffs and imposes import quotas to protect its own manufacturers will find rather speedily that it thereby restricts the sale of the goods which it exports. In the case of the United States, if we restrict the amount of cotton and woolen textiles which can be shipped to us, we will soon reduce the amount of raw cotton, tobacco, soybeans, wheat, powdered milk, farm machinery, automobiles, earth-moving machinery, computing machines, electrical equipment, and so forth, which we can sell abroad.

4. Moreover, if we impose these tariffs and quotas against foreign textiles by governmental action, we can be quite certain that other countries will retaliate by imposing tariffs and quotas against our producers. It is naive to assume that other countries will be passive in the face of our action. They will inevitably retaliate both to protect the amount of foreign exchange which they hold and from a natural, human desire not to passively accept such action by us. Not only will

the amount of international trade decrease but the amount of international animosity will greatly increase.

5. Twenty-six years ago, at about this time, the American Congress passed the Smoot-Hawley-Grundy Tariff Act, which greatly raised our tariffs against foreign goods. The bill then went to President Hoover's desk where it awaited his signature or veto. As a private citizen, I helped to draft an appeal to the President asking him to veto this bill in which we pointed out that if it went into effect it would inevitably cut off our exports, invite retaliatory action by other countries and intensify the world depression which was then beginning to gather headway. Our appeal was signed by no less than 1,146 economists of the country.

Despite our appeal, President Hoover signed the high-tariff bill and what we had prophesied came true. Our exports were reduced; other countries increased their tariffs; Great Britain abandoned her low-tariff policy to which she had adhered for nearly a century. Imperial preference was established within the British Empire and Commonwealth. The world slipped into protectionism and economic nationalism. We were proved to be good prophets then and this experience should help to deter this country from embarking on a similar policy now.

6. The proposed measure is directed primarily at Japan, since it is the importation of Japanese textiles about which our textile industries chiefly complain. We are trying to keep Japan as an ally and a loyal member of the free world coalition against communism. To do this we are spending a very large sum of money. If we deny to the Japanese the ability to sell textile cloth to us and hence prevent them from acquiring the dollar exchange which will enable them to buy raw cotton, rice, wheat, machinery, and so forth from us, we will have to appropriate still more money to feed the Japanese people if we wish to keep them in an alliance with us. Our slogan will then be "aid not trade." In view of the increasing restiveness of the country about foreign aid, the widespread feeling that the policies of the administration in this field are contradictory, confused and ill-conceived, it is not certain for how long the American people will give their approval for aid in the quantities which will be needed were we to take the action which the proposed Senate resolution would encourage.

7. The imposition of these tariffs and import quotas might well throw Japan into the arms of Red China and lead to the withdrawal of Japan from the democratic bloc and its entry into the ranks either of the Communist satellites or those "neutrals" whose orientation is toward communism rather than toward democracy.

Let us note that the economies of Japan and China are in fact complementary rather than competitive. China is primarily an agricultural country and the provider of raw materials. Japan is a processing and manufacturing country. The natural tendency would be for Chinese raw products, such as cotton and iron ore, to be sent to Japan for fabricating and then for some of the finished goods to be shipped back to China.

If these were ordinary times, this would be a welcome development. But they are not ordinary times and we are in fact engaged in a great struggle with the Communist bloc. Red China is one of the two great powers in that Communist bloc. If we prevent Japan from selling her products here in any appreciable quantity, then Japan will have to turn toward China. But Communist China will undoubtedly ask a price for opening its markets to Japanese goods and for shipping its raw products, such as iron ore and cotton, to Japan. That price will, at the very least, be for Japan to quit the Western Alliance and instead to be neutral. I doubt, however, if merely neutrality will satisfy Red China for long. China will instead more and more demand and obtain close economic and political cooperation on the part of Japan, and Japan will more or less rapidly move into the Soviet orbit. This would leave us without a single great power in Asia on our side, and it would be difficult for us to maintain the independence of small peripheral countries, such as South Korea, Formosa, South Indochina, Thailand, and so forth. The tide of communism would be greatly strengthened and the free world weakened.

8. There is one point however upon which a few segments of the textile industry and such other industries as may be adversely affected by imports have a legitimate complaint. This is that they are being sacrificed for the general good. "Why", they ask, "should we be compelled to take losses in order that the consumers and other industries may obtain gains? Since everybody else is working for their self-interest, why should we be expected to forego ours?"

In my judgment the only effective way to meet this complaint is to provide compensation to management and to the workers for the losses which they may suffer because of increased foreign imports. This could take the form of cash payments to management and an extension of unemployment benefits to displaced workers coupled with provision for retraining.

This was advocated by David McDonald as a member of the Randall Commission. It was in my judgment a great mistake for that Commission summarily to reject that proposal. Senators Humphrey, Kennedy, and I, among others, also advocated this plan in the debate last year on the reciprocal trade bill but were not successful in mustering much support for it.

Such a proposal is however fundamentally sound since it is only fair that the losses resulting from a given public policy should be at least partially met out of the net gains of such a program. Unless some such policy is adopted, it will be difficult to carry out a broader trade policy and the retreat from the Cordell Hull program is likely to proceed at an accelerated pace.

9. In short, if we pass this resolution and the executive authorities take the action which is implicitly recommended, I believe we will have opened a Pandora's box of mischief. I can only hope that the United States does not make the same mistake which we made in 1930. These are some of the reason why I feel compelled to oppose the passage of this resolution, and why I hope it will be rejected on the floor of the Senate.

PAUL H. DOUGLAS.

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