# FOREIGN TRADE

# HEARINGS

BEFORE THE

## SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

NINETY-SECOND CONGRESS

FIRST SESSION

ON

## WORLD TRADE AND INVESTMENT ISSUES

MAY 17, 18, 19, 20, AND 21, 1971

**Part 1 of 2 Parts**

**(Oral Testimony)**

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# FOREIGN TRADE

**MONDAY, MAY 17, 1971**

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2221, New Senate Office Building, Senator Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Long, Talmadge, Fulbright, Bennett, and Hansen.

Senator RIBICOFF. The Senate, over the last few years, has been subjected to some of the most intense lobbying it has ever faced over American trade policies. At the same time, we have seen major changes in the fortunes of the other economic powers in the world.

In the period immediately after World War II, we alone had the capacity to dramatically assist the reconstruction of the war-torn economies of the West. It was in our self-interest to do so. We had much to gain from a strengthening of Europe and global economic development. Our policies of assisting these nations, and of building up an international economic system of monetary and trade rules, such as the GATT, have been largely successful.

As a result of these policies, the European Common Market has become the greatest trading power in the world. Our policies have also enabled Japan to achieve superpower status through economic strength alone, without the burden of maintaining a significant military capability. Japan has reaped the benefits of the liberal international economic system we helped create, without significantly opening up its own domestic market to the rest of the world. Her stunning economic growth can be illustrated by noting that Japan's steel production will surpass that of the United States by next year, and that Japan might well overtake us in GNP by the turn of the century.

The United States is now in fierce trade competition with powerful and aggressive competitors, after a long period when American business was able to dominate world markets.

These changing economic forces, combined with the rising needs of developing countries have resulted in a fundamentally changed political power balance in the world. The geopolitical considerations which held the center of the foreign policy state of the 1950's and 1960's are rapidly being pushed aside by the new forces of ecopolitics.

Our Government now has no broad conception of what the United States role should be in the global economy. We have no foreign economic policy, and find ourselves reacting on a day-by-day basis to unexpected crises.

In the Senate we have listened to pleas on behalf of specific industries or groups of workers. We have been told that unfair foreign competition was damaging our domestic markets. We have heard from our union leaders that American corporations were exporting jobs by creating production facilities abroad. We have received requests for legislation to create new import restrictions to ease the problems at home and reduce the incentive for American corporations to move abroad.

On the other hand, we have heard our large multinational corporations claim that if they do not compete internationally, the Japanese or the Germans will seize the trade opportunities. From abroad we have heard threats of retaliation rather than offers for negotiation.

The fundamental question of how to help one party without hurting another is at the heart of our dilemma. At the same time it should spur us to conceive new policies which recognize our domestic difficulties, but which do not harm our export position or our foreign relations.

The purpose of these hearings is to explore the nature of the new world economic system we have created, and to examine how we can adjust to these global changes. It would be self-defeating to expect traditional solutions and the same old formulas to be able to meet the new challenges to American foreign economic policies.

What we hope to do during these first hearings of this Subcommittee on International Trade is to examine in their broadest scope the implications of future trade initiatives by our Government, and of future trade legislation in the Congress.

This week's hearings will cover such topics as the role of multinational firms in the world economy, the changing structure of economic power blocs, such as the European Economic Community, the resurgence of Japan as the second most powerful industrial country in the free world, the prospects on East-West trade, the implications of tariff preferences for less developed countries, and the adequacy of national trade policies and international institutions for coping with the challenges facing the United States in the 1970's and beyond.

Economic issues make powerful politics. It is time that our foreign policies reflected this fundamental fact. Only at rare moments in the history of American foreign policy has this been understood and clearly enunciated. It was expressed in 1944, when the international meeting at Bretton Woods led to our present monetary and trade system. It was expressed when Secretary Marshall called for a major foreign assistance program to aid the construction of Europe. It was understood by President Kennedy, who in 1962 stated:

> The success of our foreign trade, and our maintenance of Western political unity depends in equally large measure upon the degree of Western economic unity."

The monetary crisis of the last 2 weeks should have taught us that our passive policies on the balance of payments, and our hesitancy in pushing international monetary reform, have caused the dollar to be rejected by the very same countries who owe so much to American aid and American defense forces.

As I pointed out after my return from Europe earlier this year: While we concerned ourselves with the NATO order of battle, the Germans were more concerned over orders for Volkswagens.

In one sense the present dollar crisis is a false one, because it should never have erupted this way. The U.S. dollar ought to be the strongest of all the currencies of the world given the basic relative strength of our economy. But we have managed our dollar outflows poorly. Our corporations, for example, were permitted to move funds as it suited their own interests. But basically it was our inability to recognize the growing interdependence of the world economies that was our failing. Because of this, our domestic policies and our foreign economic policies in the future must be more closely tied than ever before.

The European reaction to our balance-of-payments difficulties has been to accuse us of neglecting our responsibilities. This is the price of leadership in monetary matters. But Europe can, by reacting politically, do great harm to our investment and national security interests abroad—and ultimately to her own.

Western Europe has shirked its own responsibilities as a great economic power. Europe's enormous energies instead have been largely devoted to solving the problems of small European farmers, at the expense of American farmers, and to solving the economic problems of certain African and Mediterranean countries, at the expense of the other poor countries of the world. A piecemeal, bilateral, foreign economic policy has been the best that Europe could muster.

The Common Market's drift toward special discriminatory arrangements is but a single part of a disturbing overall pattern. Another manifestation of this is Western Europe's growing profitable economic relationships with Eastern Europe and our own reluctance to trade with the East. While we have steadfastly held a security umbrella over Western Europe, she has carried on a profitable business with Eastern Europe.

How did we get into these predicaments? A good part of the answer is that we did not evaluate the economic as well as the political interest of the United States in making our foreign policy decisions. By failing to consider our own commercial interests carefully, we often failed to pursue our true political interests.

On Wednesday, the Senate will vote on Senator Mansfield's amendment calling for the halving of our troop deployment in Europe. Whether a Senator will vote for or against this specific proposal, he must be troubled by the confusion and contradictions in our foreign policies which has led us to this point. Congress has major responsibilities in setting our Nation's international commercial policies. It is now time for the executive branch to show a greater appreciation of this role, and to seek greater cooperation and coordination with the Congress. I hope that this subcommittee's hearings and review of our policies will start us on the road to a new era in American foreign policy—an era in which ecopolitics is acknowledged as a central issue in the closing years of this century.

Senator Talmadge?

Senator TALMADGE. Mr. Chairman, I compliment you on the statement that you have read. I concur wholly in everything that you said and I compliment your further on starting the meeting on time. I have spent more time waiting on committee meetings to start since I have been in the Senate than virtually any other thing. I like punctuality and I compliment you on it.

The distinguished Secretary, who is our first witness, met with the members of the Senate Finance Committee last week, and he was extremely forthright and candid about many of the problems that face the dollar at the present time, and I am sure he will make a very outstanding witness.

Senator RIBICOFF. Thank you very much.

Senator Hansen.

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

Mr. Chairman, I want to commend you and Senator Long for moving us ahead in this examination of the critical issues affecting the United States in the field of international trade. When we talk about foreign trade it ultimately comes down to a question of jobs. I am deeply concerned that American industries are being forced to move abroad to take advantage of low labor costs. The result is that American jobs are being lost.

I noted in Friday's Washington Post* that Henry Ford II, who is quite a free trader, admitted that American car manufacturers have not been able to slow imports despite the new compact cars. He said that foreign cars may wind up with 20 percent of the U.S. market, and that for every 1 percent increase in foreign sales, U.S. jobs decreased by 20,000. In other words, using his own figures, automobile imports alone could cost us 400,000 jobs. I am sure Mr. Meany will give us the job picture for the Nation as a whole.

The multinational firm has created a wholly new situation in the international trade. The multinational firm not only has a vested interest in keeping the U.S. market open for its exports from its subsidiaries abroad but is even more concerned about protecting its investments abroad. In fact, the multinational firm is the big protectionist but the protection is not for American jobs but for their foreign investments.

In addition to the job displacement problem it also appears to me that the present rules of international competition are not equal and that before we can speak of free trade we must be able to speak of fair trade.

Countries in the European Common Market and Japan have played by different rules of the game than has the United States. It is like playing a football game with the other team fielding 13 players to your 11.

Finally there comes a time when the political ambitions of any country exceeds its economic resources. The U.S. aid, trade, foreign investment, and military programs around the world exceed our ability to pay for them, and the result is a chronic deficit in our international balance of payments.

The State Department, which has been responsible for the direction of our postwar economic policy, appears to be living in the past, as if we could continue to afford to be the world banker, policeman, and Santa Claus.

The recent dollar crisis demonstrates the need for this country to take stock of where it stands in world trade and finance and where it is heading if we don't correct our balance-of-payments deficits.

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*See p. 208.

So, again, I wish to commend the chairman for initiating this broad ranging hearing with a very impressive and balanced witness list.

Mr. Chairman, if I may, after Senator Bennett makes a statement, should he choose to as I hope he will, I do have a statement I would like to place in the record for Senator Fannin who was not able to be here today.

Senator RIBICOFF. Thank you.

Senator BENNETT. I, too, am delighted that the committee has again embarked on a series of hearings on the problems of our international trade. We had such a series, all too brief, 2 or 3 years ago. We realize that these hearings are informational only; there is no specific legislation before us. Indeed we must wait to receive legislation from the House under the pattern that exists because of the constitutional assignments of the two bodies on matters affecting tariff and other tax income.

I, too, believe we have come now to a full generation in time since the immediate postwar programs were laid out at a time when we had most of the world's gold and most of its productive capacity.

I have come to believe that the GATT pattern is completely outdated, and it is necessary for us and, we hope, our trading partners, to try to develop a new pattern under which we can operate in a world where we are not the sole large producer but in a world in which there are other producers and traders whose capacity begin to approach ours.

I, too, am delighted that this series of hearings will be held. I think it can be very useful, and at this point, Mr. Chairman, I should like to make the point that Senator Fannin, who is the ranking minority member of this subcommittee, is at this moment in Japan trying to acquaint himself with the problem from the point of view of that very important trading nation, and you have a statement for him.

Senator RIBICOFF. I think Senator Fulbright is here and let's see if he has a statement. Senator Fulbright, would you have a comment as we open these hearings?

Senator FULBRIGHT. All I wish to say, Mr. Chairman, is that I think they are certainly timely, and I shall await the administration's and other views as to it. I can think of nothing that is more serious for the country than the question which you will be examining.

Senator RIBICOFF. Thank you very much—Senator Hansen, with Senator Fannin's statement.

Senator HANSEN. Mr. Chairman, I will read Senator Fannin's statement.

"Mr. Chairman, I believe that the issues to be discussed before this subcommittee this week are fundamental to the future of our Nation and the world. We are scheduled to hear from some of the top people in the area of world trade and investments. It is obvious that we in Government cannot continue to allow the erosion of the American position in world trade. American goods are losing out both to competition outside the United States and to imports within our country. The continued loss of jobs in the United States creates social and political, as well as economic, problems. Without jobs welfare problems are compounded; social progress and economic development comes to a halt. This certainly will create demands for strong protectionism, and thus we could face severe political problems both at home and in international relations. A continuing erosion of American jobs will bring a popular call for economic isolationism just as surely as complications in Southeast Asia have brought a swing toward political isolationism.

Americans are in no mood to tolerate international entanglements which are, or may be, detrimental to the best interests of the United States. It is my hope that these hearings will provide us with the insight we need to help chart a successful course in future world trade and investments.

I regret that the opening of these hearings coincides, as Senator Bennett has indicated, with the U.S.-Japan parliamentary program which I was committed to attend. It is my hope, however, that my work on this program in Japan will result in information that will be of value to our work on world trade, and after I return from Japan later this week I look forward to reading carefully the testimony of the distinguished witnesses appearing today and tomorrow before our subcommittee.

Thank you."

Senator RIBICOFF. Thank you very much.

Let us include at this point in the record the press release of Chairman Long reporting the formation of this subcommittee and the tasks with which it has been entrusted, as well as my own release announcing these hearings.

(The releases referred to follow. Hearing continues on p. 18).

PRESS RELEASE

FOR IMMEDIATE RELEASE
March 31, 1971

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 New Senate Office
Building

FINANCE COMMITTEE ESTABLISHES
SUBCOMMITTEE ON INTERNATIONAL TRADE

Following is the text of a statement by Honorable Russell B. Long, Chairman of the Committee on Finance, United States Senate, announcing the appointment of a special Subcommittee on International Trade:

"U. S. foreign trade is now more than an 80 billion dollar business. It affects virtually every aspect of American life -- production, incomes and jobs; profits and prices. In a word, foreign trade affects people, their livelihood and their families.

"We have witnessed the closing down of many American plants and the transfer of many others to foreign lands where lower wage rates abound. American dollars and credit -- hard to obtain here -- have flowed freely to build magnificent factories overseas. In the process, many American jobs have been lost. Unemployment, caused by foreign import competition, runs into the hundreds of thousands, and our welfare rolls are being swelled by American workers laid off because of import competition.

"As an indication of the degree to which foreign imports have hurt American jobs, the 24-million member AFL-CIO has recently called for quota mechanisms covering 'any products in which there is a loss of American jobs due to market disruption or the activities of American multi-national corporations.' This is a major switch for an organization which heretofore was in the vanguard of the free trade movement. It is undoubtedly a reflection of the feelings of the many unions belonging to the AFL-CIO. To these people -- good American citizens -- it is no consolation that shirts and shoes and automobiles may be a few cents cheaper because they are made abroad. These people have lost their jobs and cannot afford to buy shirts and shoes and automobiles, even for the low prices of foreign commodities. Unemployment compensation and welfare checks -- all charged to the American taxpayer -- are not much consolation for the workers. laid off because of imports.

"We have become a 'have not' nation as far as foreign trade policy is concerned. As Europe and Japan built themselves up into prosperous trading nations, with the help of governmental aid and protection, the United States continues to place meaningless slogans of 'free trade' and 'protectionism' ahead of jobs. As a nation, we are ducking the economic realities of the 1970's.

"Despite the fact that the world has changed swiftly and dramatically since World War II, our trade negotiators, concerned more with foreign 'good will' than American jobs, are still tooting the horns of free trade and shouting that those who stress the importance of American jobs are not acting 'in the national interest.'

"In light of all the changes that have taken place since our present trade policies were fixed at the end of World War II, it is time for this nation to reconsider our approach to trade matters. Hopefully, we should fix a new direction for U. S. trade policy, more attuned to the needs of the future, than to the goals of the past.

"As a step in this direction, I have appointed for the remainder of the 92nd Congress a new ad hoc Subcommittee on International Trade in the Committee on Finance. The function of this new Subcommittee will be to explore our trade policies, chronicle their failings and their shortcomings, and attempt to learn why our trade policies have not brought us the same economic successes as those enjoyed by Japan and West Germany -- nations which have made international trade the cornerstone of their whole economic program. With the information this Subcommittee can develop, the Committee on Finance, and indeed, the entire Congress, can be prepared to more effectively respond to the great need for an enlightened trade policy.

"In my opinion, it is appropriate for a Congressional Committee with legislative jurisdiction over the trade agreements program to undertake this sort of exploration. For too long, U.S. trade policy has been dominated by hired bureaucrats in the State Department. Probably to a greater extent than in any other Federal program, the trade agreements program, and the policies which frame it, have been isolated from the American people. These nameless and faceless bureaucrats who wield important influence on trade matters never have to answer to the voters for their neglect of American employers and workers, or for needless generosity to foreign countries on trade matters. This is wrong; the voice of the people should be heard, and the American system of checks and balances in the governmental process should be brought into play.

"For too long, the Congress has been dependent on the executive branch for leadership in setting trade policy, and for too long this policy has developed in diplomatic meetings motivated mainly by political policy considerations, wholly divorced from economic realities.

"The work which could be performed by the new Subcommittee on International Trade can provide Congress with an independent source of information, unsullied by State Department prejudices and free of bureaucratic inbreeding.

"I am pleased to announce that the Honorable Abraham Ribicoff (D., Conn.) will serve as Chairman of the Subcommittee. Senator Ribicoff is particularly suited for this role. For many years, he served with distinction and high honor as a Finance Committee delegate to the Kennedy Round of tariff-cutting talks at Geneva, Switzerland, pursuant to the Trade Expansion Act of 1962. In addition to the tremendous head start that work provided him, Senator Ribicoff has had first-hand experience with the sort of inept, hypocritical bumbling of which the State Department is capable when trade amendments are under consideration.

"No doubt, Senator Ribicoff recalls his amendment in 1966, dealing with the American Selling Price system of valuing imports of synthetic rubber protective footwear. While one group of Senate Department strategists were seeking to make peace with him, another group was working behind his back trying to line up support to kill the Ribicoff amendment. I am pleased to report that when it was all over, Senator Ribicoff's position in defense of the American rubber shoe industry prevailed.

"His defense of Congressional prerogatives was magnified by his fight for S. Con. Res. 100 dealing with the negotiation of agreements outside of the delegated authority provided by the Congress to the Executive. He also fought hard against the Canadian Automobile Agreement because the Agreement did not provide an adequate quid pro quo to this nation. Senator Ribicoff is a fair man so much so that his friends can justly call him 'Honest Abe.' I am confident that his leadership of this Subcommittee will add to his reputation for fairness and objectivity.

"In addition to Senator Ribicoff, other Senators serving on the Subcommittee will be:

Senator Herman E. Talmadge (D., Ga.)

Senator Gaylord Nelson (D., Wis.)

Senator Paul J. Fannin (R., Ariz.)

Senator Clifford P. Hansen (R., Wyo.)

Senator Wallace F. Bennett (R., Utah) and

I will serve in an ex-officio capacity.

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Senator Talmadge was also a Finance Committee delegate to the Geneva talks and has had broad experience in trade matters.

"It is my belief that this Subcommittee, working as a team, and speaking with a single voice, will render invaluable service in studying the trade question.

"The function of the Subcommittee will be exploratory, not legislative. No legislation will be referred to it, nor does the Committee on Finance expect it to recommend changes in the statutes dealing with foreign trade, although Senators serving on the Subcommittee will doubtless obtain much information which will lead them to suggest legislative answers to problems that they uncover.

"The Subcommittee's primary role will be to help educate Senators and others on major foreign trade issues, considerations and implications. The exploratory hearing process will be its principal tool.

"In performing its work, I would hope that the new Subcommittee will direct considerable attention to the features of the General Agreement on Tariffs and Trade, particularly those which contribute to many of the trade problems we face today. Last year, the full Committee discussed the major trade problems facing this country, and it decided that there were a number of major issues which required intensive study. These included:

(1) The most-favored-nation (MFN) principle and the exceptions thereto; the effect of MFN exceptions of intra-regional and extra-regional trade where common markets and free trade areas are concerned;

(2) The GATT provisions and interpretations on export subsidies and border taxes, the rationale underlying the differing treatment of 'direct' and 'indirect' taxes insofar as border tax adjustments are concerned, and the U. S. negotiating position on border tax adjustments;

(3) The adequacy of GATT provisions dealing with agriculture;

(4) The adequacy of the balance of payments exceptions in Article XII of GATT;

(5) The GATT provisions on unfair trade practices, fair international labor standards, and relief from injurious imports;

(6) The GATT provisions on 'compensation' and 'retaliation.'

"In addition, I would hope that the Subcommittee's inquiry will include an examination of nontariff barriers, and other matters, such as:

(1) The quantitive restrictions that remain in effect in many countries such as Japan;

(2) The common agricultural policy of the EEC;

(3) The border tax-export rebate system of the EEC, and the reasons why indirect tax rebates on exports are not considered 'bounties or grants' within the meaning of the countervailing duty statute as interpreted by Supreme Court cases;

(4) Discriminatory government procurement policies;

(5) The probable effects of British entry into the Common Market on U. S. trade and balance of payments;

(6) The effect of foreign exchange-rate changes on United States trade and tariff concessions;

(7) An analysis of whether or not greater flexibility in foreign exchange rates would serve in the interests of United States and world trade;

(8) The nature and extent to which other countries subsidize their exports, directly or indirectly;

(9) A comparative analysis of various proposals to extend tariff preferences to the products of less developed countries with particular emphasis on the effects on U. S. trade and investment patterns and on U. S. labor;

(10) The various agency responsibilities within the executive branch for handling all U. S. foreign trade matters, and the means by which policy coordination is achieved.

"Finally, I would hope that the Subcommittee will look into the following matters of particular significance in international trade:

(1) The tariff and nontariff barriers among principal trading nations in the industrialized countries, including an analysis of the disparities in tariff treatment of similar articles of commerce by different countries and the reasons for the disparities;

(2) The nature and extent of the tariff concessions granted in trade agreements and other international agreements to which the United States is a party by the principal trading nations in the industrialized countries;

(3) The customs valuation procedures of foreign countries and those of the United States with a view to developing and suggesting uniform standards of custom valuation which would operate fairly among all classes of shippers in international trade, and the economic effects which would follow if the United States were to adopt such standards of valuation, based on rates of duty which will become effective on January 1, 1972; and

(4) The implications of multinational firms on the patterns of world trade and investment and on United States trade and labor.

"I am pleased that Senator Ribicoff has agreed to serve as Chairman and coordinate the work of this new Subcommittee on International Trade. With his fair and impartial leadership, I am confident the work of the Subcommittee will proceed smoothly and that it will earn for the Committee on Finance the same high honor as the Subcommittee on Health Care earned in 1970 under the able leadership of Honorable Clinton P. Anderson of New Mexico. I might add that the success of the Subcommittee on Health Care contributed to the decision to establish this Subcommittee on International Trade, and the basic working arrangements of both of these Subcommittees are identical.

"As in the case of our earlier Subcommittees, the new Subcommittee on International Trade will be staffed by members of the Finance Committee staff. Although our staff is small, it is highly competent, and I know the Subcommittee will profit from the contribution the staff can make to its work.

"I urge the Chairman to promptly call a meeting of his new Subcommittee to lay out the groundrules under which its work will be performed. With this step behind it, the Subcommittee can begin coordinating its hearing process with other work of the Committee on Finance."

PR# 6

Senator Abe Ribicoff (D-Conn.)
Announces First Hearings of
Subcommittee on International Trade

Release AM Monday, May 10, 1971

WASHINGTON, D.C. -- May 10 -- Senator Abe Ribicoff (D-Conn.), Chairman of the Subcommittee on International Trade of the Senate Finance Committee, announced today he will conduct hearings during the week of May 17 through May 21 on world trade and investment issues.

Lead-off witness will be Treasury Secretary John B. Connally, who will testify at 10 AM Monday, May 17 in Room 2221 of the New Senate Office Building.

Senator Russell B. Long (D-La.), Chairman of the Finance Committee, created the Subcommittee on International Trade in March, appointing Senator Ribicoff as Chairman and as members Senators Herman Talmadge (D-Ga.), Gaylord Nelson (D-Wis.), Paul J. Fannin (R-Ariz.), and Clifford P. Hansen (R-Wyo.). Senators Long and Wallace F. Bennett (R-Utah) are ex-officio members of the Subcommittee.

The Chairman said the hearings will explore the significance of changes underway in the structure of the world economy as they affect the U.S. economy and American foreign policies.

Subjects to be examined include changing political and economic relationships around the world, the emergence of an enlarged European economic bloc, the rapid ascendancy of Japan and Eastern Asia in the global economy, the prospects for increased East-West trade and the adequacies of national trade policies and international rules and institutions for coping with the changing conditions in the world economy.

The Chairman said the changing conditions of world trade and production are related to the problems and economic prospects of the developing nations. The hearings, he said, therefore will include preliminary consideration of the implications of tariff preferences for the products of less developed nations.

The hearings will also cover the rapidly changing patterns of world agriculture production and consumption, with special attention to the so-called "Green Revolution" for both the developing nations and the U.S.

In addition, the Subcommittee will examine existing impediments and distortions to world trade and the recent tendency toward retaliatory trade policies.

Senator Ribicoff said that the witnesses who have been invited to testify represent a broad range of views of foreign trade policies and problems. The witnesses and the days they will testify are:

May 17

John B. Connally, Secretary of the Treasury

Joseph Wright, Chairman, Zenith Corporation

Dr. N.R. Danielian, President, International Economic Policy Association

May 18

George Meany, President, AFL-CIO

Heindrick Houthakker, member, Council of Economic Advisors

Ely R. Callaway, President, Burlington Industries

May 19

George Ball, former Under Secretary of State

Sam Pisar, international attorney, Paris

Senator Fred R. Harris (D-Okla.)

May 20

Clarence D. Palmby, Assistant Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture

D.W. Brooks, Chairman, Goldkist, Inc.

Orville Freeman, President, Business International Corporation, and former Secretary of Agriculture

May 21

Fred J. Borch, Chairman, General Electric

Kenneth Davis, former Assistant Secretary of Commerce for Domestic and International Business

Roger S. Ahlbrandt, President, Allegheny-Ludlum Industries

The Chairman said the Subcommittee wishes to obtain a broad range of views and welcomes the submission of written statements for the record. These statements should be typed, double spaced, and have a summary. Five copies should be filed with Thomas Vail, Chief Counsel, Senate Committee on Finance, Room 2227 New Senate Office Building, Washington, D.C., 20510 by June 15. These statements will be considered by Subcommittee members.

Subsequent hearings by the Subcommittee will focus on specific issues and problems facing the U.S. in international trade. Persons interested in a particular trade problem can participate in the Subcommittee's oversight review at later hearings.

Senator Ribicoff also announced that the Subcommittee at its first executive session agreed to request the Executive Branch to undertake the studies which the full Committee had directed in the Trade Act of 1970, legislation which was not enacted into law.

Attached are texts of Senator Ribicoff's letters to Peter Peterson, Assistant to the President for International Affairs, and to Dr. Glenn Sutton of the Tariff Commission.

April 21, 1971

Dear Mr. Peterson:

As you know, the Committee on Finance determined in its deliberations over the Trade Act of 1970 that the Executive branch and the Tariff Commission should undertake a number of comprehensive studies in the field of foreign trade. The studies requested of the Executive are listed below:

(1) The most-favored-nation (MFN) principle and the exceptions thereto; their effect of MFN exceptions on intra-regional and extra-regional trade where common markets and free trade areas are concerned;

(2) The GATT provisions and interpretations on export subsidies and border taxes, the rationale underlying the differing treatment of "direct" and "indirect" taxes insofar as border tax adjustments are concerned, and the U.S. negotiating position on border tax adjustments;

(3) The adequacy of GATT provisions dealing with agriculture;

(4) The adequacy of the balance of payments exceptions in Article XII of GATT;

(5) The GATT provisions on unfair trade practices, fair international labor standards, and relief from injurious imports;

(6) The GATT provisions on "compensation" and "retaliation";

(7) The quantitive restrictions that remain in effect in many countries such as Japan;

(8) The common agricultural policy of the EEC;

(9) The border tax-export rebate system of the EEC, and the reasons why indirect tax rebates on exports are not considered "bounties or grants" within the meaning of the countervailing duty statute as interpreted by Supreme Court cases;

(10) Discriminatory government procurement policies;

(11) The probable effects of British entry into the Common Market on U.S. trade and balance of payments;

(12) The effect of foreign exchange-rate changes on United States trade and tariff concessions; and

(13) An analysis of whether or not greater flexibility in foreign exchange rates would serve in the interests of United States and world trade;

(14) The nature and extent to which other countries subsidize their exports, directly or indirectly;

(15) A comparative analysis of various proposals to extend tariff preferences to the products of less developed countries with particular emphasis on the effects on U.S. trade and investment patterns and on U.S. labor;

(16) The various agency responsibilities within the executive branch for handling all U. S. foreign trade matters, and the means by which policy coordination is achieved.

The Subcommittee on International Trade of the Finance Committee met in executive session on April 20 and agreed to request the Executive and the Tariff Commission to undertake these studies as soon as possible. I am writing to the Chairman of the Tariff Commission requesting the separate studies which the full Committee requested from that organization.

Your office appears to be well equipped to coordinate the Executive branch's effort in completing the studies requested by the Finance Committee last year. The Subcommittee believes that the results of these studies could lay the foundation for a trade policy adequate to the needs of the 1970's. We would hope that you would provide the Committee with in-progress reports and analyses on these issues as they are completed, rather than waiting until all the studies are completed.

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April 21, 1971

Dear Mr. Commissioner: (Sutton)

As you may know, the Committee on Finance determined during its deliberations of the Trade Act of 1970 that the Tariff Commission should undertake a number of studies dealing with crucial issues in the field of foreign trade. These studies are listed below:

(1) The tariff and nontariff barriers among principal trading nations in the industrialized countries, including an analysis of the disparities in tariff treatment of similar articles of commerce by different countries and the reasons for the disparities;

(2) The nature and extent of the tariff concessions granted in trade agreements and other international agreements to which the United States is a party by the principal trading nations in the industrialized countries;

(3) The customs valuation procedures of foreign countries and those of the United States with a view to developing and suggesting uniform standards of custom valuation which would operate fairly among all classes of shippers in international trade, and the economic effects which would follow if the United States were to adopt such standards of valuation, based on rates of duty which will become effective on January 1, 1972; and

(4) The implications of multinational firms on the patterns of world trade and investment and on United States trade and labor.

The Subcommittee on International Trade of the Senate Finance Committee met in executive session on April 20 and agreed to request the Tariff Commission to proceed to study these issues and report to the full Committee as it completes various phases of its work. We would hope that the Commission could supply the full Committee with the results of its findings on these issues on a timely basis together with supplementary materials which may aid the Committee in its oversight review of U. S. foreign trade policies.

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Senator RIBICOFF. Secretary Connally, we welcome you here today. In your short time as Secretary, we on the Finance Committee have been very much impressed with your candor. You have been most cooperative with the committee, both in executive session and in public session, and I think it is significant that you are the leadoff witness today.

It is the feeling of many of us that in the past the dominant role in trade policy has been that of the State Department. There is a very strong feeling shared by many of us that in charting trade policy the State Department has often subordinated matters of trade and investment to the geopolitical factors without due consideration of the economic factors involved.

We also feel that the State Department is very weak in the fields of foreign economics, and in international trade and investment. I have found in the 8 years that I have been on the Finance Committee, that, invariably, almost every other department of the Government that has a role to play in international trade has consistently had to subordinate its position to that of the State Department.

We believe that this is not always wise. There are definite roles to be played by the other departments. We feel that the Treasury Department should have more to say about the monetary and trade policies of our Nation.

So we welcome you here today, Mr. Secretary.

## STATEMENT OF HON. JOHN B. CONNALLY, SECRETARY OF THE TREASURY, ACCOMPANIED BY PAUL A. VOLCKER, UNDER SECRETARY FOR MONETARY AFFAIRS, AND JOHN R. PETTY, ASSISTANT SECRETARY (INTERNATIONAL AFFAIRS)

Secretary CONNALLY. Thank you, Mr. Chairman.

Distinguished members of the committee, I am grateful for the opportunity to appear this morning and, Mr. Chairman, may I add my own compliments to those of the others to you for holding these hearings. I think indeed they are important, and I am sure they will produce much that will be of benefit to the Congress, to the administration, and to the country.

I am privileged to be the first witness before this Subcommittee on International Trade and, if I may, I would like to read a relatively brief statement and then respond, hopefully, to any questions that you may have.

Senator RIBICOFF. Will you, please? I would hope that the members of the committee the first time around would confine themselves to a question period of 10 minutes each so that in all fairness to all the other members of the committee everyone will have an opportunity to question the Secretary.

You may proceed.

Secretary CONNALLY. Before I begin, sir, with my formal statement, may I present two gentlemen here who are at the table with me? I think you know them both: Mr. Paul Volcker, the Under Secretary of the Treasury for Monetary Affairs; on my right, Mr. John Petty, the Assistant Secretary for International Affairs.

Mr. Chairman, I welcome this opportunity to discuss with you and with this subcommittee the broad aspects of our international economic policy.

As you know better than I—you submitted to the Finance Committee a very thoughtful report concerning trade policies in the 1970's—you indicated that we are at a watershed.* You said that in the future we must have both a change in direction and a change in emphasis in pursuing our foreign economic policy objectives. And you also stated that those changes in direction and emphasis had to be accompanied by a corresponding change in the means of pursuing our objectives.

I agree strongly with all of these conclusions. And in this prepared statement, I would like to take just a few minutes to underline that agreement, and to capsule the type of actions necessary both at home and abroad, if we are to succeed in this important effort.

The road to good international economic relations is not a one-way street. No nation, regardless of power or prestige, can or should "call all the shots" for the free-world community. Nor can we or others, in building a world order, expect to rely for long on the goodwill or largess of friends. We need to recognize that lasting cooperation among nations depends not on friendship in the personal sense, but on the solid base of national strength and national interest. By taking a long and broad view of our interests, and building on the elements of common needs and aspirations, we can expect strong allies in our endeavor to maintain a flourishing world economy.

To play our proper role in the new age to which you refer, there are things that we must do at home. Just as important, there are steps that must be taken by us and by our trading partners in building better trading relationships abroad.

For many years, as you pointed out in your opening statement this morning, we had the luxury of competing with economies still recovering from war. We prospered during this period. Now, circumstances have changed in the world. We must change to meet these new circumstances. A generation of ease and affluence enjoyed by labor and business alike, a period when our strength was so apparent that erosion in our competitive position was almost unnoticed, is over.

As we enter the 1970's the relative economic strength of our major trading partners is abundantly clear. The European Economic Community is now the world's largest trading bloc, with large and persistent trade surpluses. The prospects are that its membership and economic base will soon be further expanded. Japan has achieved a truly remarkable rate of growth. It now records the second highest Gross National Product and among the largest trade and balance-of-payments surpluses in the free world.

The simple fact is that in many areas others are out-producing us, out-thinking us, out-working us, and out-trading us. Analysis of trends in our balance of payments underlines this.

I do not refer just to the statistics for the first quater of 1971, to be released today. Those results are bad, they are very bad. They depict a deficit of over $5 billion on the official settlements basis for the 3 months alone. The liquidity deficit exceeded $3 billion.

*Appendix E, page 965.

Clearly, that level of deficit is not sustainable. However, we should clearly recognize that the major cause of these extraordinary dollar outflows is transitory—interest rates here which are lower than those in Western Europe. That imbalance will be largely corrected as economies move back into phase.

What disturbs me more than the first quarter deficit is the underlying trend in our trade and current account position. Our trade surplus rose in the first quarter, but still ran below the rate for 1970 as a whole. More importantly, it remains far below the levels of the early sixties, and below the amount we need to achieve an equilibrium in our balance of payments.

To keep pace in this world economy, our first task is to attend to our own economy. We must restore the stable, non-inflationary growth that was disrupted by the domestic financial policies of the late sixties.

We are well on the way down this difficult road. Our strategies for further containing inflation, while raising output and reducing unemployment, are working. In particular, we have begun to restore the base for a stronger international position; last year, unit labor cost in the United States rose only one-third as much as the average of our major competitors. This is heartening evidence of fundamental progress.

But the journey is far from over. We cannot afford to sit back and count on poor performance abroad. Thus, the remaining challenge before us at home is plain.

Our domestic economic strategy of balanced and sustainable recovery will help rebuild our trade surplus—but only slowly. In addition, we cannot hope to achieve a full measure of success unless markets are open to us and unless we are able to compete fairly with our trading partners abroad.

Indeed we must paint on a larger canvass than trade alone. We are now at a decisive point in our economic affairs. The challenge in foreign economic policy for the seventies involves three elements. First, the necessary mutual security arrangements for the free world must be maintained in full concert with our allies, with a fair sharing of the burden. Second, multilateral cooperation must be broadened in the financial and development assistance areas. Third, the efforts to foster increased competitiveness in our economy must be actively pursued in the context of fair and liberal trading arrangements.

It is this last area that seriously concerns this committee today. I believe we have legitimate complaints about some of the practices of other nations—now in a very strong position—that have the effect of blunting our competitive effort. Twenty years—even a decade ago—these practices might have been understandable. I believe the strength of other nations should now permit new initiatives to break down these barriers.

Mr. Chairman, I do not want to be misunderstood. I am not pleading with other nations to reduce barriers and open markets in return for what the people of the United States have done for them in helping to recover from the ravages of World War II. My point is simply that today we are in a different world—and there is a common interest in achieving new and balanced trading relationships.

Mr. Chairman, there is yet another area—in addition to efforts by our Government and by governments abroad—in which a new approach is necessary. I refer to the private sector.

Bluntly stated, the statesmanlike leadership that the President of the United States has evidenced in dealing with this Nation's foreign and domestic problems has not been correspondingly matched in the private sector. This is a time for the private sector to do everything possible to hold down the rise in labor costs, to avoid unnecessary increases in interest rates, and to speed the return to price stability.

It is time for Americans to realize that stronger efforts have to be made to raise productivity. We find it too easy to blame the Government when, in fact, we are all part of the factors which govern the course of our economy. Labor and business have a bigger stake, a larger voice, and a stronger hand in this economy than Government does. It is now time for them to use that strength constructively.

Our trading position shows that we will have to work harder just to maintain our position. This Nation—its industry and its labor—must help redress the decline in our competitive position and improve our economic performance in foreign markets. Government should help when necessary and appropriate with credit support, by fair taxation, and by promoting our technological leadership. This is why the administration has strengthened the Export-Import Bank activities. This is why we will resubmit our proposal for a Domestic International Sales Corporation, changing the tax treatment of exports in a way to awaken our companies to the opportunities abroad. And this is why I am distressed at the reduction in Federal expenditures on basic research and development.

Now, I realize that there may be a tendency to think, or at least hope, that our international financial problems can be taken care of by some sort of monetary magic. Nothing could be further from the truth. Money itself cannot produce, increase efficiency, or open markets abroad. Our monetary system functions well only as the economy as a whole functions well. A dollar is not just a piece of black and green paper with George Washington on one side and a big ONE on the other. That little piece of paper represents and reflects the economic vitality—or lack of it—of this country.

When this administration calls upon businessmen, labor leaders, and bankers to put their respective shoulders to the wheel and work together for the common good, we may run the risk of being described as old-fashioned, for what I am calling for is a return to the principles of hard work and responsibility—principles that are reflected in high and rising levels of productivity. Productivity, in its broadest sense, is truly "the name of the game" in the hard competitive world of international trade. I do not at all mind being called old-fashioned when the standard of living of the American people—their personal and economic security—is at stake.

At the same time, the private sector, from whom I am calling for renewed effort, has every right to expect and certainly should receive a more attentive interest and a more insistent effort in protecting our economic and financial interests around the world.

Senator RIBICOFF. Thank you very much for an excellent statement, Mr. Secretary.

Mr. Secretary, the recent dollar crisis in Europe shows that the existence of the Eurodollar market can be very dangerous to international stability. What proposals would you suggest to control the Eurodollar market, which is estimated to be more than $50 billion? Wouldn't it be better if we tried to come up with some ideas on how to manage this money instead of waiting for other nations to make proposals how to manage this $50 billion?

Secretary CONNALLY. Well, obviously, Mr. Chairman, any ideas for stabilizing the international monetary situation should be welcomed, whether from this country or from countries around the world.

I think the time has come, however, when we should recognize that it is not we alone who have the responsibility for always initiating conversations and discussions in this particular field.

Let me at this point simply say that whereas the recent events in Europe have been labeled by some as a monetary crisis, I do not view it as such. I think it is a monetary disturbance. Obviously, I regret the implication that the dollar has weakened to the point where it causes such a disturbance. I basically do not believe that the dollar is weak. I do believe that the German mark could be undervalued; I do believe the Japanese yen may be undervalued. But it is significant that when the Deutsche mark floated it only floated about 3 percent and the Dutch guilder only about 1 percent, so then there has not been any tremendous fluctuation or evidence of a great deal of undervaluation.

Now, as you well know, Mr. Chairman, when you start talking about the management of international currencies and international monetary affairs, a great many people have different views on that. I think we can start out with one basic premise, and that is not anything we do or not anything that is done is going to satisfy everybody because there are a great many people in the world, in the financial world, who believe we must maintain at almost any cost a fixed parity exchange rate.

There are a great many other people equally sincere, equally knowledgeable, who believe that the best thing that could possibly happen to us, to the United States, is to let other currencies float against the dollar. So I think we start out with one basic assumption, and that is that we are going to have a widely divergent view on what is good for us and what should be done, if anything.

Senator RIBICOFF. But you still have the basic problem of the $50 billion Eurodollar market being used against our best interests and, being manipulated by banks in Germany, Switzerland, and Japan. Isn't this a concern? This money is being used to further different policies than our own. Is there no way that we, as a Nation, can have more to say in the management of these $50 billion floating around Europe?

Secretary CONNALLY. We cannot do it unilaterally; no, sir. There is a mechanism, there has been a mechanism, as you well know, through the International Monetary Fund where there was an agreement to basically control the parity of exchange rates, and it was this very parity that led to the breakdown because the West German Government felt that they could no longer support the dollar at the parity level that had been established. They were taking in too many of them. This crisis originally occurred because of the disparity between interest rates here and interest rates abroad. At that time we did move to, very frankly, sop up some of those Eurodollars and take them out of the market. We did it through a billion and a half borrowings through the Export-Import Bank, and later through the issuance of a billion and a half Treasury securities, so we took $3 billion out of that market.

But, frankly, it was not all just monetary problems, in my judgment. The German Government had problems of their own.

I do not want to be critical of them. They have problems as every nation does. They have a high rate of inflation there, they were trying to stop it, they were trying to do it with very high interest rates, which, inevitably, attracted dollars into Germany. They have an extremely low rate of unemployment, they have a very thriving economy, extremely prosperous. They have tremendous foreign asset reserves, approximately $16 billion, and they kept talking about how they were not sure that the parity was correct, and that there might have to be some reevaluation. There were five or six institutes that came out and thought probably some changes should be made. Well, they signaled enough, telegraphed enough, to speculators to where, in my judgment, much of the movement that later occurred was the result of speculative money moving.

Senator RIBICOFF. Now, the figures you have given us today are certainly disturbing. You say today that for the first quarter we have a $5 billion official settlement balance-of-payments deficit, and $3 billion liquidity deficit, and you make the statement that one of the ways to solve our problem is a fairer share of the burden of defense.

The other day The Washington Post quoted you as saying that one way to solve the balance-of-payments problems is to bring the 6th Fleet home. Would that indicate that you would approve Senator Mansfield's proposal that we have our troops in Europe reduced?

Secretary CONNALLY. No, sir; it does not indicate that, and I think this gives me an opportunity to say that The Washington Post, a very excellent newspaper, took a remark that was out of the context of what I said in meeting with the editorial board of The Washington Post.

What I said to them was that I thought the time had come for us not to try to talk solely in monetary terms in dealing with other nations; that we also had to consider the mutual security arrangements that existed around the world, and our contribution to that mutual security, and that we also have to consider our fine investments, we have to consider monetary affairs, surely, but that when we entered into trade negotiations that we ought to consider the entire thing; that we ought not to try to separate how to adjust monetary affairs and deal with those alone. And I asked a rhetorical question, how much better shape would we be in if we brought home the 6th Fleet or a great number of troops from Europe. I did not recommend we do it. I raised the rhetorical question and, obviously, our military commitments abroad, cost us a net of about $3.5 billion a year. They cost us in Europe alone about $1,700 million. These costs are offset by approximately $800 million, but leaving a net of $900 million or approximately that, $900 million to $1 billion.

Well, this is 40 percent of our basic balance deficit, so it is important. But the point I was trying to make, the point I want to make here, Mr. Chairman, is I am not for the Mansfield amendment. I think it is the wrong approach to solve the problem. We do not even have to address the basic question of whether or not we maintain troops in Europe.

If it is important—and I think it is important—to maintain troops there for our mutual security, what I am saying is that so long as some of these countries are in much better economic condition than we are they can pick up a larger share of the costs. That is what I am saying.

Senator RIBICOFF. I agree with you.

Let us take that one step further. The Germans have some $11 to $12 billion in surplus as I note herein the excellent study prepared by our staff. And I wish to compliment Bob Best of our staff for preparing it. It shows that the percent of our gross national product spent for defense in 1970 was 8.9. The Germans have spent 3.9. The percent of our budget in 1970 for defense was 36.8 and the Germans' was 24.5.

Under those circumstances, even if our troops should remain, why shouldn't the amount that contributes to our balance of payments deficit be picked by Germany, where the bulk is being expended? Germany is one of the most prosperous nations, and one of the countries causing our balance of payments problems.

Secretary CONNALLY. Well, Mr. Chairman, I will answer it this way. Taking the figures which you have given, and the fact that last year we spent 8.9 percent of our gross national product for defense, and Germany spent approximately 3.5 or 3.8 percent of their GNP for national defense, Japan spent 0.8, less than 1 percent for their national defense——

Senator RIBICOFF. That is correct.

Secretary CONNALLY.—and given the restrictive barriers, they now have tariff barriers, and other administrative barriers, that they impose against our products in international trade, I do not know how anyone can assume that we can compete with them on this kind of level for a protracted period of time. I think there basically has to be some reorienting of priorities and some reorienting of interest so far as this Nation is concerned.

Senator RIBICOFF. Well, I would like to pursue this, but I want the time restriction on questioning applied to me, too. I have used up my 10 minutes and I will pursue my own inquiries after the other members have had an opportunity of questioning you, Mr. Secretary.

Senator Talmadge.

Senator TALMADGE. Thank you, Mr. Chairman.

Mr. Secretary, I compliment you on your statement, particularly the last response.

If I correctly interpret what you said, the West Europeans not only let us defend them but they also out trade us while we outspend them for military defense. Is that correct?

Secretary CONNALLY. Yes, sir; that is correct. I think, in fairness, Senator, we ought to admit we got into this position in just being coldly analytical about it. We are still on a course set twenty, twenty-five years ago, and we are still pursuing it without really realizing where we are headed. Back about that time, as I tried to point out in my statment, we had all the economic vitality. Many of the nations that are now our most serious trading partners were in devastation and ruin. We had all the resources in the free world. We did all our best in self-interest and compassion to rehabilitate and rebuild those nations, and we have done so to the point where they are now our very, very strong competitors.

I have no argument, I have no disagreement with what was done. I think the program that was followed by this nation was an excellent one. I think it was wise, I think it was humanitarian, but I think the time has come when we have to change our postures.

Senator TALMADGE. I agree fully. Now, you stated a moment ago there are $50 million American dollars floating around in Europe.

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. If those dollars were presented to a central bank in Europe they can then demand gold for those dollars, can they not

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. How much gold do we have at the present time?

Secretary CONNALLY. Approximately ten and a half billion.

Senator TALMADGE. In other words, we have about five times as many short-term dollar claims overseas as we have gold to pay them off; is that correct?

Secretary CONNALLY. That is approximately correct.

Stated another way, Senator—and I do not want to here leave the impression that we are a bankrupt Nation, and I know you don't—it is fair to say that our liabilities exceed our foreign asset reserves by approximately 3 to 1. There is no question but what we do not have sufficient gold reserves to meet all of the demands of outstanding liabilities, assuming they were all presented at the same time. But this does not concern me to the extent that some might assume, simply because other nations know this, they know that they have an obligation and a responsibility and a duty, and I do not think we are going to be confronted with this hypothetical case at all.

Senator TALMADGE. Let us put it this way then: suppose the United States were a national bank rather than a government. The Comptroller of the Currency would be required to close us down before noon today, wouldn't he?

Secretary CONNALLY. The policy of this Government has been, and continues to be, and will be, that we do not anticipate such an event occurring and we are not thinking in those terms at all.

Senator TALMADGE. But does not the Comptroller of the Currency close down a bank when its short-term liabilities gets greater than its short-term assets?

Secretary CONNALLY. They can, sir; and I am not going to argue, sir; with your arithmetic. I am not going to argue with that at all.

Senator TALMADGE. One further thing, Mr. Secretary. Senator Ribicoff referred to a portion of your statement in which you said that clearly the level of deficit is not sustainable. However, you said, we should clearly recognize that the major cause of these extraordinary dollars outflows is transitory. You said that interest rates here are lower than those in Western Europe, thus creating an imbalance, and that this imbalance will be largely corrected as economies move back in a phase.

How long has it been since we have had a favorable balance of payments on the part of the U.S. Government?

 

Secretary CONNALLY. Well, I was not thinking of a balance of payments at that point, Senator. I was thinking in terms primarily of the interest rates disparity. We have had only 3 favorable years in terms of official settlements in the last 11 years. Now, we generally have a favorable trade account. We did last year, $2.3 billion on a balance-of-payment basis.

Senator TALMADGE. We are at the moment. But let us develop a little further this balance-of-payments point. My recollection is that there has been a deficit in 19 of the past 21 years; is that correct?

Secretary CONNALLY. I believe that is correct, although we had an official settlement surplus in 1966, 1968, and 1969, Senator.

Senator TALMADGE. Do you know what the accumulative deficit is on those balance of payments in the last 21 years?

Secretary CONNALLY. I have not totaled it up; no, sir.

Senator TALMADGE. We would not have $50 billion floating around in Europe unless it was extremely huge, would we?

Secretary CONNALLY. No, it has been large, beyond any question. I think it is only fair though to point out that at this state that this $50 billion Eurodollars sum, and the fact that we have had a negative balance of payments over most of the 20 years does not reflect that we have a very strong net assets position in the form of investments abroad. We have approximately $70 billions of investments in Europe, too. Now, admittedly, those are not government investments. They are private U.S. investments, but this should be considered when we talk about the number of Eurodollars in Europe.

Senator TALMADGE. Sometimes, it is quite difficult to swap a factory for dollars instantly, is it not, Mr. Secretary?

Secretary CONNALLY. Yes, it is.

Senator TALMADGE. In other words, it is a frozen instead of a liquid asset.

Secretary CONNALLY. In that sense it is.

Senator TALMADGE. The staff just handed me a treatise showing that from 1950 through 1970 our balance of payments, on a liquidity basis, showed an accumulative deficit of $48 billion, 171 million; is that substantially correct?

Secretary CONNALLY. I do not have any argument with that figure; no, sir.

Senator TALMADGE. Changes in gold during that period amounted to minus $13 billion, 492 million. That is the balance of payments.

You made reference to the trade factor a moment ago, Mr. Secretary. You are aware, of course, of the fact, that 112 nations treat their exports and imports on a different basis from what we do?

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. Ours is FOB, and theirs is CIF.

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. That does not include the freight and insurance factors on the items. You are aware of the fact that those factors run about 10 percent of the commodities, is that not correct?

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. Then, using that as a basis, the trade factor is not at all as favorable as the statistics of our Government would lead us to believe. In 1970, on a commercial balance or CIF basis we had an unfavorable trade balance of $3.2 billion. In 1969 our unfavorable trade balance was $4.4 billion. In 1968 our unfavorable trade balance was $5.1 billion. In 1967 our unfavorable trade balance was $1.4 billion. In 1966 our unfavorable trade balance was $1.5 billion. That is accumulative unfavorable trade balance during the last 5 years on a CIF basis of around $15 billion; is that not correct?

Secretary CONNALLY. That is correct, sir.

Senator TALMADGE. Isn't it high time we started doing something about it?

Secretary CONNALLY. That is the whole point, Senator, I think of these hearings. It certainly is the thrust of my testimony this morning, that our balance of payment—and we have been reporting on ours on this basis for a long, long time—whether you use FOB or CIF figures, our balance-of-payments picture is not good, and I think it is time we have to try to do something about it.

Senator TALMADGE. My information is that the GATT rules themselves authorize quotas, tariffs, or whatever a nation wants to impose when they have an unfavorable trade balance or a deficit on their balance of payments; is that not correct?

Secretary CONNALLY. I believe that is correct under article XII, I believe it is, of the GATT rules.

Senator TALMADGE. Why haven't we taken action to do that?

Secretary CONNALLY. Simply because—well, I am not sure. I do not know the answer to your question now. I would assume that the administrations of the last several years have not done so for a number of reasons, not the least of which is that we have not wanted to set off a trade war. We have not wanted to put ourselves in position of being parochial and isolationist. We do not want to try to withdraw into a shell. We realize that international trade is an essential element of the progress of this Nation, and I think we have given weight to all of those factors. I think we have been too lenient in some of our dealings, I think we have been too lenient in letting others do things that we ourselves have not done.

Senator TALMADGE. Getting to the trade war aspect of it, Mr. Secretary, isn't it a fact that Japan, which has a favorable balance of trade with us of a billion and a half dollars a year, has import quotas on some 98 different commodities, and is, in fact, the most restrictive trade nation on the face of the earth today?

Secretary CONNALLY. I would not question that. No question but what they do have many commodities under quota restriction, and in addition to those they have a highly complex set of administrative requirements of the nontariff barrier type that the American businessman is confronted with. There is not any question about that.

Senator TALMADGE. Isn't it a fact also that there are various European countries which talk about a trade war while they themselves place quotas on the importation of many cheap Japanese products?

Secretary CONNALLY. Yes, they do. The Europeans are much tougher on Japanese than we are.

Senator TALMADGE. Isn't it a fact they take 5 percent of the Japanese textile imports and the United States takes 50 percent?

Secretary CONNALLY. Senator, those figures, I cannot confirm from my memory. I certainly would not question your figures.

Senator TALMADGE. I think that is approximately correct.

Mr. Secretary, I want to compliment you on your testimony. Our country is overcommitted militarily. We are overcommitted economically. We have been overcommitted for a long time now, about 20 years, and it is high time that we reappraised our policies of trying to act, as one of my colleagues commented a moment ago, as Santa Claus and banker and policeman for the rest of the world. We cannot keep it up without being bankrupt.

Senator RIBICOFF. Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

If I may, first of all, let me ask unanimous consent that there may be included in the record at this point a letter that I addressed to each member of the Senate, to which was attached a speech made by our chairman, Senator Long of Louisiana, on the floor of the Senate, May 11. I ask unanimous consent that it be included in the record at this point.

Senator RIBICOFF. Without objection; and also the excellent staff memorandum will go in the record.

(Senator Hansen's letter with attachment referred to follows. The pamphlet referred to by Senate Ribicoff appears as appendix B, p. 885. Hearing continues on page 40.)

MAY 14, 1971.

Hon. GEORGE D. AIKEN,
*U.S. Senate, Washington, D.C.*

DEAR SENATOR AIKEN: On Tuesday of this week, Senator Long, Chairman of the Committee on Finance, presented a most remarkable revelation to the Senate. Senator Long revealed that after the President had directed the Secretary of Commerce to let the American people know what our true international competitive position is by publishing honest trade statistics, an interagency committee had vetoed the plan.

The omission of insurance and freight understate the true value of our imports and their impact on the domestic economy. The inclusion of foreign aid sales and Food for Peace aid in our exports inflate their true dollar value. The combined effect is a $6 billion overstatement of our reported trade balances.

The Chairman's thesis is that if we are to have a trade policy responsive to the needs of America, we must know the true condition of our present trade balance.

The United States has sustained deficits in its balance of payments in 19 out of the past 21 years, which total, cumulatively, $48 billion. Our trade policies have not reflected the changed international competitiveness of the United States since World War II. The current monetary crisis in Europe is a consequence of these policies which have perpetuated our deficits.

Because of the timeliness of Senator Long's statement and the need for a more responsive trade policy for the future, I commend Senator Long's speech to your attention, and urge you to spend five minutes reading it.

Sincerely,

CLIFFORD P. HANSEN.

Enclosure.

[From the Congressional Record, May 11, 1971]

By Mr. LONG: S. 1815. A bill to require that publications of statistics relating to the value of articles imported into the United States include the charges, costs, and expenses incurred in bringing such articles to the United States, and for other purposes. Referred to the Committee on Finance.

OFFICIALLY MISLEADING FOREIGN TRADE STATISTICS

Mr. LONG. Mr. President, several years ago, my late beloved colleague Everett McKinley Dirksen and I brought out the fact that our foreign trade statistics are fraudulent and misleading. In 1966, the Committee on Finance held a hearing on the subject, and the facts developed at this hearing substantiated our contention. Ever since the death of Senator Dirksen, I have been trying to get the Commerce

Department to publish more accurate trade statistics to show our true international competitive position. At numerous hearings, I have brought this subject up to the Secretaries of Commerce and Treasury and to other officials.

These top officials understood the problem and agreed that the present statistics are misleading. However, the entrenched, faceless bureaucrats in the Federal Government who maintain their status throughout every administration, Republican or Democrat, have fought the presentation of accurate trade statistics in every way they could.

Finally, after much agonizing and dillydallying the Commerce Department agreed to publish, on a quarterly basis, statistics which would break out those exports financed under our giveaway foreign aid programs from private commercial exports, and to add a factor to our imports showing the cost of insurance and freight. However, as time passed, it was clear that this quarterly publication was completely inadequate. In the meantime, the Government's monthly trade statistics were published proclaiming our foreign trade position to be in rosy surplus. The truth is that we have had actual defects in our foreign trade position ever since 1968 as table I shown below indicates, which I ask unanimous consent to have printed in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

TABLE 1. —U.S. TRADE BALANCE, 1960–70

[In billions of dollars]

| | Total exports, f.o.b. (A) | Total imports, f.o.b. (B) | Trade balance (C=A−B) | AID and Public Law 480, Government-financed exports (D) | Total exports less AID and Public Law 480, financed exports (E=A−D) | Total imports, c.i.f.[1] (F) | Merchandise trade balance (G=E−F) |
|---|---|---|---|---|---|---|---|
| 1970 | 42.7 | 40.0 | +2.7 | 1.9 | 40.8 | 44.0 | −3.2 |
| 1969 | 37.3 | 36.1 | +1.2 | 2.0 | 35.3 | 39.7 | −4.4 |
| 1968 | 34.1 | 33.2 | +.9 | 2.2 | 31.8 | 36.5 | −4.7 |
| 1967 | 31.0 | 26.9 | +4.1 | 2.5 | 28.5 | 29.6 | −1.1 |
| 1966 | 29.5 | 25.6 | +3.9 | 2.5 | 27.0 | 28.2 | −1.2 |
| 1965 | 26.8 | 21.4 | +5.4 | 2.5 | 24.3 | 23.5 | +.8 |
| 1964 | 25.8 | 18.7 | +7.1 | 2.7 | 23.1 | 20.6 | +2.5 |
| 1963 | 22.5 | 17.2 | +5.3 | 2.6 | 19.9 | 18.9 | +1.0 |
| 1962 | 21.0 | 16.5 | +4.5 | 2.3 | 18.7 | 18.2 | +.5 |
| 1961 | 20.2 | 14.8 | +5.4 | 1.9 | 18.3 | 16.3 | +2.0 |
| 1960 | 19.6 | 15.1 | +4.5 | 1.7 | 17.9 | 16.6 | +1.3 |

[1] Cif imports are assumed to be 10 percent higher in value than f.o.b. imports in accordance with Tariff Commission study.

Source: U.S. Department of Commerce.

Mr. LONG. After many members of the Finance Committee and the Ways and Means Committee made it abundantly clear to the Secretary of Commerce that the two responsible committees of Congress were unsatisfied with the misleading trade statistics propagated on the American public by the Commerce Department, the Secretary of Commerce took the matter up with the President of the United States. This is stated in the Secretary's memorandum of December 17 which I shall later ask to be included in my remarks.

According to the Secretary's memorandum, the President directed the Secretary to implement the proposal. I repeat, the President of the United States directed the Secretary of Commerce to publish accurate import statistics. The memorandum states:

"I discussed this proposal with the President, and he directed me to implement it."

Mr. President, a most extraordinary thing has occurred. Those nameless and faceless bureaucrats in the Federal Government have told the President to go fly a kite; he is wrong.

I shall ask to place in the record a most extraordinary report from Mr. Shultz to Secretary Stans which states that—

"A great majority of participants in the Interagency Committee on Foreign Trade Statistics expressed the view that it would be inadvisable for both statistical and conceptual reasons to calculate and publish prominently such a series on a regular basis."

In other words, Mr. President, these bureaucrats are afraid of showing the American people the true facts with respect to our foreign trade position. It is incredible to me that the President of the United States cannot get foreign trade statistics published the way he and the Congress wants them published.

The Shultz letter is full of incorrect, irrelevant, and misleading statements. For example, he states that—

"With regard to the calculation of imports c.i.f., a significant part of these charges is paid to U.S. firms and therefore does not represent an international payment."

He apparently is not aware of the fact that U.S.-flag vessels carry only about 6 percent of U.S. foreign trade. Is that a significant part? The fact is we simply do not know what the costs of domestic versus foreign insurance and freight charges are because we do not have the data to make the analysis.

Then he says:

"C.i.f. charges cannot be legitimately considered part of the import side of the trade balance."

This is wrong. The effort of imports on domestic economy, on American jobs, is not their value at the foreign factory or foreign port, but their landed value in the United States.

He is obviously confusing balance of payments with balance of trade. I do not particularly care if they want to break out services in balance-of-payments accounting. I think they will find their service statistics are woefully inadequate anyway. But for balance-of-trade analysis and the impact of imports on the American economy, production, and jobs we should have c.i.f. statistics.

The letter then says that the British and French calculate their balance of payments to show freight and insurance separately. But their import figures are c.i.f. I checked the April International Monetary Fund statistics and found they continue to calculate their imports c.i.f. In fact the IMP tabulates all its import statistics c.i.f. I ask unanimous consent to have table 2 printed in the record.

There being no objection, the table was ordered to be printed in the record, as follows:

## TABLE 2.—WORLD TRADE: VALUE IN MILLIONS OF DOLLARS

[Exports (f.o.b.)[1] Imports (c.i.f.)[1]]

| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| World total | 136,100 | 152,700 | 165,400 | 181,300 | 190,600 | 212,900 | 243,500 | 278,000 | 160,900 | 175,200 | 192,400 | 201,700 | 224,700 | 255,500 | 288,000 |
| Industrial countries | 95,330 | 107,940 | 118,430 | 130,770 | 137,740 | 155,800 | 179,600 | 208,000 | 110,590 | 120,540 | 134,020 | 141,200 | 159,970 | 184,000 | 211,000 |
| United States | 23,387 | 26,650 | 27,530 | 30,430 | 31,622 | 34,636 | 38,006 | 43,227 | 20,286 | 23,186 | 27,745 | 28,745 | 35,319 | 38,315 | 42,482 |
| United Kingdom | 12,220 | 12,785 | 13,722 | 14,676 | 14,379 | 15,346 | 17,515 | 19,363 | 15,949 | 16,103 | 16,651 | 17,694 | 18,959 | 19,956 | 21,643 |
| Industrial Europe | 47,490 | 53,760 | 60,230 | 65,900 | 70,260 | 79,690 | 93,740 | 109,240 | 58,860 | 64,370 | 69,930 | 72,130 | 80,220 | 96,500 | 114,500 |
| Austria | 1,326 | 1,446 | 1,600 | 1,684 | 1,809 | 1,989 | 2,412 | 2,857 | 1,683 | 2,100 | 2,328 | 2,309 | 2,496 | 2,825 | 3,549 |
| Belgium-Luxemborg | 4,840 | 5,601 | 6,394 | 6,832 | 7,032 | 8,164 | 10,032 | 11,600 | 5,930 | 6,502 | 7,182 | 7,176 | 8,333 | 9,964 | 11,900 |
| Denmark | 1,908 | 2,121 | 2,320 | 2,454 | 2,539 | 2,639 | 3,018 | 3,400 | 2,618 | 2,823 | 3,003 | 3,154 | 3,236 | 3,812 | 4,490 |
| France | 8,085 | 8,995 | 10,053 | 10,890 | 11,381 | 12,682 | 14,992 | 17,888 | 10,070 | 10,343 | 11,843 | 12,381 | 13,939 | 17,373 | 19,139 |
| Germany | 14,621 | 16,221 | 17,901 | 20,145 | 21,748 | 24,853 | 29,070 | 34,194 | 14,618 | 17,482 | 18,036 | 17,365 | 20,235 | 24,953 | 29,817 |
| Italy | 5,054 | 5,958 | 7,200 | 8,038 | 8,705 | 10,187 | 11,728 | 13,186 | 7,252 | 7,378 | 8,589 | 9,827 | 10,286 | 12,450 | 14,939 |
| Netherlands | 4,961 | 5,807 | 6,392 | 6,751 | 7,286 | 8,341 | 9,963 | 11,765 | 7,055 | 7,460 | 8,016 | 8,336 | 9,291 | 10,989 | 13,391 |
| Norway | 1,073 | 1,291 | 1,443 | 1,564 | 1,738 | 1,938 | 2,203 | 2,455 | 1,984 | 2,210 | 2,404 | 2,743 | 2,706 | 2,943 | 3,969 |
| Sweden | 3,203 | 3,675 | 3,971 | 4,266 | 4,528 | 4,937 | 5,688 | 6,762 | 3,856 | 4,377 | 4,582 | 4,701 | 5,182 | 5,905 | 7,011 |
| Switzerland | 2,417 | 2,647 | 2,960 | 3,275 | 3,598 | 3,968 | 4,627 | 5,135 | 3,610 | 3,697 | 3,944 | 4,129 | 4,513 | 5,285 | 6,551 |
| Canada | 6,779 | 8,067 | 8,494 | 9,988 | 11,033 | 13,158 | 14,390 | 16,861 | 7,554 | 8,713 | 10,170 | 10,966 | 12,482 | 14,250 | 14,526 |
| Japan | 5,453 | 6,674 | 8,452 | 9,777 | 10,442 | 12,973 | 16,002 | 19,379 | 7,994 | 8,175 | 9,530 | 11,672 | 12,997 | 15,035 | 18,889 |
| Other developed areas | 9,540 | 10,730 | 11,120 | 12,310 | 13,230 | 13,800 | 15,940 | 18,000 | 15,110 | 17,360 | 18,420 | 18,980 | 19,700 | 22,500 | 26,000 |
| Other Europe | 4,410 | 5,130 | 5,620 | 6,350 | 6,800 | 7,100 | 8,300 | 9,800 | 8,480 | 9,850 | 11,160 | 11,160 | 11,530 | 13,650 | 16,000 |
| Finland | 1,149 | 1,291 | 1,427 | 1,505 | 1,534 | 1,637 | 1,985 | 2,307 | 1,505 | 1,645 | 1,726 | 1,698 | 1,598 | 1,203 | 2,637 |
| Greece | 290 | 309 | 328 | 406 | 495 | 468 | 554 | ---------- | 885 | 1,134 | 1,223 | 1,186 | 1,393 | 1,594 | ---------- |
| Iceland | 94 | 111 | 129 | 140 | 97 | 82 | 108 | 146 | 131 | 137 | 159 | 162 | 138 | 123 | 157 |
| Ireland | 550 | 623 | 615 | 684 | 690 | 798 | 891 | 1,035 | 974 | 1,041 | 1,043 | 1,087 | 1,175 | 1,411 | 1,570 |
| Malta | 15 | 19 | 24 | 30 | 27 | 34 | 38 | 40 | 96 | 98 | 109 | 112 | 123 | 148 | 180 |
| Portugal | 418 | 516 | 576 | 620 | 701 | 732 | 823 | 946 | 778 | 924 | 1,023 | 1,059 | 1,039 | 1,232 | 1,556 |
| Spain | 736 | 955 | 967 | 1,254 | 1,384 | 1,590 | 1,900 | 2,344 | 2,245 | 3,004 | 3,574 | 3,456 | 3,498 | 4,233 | 4,717 |
| Turkey | 368 | 411 | 464 | 490 | 523 | 496 | 587 | ---------- | 537 | 572 | 718 | 685 | 764 | 747 | ---------- |
| Yugoslavia | 790 | 893 | 1,092 | 1,223 | 1,252 | 1,264 | 1,471 | 1,679 | 1,323 | 1,288 | 1,576 | 1,707 | 1,797 | 2,135 | 2,872 |
| Australia, New Zealand, South Africa | 5,130 | 5,600 | 5,500 | 5,960 | 6,420 | 6,690 | 7,630 | ---------- | 6,630 | 7,510 | 7,260 | 7,820 | 8,170 | 8,850 | ---------- |
| Australia | 2,788 | 3,038 | 2,978 | 3,158 | 3,478 | 3,526 | 4,221 | 4,771 | 3,313 | 3,765 | 3,636 | 3,913 | 4,382 | 4,558 | 4,800 |
| New Zealand | 910 | 1,074 | 1,007 | 1,076 | 993 | 1,010 | 1,211 | 1,400 | 961 | 1,043 | 1,095 | 955 | 895 | 1,003 | 1,210 |
| South Africa | 1,432 | 1,490 | 1,518 | 1,726 | 1,954 | 2,158 | 2,200 | ---------- | 2,356 | 2,699 | 2,526 | 2,948 | 2,891 | 3,291 | ---------- |

TABLE 2.—WORLD TRADE: VALUE IN MILLIONS OF DOLLARS—Continued

[Exports (f.o.b.)[1] Imports (c.i.f.)[1]]

| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Less-developed areas** | 31,200 | 34,000 | 35,900 | 38,300 | 39,600 | 43,300 | 48,000 | ..... | 35,200 | 37,400 | 39,900 | 41,500 | 45,000 | 49,000 | ..... |
| Latin America | 9,180 | 9,860 | 10,380 | 11,040 | 11,030 | 11,570 | 12,400 | ..... | 8,580 | 8,840 | 9,720 | 10,130 | 11,180 | 12,100 | ..... |
| Argentina | 1,365 | 1,410 | 1,493 | 1,593 | 1,464 | 1,368 | 1,612 | ..... | 1,077 | 1,119 | 1,124 | 1,096 | 1,169 | 1,576 | ..... |
| Bolivia | 66 | 93 | 110 | 126 | 145 | 153 | 182 | ..... | 97 | 126 | 138 | 151 | 152 | 167 | ..... |
| Brazil | 1,406 | 1,430 | 1,595 | 1,741 | 1,654 | 1,881 | 2,311 | ..... | 1,263 | 1,096 | 1,496 | 1,667 | 2,132 | 2,242 | ..... |
| Chile | 540 | 624 | 685 | 877 | 910 | 941 | ..... | ..... | 607 | 604 | 757 | 727 | 743 | ..... | ..... |
| Colombia | 446 | 546 | 537 | 510 | 510 | 558 | 608 | ..... | 586 | 454 | 674 | 497 | 643 | 686 | ..... |
| Costa Rica | 95 | 114 | 112 | 136 | 144 | 171 | 194 | ..... | 139 | 178 | 178 | 191 | 214 | 245 | ..... |
| Dominican Republic | 174 | 179 | 126 | 137 | 156 | 164 | 184 | 214 | 221 | 100 | 185 | 201 | 226 | 243 | 306 |
| Ecuador | 148 | 159 | 180 | 186 | 200 | 208 | 183 | ..... | 152 | 168 | 164 | 191 | 229 | 262 | ..... |
| El Salvador | 154 | 178 | 189 | 189 | 207 | 213 | 202 | ..... | 191 | 201 | 220 | 224 | 214 | 214 | ..... |
| Guatemala | 154 | 167 | 187 | 232 | 204 | 227 | 262 | ..... | 202 | 229 | 207 | 247 | 247 | ..... | ..... |
| Haiti | 41 | 40 | 37 | 35 | 34 | 36 | 37 | ..... | 41 | 34 | 38 | 36 | 38 | 40 | ..... |
| Honduras | 83 | 95 | 127 | 143 | 154 | 179 | 169 | ..... | 102 | 122 | 149 | 165 | 185 | 184 | ..... |
| Mexico | 969 | 1,031 | 1,120 | 1,199 | 1,136 | 1,254 | 1,430 | ..... | 1,493 | 1,560 | 1,605 | 1,746 | 1,960 | 2,078 | ..... |
| Nicaragua | 100 | 118 | 144 | 138 | 146 | 157 | 155 | ..... | 136 | 160 | 182 | 204 | 185 | 177 | ..... |
| Panama | 60 | 70 | 79 | 89 | 93 | 100 | 120 | ..... | 181 | 208 | 235 | 251 | 266 | 294 | ..... |
| Paraguay | 40 | 50 | 57 | 49 | 48 | 48 | 51 | 64 | 40 | 55 | 59 | 71 | 73 | 82 | 76 |
| Peru | 540 | 666 | 666 | 763 | 801 | 865 | 864 | ..... | 584 | 745 | 817 | 833 | 630 | 604 | ..... |
| Uruguay | 165 | 179 | 191 | 186 | 159 | 179 | 200 | ..... | 198 | 150 | 164 | 170 | 159 | 197 | ..... |
| Venezuela | 2,629 | 2,703 | 2,744 | 2,713 | 2,886 | 2,857 | 2,892 | ..... | 1,269 | 1,454 | 1,331 | 1,464 | 1,697 | 1,752 | ..... |
| Other Western Hemisphere | 1,650 | 1,650 | 1,680 | 1,790 | 1,880 | 1,930 | 2,000 | ..... | 2,300 | 2,420 | 2,540 | 2,720 | 2,800 | 3,000 | ..... |
| Barbados | 41 | 35 | 37 | 40 | 42 | 43 | 40 | ..... | 64 | 68 | 76 | 77 | 84 | 97 | ..... |
| Guadeloupe | 38 | 35 | 38 | 35 | 32 | 38 | 34 | ..... | 79 | 85 | 93 | 100 | 102 | 106 | ..... |
| Guyana | 102 | 95 | 97 | 112 | 113 | 108 | 121 | ..... | 87 | 104 | 118 | 129 | 110 | 118 | ..... |
| Jamaica | 202 | 216 | 214 | 228 | 224 | 219 | 257 | ..... | 289 | 289 | 327 | 348 | 383 | 442 | ..... |
| Martinique | 36 | 29 | 38 | 45 | 43 | 40 | 36 | ..... | 79 | 91 | 93 | 106 | 109 | 128 | ..... |
| Netherlands Antilles | 658 | 630 | 603 | 592 | 608 | 599 | 625 | ..... | 758 | 721 | 721 | 776 | 781 | 808 | ..... |
| Surinam | 46 | 48 | 59 | 92 | 107 | 113 | ..... | ..... | 81 | 95 | 90 | 103 | 99 | ..... | ..... |
| Trinidad and Tobago | 374 | 408 | 403 | 429 | 440 | 472 | 473 | ..... | 426 | 477 | 454 | 417 | 420 | 483 | ..... |
| Other | 150 | 150 | 190 | 220 | 270 | 300 | 350 | ..... | 440 | 490 | 570 | 660 | 710 | 800 | ..... |

[1] The world total excludes the Soviet area countries and Cuba. Available current trade totals for these countries are shown on page following Austria country pages.

Note: The data are identical to those given on the country pages, converted to U.S. dollars and assembled into January-December years. However, data are also given here for countries for which there are no country pages. Descriptions of the data and discussions of the problems of conversion to U.S. dollars are in the country notes. Totals include estimates for listed countries for which data are not available.

The comparability of trade data over a period of years is necessarily affected by changes in political or customs area boundaries. Except as noted the data refer to the area as they were at the period reported. For countries reporting imports f.o.b. or exports at place of dispatch, the data in this table are adjusted to include freight and insurance. For details see the 1966/67 supplement to IFS.

Source: International Monetary Fund, International Financial Statutes, April 1971, p. 36.

Mr. LONG. On the export side, Mr. Shultz says that we should not show our foreign aid financed giveaway exports separately from private transactions because "the proposal ignores the favorable impact on the balance of payments which occurs when the dollar balances are repaid." He is obviously not familiar with our aid programs. When we sell wheat to India in exchange for Indian rupees, how does that earn us dollars? From a balance of payments point of view, we might just as well dump the wheat in the ocean. In fact, it might be cheaper since it would save us shipping expenses.

Most of our aid is long term—40-year loans at low interest. A large part of the Public Law 480 agriculture sales are for nonconvertible foreign currencies, which no one expects to ever see paid in to the U.S. Treasury. To put these transactions in the same basket as straight cash or short-term credit transactions is to completely mislead the American people as to the true state of American competitiveness.

Mr. President, this episode raises another question: Why does the Secretary of Commerce have to go on his knees to Mr. Shultz to get some statistics published, which, by statute, under section 484(e) of the Tariff Act, are under the legal jurisdiction of the Secretary of the Treasury, the Secretary of Commerce, and the Chairman of the Tariff Commission. After having received the approval of the President, why does an interagency committee have the authority to thwart the President's will on a matter he has already approved. I applaud Secretary Stans for his efforts to correct his Department's misleading statistics and for getting the President's support. It is unfortunate that an interagency committee can thwart the President's will.

To assist the Secretary and the President I intend to do what is in my power to make sure that the foreign trade statistics presented to the American people paint an accurate picture of where we stand in foreign trade. To this end, Mr. President, I am introducing a bill which had been approved last year by the Finance Committee as part of the Trade Act of 1970, which would by statute direct the publication of the statistics which the President's bureaucracy refuses to publish, even after the President has instructed and directed that they be published.

I ask unanimous consent to have printed in the RECORD the correspondence between Mr. Shultz and Mr. Stans on this subject, which tells an incredible tale of how the nameless and faceless bureaucrats are able to thwart the will of the President of the United States, and also a news report from the Journal of Commerce describing the affair.

(There being no objection, the material was ordered to be printed in the RECORD, as follows:)

OFFICE OF MANAGEMENT AND BUDGET,
*Washington, D.C., December 30, 1970.*

MEMBERS OF INTERAGENCY COMMITTEE ON FOREIGN TRADE STATISTICS—NOTICE OF MEETING

Time: Monday, January 11, 1971, 2:30 p.m.
Place: Room 10104, New Executive Office Building.
Subjects to be considered:

1. Proposal by Department of Commerce on the reporting of Merchandise Export and Import Data presented in attached memorandum, December 17, 1970, from the Secretary of Commerce to the Director, Office of Management and Budget.

Reference to related data currently published:

*FT990* (Census September, 1970, Special Announcements section, p. III, data on c.i.f. values of imports, and federally assisted exports.

*Survey of Current Business*, Table 4 of quarterly balance of payments articles published in issue dated last month of each quarter.

2. Plans of Census Bureau to update factors used to estimate low-value shipments for which Shippers' Export Declarations are not required.

PAUL F. KRUEGER,
*Chairman, Interagency Committee on Foreign Trade Statistics.*

THE SECRETARY OF COMMERCE,
*Washington, D.C., December 17, 1970.*

Memorandum for: The Honorable George P. Shultz, Director, Office of Management and Budget.

Subject: Reporting Merchandise Export and Import Data.

In response to a request from the Senate Finance Committee, I am hereby proposing that the Department of Commerce report monthly and annual merchandise export and import totals on a new basis, as well as continuing the present basis of reporting. The new series to be reported are total "commercial" exports and total "CIF" imports.

I discussed this proposal with the President, and he directed me to implement it.

We plan to derive the monthly "commercial" export total by deducting from the present total export value: (1) actual military-grant-aid shipments, (2) the estimated value of exports financed under Public Law 480 and (3) the estimated value of exports financed by the Agency for International Development under the Foreign Assistance Act. These two estimated values would be provided by the Department of Agriculture and the Agency for International Development, respectively.

At present, AID compiles data semi-annually on exports financed under the Foreign Assistance Act and makes them available only after a considerable time lag. Agriculture prepares quarterly figures on exports financed under the P.L. 480 program, with a lag of about three months. As the compiling agencies, AID and Agriculture should be requested to make the up-to-date monthly estimates that will be necessary to adjust exports to the new basis. These estimates will be needed by the Foreign Trade Division of the Bureau of the Census no later than three weeks after the end of each month. In addition to these estimates, both agencies should be requested to develop more current actual data on these shipments.

In making this adjustment, we have not deducted exports financed by Export-Import Bank loans, because these exports are almost always sold in regular commercial transactions and because the loans are usually short-term. In brief, despite financing aid, these exports are in every sense of the word "commercial."

The current monthly c.i.f. import totals would be calculated by applying to the regular total import value the estimated c.i.f. factor for the most recent calendar year covered by the annual sample survey of c.i.f. import values. (The latest sample survey of c.i.f. import values covered transactions for 1968. C.i.f. values for the sample items were found to be 6.3% higher than the values for the same items as reflected in the regular Census import statistics. A sample study of the 1969 import transactions is now underway and should be completed within the next few months.)

Corresponding data for both imports and exports are being prepared on an annual basis for prior years back to 1947. For exports this will involve deducting actual shipments recorded under Lend-Lease, UNRRA, the Department of Army Civilian Supply, Incentive Materials, and International Refugee Organization Programs and military-grant-aid, as well as the estimated value of exports financed under P.L. 480 and by the Agency for International Development and its predecessor agencies.

For imports, the estimated annual c.i.f. totals will be calculated by adjusting the regular import total as follows:

(1) The 1968 and 1969 total import values will be multiplied by 1.063, the c.i.f. factor estimated from the 1968 import transactions.

(2) The 1967 import total will be multiplied by 1.069, the c.i.f. factor estimated from 1967 transactions.

(3) The import totals for 1947 through 1966 will be multiplied by 1.083, the c.i.f. factor estimated from 1966 transactions. (1966 was the first year for which a sample survey was made of c.i.f. import values.)

Obviously, there are shortcomings in this way of developing "commercial" export and c.i.f. import data. Aside from the acute timing problem, however, it would seem that the costs and difficulties involved in attempting to obtain precise data would far outweigh any improvement in their usefulness.

Our proposed procedure and timing for the new trade data are as follows:

1. The Assistant Secretary of Commerce for Economic Affairs will issue a monthly release containing total merchandise exports on the present basis and on the new basis, showing the trade balance on each basis and giving equal prominence to the trade balance on each basis.

2. The data on the new basis will be prepared by the Foreign Trade Division of the Bureau of the Census, as are the data on the present basis.

3. The issuance of the data on the new basis will begin at the end of January 1971, when data for December 1970 and for the entire year 1970 are first available.

4. The Bureau of the Census will continue to issue detailed monthly data on exports and imports but will not calculate a trade balance.

MAURICE H. STANS,
*Secretary of Commerce.*

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Hon. MAURICE H. STANS,
*Secretary of Commerce,*
*Washington, D.C.*

DEAR MR. SECRETARY: We have given careful consideration to your memorandum proposing the publication of a new trade balance. The proposal, presented to our Interagency Committee on Foreign Trade Statistics, was that a monthly balance be calculated by subtracting imports c.i.f. from non-Government assisted exports. A great majority of participants expressed the view that it would be inadvisable for both statistical and conceptual reasons to calculate and publish prominently such a series on a regular basis. My staff supports this view, and I concur in their judgment.

With regard to the calculation of imports c.i.f., a significant part of these charges is paid to U.S. firms and therefore does not represent an international payment. Furthermore, insurance and freight are properly classified under services, not trade. Hence, c.i.f. charges cannot be legitimately considered part of the import side of the trade balance. In this connection, it should be noted that last November the British, and only weeks ago the French announced the discontinuance of the balance figures they have been publishing based on c.i.f. valued imports. Their published commodity balances will now be based on f.o.b. values, with freight and insurance being reflected in the services portion of the balance of payments accounts.

Insofar as exports are concerned, the proposal to subtract those which are federally assisted implies that if this assistance had not been available our total exports would be correspondingly less. While there would be some reduction in exports, this implication is incorrect. The proposal also ignores the favorable impact on the balance of payments which occurs when the dollar balances are repaid. In our view, the trade balance should pressure the net transfer of real goods irrespective of the sources of financing.

Annual estimates of imports c.i.f. are published by the Census Bureau for major commodity groups and for major exporting countries. Those data are useful in analysing landed prices of foreign goods and after taking account of tariffs, the import component of the supply of good to domestic markets. The techniques involving these annual compilations cannot, however, legitimately be used to prepare similar figures monthly.

While we cannot agree with the proposal to publish monthly this additional set of export and import figures, and the balance derived from this comparison, we do see ways in which you could improve the presentation of trade statistics that fit into your approach, and we would encourage you to proceed along these lines.

Like you, we recognize limitations in the monthly trade balance data now published by the Department of Commerce. We understand that work is now being done in the Department on the preparation of a new monthly balance, following balance of payments concepts, with a view to publication later this year. The definition underlying this balance is generally recognized as the best for balance of payments analyses and trade policy considerations, and is accepted for these purposes in international forums. When this new balance becomes available, it would be desirable to consider substituting it for the monthly balance now published based on Census data.

Your efforts in this direction would be strengthened by improvement and expansion in data collection in order to provide better information both for the work referred to above and for other analytical uses. For example, consideration should be given to improving the quality of valuation data now being collected. More frequent information on transportation and insurance costs associated also be useful.

Finally, it would probably contribute to better public understanding of the international trade situation if you would undertake a more comprehensive com-


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pilation of foreign trade data which would include some information of the type contained in your proposal. I would think that a presentation could be developed, which, with analysis and interpretation, would be more effective and useful than either the routine monthly publication envisaged in your proposal, or the present publication of quarterly data on Federally assisted exports and annual data on c.i.f. valued imports. In addition to periodic publication in articles, you and your staff could use such data in speeches and other public statements.

Members of my staff will be glad to assist in the development of these alternative approaches.

Sincerely,

GEORGE P. SHULTZ,
*Director.*

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NIXON VOTES NEW WAY TO REPORT TRADE BALANCE

(By Richard Lawrence)

WASHINGTON, April 25.—President Nixon reportedly has approved a new way of reporting the U.S. trade balance—it would show the country as scoring deficits rather than surpluses—but top aides are balking.

They are said to fear that the new procedure would only serve protectionist causes.

The issue is basically whether the U.S. should report its monthly foreign trade position the way most other nations report their by counting imports on a c.i.f. (cost insurance freight) bases.

The U.S. tabulates its imports in a way much closer to an f.o.b. basis, where only the value of the product in the country of export is counted. Freight and insurance charges are excluded.

The difference is that U.S. imports probably total 6 per cent more using c.i.f. statistics. Last year, for example, the U.S. would have just missed a trade deficit, had the c.i.f. standard been used.

Instead, the Commerce Department reported that last year the U.S. reaped a $2.7 billion surplus.

For more than four years, the Senate Finance Committee and particularly its chairman, Sen. Russell Long, D-La., has been urging the executive branch to report the c.i.f. import totals, for a better comparison with the trade balances of other major nations.

The committee is not asking that the present import tabulating system be scrapped. It only wants the c.i.f. data to be also reported monthly by the Commerce Department..

It further suggests that the department separate foreign shipments from the U.S. export total. That way, it says, a more "realistic picture of our true competitive position" may be had.

By deducting foreign aid exports, while reporting imports on a c.i.f. basis, the U.S. trade balance these days would be deep in deficit.

The Commerce Department, for a long time reluctant to carry out the committee's urgings, now is willing to do so. Meanwhile, it has been printing c.i.f. estimates and foreign aid exports in an obscure quarterly statistical publication, as a gesture to the senators.

The department's change of attitude appears to stem from the committee's continuing demand for the monthly data and the department's own growing concern about rising imports.

In a recent letter to Committee Chairman Long, Commerce Secretary Maurice Stans said he had raised the issue with President Nixon and that the President had agreed to the committee's request.

NO ACTION TAKEN

But no action has since been taken, and none seems imminent. The reason, insiders say, is that Budget Director George Shultz is resisting a procedure that would put the already shaky U.S. trade position in a worse light.

The Budget Office is involved since collecting the additional c.i.f. data probably would mean additional customs expenses.

The Senate Finance Committee, however, is likely to take matters into its own hands, if the administration keeps refusing to act. Last year, it appended to the trade bill a requirement that the Commerce Department report c.i.f. imports and separate foreign aid exports.

The trade bill died, but the committee may tie the requirement onto another measure this year. The full Senate can be expected to approve, and there seems to be a good chance that the House would then go along to force the administration to report what many say is the "real" American trade balance.

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Mr. LONG. I also ask unanimous consent to include in the RECORD a statement I made on this subject on September 17, 1970, together with materials submitted at that time. This should put into perspective in one place in the RECORD a full explanation of the fraudulent and misleading trade statistics which have been sold to the U.S. Public.

(There being no objection, the material was ordered to be printed in the RECORD, as follows:)

OFFICIAL MISSTATEMENTS ABOUT OUR REAL FOREIGN TRADE POSITION

Mr. LONG. Mr. President, the International Monetary Fund has recently issued a report warning against the consequences of prolonged U.S. balance-of-payments deficits. We have been running deficits in our balance of payments in every year since 1950 with the exceptions of 1957 and 1967.

For the first half of 1970 the balance-of-payments deficit, under the traditional basis of measurement, was running at an annual rate of $6 billion. On another basis of measurement—the so-called official settlement method—the balance-of-payments deficit for the first half of this year was running at an annual rate of $9 billion.

One of the major problems we face in searching for solutions to our balance-of-payments problem is misleading information on our balance of trade.

The Department of Commerce has recently issued monthly trade statistics which have been widely reported by the press as showing "a booming surplus" of exports over imports, "running at an annual rate of more than $5 billion" for June and July. It has been suggested that this so-called surplus indicates that the country would be better off without the major trade legislation awaiting House action that would impose mandatory import quotas on textiles and shoes, and facilitate import limitations on other products.

To cite 2 months' statistics as evidence of a basic reversal in our trade position is grasping at straws. It is a classic example of how misleading facts create erroneous conclusions.

The Department of Commerce statistics give a false impression that this country enjoys a highly favorable balance of trade when, in fact, if our trade balance were accurately tabulated, it would show an unfavorable balance of trade.

For too long the public has been misled into believing that we have a "favorable balance of trade." The proponents of our "one way free trade philosophy" have argued that our trade negotiations have been an unmitigated success since they have resulted in a "favorable balance of trade." Even our negotiators have put themselves at a disadvantage by using our misleading statistics and providing their negotiating counterparts with the ammunition to destroy our negotiating position. All the foreign negotiator has to do is read back the statements of our negotiators about how favorable our trade picture is, and how if we do anything here to protect our industries, they—the foreigners—will retaliate, and our negotiating position is destroyed. If you read back to a man his own words it is hard for him to repudiate the thought behind them.

So here are our own negotiators using misleading trade statistics, misleading Congress, misleading the American public, misleading the world, and defeating their own objectives in representing American interests.

All foreign countries have to do is read back to them their own false statements which they make. Those false statements are picked up and published in the New York Times, which is probably the only American newspaper that diplomats in foreign governments usually read, and they cannot understand why the United States is trying to save some domestic interests, when our national policy requires it.

In past years—during the first half of the sixties—our misleading statistics indicated that our balance of trade was in surplus by $5 to $7 billion. In more recent years, since 1967, this so-called surplus has dwindled to a rate of about $1 billion. So, even under the most rosy method of calculation, the balance of trade has deteriorated sharply over the last 4 or 5 years.

But, Mr. President, this is not the whole story. Those official figures belie the fact that our balance of trade was never as favorable as the official figures would suggest, and that we have a large net deficit on commercial exports and imports.

Under the traditional methods of calculating our trade balance, our exports include foreign aid giveaways which do not earn a penny of foreign exchange for the United States. When we give wheat or corn away to India, for example, the farmer receives his money from the U.S. Government, not from the Indian Government. The American taxpayer pays for the wheat, not the Indian Government. As far as our balance of trade is concerned, we just as well might be dumping it into the ocean. In fact, we would save money, because we would save the ocean freight.

On the import side of the equation we do not include the cost of insurance and freight in computing imports, even though most other countries in the world, the United Nations, and the International Monetary Fund calculate imports on a c.i.f. basis. The Tariff Commission has done some calculations showing that if you computed our imports, on the same basis that most other countries compute their imports, it would increase our import value by 10 percent.

So, Mr. President, if we deduct the foreign giveaways from oue exports and calculate our imports the same way that most foreign countries do, instead of having a $1.4 billion balance-of-trade surplus—last year—in 1969, we would have about $4.4 billion balance-of-trade deficit. In other words, the statistics overstate our position by more than $5 billion.

Let us look at what has happened in 1970. Our exports are reported to total $24.9 billion for the period January through July. If we subtract the foreign aid giveaways, the net figure would be about $23.4 billion. Our imports, f.o.b., were running at $22.9 billion and, if we add the c.i.f. factor of 10 percent, this would increase to $25.2 billion, leaving us with a net unfavorable balance of trade of $2 billion. So, what is widely reported in the press as "a booming surplus" actually turns out to be a blooming deficit.

Let us look at the July data which is being widely circulated as evidence that we do not need the major trade legislation just about to pass the House. The Department of Commerce statistics show exports of $3,683 million and imports of $3,242 million for a net "surplus" of $441 million. Some analysts multiply this by 12 and say we are running a surplus of over $5 billion.

Now let us see what happens if we revise these misleading figures. Take out the foreign aid giveaways and our exports drop some $200 million to $3,483 million; add the c.i.f. factor and our import bill for July increases by some $324 million to some $3,566 million, leaving us with a net deficit of $83 million for July. If we then multiplied that by 12 we could say our balance of trade is running in deficit by $996 million. Not a $5 billion annualized surplus, Mr. President, a $996 million annualized deficit for that month on the basis of calculation; and that is the best month so far this year.

I am not going to elaborate on the fact that what has been hailed as a big export surplus in June or July, occurred at a time of domestic recession, growing unemployment, and huge balance-of-payments deficits. If we need a domestic recession to create a phony trade surplus is that any cause for rejoicing about our competitive position? It is suffice to say that the trade statistics currently published are a misleading indicator of the competitive position of this country in world markets and they should be changed to more accurately reflect our true competitive position.

Mr. LONG. I pointed out, Mr. President, that this country is faced with an unfortunate situation, where bad figures lead to bad conclusions. The books are deliberately kept in an erroneous fashion, in my judgment, to justify an erroneous policy that is benefiting somebody, but it is not benefiting this Government.

Mr. LONG. Mr. President, let me sum up my remarks. This Nation has been pursuing trade policies which are indefensible. We maintain an open-door policy for foreign imports, while other countries work hand and glove with their industries, protecting them, and insuring their competitiveness.

The bureaucrats who created this indefensible policy, and have a vested interest in its perpetuation, do not identify themselves. They hide behind faceless and nameless editorial writers who heap scorn on Members of Congress who try to save American jobs for American workers. These editorial writers pour out insults and use fraudulent statistics published by the Commerce Department to support their nonsensical positions. Their case cannot stand the light of day. Yet one is unable to tell who they are or what their purpose might be.

Mr. President, in the past 10 years our balance of payments has been in deficit, measured on a liquidity basis, by $27 billion, as table 3 demonstrates, which I ask unanimous consent to have printed in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

TABLE 3.—U.S. BALANCE OF PAYMENTS, 1961–70

[In billions of dollars]

| | 1961–65 average | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|
| Merchandise trade balance | 5.4 | 3.9 | 3.9 | 0.6 | 0.6 | 2.2 |
| Exports | 23.0 | 29.4 | 30.7 | 33.6 | 36.5 | 42.0 |
| Imports | −17.6 | −25.5 | −26.8 | −33.0 | −35.8 | −39.9 |
| Investment income balance | 3.5 | 4.1 | 4.5 | 4.8 | 4.4 | [1] 4.3 |
| Receipts from U.S. investments abroad | 4.9 | 6.3 | 6.9 | 7.7 | 8.8 | [1] 9.6 |
| Payments on foreign investments in United States | −1.3 | −2.1 | −2.4 | −2.9 | −4.5 | [1] −5.3 |
| Balance on other services | −2.5 | −2.7 | −3.2 | −2.9 | −3.1 | [1] −3.1 |
| Balance on goods and services | 6.5 | 5.3 | 5.3 | 2.5 | 1.9 | [1] 3.9 |
| Unilateral transfers, excluding Government grants | −.8 | −.9 | −1.2 | −1.1 | −1.2 | [1] −1.3 |
| Balance on current account, excluding Government grants | 5.7 | 4.4 | 4.0 | 1.4 | .8 | [1] 2.6 |
| U.S. Government economic grants and credits[2] | −3.7 | −3.9 | −4.2 | −4.2 | −3.7 | [1] −3.4 |
| Balance on private direct investment | −2.2 | −3.6 | −2.9 | −2.9 | −2.2 | [1] −3.8 |
| Balance on securities transactions | −.8 | .4 | −.3 | 3.1 | 1.6 | 1.3 |
| Balance on various other long-term capital transactions[3] | −.5 | .6 | .2 | .9 | .7 | [1] .3 |
| Balance on current and long-term capital accounts[4] | −1.4 | −2.0 | −3.1 | −1.7 | −2.8 | [1] −3.3 |
| Balance on various other capital transactions: Short-term, other than liquid liabilities; long-term bank liabilities to foreign official agencies; nonmarketable U.S. Government liabilities; unscheduled debt payments on U.S. Government credits; and Government sales of foreign obligations to foreigners | | 1.2 | .6 | 2.3 | −1.3 | [1] .1 |
| Errors and omissions | −.9 | −.5 | −1.1 | −.5 | −2.8 | [1] −2.0 |
| Allocation of special drawing rights | | | | | | .9 |
| Balance on liquidity basis | −2.3 | −1.4 | −3.5 | .2 | −7.0 | −3.8 |
| Less certain nonliquid liabilities to foreign official agencies | .1 | .8 | 1.3 | 2.3 | −1.0 | .3 |
| Plus liquid liabilities to private foreigners and international organizations | .7 | 2.4 | 1.5 | 3.8 | 8.7 | −6.2 |
| Balance on official settlements basis | −1.8 | .3 | −3.4 | 1.6 | 2.7 | −9.8 |

[1] 1st 3 quarters of 1970 at a seasonally adjusted annual rate.
[2] Net of scheduled repayments.
[3] Excluding changes in long-term bank liabilitios to foreign official agencies and in nonmarketable U.S. Government liabilities.
[4] One version of the so-called basic balance.

Note: Details will not necessarily add to totals due to rounding.

Source: Treasury Department.

Mr. LONG. Mr. President, no nation however strong, can continue policies which place it in such heavy debt to foreign nations. The American people have been told that central banks and commercial banks in Europe are refusing to accept any more dollars or will accept them only at a discount. This could force a dollar devaluation with dire consequences for the international monetary system. If we do not correct the balance-of-payments deficits on our terms, they will correct it for us on their terms.

How can we correct our balance of payments and remove the albatross which hangs over the head of the international monetary system? We cannot do this by merely increasing exports. We must also take action to stem the tide of rising imports.

There are many ways of correcting a bad situation, but we simply cannot negotiate away our balance-of-payments deficits, or let "benign neglect" solve the problem. Our deficits are other countries' surpluses. They do not want us to solve our deficits in a way which will hurt them.

The Germans do not want us to solve our deficits by removing any American troops from Germany. The French and Italians do not want us to solve it by reducing our imports of wine and shoes. Nor do any countries wish to help us by reducing their protectionist policies which discourage U.S. exports to their markets. The Japanese and the Europeans have many more restrictions on imports from us than we do on imports from their countries.

Central bankers from these countries want us to raise interest rates so they can pick up more of the banking business. Well, that is a very unsatisfactory way to solve our international deficit situation, because it puts our domestic economy through the wringer and causes many economic and social problems for the American people.

We in the Congress are also somewhat schizophrenic on this issue. Members from New England want to solve the balance-of-payments problem by reducing footwear imports without concern for imports of other sensitive products. Members in textile States want to cut down textile imports. Oil States' representatives wish to cut down oil imports. There is no unified, consistent policy to deal with this problem.

But we must deal with it because the United States has adopted many policies around the world which cost us money; without a healthy trade surplus, we will not be able to pay for those policies. Otherwise some of those policies must be discontinued.

Multinational firms who argue against trade restrictions to protect their investments abroad and to insure a ready market for their exports to this country may soon find those investments nationalized and paid for by foreign governments with American dollars earned as a result of our deficits.

It is time for American people to know the truth about our international balance-of-trade and balance-of-payments positions and the consequences that will occur if we do not solve them on our terms.

The President wants to level with the American people on our sorry balance-of-trade situation, but his bureaucracy has prevented it.

The bureaucrats to whom I have made reference have cast their President in the image of a helpless giant, unable to even convey the truth to the public as much as he would like to do it.

An honest presentation of the facts to reflect the truth in an understandable manner is fundamental to a reshaping of outdated and misguided policies of trade and aid. If I have enough influence, the truth will be honestly presented.

Senator HANSEN. Mr. Secretary, let me compliment you for your forthrightness, your candor, and your considerable fund of knowledge in an area that is of extreme importance to this country, and indeed, to the world at this time.

Do you think economic relations with Europe, particularly the Common Market, are based on fair trade conditions?

Secretary CONNALLY. Senator, it is almost impossible to answer that question. I suppose I would have to say no because there are elements of unfairness in it. But let me point out now that with all of the difficulties we are having, if you will analyze our trade with the European community, it is one of the areas where we almost uniformly have a trade surplus with those countries. But, this is not to say we do not run into some unfair practices; and particularly, in recent times where, frankly, they have made some preferential trading agreements with Morocco, Tunisia, Israel, Spain, Turkey, and Greece—particularly with respect to citrus—and they are entering into two-way negotiations with their former African territories and with those new nations that, in my judgment, are not fair. They violated GATT agreement, and they are going to operate to our detriment.

Senator HANSEN. I went to Tulsa with Senator Bellmon just this weekend, and he tells me that despite some efforts that had made some previous months ago to work out an arrangement to export some livestock to Japan, as quickly as we got the things set up, the Japanese imposed a duty on livestock imported, cows imported, into that country of $180 per head, as I understand it.

Reflecting upon that, do you think our trade relations with Japan are based on reciprocal fair trade conditions?

Secretary CONNALLY. No, sir; I do not.

Senator HANSEN. Do you think it is consistent with a free trade philosophy to have adequate and enforceable laws against unfair foreign competition?

Secretary CONNALLY. Yes, sir.

Senator HANSEN. Your department is responsible for handling our antidumping and countervailing duty laws. There has been much progress made in the last 2 years to improve the administration of our dumping laws by your department. But our countervailing duty law appears to be almost a dead letter. Could you look into this matter and report back to the committee and point out what steps you think are necessary to streamline our countervailing duty statute and to process the cases initiated more rapidly?

Secretary CONNALLY. Senator, I will be glad to do so. If you will permit me now, I would like to point out to you these are two areas that require an enormous amount of information, and when this administration started 2 years ago, really getting into these two fields, antidumping and countervailing duties, they had 10 people in the whole Department working on it. Now we have 30, the wonderful sum of 30 people working on these tremendous problems.

The truth of the matter is they started on antidumping activities and made great progress and developed into the point where at least we can get some decisions within a period of a year from the time of the first complaint. We have shortened it by 100 percent, from 2 years down to 1 year, and this is not at all satisfactory at present, but we are still making headway.

We just now have a study underway in the Department looking towards really getting into the countervailing duty statutes, and our responsibilties under those statutes. But frankly, we have not had the manpower to do it.

Senator HANSEN. Well, I compliment you for changing the direction that our Government has been pursuing in this regard and I certainly will do what I can to support you, if you need any more help down there and I have no doubt at all that you will need to enlarge your staff before you can get a handle on it.

Secretary CONNALLY. I will accept your compliment for the Department, Senator. I have had nothing to do with it. Assistant Secretary Rossides is primarily responsible for the splendid progress made in these two areas, and his people.

Senator HANSEN. Has the Treasury Department given any thought to the kind of code of fair competition which might be useful for incorporating into a new international agreement, trade and investment?

Secretary CONNALLY. Yes, we have, Senator Hansen. We have a great deal of staff work going on at the present time on it regarding investment. This has been for a number of months. I am personally just now getting into this whole area.

But I do know that much remains to be done. We are going to try to live up to our responsibilities, and hopefully have some suggestions that will result in an overall look at the U.S. position.

Senator HANSEN. What do you think the British entry into the Common Market will mean for the U.S. balance of payments in the 1970's and beyond that time?

Secretary CONNALLY. Senator Hansen, I think it is guesswork to a large extent. I think, first, I must point out that this Nation has always encouraged the formation of the European Common Market. We have encouraged the entry of Great Britain into that market. I do not have any doubts but what it is going to create some problems. They are not insurmountable problems, providing we have people in the various, respective areas that will work at it with goodwill.

Obviously, the first problem that is going to be posed that will cause us some difficulty is going to be in the agricultural field because the Common Market restrictions on agricultural commodities are much more unfair and much more specific in my judgment, than those imposed by Britain, and Britain will have to adopt these Common Market restrictions and rules. So that is the first or one of the first places that the shoe is going to pinch for us.

There is one other factor that is important, and that is simply that the European Common Market, particularly with the addition of Britain, is going to be the largest trading bloc in the world. What will develop only time will tell. I do not know. There is a great deal of conversation about a common currency there. That might well be a very good thing. But I think we have to assume, and we all hope as well as assume, that Britain's entry into that market will result in the entire market taking a more outward look, very frankly, with respect to international trade and their relations with nations around the world, more so even than exist today. So to that extent, and if that be true, then their entry into the market is going to be a very healthy and a very helpful thing.

Senator HANSEN. Mr. Secretary, competitive problems in the United States are not restricted to one or two industries. As has been brought out already, over 100 industries are asking Congress for quotas against foreign competition.

Do you feel this reflects a fundamental change in our international competitive position, the fact that over 100 industries would be asking for quotas?

Secretary CONNALLY. I do not know that it reflects a change as much as it reflects an awareness that we are not competitive for one reason or another, and I frankly think now in many areas we are not as productive.

We have to face up to the fact that some of our problem are not the result of just restrictive measures engaged in by other nations—because we have a large number of quotas of our own, when you get down to just comparing them numbers for numbers—but the significant thing is that the American people are becoming more aware of what is happening.

You made the statement this morning with respect to automobile production. I saw in the paper this morning, that this will be one of the truly big years, but most of the increase is not being taken up by domestic manufacturers, but rather by foreign makers.

So there is no question but what we are under more and more pressure from more and more countries around the world, and this is very understandable.

As every nation around the world becomes more industrialized, they are going to put more pressure on us. This is one of the reasons, if you will forgive me at this point, if you analyze the balance of the payments item by item, you will find that in almost every category we have a negative balance of trade; in almost every category, until you get to the areas of high technology where you have manufactured items of high technology; this is in the area of aircraft; this in the the case of computers and things of this sort where the research and development we have put into the American free enterprise system, turns out products that are new and have been inventive. It is in this area that we have maintained any kind of a favorable trade balance because in the high technology oriented manufactured items we have a surplus on a trade balance of about $9 billion a year.

Every other category goes down, and this is one of the reasons why I am personally so very strong for the SST. I do not want to inject another discordant note, if it be such, in this hearing, but this country has to realize that it is extremely difficult to compete with many nations around the world when you start comparing the wage scale. In the United States, the standard of living—I am not just talking about labor—when you take the standard of living in the United States, and you compare that with the production of items overseas, where they pay 70 cents an hour for labor, you can see the extreme difficulty. In order to do it we have to be more innovative, we have to keep our facilities more modern. Basically the reason behind the administration's change with respect to depreciation only this year is to try to encourage American industry to modernize, because we are not modern in the sense that other nations are.

Let us take the steel industry for a moment. In the last 15 years, the United States has gone from approximately 100 million tons a year to 113 million tons a year. We have gone up to about 13 million tons.

During that same 15-year period Japan has gone from 5 millions a year to 93 million tons a year.

They have by far the most efficient steelmaking industry in the world today, and we are going to be in trouble if we do not modernize our plants.

So it is not all just a question of restrictive actions taken by other countries. It is, in addition, a lack of productivity increase in America.

Senator HANSEN. Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

I would like to pick up with that last statement that you made. I think too often people assume that we can solve this problem from one point of view by imposing quotas, restrictions, by shutting out imports or by subsidies or by other devices to force out exports, and that this the Government can do.

I was delighted to see in your statement on page 7 the paragraph which says that it is time for Americans to realize that stronger efforts have to be made to raise productivity.

Secretary CONNALLY. That is right.

Senator BENNETT. I think that lies at the heart of the whole problem. Our goods must be made more competitive and this is not easy because, as you have pointed out, by quoting the difference in wage rates, we are a high-cost item in a low-cost world.

Secretary CONNALLY. Right.

Senator BENNETT. In addition to that, we have the largest market, largest single market, in the world, so our friends abroad look to this market not only because it is big but because the price levels are high, and they can make more profit if they can get into this market, and having been in business, I realize that if you want to get into a market you do not have to undercut your competitor by very much.

They do not have to sell their products at the same relative ratio, they do not have to set their prices at the same relative ratios, as their lower costs.

They set them just enough under our costs. So that we have not only become Santa Claus, we have become a fairy godmother to all of these people because we give them access to a market which not only produces volume for them but produces tremendously high profits and, thus, these plowed back into their production capacity have helped them build to the point that they now face.

We talked about balance of payments or balance of trade. The word "balance" suggests this is the difference between exports and imports and, therefore, since we are out of balance there are two ways we car move in an attempt to restore it.

One is to increase exports, and the other is to decrease imports, and in your statement you suggested that the administration will resubmit the proposal for DISC as a means of increasing exports, and yet the question has been raised with me: Why should we give an export tax benefit to multinational firms who would benefit from DISC without doing anything to discourage imports with a border tax?

Would you like to comment on that?

Secretary CONNALLY. Well, Senator, I think you have to deal with those problems in the context that this Nation's GNP is substantially equal to the rest of the free world put together, and that we are the big boy on the block, so to speak. It seems that we have, and probably should have over the years, conducted ourselves in a little bit different fashion.

We have to toe the line when other countries can occasionally fudge a little bit, and without anybody calling their hand, necessarily.

The whole world watches us, so the thinking behind the DISC proposal was that you do not give any taxes away or rebate taxes to industry, but that you'd defer taxes if a company will build a facility in the United States to make products to ship overseas into the export market. We think under those arrangements there will be no complaints filed against us.

We think that is entirely consistent with the GATT rules, and we do not think that we will be charged with any kind of violation.

That is the thinking behind the DISC proposal, that we try to do something to make it more attractive for our manufacturing companies to manufacture their products here, and then send them into the world markets to provide the jobs for American workmen instead of taking their money and making their investments overseas to supply those markets.

I frankly have been at a loss as to why this particular proposal generated opposition from labor. I have not had a chance to talk to them about it, but I just do not understand why they would oppose this type of a proposal.

Senator BENNETT. I do not, either. It would seem to me that American labor would regard this as a very important step in preserving jobs in this country which otherwise have been going abroad.

The GATT seems to permit countries with value added taxes to rebate such taxes on exports and impose them at the border on imports under the theory that valued added taxes are always shifted forward to the consumer while corporate income taxes are absorbed by the producer.

You are a businessman. Do you feel that the GATT provisions are sound with respect to these, to this attitude and, particularly, with respect to border tax adjustment?

Secretary CONNALLY. No, sir; I do not think they are basically sound. I think there again we were in a posture where we did not, I assume, feel that the taxes—the rate of the indirect taxes were fairly low as I recall at the time of the negotiations, approximately 2 to 4 percent—were a great factor. And we were still a very strong Nation.

We saw none of these problems, apparently, and we let them drive a wedge of distinction between the imposition of an indirect tax and a direct tax such as an income tax.

Well, now, ultimately there is no difference. Ultimately any company, however they are taxed, has to pass on——

Senator BENNETT. That is right.

Secretary CONNALLY (continuing). That tax as a cost of the item manufactured to the consumer.

But they distinguished it on the basis that an indirect tax like the value-added tax was in a different position, that it was passed on to the consumer and it could, therefore, be rebated without violation of any of the international agreements—the GATT agreement—but you could not do it on income taxes.

Now, it just so happens we rely predominently on the income tax. We do not have the value-added tax. The European countries rely heavily on indirect taxes.

So the time has come for us to either demand the same treatment for direct taxes, or to play their game and insist that their value-added tax be treated the same as our direct taxes or that in any future tax measures, that we at least consider the possibility of adopting the value-added tax.

Senator BENNETT. Don't you think, looking at the thing philosophically, don't you think we would all be better off if we renegotiated the basis of our international trade rather than continue to patch our own tax system to match the limitations in GATT?

Secretary CONNALLY. I think the circumstances have changed to the point, Senator Bennett, where there is now such a completely different set of circumstances that surrounds the various trading partners in the world that any patching operation is not going to hold for any substantial period of time.

I think there has to be an overall look taken at it.

Senator BENNETT. Our trading partners are very clever and they would find ways to get through the patches, I am sure.

Mr. Chairman, I have had my share of time.

Thank you, Mr. Secretary.

Senator RIBICOFF. Senator Fulbright.

Senator FULBRIGHT. Thank you, Mr. Chairman.

Mr. Secretary, I was very much struck by your eloquent defense of the private enterprise system, productivity and efficiency, but I do not know how you apply that to the SST because, if I understand, the SST is a federally subsidized activity. If they were going to do this on their own I would agree with you.

But how does that indicate any devotion to private enterprise and productivity and efficiency?

Secretary CONNALLY. Well, Senator, I did not mean to imply by my statement that we lived in a society where there are no exceptions, because there are, and that happens to be one of them.

My interest in the SST stems primarily from the fact that a great deal of our favorable trade balances today come from the sale of aircraft.

We have been preeminent in the manufacture of aircraft.

Senator FULBRIGHT. But on a private basis. The Boeing 707 was not financed by the Government directly.

Secretary CONNALLY. Well, Senator, much of the research and development, much of the experimental work going into almost every single commercial aircraft we have had, has been done by the military over the years.

Senator FULBRIGHT. Well, at Boeing they can profit by the F-111 if they want to use that. They can apply it to the SST, and I imagine it will be equally successful.

Secretary CONNALLY. I do not think they are quite comparable planes, I hope.

Senator FULBRIGHT. Well, they might very well prove to be. But also your interest in the Lockheed loan, and Penn Central, which was recently granted, confused me about this idea of private enterprise and efficiency.

It seems to me that is directly contrary to that whole concept.

Secretary CONNALLY. It is somewhat: you are right.

Senator FULBRIGHT. Very much. It looks to me like a high degree of socialism you are injecting into our system to bail out bad management, which seems to me highly contrary to my concept of efficiency and productivity.

Secretary CONNALLY. Senator, if you want to—which I do not—get into a philosophical——

Senator FULBRIGHT. You raised this question.

Secretary CONNALLY. Yes, sir; I understand.

(Laughter.)

But I am not——

Senator FULBRIGHT. You were advancing this.

Secretary CONNALLY. I am not going to defend everything this Nation has done, the various administrations, or the Congress, to preserve precise integrity of a free enterprise system.

I think we have departed in a number of cases.

Senator FULBRIGHT. Well, I am glad you admit that. That seems to me to be true.

I do want to agree with you the Europeans and the Japanese will not call their loans because they cannot afford to. It would bring us all down into common disaster.

What bothers me, though, is the persistence of the present policies will gradually erode our whole economic strength.

They cannot call it because they, themselves, would be caught in it, as in any case where a bank goes under in a small community the whole community collapses, so I do not anticipate their calling the loans because they cannot afford it.

But if we do not reverse these basic policies there will be a gradual attrition of our strength, as has already been demonstrated.

Let me ask you, do you not believe that the real fundamental culprit has been the excessive expenditure on military affairs in the last 25 years?

If you had to pick one single cause for the distortions and difficulties that now afflict us, wouldn't it be excessive military expenditures?

Secretary CONNALLY. No, I would not single it out as the——

Senator FULBRIGHT. Can you think of one that is greater, that has contributed more to the dislocations of our normal——

Secretary CONNALLY. Tourism contributes almost as much to a negative balance of trade as our net military expenditures each year, and if you add——

Senator FULBRIGHT. Now if you are going to take tourism you balance off their tourism to ours.

Secretary CONNALLY. We have a net loss in tourism, about two and a half billion dollars a year.

Senator FULBRIGHT. I am talking about our overall military expenditures, their contribution to the inflation and distortion of our domestic economy, their contribution to our being unproductive or for being noncompetitive vis-a-vis the Japanese, for example, or the Germans. I do not want to repeat all these figures that have been given. They are very impressive, but I really submit that the persistence of our military expenditures, both domestic and overseas, has created a situation that has distorted our really important economic competitive situation.

These other figures, they have already given you about the amount of their total contribution to defense, they are very impressive, and I would not recall them, but it seems to be there is a very great coincidence between those factors and what is actually happening to our economy.

I do not understand why you, yourself, said a moment ago, I thought—I agreed with it—that we are following policies that were started 25 years ago, and the implication was that it is time for a change.

And yet I notice the support of your present effort, of the administration, to defeat the Mansfield effort to reduce our military involvement abroad and you bring in all the people present at the creation these same policies, and you are relying upon all the same people who created these policies.

Now, granted there may have been some excuse for the policy 25 years ago, the implication of what you said is that it is time to change, and yet when we in the Congress seek a change you go all out to prevent it, as in the Mansfield amendment.

The Mansfield amendment is simply a symbol—it is one effort—to restrict the extraordinarily widespread military expenditures.

We have some 386 major bases spread around the world and a total of nearly 2,000 of all sizes. There is not time here to go into that; we will do so on the floor and elsewhere, but I submit this is an extraordinarily extravagant expenditure that we simply cannot support, and I regret very much that the administration goes all out to prevent the Congress from taking one little step in the direction of reversing that policy.

You, yourself, said the policy is an old worn-out policy that ought to be changed.

Secretary CONNALLY. Well, I was not referring specifically to the point you are making, Senator. I think we are going to have to change some of our policies, but my answer would be, on that, and my point on the Mansfield amendment simply was, this is not the way I would do it. You have got a question of policy. Is the policy correct?

Well, now, this country has to have some understanding with its allies around the world with respect to our mutual security.

Now, it has that. The point that I think is more appropriate is who is going to pay for it. This is the point where I think we can ask more of our allies and our friends around the world.

The mere fact that we have troops in Europe does not mean we have to pay for all the costs of them.

Senator FULBRIGHT. Every Secretary of the Treasury since I can remember has gone over to Germany and pleaded with them to pay more of the costs and have gotten a little here and there, and they even persuaded the Germans to invest in our securities, and this is counted as a contribution, but we have to pay that back at some time.

Every Secretary has had this problem. They have never done much, and I think it is time the Congress does something. This is not the first instance.

I tried my best last year to get them to phase out the Spanish bases, but, no.

I cannot think of a single military base out of some 2,000 that has voluntarily, by us, been closed. The only ones that have been closed are where the host country made us do it, as in Libya and Morocco; but we have never closed one voluntarily. The Congress feels strongly about these same problems you are talking about. We have felt them for a long time.

The Mansfield amendment is not a new amendment. We have had two long hearings on the subject. That has been under consideration for more than 4 years, and yet the administration, faced with these evidences of the deterioration of our economic situation, refuses to go along. There is always a reason not to close a particular base, or to even reduce it, and I do not know, and I ask you if you can say one important or even significant base that we volutntarily closed.

Secretary CONNALLY. I do not think I can think of one even here in the United States, Senator.

(Laughter.)

Senator FULBRIGHT. But you say an enormous bureaucracy with the capacity to sell the Pentagon, as so recently well demonstrated, can do this.

They have the power to stimulate the public sentiment to prevent it.

I must say this organized propaganda, which is so well illustrated in the recent gathering of the clan at the White House, is a demonstration of why the Congress is unable to do anything to bring the economy back in some reasonable relation to our needs.

I do think, as a new Secretary of the Treasury, we need your help on this. We probably cannot do it if you join in this old crowd you mentioned a while ago; this old guard. You are a new man. I do not understand why you lineup with this old crowd to continue a policy which you intimated yourself is obsolete.

Secretary CONNALLY. Occasionally, Senator, the old crowd can be right, and I think they are right.

Senator FULBRIGHT. Everything you have said this morning proves they are not. Time has run out on them.

Secretary CONNALLY. Well, I think in a general sense that is true. But I think we ought not to forget a couple of things:

We may have to keep troops there for a long, long time. If we do, then I think our prosperous friends ought to help us pay for it.

Senator FULBRIGHT. I do, too. But they won't do it. This is one way to get them to do it.

Secretary CONNALLY. There are others ways to do it, Senator.

Senator FULBRIGHT. Every predecessor has tried and none of them have succeeded.

Secretary CONNALLY. Well, the problem is that we all like to be good fellows. We all like to give things away instead of take things from.

Senator FULBRIGHT. That is right. It is time we got over it.

Secretary CONNALLY. So we just need a greater realization of the problems that we face in this Nation which, I think, would give all of us the backbone to extract from our friends a little fairer treatment. That is all we are talking about here.

Senator FULBRIGHT. Can you think of anything at the moment that would be more persuasive on the Germans and French and the others to do than to accept the Mansfield amendment; can you think of a better one?

Secretary CONNALLY. Senator, I do not think you have to accept it. I think they have already gotten the message.

Senator FULBRIGHT. Well, you know, I really suspect they have, too. Two changes, two things. Brezhnev's response, and also the admission of Great Britain, I think, are dividends from the bringing up of the Mansfield amendment. I know the administration does not admit that, but I think it could well be.

Secretary CONNALLY. But, Senator——

Senator FULBRIGHT. Nevertheless, its passage would be a real signal to them to get busy to do something.

Secretary CONNALLY. There is one other point that I think should be made at this point in the discussion, and that is simply if we brought all of these men home from around the world we would still not solve a great many of our balance of payments problems.

Senator FULBRIGHT. I am not saying all, only a part of them.

Secretary CONNALLY. I understand. I am not trying to put words in your mouth, but merely trying to make the point that is not going to solve it. I do not think we ought to leave the impression that it is going to solve it if we bring all or some part of the people home. If you take all of the items of trade around this Nation—and I tried to break them down into four categories—the "agriculture and associated commodities" category is essentially a break-even, and we have the most efficient agricultural system, with a growth of 6 percent each year. There is nothing like it in the world.

Second, if you take the category of "minerals and raw materials" that is a loser every year.

Senator FULBRIGHT. We are a have-not Nation in those items.

Secretary CONNALLY. All right. But if you take the third category, "manufactured items," non-high technology oriented, we are a loser to the tune of $8 billion last year.

The only one that has saved us are the manufactured items of high-technology orientation, and there we had a favorable balance of trade of $9 billion.

So that this is totally unrelated to the military: totally unrelated to foreign direct investments. This is just in the trade items.

So that we have to recognize where our problems are. I grant you that the cost of the military, as I pointed out a moment ago, the cost of the military overseas hurts our basic liquidity balances and our official settlements, and I think it is basically unfair when Japan is in the shape that she is in, and yet last year we paid her $669 million for military outlays.

Senator FULBRIGHT. That is right.

Secretary CONNALLY. And she spends 0.8 percent of her gross national product for her own defense. These are basically unfair things.

This does not mean that we ought to retract.

Senator FULBRIGHT. I do not know why it does not. It seems to me, to my simple mind, that is the very thing it means, and the war in Vietnam is the same way.

I mean this has become a horrible drain on us.

Secretary CONNALLY. I do not believe, Senator, I can convince you of Vietnam, and I am not going to try.

Senator FULBRIGHT. I am trying to convince you [laughter] as the new member here with control or influence upon our economics. Surely the businessmen of this country are turning against these expenditures.

Secretary CONNALLY. Senator, no question but what the President has said we are going to withdraw these troops; we are going to get out of Vietnam. I believe everybody believes that.

The question now is when he is going to do it. There is an argument about it, and I know his timetable does not suit everybody else, but it is his timetable.

In any event, I do not think we ought to leave the impression that as soon as we get all the men out of Vietnam that our trade problems are going to be settled, because they are not.

Senator FULBRIGHT. I agree with that. My time is up.

Senator RIBICOFF. Senator Long, Mr. Chairman.

Senator LONG. Mr. Secretary, when you came before this committee for confirmation, you said it clearly—so that no one could misunderstand it—that you are a low-interest rate man.

Secretary CONNALLY. Yes, sir.

Senator LONG. Now, one of the proposed solutions to the present international monetary crisis—and I am sure that it is the one agreed upon by most of the European bankers—is that this country raise its interest rates.

I certainly think it would be a tragedy if that policy were adopted to try to meet this problem. I, for one, would rather bring some troops back from Europe, for example, than I would to make the American people pay two or three points more for the interest on a mortgage for a house in the long-term market.

I know that you are going to do your best as the good Lord gives you the light to see it, to try to keep interest rates at the lowest level possible.

What can we expect in that regard?

Secretary CONNALLY. Well, Senator, you know as much about it as I do. The Secretary of the Treasury does not set interest rates in this country. Certainly in reply to your first statement, I assure you that interest rates are not going to be raised in the United States simply to narrow the gap between interest rates here and over there, to benefit our friends overseas.

We are not going to do that. That much is sure, it is not going to be done for that reason.

If interest rates go up it will be for some other reason, and I have already expressed my view about that.

Chase Manhattan Bank raised the prime rate from 5¼ to 5½ percent. I said in my prepared statement this morning I thought it was time for businessmen to exercise restraint on their pricing, and banks to exercise restraint on their interest rates. I think the reasonable interest rates are absolutely essential to continued economic recovery and expansion in this American society. I think the most damaging blow we can receive right now would be an increase in interest rates.

Senator LONG. So far as I am concerned, Mr. Secretary, I would prefer that the Germans and the French, the Belgians, the Italians, do just whatever they want to do with their currency over there. Let it float, or peg it, or move it up or down, whatever they want to, rather than raise the interest rates on the people of this country who want to buy a little home or go and buy an automobile, or finance their childrens education or any business of that sort.

If you will try to pursue that kind of philosophy, trying to do what is good for the rank-and-file people of this country rather than for the European bankers, that is the way you should proceed.

There are several ways this could be solved. But I would hate to take it out of the hides of the working people of this country. I take it you agree with that point of view?

Secretary CONNALLY. I certainly do.

Senator LONG. I gave you an article, which I hope you read, about the balance of trade.*

It seems to me if you look at all facets for the last years we have not had a favorable balance of trade for some time.

We have been losing money rather than making money, whereas the people who are in charge of statistics of this country would like to publish trade figures that tell only part of the story.

If you tell the whole story then it is clear that balance of trade is not favorable.

For example, they include in their overall balance of trade all that wheat we gave away to India under Public Law 480 programs. Here I notice something put out by Life Magazine showing this wheat being distributed in India, and it says the food is not given to the villagers but it is payment for their labor on public works projects such as roads, irrigation canals, and community wells.

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*See pp. 28–40 of this hearing.

But in any event, however, those people have to pay for it over there in India or what they do with it, so far as I can determine, there is no expectation that that hard money is ever going to come back here in the United States. If they pay it back it will be paid back to India; is that right or is that wrong?

Secretary CONNALLY. Senator, let Assistant Secretary John Petty give you an answer to that. He can do it better than I can.

Mr. PETTY. The current export of wheat and other commodities under the Public Law 480 program——

Senator LONG. Yes.

Mr. PETTY (continuing). Is now largely payable in dollars over 20 or 40 years.

But your description of the fact of how the program worked previously is substantially correct.

Senator LONG. Well, now, the money sits over there in India. As I recall, when I first came across this situation, when Mr. Dillon was Secretary, he just wanted it written off the books and to drop what we had over there in India. As a matter of fact, do we anticipate any of this will ever be paid back to the U.S. Treasury?

Mr. PETTY. This is a very difficult question, the rupee receipts, probably not, maybe so. At the present time I say it just exactly that way because Secretary Rogers and the Government a few months ago completed a special study of this program. A recommendation should be forthcoming in the next few months focusing on the question of what to do with the Indian rupees presently on deposit in the name of the U.S. Government in New Delhi. The rupees in total amount to approximately 10 percent of India's money supply. This is obviously a very difficult question.

The Public Law 480 program has achieved the purpose of helping India avoid starvation. Perhaps it should have been handled on a grant basis. However, since so much of it has been handled on a local currency loan basis, we have this difficult problem now of the accumulation of rupees.

Senator LONG. I used to sit on the Foreign Relations Committee and I tried to put some of this giveaway program on a loan basis rather than on a grant basis, and the only thing that I saw any hope of doing with these loans in the foreign aid field was that we might be able to loan it a second time and get double mileage rather than have to give twice as much away. It never occurred to me that this Public Law 480 money or this foreign aid money would ever come back to the U.S. Treasury.

Do you expect to see that come back here?

Mr. PETTY. Yes, sir. We get substantial receipts right now. We received about $1.5 billion a year from past foreign assistance programs.

Second, under——

Senator LONG. Where is that coming from?

Senator FULBRIGHT. Not Public Law 480.

Mr. PETTY. That is coming from various countries around the world, including some dollar repayment of Public Law 480.

I do not have the breakdown of what portion of that $1.5 billion is Public Law 480. If you will recall the Food for Peace Act in 1966, Congress instructed the administration to change the terms from 40-year local currency sales towards 20-year dollar repayment. With the notable exception of India and, I think, some other countries (which have now shifted to dollar repayment over 40 years) that has substantially been accomplished. The terms have hardened. We are getting receipts.

Senator LONG. If we are going to get something back out of this, it is my impression that insofar as we will get something back out of this deal it will just be a pump priming operation of maybe $1.5 billion in order to pump $15 billion out there in order to get the pump going again. In other words, with their debt service burden, we will have to pump twice as much in so they can pay us back on past loans. If we do get anything back I do not anticipate that it will be any more than that which was given away on new deals in the following year, and I do not think anybody else does, but we can see.

I would appreciate it if you would give me a breakdown of wherein you expect to get something back out of this, and if we are going to get something back, I think we ought to put it on a realistic basis and not put it down here that we can only get back this $400 million that we gave away to India when realistically, we do not except to get back more than $1 million out of that $400 million, if anything. That is point No. 1.

(Material supplied by the Department follows:)

DATA ON REPAYMENTS

I. GOVERNMENT CREDIT REPAYMENTS

[Calendar years, millions of dollars]

| | 1969 | 1970 |
|---|---|---|
| Foreign Assistance Act: | | |
| Dollars | 117.8 | 158.8 |
| Foreign currencies | 105.2 | 100.3 |
| Public Law 480: | | |
| Dollars | 84.4 | 126.7 |
| Foreign currencies | 52.2 | 64.9 |
| Export-import: Dollars | 698.4 | 1,103.6 |
| Property credit: | | |
| Dollars | 57.0 | 83.6 |
| Foreign currencies | 1.7 | .6 |
| British loan: Dollars | 63.3 | 64.6 |
| Other: Dollars | 14.8 | 16.0 |
| Total | 1,194.8 | 1,719.1 |

II. PUBLIC LAW 480 SALES PROGRAM RECEIPTS AVAILABLE IN DOLLARS

[In millions of dollars]

| | Fiscal year— | | |
|---|---|---|---|
| | 1969 | 1970 | 1971 1st half |
| A. Dollar transactions: | | | |
| 1. Interest and principal on dollar loans | 51 | 77 | 61 |
| 2. Interest and principal on local currency loans repayable in dollars | 19 | 13 | 6 |
| 3. Down payments | 7 | 10 | 7 |
| 4. Total | 77 | 100 | 74 |
| B. Local currency transactions: | | | |
| 1. Interest and principal on local currency loans | 67 | 74 | 29 |
| 2. Deposits for U.S. use from local currency sales | 150 | 169 | 76 |
| 3. Total | 217 | 243 | 105 |
| 4. Sales of local currency for dollars | 187 | 229 | 102 |
| C. Dollar returns (A-4 plus B-4) | 264 | 329 | 176 |

Note: Factors not taken explicitly into account in this table but which are reflected in the level of balances are exchange rate adjustments and transfers between U.S. use funds and funds allocated for country use.

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III. DOLLAR RETURNS FROM INDIA PUBLIC LAW 480 PROGRAM

| | Fiscal years (millions of dollars)— 1969 | 1970 | 1971 1st half |
|---|---|---|---|
| A. Dollar transactions: Interest on dollar loans [1] | 0.5 | 2.6 | [2] 4.0 |
| B. Local currency transactions: | | | |
| 1. Interest and principal on local currency loans | 52.2 | 60.6 | 31.2 |
| 2. Deposits of currency for U.S. use from local currency sales | 7.0 | 9.7 | 2.3 |
| 3. Total | 59.2 | 70.3 | 33.5 |
| 4. Sales of local currency for dollars [3] | 47.3 | 48.1 | 26.2 |
| C. Dollar return (A1+B4) | 47.8 | 50.7 | 30.2 |
| MEMORANDUM ITEMS | | | |
| A. 1. Local currency sales | 95.5 | 76.6 | 30.0 |
| 2. Dollar credit sales | 71.6 | 114.9 | 127.5 |
| 3. Total | 167.1 | 191.5 | [4] 157.5 |

| | June 30, 1968 | June 30, 1969 | June 30, 1970 | December 31, 1970 |
|---|---|---|---|---|
| B. P.L. 480 local currency balances [5] | 331.3 | 245.6 | 251.1 | 255.5 |

[1] The 1st dollar credit was signed in 1967. This and subsequent dollar credits all have 10-year grace periods with respec t to repayment of pricipal.
[2] 1st 3 quarters.
[3] Mainly to U.S. agencies for use in India. Also includes conversions into foreign currencies for market development, cultural exchange, etc.
[4] Signed May 7, 1971.
[5] Factors not taken explicitly into account in this table but which are reflected in the level of balances are exchange ate adjustments and transfers between U.S. use funds and funds allocated for country use.

The CHAIRMAN. Point No. 2, this is about the only advanced country on earth that wants to try to keep its trade figures on an f.o.b. basis.

The International Monetary Fund, quite correctly, keeps its international trade balances on a c.i.f. basis, and when somebody sells, let us say, an automobile that is worth $1,700 in a foreign nation, and on which there is going to be about $400 of freight, in their ship, with their labor, to bring it over here, and they sell it at dockside for $2,100, our people show on the books as though we are paying $1,700 when we are paying $2,100—$1,700 for the automobile, $400 more for the freight and insurance, for a total of $2,100.

Ninety-four percent of our cargo moves in foreign bottoms, and if you put the ocean freight into it, and most everybody else, including the International Monetary Fund, keeps figures on that basis, then for the last 5 years we have not had a profit, we have had a loss.

I gave you the statement of my position on it, Mr. Secretary. I hope you will find time to read it. Do you still believe that on any realistic basis we have had a favorable balance of trade for the last 5 years?

Secretary CONNALLY. Well, on the basis on which our statistics are kept we have, Senator Long. But on the basis you are talking about, on a c.i.f. basis, we have not.

I think it is a question of how these statistics are kept. We have always kept ours this way. The IMF reports statistics on the basis upon which countries submit them, which is largely c.i.f.

Many countries, 112 countries around the world, I believe, do it otherwise simply because they do not have the specific information available to do anything else—which is right or which is wrong, I am not prepared to say today.

In any event we do not keep all the figures, as you well know.

Senator Long. The only conceivable excuse that I can think of for trying to say whether you had a favorable or unfavorable balance of trade on an f.o.b. basis would be if you collect your tariffs on the f.o.b. basis.

On that basis, since you collect your tariff on the basis of what the product is worth in the foreign country, not what it is worth here, you can say it is easier to get your figures together that way.

Secretary Connally. That is correct.

Senator Long. But how can you say we are only paying $1,700 for that automobile when we are paying $2,100, $1,700 for the automobile and $400 for insurance and freight?

How can anyone realistically say all we paid for that automobile was $1,700.

Secretary Connally. Senator, I am not going to argue with you that insurance and freight are not a factor in cost, particularly when I believe about 94 percent of the freight that we pay is the result of goods hauled in foreign bottoms.

I think we haul about 6 percent, and 94 percent of all our goods in ocean traffic are paid out somewhere else.

Senator Long. Well, Mr. Secretary, I have told you this privately, but I think I ought to say for the record the only reason that I can think of for not giving this committee and this Congress and the American people forthrightly the honest trade figures of this country, which would reflect that we have been in a loss position for the last 5 years, is to try to continue policies that this Nation can no longer afford; to try to pretend—since we have a favorable balance of the trade—we must do more of the same. But we are not making money, we are losing money, which means we have got to change our way of doing business even in the trade part of it, and I would just like to see if we cannot reach some agreements on that point.

Secretary Connally. Senator, there is no attempt, I think, on the part of the Government to withhold information from this committee or the Congress.

As I recall, last year the figures were all reported both ways and, as I say, if I am correct, there is a quarterly report from the Department of Commerce that includes the figures on the precise basis on which you are talking.

Senator Long. What I want to stop, if I have any influence, and I think others feel the same way about it, is this: People representing foreign countries walk into my office and show me that quarterly good news announcement published in the New York Times—which is the only newspaper read overseas, anyhow—and they proceed to say:

"Why must you people be so provincial as to try to restrict imports or to try to push more of your exports into our country when you have a 'favorable' balance of trade." That requires me to sit down with these people and show them that if you take everything into consideration we are not making money, we are going broke in the trade field just as fast as we can.

You told me, and I think you would be willing to concede for the record those people are sophisticated. Those f.o.b. figures represent not a fair representation of the picture.

It seems to me we ought to tell the world that and tell those people, when we sit down and negotiate with them what our real trade position is so that we are not confronted with the good news announcements saying that we made $4 billion when we lost $4 billion. If we can get the figures on the right basis then I think we can start talking about how do we correct this bad situation.

But as long as we say we are making a fortune when we are losing money, I think we will remain in bad shape.

It reminds me of the man losing ten cents on every sale. Someone says to him "How do you manage staying in business doing that?"

He said, "Because I have such a volume of business." (Laughter.)

I am through.

Secretary CONNALLY. Well, Senator, obviously we, no responsible person in the Government is going to take a position other than that the figures ought to be secured, ought to be considered and ought to be published on a fair basis, on a basis that reflects the events as they actually occur and that reflect the precise situation with respect to our trade.

There is no point in kidding ourselves or anybody else. I could not agree with you more.

Senator LONG. I want to work with you, Mr. Secretary, to come up with a program that would advance this Nation's interest, and then put it into effect.

But I do not think we are going to get there by deceiving ourselves about what the real facts are. I think we have to get the facts straight. If we cannot agree on what our facts are, I do not think we will ever agree on what the answer is.

I hope we can agree on something as simple as this that we will publish honest statistics, accurately reflecting whether we are making or losing money in the trade field. If we can do that, then we can see what needs to be done on a policy basis.

Thank you.

Secretary CONNALLY. Thank you.

Senator RIBICOFF. Mr. Secretary, I gather from your testimony and colloquy with Senator Fulbright that you are very unhappy over the fact that the United States assumed such a large burden for the defense of Japan and Western Europe, and you do not like the idea of withdrawing 150,000 troops by December 31 of this year, but that the European countries certainly ought to assume more of the balance-of-payments costs.

Now, would you be interested in this sort of a proposal: To give the President until December 31, 1972, the power to negotiate with the NATO countries for their assumption of our balance-of-payments costs to maintain 150,000 or half of our troops in Europe?

If they assume that differential we keep them there.

But if by December 31, 1972, which is a year and a half from now, our NATO allies cannot come to such an agreement with the President of the United States, then beginning January 1, 1973, we start gradually returning 150,000.

Secretary CONNALLY. No, sir; I would not agree that we ought to approach it from that standpoint. I really do not think, Mr. Chairman, under these circumstances, that we ought to confuse the issue.

I think in one sense the men that we have in Europe, the 300,000 men, are these not just for the defense of western part of Europe but they are there for our own defense, as well.

It is significant that in spite of the tremendous costs that we have in maintaining those troops over there, the European nations, themselves, as a part of their NATO agreement, do have approximately 2 million men under arms. It costs them about $16 billion a year.

So I think it is self-defeating in a sense, Senator, to mix the two.

We obviously have some very great problems that are coming into sharp focus now simply because of the monetary drain on this Nation. Heretofore we have done a lot of things in the conduct of our foreign affairs and domestic affairs, perhaps simply because we could afford to do it, and we raised no substantial question.

The Congress raised no substantial question.

We have given away tens of billions of dollars to try to rehabilitate, to try to educate, to try to save the lives around the world by one means or another, both from famine and disease and that was, I think, nothing but a great compliment to the people of this country, and I do not think we ought to now be in the least ashamed—I have seen a number of stories written about the fact that our pride has suffered enormously because of the floating mark today.

Well, I do not think the mark is—and I may have left the wrong impression a moment ago—I do not think the mark is so undervalued when it only goes up 3 percent.

I still think the dollar is a very strong currency. I think it is going to remain strong; and I think the mere fact there has to be some periodic adjustment in the relationship between it and other currencies around the world, does not in any sense give cause for shame to Americans for what we have done.

I think we have every right to be proud of what we have done. I think we have every reason to ask that other nations help us more than they have in the past.

I really do not think that the Congress ought to say to the President of the United States; whoever is in the Congress, whoever is in the Presidency, "We are going to give you so much time to withdraw troops around the world."

I just do not think it is the wise thing to do. I do not think it is a good thing to do.

We have problems of mutual security involved that are very fundamental and basic, and I think we ought to use every pressure that we have to try to get fair treatment on a trade basis.

But I just do not think we ought to do it on the basis of threatening to remove troops from Europe in order to move it about.

Senator RIBICOFF. This is only one phase of the problem, one of the running arguments, we are having now between the Congress and the Executive with respect to the sharing of power in making foreign policy. Let us take another facet of the same thing. The purpose of our NATO-related expenditures is to put a defensive umbrella around Western Europe, and we spend all this money to defend Western Europe.

Now, in 1969 the free world that we are protecting with this money had a trade volume with Eastern Europe of $16.6 billion. During the same period, largely because of our self-imposed restrictions, our trade amounted to $440 million—against $16.6 billion.

You mentioned the fact that where we are strong in trade was in high technology items. The one thing that Eastern Europe wants are these American high technology products. Does it make sense for us to spend so much to defend Western Europe against the East, when they do so much business with Eastern Europe and we restrict our own trade with the East?

Shouldn't we be doing more business with Eastern Europe?

Secretary CONNALLY. Well, Senator, I think that will be the normal result of the policy of this Administration. It has moved to expand the trade. It has done so with China, as you know, in recent times, and I think in the future you will see a greatly expanded trade with Eastern European countries.

I am not particularly knowledgeable in the field, very frankly. I am not really prepared to discuss that with you, and I probably should not even mention it at all.

Senator RIBICOFF. But, as a matter of policy, you would have no objection for the United States to develop its East-West trade?

Secretary CONNALLY. No, of course not.

Senator RIBICOFF. Senator Talmadge, have you any more questions?

Senator TALMADGE. Mr. Secretary, looking down the road, what industries in the United States do you think will be competitive in the foreign markets during the 1970's and 1980's?

Secretary CONNALLY. Well, Senator, I would hope all of them would be, but I am not sure. I think one of the reasons why I am interested in being here today is, and the reason I was complimentary, but not as a matter of form, to the Chairman and to the members of this committee to hold this hearing, is to try to awaken the American people to the fact that we have a problem.

When I think about the industries, the only one I think I can be sure of is agriculture, and it affects only about 5 percent of the people who are directly engaged in it. It obviously affects about 43 percent of the jobs in the country, but it is the most efficient in the world by long odds.

There are other areas, the high technology field where we obviously have supremacy. But in many of the basic industries we have lost much of that lead, very frankly.

Senator TALMADGE. I take it you do not buy this argument of some that if you cannot compete with the wage level of Hong Kong, maybe 15 cents an hour, that industry ought to be liquidated, do you?

Secretary CONNALLY. Senator, that is an economic theory of comparative advantage. In the first place, the reason I do not understand it is that I am not an economist. But if I were an economist I would not want to understand it, because I do not believe it is going to work.

Senator TALMADGE. You know of no nation that practices that?

Secretary CONNALLY. I know of no nation that practices it, and when we start talking about pure economic theory and disregard the political actions of nations, we are kidding ourselves, and that is one reason why we cannot solve all our problems in foreign aid and our international monetary problems by military policies because, at some point, pure monetary decisions become very great political decisions. Monetary decisions are not made in a political vacuum.

Senator TALMADGE. That is entirely correct, and I agree with you.

One of the things that concerns me greatly is our trade with Japan, for instance. We are selling almost exclusively to Japan raw materials that are not labor-intensive, but we are buying electronics and textiles and things of that kind that produce jobs for the Japanese.

We do not produce a great many jobs when we send lumber to Japan.

We do not produce a great many jobs when we send coal to Japan, and we buy radios or televisions from Japan. We are not creating jobs.

I think that is one of the reasons for our high unemployment level at the present time.

I do not know how airplanes got into this thing, but they help. Don't we control 85 percent of the world's export market in commercial planes?

Secretary CONNALLY. Yes, sir; we do.

Senator TALMADGE. What are our earnings on the export of planes at the present time, do you recall offhand?

Secretary CONNALLY. I think that U.S. aerospace exports, of which commercial planes are a substantial part, are between three and a half and five billion dollars.

Senator TALMADGE. My recollection is that our favorable balance of payments on commercial planes in the past five years were something on the order of $10.7 billion is that correct?

Secretary CONNALLY. I would not argue with that at all.

Senator TALMADGE. If we lose that export market we will not only displace these American workers but we will be importing those planes, won't we, to serve the needs of this country?

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. If we stay in the transportation business, we will.

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. Mankind has been seeking a faster means of transportation since he tamed the horse, hasn't he?

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. There was opposition to the railroad, wasn't there?

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. Opposition to the steamship, wasn't there?

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. Opposition to the airplane, wasn't there?

Secretary CONNALLY. Considerable.

Senator TALMADGE. Opposition to the jet airplane, wasn't there?

Secretary CONNALLY. Yes, sir.

Senator TALMADGE. But we have never turned our back on technology before, have we?

Secretary CONNALLY. No, sir. We probably should have at times, but we never have, and we won't again. [Laughter.]

Senator TALMADGE. Now, Mr. Secretary, your department has the primary responsibility for defending the dollar and yet when it comes to dealing with aid and trade and investment abroad, the prime reponsibility is in other departments. Do you feel comfortable having the responsibility for an overall problem but lacking the power to make the individual policies necessary to resolve the problem?

Secretary CONNALLY. Well, Senator, you have to say no one department, no one person in the Government outside of the President, himself, in the Executive Branch of Government, brings into focus all of the factors.

As you well know, sure, it is difficult to get all the departments to think alike and act alike, and it is sometimes difficult to coordinate difference, different views, within the Administration, and ultimately a lot of these things have to go to the White House and to the President, himself.

Now, as a theoretical matter, certainly if we had the authority, as you suggest, to solve a great many of these problems that we have responsibility for it would be easier, but we probably would create other problems.

So I do not want to be put into the posture of trying to say that a great many of our problems result from the fact that we do not have sole responsibility, because we have to follow, and gladly follow, the President's views and policies on these matters anyway, and whether we had all of the authority or just some of it, we are going to follow his advice and his policies.

We have access to him.

We will have some arguments, I am sure, with other departments. I anticipate that we will. We always have, and I do not think that is going to change.

Senator TALMADGE. Our balance of trade with Canada has deteriorated by $1 billion since 1965, the year in which we approved the Canadian auto agreement. I am very happy I did not approve that Canadian auto agreement.

In 1965 we had a trade surplus with Canada of $642 million. By 1970 we had a deficit of $1,645 million. After the so-called free trade auto agreement, we still find the Canadian duty on new autos made in this country 17.5 percent, and they have an embargo on used American car imports while all Canadian-made cars come into this country duty free. When are we going to get some reciprocity with Canada on this agreement?

Secretary CONNALLY. I would hope, yesterday.

Senator TALMADGE. I concur.

Secretary CONNALLY. This is a classic example of the fact—of what we have been talking about this morning—that we have been too easy.

At the time this agreement was entered into, it was agreed, because of the circumstances that then existed, that they would have a transition period in which to extend the coverage of the Agreement to all exports of U.S.-produced autos. While major U.S. auto manufacturers do import their products into Canada duty free, the Canadians have not seen fit to end the transition period and extend this right to all individuals and firms.

Senator RIBICOFF. If the Senator will yield, this was one of the great problems we had in this committee that causes so much of our problems.

Here was an executive agreement entered into by the President and the State Department. It came to Congress to handle as a fait accompli, and if I recall, we in the finance committee were almost unanimously against that and fought it on the floor. I think this is one of the things we should try to obviate in the future and one of the reasons for this hearing. We should realize there is a congressional duty in these trade agreements and trade matters, and the time has come for us to reject from the executive branch these executive agreements, these fait accomplis, and ask the Congress to take it or leave it.

The same with GATT. The GATT agreements have never been approved by the Congress, either. It was given a fait accompli, and the Canadian auto agreement was a matter in the same category, and we would hope, Mr. Secretary, that you would take a continued strong role in trade matters and realize that unless there is a meshing between the Congress and the Executive we are in for a series of executive-legislative clashes in the entire trade and monetary fields.

Senator TALMADGE. I can give you another example, if the Chairman will yield at that point.

Immediately subsequent to that, when we were negotiating the so-called Kennedy round in Geneva, and they were about to make agreements over and beyond the Trade Act that Congress had authorized, you and I cosponsored a resolution, Senate Resolution 100, directing our negotiators not to go beyond the terms of that Trade Act, and it passed the finance committee without a single dissenting vote, and passed the Senate, I think, with one speech made against it.

Our negotiators promptly go over there and give away the American selling price right in the teeth of that resolution.

I have no further questions, Mr. Secretary.

Thank you very much, Mr. Chairman.

Senator RIBICOFF. Senator Hansen.

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

If I may, I would like to ask a further question or two that go back to our troop commitments in the NATO situation and the advisability of our withdrawing from over there.

I share the concern of a lot of people that we are continuing to shoulder, I think, a greater share of the economic burden, and, I feel, more than we should be asked to undertake. But I hope that we won't get confused at this juncture in thinking that it makes sense to solve an economic problem by taking what I believe would be a very disastrous step if we were to pass the Mansfield resolution.

Coming from the part of the United States that you represent, and having known a number of horse traders, I would ask you does it make sense in dealing with the Soviets to hand them part of our trading stock, as I think we would be doing, if we were to say unilaterally we will cut back our troop commitments to the NATO nations by 150,000?

Secretary CONNALLY. No, absolutely not, Senator Hansen. It does not make sense to me at all.

As a matter of fact, Mr. Brezhnev recently indicated they would be willing to talk about troop reductions.

We have SALT talks going on with respect to disarmament, and the only way you are ever going to get any kind of a troop reduction or disarmament agreement, in my judgment, is to remain militarily strong.

Senator HANSEN. Do you believe——

Secretary CONNALLY. You cannot lead from weakness in negotiations with the Communist world, or basically with anybody else.

Senator HANSEN (continuing). You believe that it is important to deal and to negotiate from a position of strength, then, do you?

Secretary CONNALLY. No question about it.

Senator HANSEN. Well, I happen to share your feeling.

Secretary CONNALLY. It is a very basic human reaction. It is true as between individuals as much as it is between groups, as it is among nations.

Senator HANSEN. It seems to me it is important to keep in mind that while we are engaged in the conflict in Southeast Asia, and we all deplore the suffering and the loss of a single life over there, we have had over 50,000 lives lost, I still think that we have got to keep in mind that we do have a cease-fire now in the Middle East.

It was stopped, I suggest, largely because of the presence of American military might in that part of the world, that we were able to bring about a cease-fire, and I think it would be a tragic error if we were to assume that it made sense now to bring about the fragmentation, as I think would result, if we were to withdraw 150,000 troops.

I think that the NATO countries would not have reason to believe that we keep our commitments. I think they would have reason to try individually to negotiate understandings with the Soviets, and it just seems to me that we could very well undo all the good that has been done from the end of World War II when we embarked on this UN philosophy that we were going to work together, and I would ask you if you share that same feeling.

Secretary CONNALLY. I agree 100 percent with that, Senator Hansen.

Senator HANSEN. You know, Mr. Secretary, you spoke about the areas in which we excelled, and I think you said they were generally in areas of our technological excellence.

I have before me two articles from the Time Magazine dated May 10, which I would like to ask unanimous consent might be included in the record at this point.

Senator RIBICOFF. Without objection.

(The article referred to follows. Hearing continues on page 73.)

[From the Time Magazine, May 10, 1971]

JAPAN, INC.: WINNING THE MOST IMPORTANT BATTLE

In 1953, a young businessman named Akio Morita made his first trip outside Japan to investigate export prospects for his struggling little electronics company. He was dismayed to find that in the sophisticated markets of the U.S. and Europe, the words Made in Japan were a mocking phrase for shoddiness. But in The Netherlands, he recalls, "I saw an agricultural country with many windmills and many bicycles, and yet it was producing goods of excellent quality and had worldwide sales power. I thought that maybe we Japanese could do it too."

Indeed, they could. A month ago, Morita took off on his 94th or 95th transpacific trip (he has lost exact count). This time he came as the self-assured export chief and primary owner of Sony Corp., the firm that as much as any other has made Japanese goods synonymous with high quality as well as low price. In Chicago, he told security analysts that Sony last year rang up sales of $414 million, more than half from exports to 147 countries of radios, tape recorders, TV sets and other products. In London, he went over sales projections for the color TV sets that Sony began marketing in Britain last month; the company expects to sell 50,000 the first year at $480 each, *v.* $600 for the lowest-priced British-made sets. On the Continent, Morita checked on construction plans for a multimillion-dollar Sony distribution and service center to be located, fittingly, in The Netherlands.

The trip was not all triumphal procession, however. In the U.S., Morita ran into a storm of ill will, stirred up by a Government finding that "Japanese manufacturers" have been dumping TV sets—selling them in the U.S. at prices below those charged in Japan. For the time being, Morita says, Sony must post a 9% deposit with Washington on every TV set that it imports. Morita concedes that some Japanese TV makers practice dumping, but he insists that his company is not among them and contends that U.S. Treasury officials admitted as much to him. "Although we are innocent," he says, "we are being forced to act as if we were guilty."

THE POWER AND THE DANGER

Morita's trip thus symbolized both the power and the peril of Japan's rising position in the modern industrial world. Starting from a postwar pile of rubble in a nation almost devoid of raw materials, Japan's businessmen have built an economic superpower. Today it is flooding markets from Manila to Milwaukee with shoes, ships and steel, cameras, cable, cloth and cars, transformers, TV sets, tape recorders and, of course, the ubiquitous transistor radios. To many admiring but fretful Westerners, Japan has become a corporate state, and is even referred to as "Japan, Inc."

The Japanese economy is the third most productive in the world, exceeded only by those of the U.S. and the Soviet Union. The gross national product has multiplied from $26 billion in 1956 to more than $200 billion today. Japan produces one-sixth of the world's steel and half of its ships. The Japanese treasury, almost bare 13 years ago, now bulges with more than $5 billion worth of reserves. The country's exports have almost doubled in four years to more than $19 billion last year, and have risen 20% or more in each of the past three years.

THE HUMAN SEA

Every day, thousands of neatly dressed, briefcase-toting Japanese businessmen, technicians, engineers and salesmen swarm over the globe—inspecting, surveying, planning, advising, bargaining, buying and selling. One group is now in Hanoi, working on an agreement to help the North Vietnamese set up a shipping firm, textile plant and garment factory. In Zambia, geologists are surveying copper fields. On Vancouver Island, lumber men are demonstrating a new technique for cutting timber that used to be considered waste. Other groups are supervising production of Honda motorbikes in Brussels, studying sites for a hotel in Alaska and building a steel mill in South Africa, where the Japanese are considered honorary whites. In any market that arouses their interest, the Japanese use *jinkai senjitsu* (human-sea tactics), inundating the area with trade delegations and survey groups. Local businessmen sometimes feel that they are being overwhelmed by sheer force of numbers.

Fearful and resentful, European nations have built a daunting array of barriers against Japanese goods: Italy alone has 46 import quotas directed specifically against them. Asian leaders also complain. Antonio Villegas, mayor of Manila, recently inveighed against the "insidious Nipponization of the Philippines"—then excused himself to greet a visiting delegation of Japanese advertising men. Says K. S. Yossundara, an official of the Bank of Thailand: "The average Thai wakes up to the call of a Japanese alarm clock and probably brushes his teeth with Japanese dental cream. His car or motorcycle is Japanese, and so are his shirt and trousers. Even the movie he watches on a Japanese TV set may well be Japanese."

The deluge of Japanese imports is arousing an angry protectionist reaction in the U.S.—Tokyo's wartime conqueror turned No. 1 trading partner (*see Symposium, page 90*). Fully 30% of Japan's exports go to the U.S. As recently as 1964, Japan bought more than it sold in U.S. trade. Since then, the popularity of Sony TV's, Nikon cameras, Panasonic radios. Toyota and Datsun cars, and Honda and Yamaha motorbikes has turned the picture upside down. Materials-short Japan is a big and growing consumer of American coal, lumber and even soybeans, but in each of the past three years its sales to the U.S. have exceeded its purchases by more than $1 billion. The American shoe, textile, electronics and other industries have not only lost sales and profits to the Japanese but jobs as well. A member of the Nixon Cabinet voices the alarmist view held in some high Government circles: "The Japanese are still fighting the war, only now instead of a shooting war it is an economic war. Their immediate intention is to try to dominate the Pacific and then perhaps the world."

The business backlash stings Japan in many ways. The U.S. is negotiating tighter quotas on Japanese steel and has just agreed on a quota for stainless-steel flatware. Many businessmen want the Government to go much further. Last year protectionists raced through the House a bill authorizing quotas on any foreign product that won as much as 15% of a U.S. market. The chief target: Japan. The bill died in a Serate adjournment rush, but the import debate has resurfaced this year in a way that could poison U.S.-Japanese political relations.

CLOSED-DOOR POLICY

The most incendiary battle centers on imports of Japanese textiles. Last year they accounted for only 13% of total U.S. textile sales, but they have been heavily concentrated in certain segments of the market. Japanese sweaters and woolen fabrics increasingly infiltrate the U.S. market, and imports of man-made fibers from the Far East soared 75% in the first two months of this year; probably a third came from Japan.

President Nixon in 1968 promised protection to the politically powerful Southern textile industry. Two months ago, the Japan Textile Federation offered to limit shipments to the U.S. for three years starting July 1; they would rise only 5% the first year and 6% in each of the next two years. Those limits were not stiff enough to satisfy U.S. trade hawks, and Nixon turned the offer down. The President then further tangled the textile situation by mixing it up with international politics. He decided to submit to the Senate a treaty returning Okinawa to Japan, rather than handing it back by administrative action as he had led Tokyo to expect. If the Southern textile bloc can sew up 34 Senate votes, it can defeat the treaty. Okinawa is such an emotional issue in Japan that a defeat could topple Prime Minister Sato's government.

As the political snag over textiles shows, the dangers of a U.S.-Japanese trade split go far beyond economics. Japan has been the greatest force for postwar stability and progress in Asia, largely because its industrialists have channeled the vigor of the Japanese people into peaceful pursuit of markets. If that Japanese trait is denied commercial expression, it could explode in frustration. Averting a U.S.-Japanese blowup will require a much deeper understanding of the nature of the friction than either side has shown so far. Many Japanese leaders play down the American resentment as being largely a consequence of the 1970 U.S. recession, and they figure that it will fade as business continues to revive. Even Sony's Morita, who knows the American mind well enough to have outguessed some U.S. marketing men as to what products would sell well, takes that line. "I have been a salesman for 20 years," he says, "and I know that whatever a salesman's customers do not want to buy, he starts blaming someone else."

In fact, the U.S. reaction reflects more than pain in the pocketbook. American executives are enraged by what they regard as Japan's refusal to observe the rules of the game of world trade. Many American businessmen contend, with some justification, that the Jaapnese dump not only TV sets but also steel, textiles, float glass and radio tuners. U.S. industrialists also complain bitterly (and enviously) about the special help their Japanese rivals get from the Tokyo government: official blessings for cartels formed to win big foreign orders, lavish and extensive government-financed studies of which overseas markets might be easiest to crack, low-interest loans to exporters from the government-dominated banking system, and the lowest corporate taxes in the industrial world.

Most of all, American are incensed by the way that Japan, while invading foreign markets, has closed its domestic economy to many foreign goods and most foreign capital investment. Supposedly, that situation is changing. In 1969, Tokyo maintained quotas or other barriers against 120 categories of imports. Last January, the number was cut to 80, and this months it is supposed to go to 60; the Japanese have pledged to reduce it to 40 by September. They also promise to open nearly all their "pureblood" industries to either 50% or 100% foreign ownership by Aug. 1.

CLOGS, NOT CARS

Even after the next stage of liberalization, foreigners will not be able to send in many products—including unlimited quantities of oranges and some airplanes and machinery—or to invest in the manufacturing of large computers, certain electronic items and petrochemicals. The Japanese government rejects many investment applications, stalls on others, attaches unacceptable conditions to still others. Ford and Chrysler have been delayed for years in attempts to buy into the booming Japanese auto industry, and General Motors has won permission for only a limited investment; 35% ownership of a joint venture with Isuzu

Motors, a truck maker. Says James Adachi, president of the American Chamber of Commerce in Japan: "We can set up a factory to make *geta* [Japanese wooden clogs], or open a supermarket, so long as it is smaller than 500 square meters."

INSCRUTABLE ECONOMICS

The real cause of the present strain is that the U.S. is confronting something totally new in the world: a mighty industrial economy that has been shaped by Oriental history and psychology. If Japan does not follow the gentlemanly trade rules, it is not because of simple greed but because it does not adhere to Western principles on much of anything. To outsiders the Japanese economy seems inscrutable in ways alternately amusing and shocking.

Industry is cartelized to a point that would make John D. Rockefeller envious. Companies carry a burden of bank debts that would drive a U.S. executive to drink—or his company to the brink. Above all, every part of the Japanese economy is directed toward a national goal, and almost everybody feels a sense of participation in achieving it. Bureaucrats, bankers, business executives, workers—all labor hard to make Japan a world power through economics.

The economy is an expression of a society that values order, security, harmony and industry. Japan has become the world exemplar of what in the West is called the Protestant ethic. The reasons behind Japan's work ethic lie not in its Buddhist and Shinto religions but in its history and geography. The fountainous nation has always been a tough place to scratch out a living. The peasant who did not labor hard simply starved, partly because medieval lords took as much as 80% of his rice crop in taxes. Necessity was transmuted into virtue; the busy man is a good man. To this day, it is considered respectful to greet superiors by saying, "*O-isogashii desho* [You must be in an honorably busy state of affairs]."

Single-minded dedication to a goal is easier to achieve in Japan than in the West because Japan is the largest homogeneous society on earth; there are only tiny racial or even linguistic minorities among its 104 million people. Harmony and order are also essential because the Japanese have always been jammed together on small patches of arable land. The physical proximity of the Japanese breeds tension, which can be discharged by hard work, but there is literally no room for aggressively individualistic behavior. There is a violent undercurrent that sometimes leads to street demonstrations or parliamentary brawls, and the Japanese struggle to contain it. Akira Suzuki, a leading scholar, regards the renowned ambiguity of his country's language as a manifestation of the need that Japanese feel to try to get along with one another. "If we spoke more clearly to each other," he says, "we might end up clashing in fistfights all day long."

This characteristic finds an echo in business conduct. Western executives are often perplexed and sometimes misled by the extreme reluctance of the courteous Japanese to answer any suggestion with a flat no. Japanese are equally shocked by Western bluntness. Yoshio Terazawa, executive vice president of U.S. operations for Nomura Securities, a giant brokerage house, recalls the dismay of a colleague who watched an American lawyer spend hours haggling over the fine print of a contract. In Japan, such matters would be settled by gentlemen's agreement.

Another element in Japan's economic psychology is its long history of cultural isolation. When the nation was finally opened to the West a century ago, the Japanese felt a morbid fear that they were behind the rest of the world and a compulsive drive to catch up. In that drive, the World War II defeat and the U.S. occupation turned into a major plus. Occupation authorities purged the old, politically oriented heads of Japanese businesses, replacing them with well-trained technicians who had learned many lessons during the war. (Today's superb Japanese camera lenses, for example, are the end result of wartime research into range finders.)

ADVANTAGES OF BEING IN HOCK

Forbidden by the American-imposed constitution to buy modern weaponry, Japan has been able to concentrate investment on automated industry. The destruction of its factories by wartime bombing left it free to rebuild with the latest technology. To do that quickly, the new industrialists bought patents and licenses from everywhere. Says Shigeo Nagano, chairman of Nippon Steel, which today produces more tonnage than any other company in the world: "So long as we had to start from nothing, we wanted the most modern plant.

We selected the cream of the world's technology. We learned from America, Germany. Austria and the Soviet Union, and adapted their methods in our own way." In particular, the Japanese developed a strategy of looking for "technological gaps"—advances that were not being fully exploited in the West. The oxygen steelmaking process, for example, was developed in Austria, but Nagano and his colleagues were quicker to appreciate its quality and cost-saving features than their Western rivals were. More than 80% of Japan's steel is now made in oxygen furnaces, the highest proportion in the world.

Faced with a severe postwar capital famine, all industry had to borrow heavily from government-regulated banks. Even today, Japanese companies generally get more than 80% of their financing from loans and less than 20% from sale of stock—about the opposite of the ratio in the U.S. Nagano estimates that Nippon Steel's debt is equal to what four or five American steel companies would owe. To a Western executive that might seem to leave the economy extremely vulnerable to a Penn Central-type collapse. Japanese find that being in hock has its advantages: corporate Pooh-Bahs do not have to worry about paying high dividends or showing plump profits to keep stockholders happy.

To a large extent the Japanese worker has financed this system. His phenomenal savings rate, a product of the desire for security, has fed funds to the industrial machine. Last year the Japanese saved 19.4% of their incomes; in the U.S., a 7% savings rate is considered startlingly high. Observes Morita: "Saving is a hobby of the Japanese people."

### THE CHARM OF THE COMPANY UNION

In order to help industry produce inexpensively and expand quickly, workers long had to accept low wages. In return, they received an implied guarantee of lifetime jobs in the companies that they joined fresh out of school. That security has bred one of the world's most contented work forces. Japanese workers rarely strike, and absenteeism is almost unknown. Unions lately have become more vocal. Wages climbed an average 18% last year—but, incredibly, productivity rose 14%. Japan's average wages, now 94¢ an hour, passed Italy's in 1969 and France's last year.

One reason that productivity is soaring is that unions have not resisted new technology. If a man's skill becomes obsolete, his company retrains him for something else, with no loss in pay. Employers thus gave great freedom to shift workers from one job to another and can invest huge sums to train them without worrying that they will jump to competing firms. As a result, workers tend to identify with the company rather than with a particular skill, a fact that is reflected in union organization. Says Morita, smiling: "Our labor situation is better than yours, because in the U.S. your unions are independent. In Japan, all our unions are company unions."

For both worker and executive, the company is the center of life. Workers often display a quaint family spirit, referring to "my" company, and *my* is written with the same Japanese character that represents *family*. They often cheer each other when changing shifts, like baseball players applauding a teammate who has just hit a home run. It is rare for a major executive to leave on a business trip without getting a rousing sendoff from the entire office staff at the airport. At Matsushita Electric, Nissan Motors and other firms, the day begins with everybody assembling to sing the company song. At Toyota the day opens with five minutes of supervised calisthenics. There is a vast range of fringe benefits: discount meals at plant cafeterias, cut-rate vacations at company resorts, cheap rental in company apartment houses (roughly $10.80 a month for a two-room flat in one Nippon Kokan building in Yokohama).

The head of a Japanese company is bowed and scraped to by gaggles of company-smocked office girls, drivers and flunkies. The company-paid geisha party for executives is still common, though some newer firms are getting away from it. Almost always, the businessman's wife must accept a new form of concubine; the company. In a recent survey, 68% of the Japanese managers polled said that business was more important to them than their families.

### BANZAI FOR SWAPPING

The executive spends much time talking with officials of other companies, because the tradition of cooperative effort has resulted in a clobby Japanese-industry organization. The prewar *zaibatsu* cartels of Mitsui, Mitsubishi and Sumitomo were broken up under the U.S. occupation and supposedly have come together again only loosely. But presidents of the 27 Mitsubishi companies meet one Friday every month; it is an open secret that they plan common strategy at "the Friday Club." The 17 Mitsui presidents meet one Thursday every month, and the 17 Sumitomo presidents one Monday a month. The big borrowers from the Fuji Bank have a council known as Fuyo Kai, which includes the heads of Hatachi (electrical machinery), Nissan Motors (autos) and Nippon Kokan (steel). The clubs divide up markets like so much sukiyaki. When Communist China recently decreed that it would not trade with Japanese firms that do business with South Korea or Taiwan, the clubs quickly reached an understanding: Mitsui and Mitsubishi decided to concentrate on South Korea and Taiwan, while Sumitomo took China.

Japanese shipyards can overwhelm foreign competitors partly because their engineers regularly swap technological ideas—so completely that no one remembers and no one cares which company originated a certain important welding process. Says Masashi Isano, 71, chairman of Kawasaki Heavy Industries: "By closely emulating each other, our engineers constantly improve themselves and the industry as a whole. All I have to say to that is banzai!"

### THOSE HELPFUL BUREAUCRATS

Nowhere in the non-Communist world do business and government coexist so closely. Prime Minister Eisaku Sato heads the Trade Conference, which sets national export goals and coordinates business efforts to achieve them. *Most of the government's influence is exercised by the all-important Ministry of International Trade and Industry (MITI), which issues gyosei shido, or administrative guidance. For instance, MITI may "advise" a Japanese company to buy a domestic computer rather than one from IBM.* A few years ago, many Japanese petrochemical concerns planned to build big plants. MITI experts advised that the foreseeable foreign and domestic demand would justify only six such plants and that construction would have to be spread over three years. The petrochemical-industry trade association quickly decided which six companies should build them—and when.

Japan's competitive strength derives from much more than the government's hothouse care. The nation is developing a new generation of inventive, competitive executives quite able to capture foreign markets on their own. Their exemplar and lead is Sony's Morita.

Unlike older Japanese firms, Sony sells through its own marketing network rather than through the trading companies that contact overseas buyers for most Japanese manufacturers. Its basic financing is not through bank loans but the sale of stock, 31% of which has been bought by foreigners. Morita, personally and through a family investment company, is the largest shareholder, with 10.3% worth $130 million.

Slender, white-haired Morita, now 50, is a mixture of Japanese and Western patterns. Amid the woofers, tweeters, exponential horns and other electronic gadgetry crammed into the den of his Tokyo home stands an authentic American nickelodeon that he plays delightedly with nickels brought back from the U.S. As Morita told TIME's Tokyo Bureau Crief Edwin Reingold: "Americans like to come to Japan and take home Japanese antiques. I go to America and bring home your antiques." Morita spends about a third of his time on the road, jetting so often to the U.S. and Europe that he jokes, "It's a long commute." At home or abroad, he regularly arrives at Sony's offices by 8:30 a.m. and works for twelve hours or more. In off hours in foreign cities, he likes to stroll about checking on store displays of Sony and competing products and jotting observations in a notebook. "Business is my hobby," he says.

### PRODUCTS OF THEIR OWN

Son of a manufacturer of soy sauce and sake, Morita started out as an engineer. As a wartime navy lieutenant he was assigned to help an engineer named Masaru Ibuka develop a heat-seeking bomb. After the defeat, Ibuka opened a communications-equipment business in a Tokyo shed, and Morita joined him. The two begged and borrowed $500 to start Tokyo Telecommunications Co., later Sony. Ibuka, who was Mr. Inside, developed the products and became president: Morita, Mr. Outside, specialized in marketing and became executive vice president.

Sony succeeded because its chiefs were among the first Japanese businessmen who did not copy Western products but used Western technology to develop new products of their own. Ibuka read about transistors and, in 1952, went to the U.S. to look at them. He became convinced that they could be used to make a radio. Morita visited the U.S. the next year and returned certain that the radios would sell fast in the U.S. He was amazed by the number of American radio stations and concluded that "everybody in the family will want to listen to his own program on his own radio." The radios were an instant success abroad.

SONY ON THE MOON

A long string of Sony products followed: the first small transistorized TVs, the world's smallest AM radio, even the video-tape cassette recorders used by U.S. astronauts on Apollo moon flights. Their development is a tribute to Ibuka's inventiveness and Sony's highly flexible operating methods. The company, says Morita, is not constricted by a formal research and development budget; it simply pours as much money as seems necessary into a promising idea. Sony's top managers also frequently tear up the organization table, assigning people from throughout the company to work on what looks like the next hot new product.

A key part of Morita's marketing strategy has been to target carefully specific products toward individual foreign markets. In the British color-TV market, for example, he has chosen to compete on price instead of screen size. The least expensive British-made set is a 19-inch model, and only 10% of the TV households have color. By importing a 13-inch set, Morita figured that he could save enough on production and shipping costs to get the price down to $480 and bring color TV into the reach of many more British families.

Morita is acutely aware—as many Japanese leaders still are not—of the intense foreign anger provoked by Japan's closed-door policy at home and invasion of markets abroad. Although he expects U.S. protectionism to fade eventually as business improves, he fears that Japanese-American relations temporarily will get worse. That is one of the more optimistic views among the experts; many foresee a long period of mounting resentment, tension and perhaps outright hostility leading to swiftly rising trade barriers and exchange controls.

What can be done to prevent such a trade war? Certainly the solution does not lie in appeasing protectionist sentiment. Apart from the economic and political implications of business isolationism, the interests of the consumer should rule, and Morita and his fellow Japanese are giving consumers quality products at reasonable prices. The solution should rather be an equalization of the rules of competition.

As a first step, Japan must quickly take down the bamboo screen that blocks high-technology imports and foreign investment. Many Japanese industrialists tirelessly content that their economy is an "adolescent" that needs protection against the big, rich, "mature" competitors of North America and Europe, but that argument clearly is not valid today, Japanese manufacturers also have an unnatural price advantage in world competition because their currency, the yen, is undervalued. Tokyo economists reluctantly concede that the yen must be revalued upward; there is likely to be a 5% revaluation within a year.

On the U.S. side, the prime requisite is to develop a coherent trade policy aimed at expanding the flow of world commerce and investment and protecting only those domestic industries that are necessary for the nation's economic or military security. As a painful corollary, the U.S. may have to permit some nonessential industries to be overwhelmed by foreign competition. Washington at present has no overall policy, but tries to tackle trade problems one by one as they pop up. A sensible step would be to accept the Japan Textile Federation's unilateral offer to restrict cloth shipments to the U.S. It is absurd for the U.S. and Japan to squabble fiercely over textiles, because that industry is not vital to the economy of either nation. Simultaneously, the U.S. could crack down harder on dumping in several industries, perhaps by flatly embargoing shipments, though it would be much wiser to do that on a company-by-company basis rather than by blanket rulings as in the TV case.

President Nixon's ability to develop a comprehensive policy is severely limited because he lacks legislative authority to negotiate new U.S. trade concessions in return for a lowering of foreign barriers. That authority expired in 1967; the Administration should demand that Congress renew it. Armed with such power, Nixon could call for a new world trade conference similar to the successful Kennedy Round of 1964-67, this time aimed at elimination of nontariff barriers to trade and investment. This conference would be an ideal forum in which to press the Japanese to remove their remaining restrictions. In return the U.S. should try to persuade European nations to wipe out their restrictions on Japanese goods.

THE WEST'S TURN TO COPY

A mutual lowering of barriers will temporarily make Japanese competition more intense but also more equitable. Sooner or later Japan will have to temper its export drive because its economy is already operating under some severe strains. *For one thing, the country is running out of labor. A decade ago, there were two job openings for each high school graduate: this spring there are 7.7.* Japan has also bought export growth largely at the price of skimping on itnernal investment in housing, roads and pollution control. The country's industrial pollution is perhaps the world's worst. Says Nippon Steel's Nagano: "We need more roads, harbors, bridges, housing. People are living two families to a six-mat (9 ft. by 12 ft.) room. In advanced Western countries, industrial production and the production of social capital have been balanced, but we have been so busy exporting that we have not balanced these things."

Instead of fighting the Japanese, U.S. businessmen can join with them in some mutual projects to make money and, incidentally, help out the have-nots of the world. Harold Scott, director of the U.S. Bureau of International Commerce, believes that as Japan's labor shortage worsens, its industrialists will gradually shift their stress from exports to American-style overseas investment. U.S. companies could speed the process by proposing joint ventures with Japanese firms in third-country markets. Scott envisions, for example, a combination of U.S. and Japanese timber companies to develop the huge lumber resources of the Upper Amazon.

U.S. businessmen could also learn a few lessons from the Japanese system. Its labor practices, for example, are both humane and efficient. Some of them might be tried in the U.S.—not lifetime one-company employment, of course, but perhaps some training practices. Japanese industrialists train many of their workers in several skills rather than insisting on greater specialization as their Western counterparts do. A Japanese engineer is encouraged and even expected to learn something about accounting, finance and personnel work. This seems to help produce better-rounded, more mobile and more highly motivated workers than are found in many Western factories and offices.

A society as heterogeneous and individualistic as the U.S. probably cannot rally most of its people behind a national economic goal in the Japanese sense. But Japan has shown that business and government do not have to consider each other as adversaries, as they often do in the U.S. Though the U.S. certainly should not cartelize its industry Japanese-style, Japan's success might stimulate some thinking in Washington as to whether the antitrust laws should be liberalized to promote the nation's competitiveness in world markets.

NEEDED: MORE JAPANS

In any program of trade cooperation with Japan, the U.S. can count on support from some of the biggest Japanese businessmen. Morita has been calling for Japan to open its industry more rapidly to U.S. investment, though he gives the idea a characteristic Japanese twist of self-interest. "If we allow more U.S. investment, we will not need a security treaty," says Morita. "Of course the Americans will protect us then. Everybody protects his property."

Morita also proposes international harmonization of product standards, safety regulations, antipollution laws and food standards in order to equalize costs and guard against the possibility that differing national rules will be used to keep out foreign goods. Beyond that, he has begun to believe that the world's industrial leaders have been to narrow in their trade thinking. "There are three big industrial areas: the U.S., Japan and Europe," he says. "Now we have manufacturers trying to sell each other the same things. It doesn't make sense. Two-thirds of the world's people are still living under low standards, and because of that they do not yet constitute a viable market. Just as the U.S. helped Japan rise from nothing, we should all join to try to make more Japans in other parts of the world." That is a sound if ambitious program, and an example of the kind of thinking that may well solve U.S.-Japanese trade difficulties. The issue—and the real Japanese challenge—is nothing less than whether the two mightiest trading nations in the world can learn to live in commercial peace.

## A Time Symposium—Free Trade v. the New Protectionism

### TALK AT THE TOP

*The participants in* TIME's *seminar:*

THORNTON F. BRADSHAW, president of Atlantic Richfield Co. (oil).

ELY R. CALLAWAY, JR., president of Burlington Industries, Inc. (textiles).

RUSSELL DeYOUNG, chairman of Goodyear Tire and Rubber Co.

PETER M. FLANIGAN, assistant to President Nixon, with special responsibilities for trade and liaison with the business community.

ROBERT S. INGERSOLL, chairman of Borg-Warner Corp. (industrial and automotive machinery).

DONALD M. KENDALL, chairman of PepsiCo, Inc. (soft drinks and food) and head of the Emergency Committee for American Trade, a free-trade group.

RALPH LAZARUS, chairman of Federated Department Stores, Inc.

C. PETER McCOLOUGH, president of Xerox Corp.

DONALD F. McCULLOUGH, chairman of Collins & Aikman Corp. and immediate past president of the American Textile Manufacturers Institute.

GARLAN MORSE, president of GTE Sylvania, Inc. (lamps, electronics, TV and radio sets).

C. WILLIAM VERITY JR., president of Armco Steel.

WALTER B. WRISTON, chairman of the First National City Bank of New York City.

At the highest levels, U.S. Government and business leaders are reappraising the nation's foreign trade policy. The challenge of Japan is the major reason for this rethinking, but it is not the only one. A feeling has been growing that many nations are taking commercial advantage of the U.S. As a result, the movement toward freer trade—which the U.S. has championed ever since World War II—is in danger of stalling. The pendulum appears to be swinging toward protectionism.

To assess the situation in trade, and to analyze some policy steps that the U.S. could take. TIME invited twelve top business decision-makers to an all-day meeting with editors of the magazine. The guests included eleven corporate chiefs, representing a spectrum of divergent interests and opinions, and an assistant to President Nixon (*see box*). Excerpts from the discussion:

### IS PROTECTIONISM RISING IN THE U.S.?

Donald Kendall: I don't think anybody could possibly say that there has not been a more toward protectionism. There are more than 100 industries asking for protection. Another indication is what has happened in the labor movement. Labor has historically been on the side of freer trade, but the unions, except for the United Auto Workers and the aircraft unions, have pretty much switched to active protectionism.

Peter Flanigan: The U.A.W. stand is probably more a memorial to Walter Reuther than an expression of the sentiment of the members. Clearly, there is a great degree of protectionism in Congress. Agriculture has put up a strong barrier against protectionism in the past, but there is substantial erosion even there. Should there be an effort to expand meat imports substantially, I think you will find as big a split starting in agriculture as occurred in the unions.

Donald McCullough: I would hope we could go through this symposium without drawing lines: protectionism *v.* free trade, the black hats *v.* the white hats. In this year 1971, the issues regarding international trade as much too complex to make such sharp distinctions.

Ely Callaway: Rather than call it U.S. protectionism, I would call it a beginning toward an enlightend and reasonable economic nationalism .The rest of the world has practiced economic nationalism, but we have not.

Thornton Bradshaw: Each one of us is, I suppose, a free trader except with regard to his own industry.

Ralph Lazarus: I am not sure that the public is aware of protectionism as such or free trade as such. Certain businesses are hurt because of inequities or because of more efficient competition from foreign countries. But if consumers were locked out from low-priced Japanese apparel, if the supply became limited and they had to pay higher prices, you would begin to influence them the other way.

### WHAT ACCOUNTS FOR PROTECTIONIST POWER?

C. Peter McColough: Along the freeways in Los Angeles, in the space of 15 minutes, you see six Japanese companies with large signs. You see Toyotas everywhere on the road, and everybody's second television set is a Sony. At the same time, the public is aware of the restrictions that are placed upon us in trying to make investments in order to bring our products to certain other countries.

Walter Wriston: Twenty years ago, it was appropriate for the U.S. to enter a race with a weight on its back as a handicap. Our productive capacity was such that we did not have to worry too much. Now we are aware of the fact that other countries have not honored their commercial treaties. We are aware of the discrimination of the Common Market against American exports in some 23 cases.

D. McCullough: We are playing under entirely different ground rules, the Marquess of Queensbury rules *v.* street fighting. Our foreign competition uses street-fighting rules.

### HOW BIG AND BAD ARE THE NONTARIFF BARRIERS?

Garlan Morse: I don't think the nontariff barriers—import quotas, discriminatory taxes and the like—are understood by the public or by industry or even by Government. But these barriers are so important that just to renegotiate the tariff scales back and forth to bring some equilibrium does not solve the problem.

Wriston: Administrative practices are a major difficulty. You ship fruit over to the Common Market, and they have one inspector on the pier. With that delay, the fruit spoils before the ship can be unloaded. They say that they are not discriminating against us—it just happens that the other fellow's brother graduated from college that day and he went to the ceremony with his sister.

D. McCullough: We in the textile industry cannot ship much into Italy. The customs inspector goes out to lunch, and he never comes back.

Flanigan: We shouldn't ignore the nontariff barriers that the U.S. has put in place. Let's not delude ourselves by suggesting that we have been simon-pure. But our barriers are nothing compared with theirs, and we have to make every effort to bring theirs down.

### WHAT BARRIERS DOES THE U.S. CREATE FOR ITSELF IN FOREIGN TRADE AND INVESTMENT?

Wriston: The export of the American mentality along with our goods and services does us a great disservice. For example, the Trading with the Enemy Act gets everybody who has a foreign subsidiary into trouble. The nations where these subsidiaries operate want them to trade with certain countries, but U.S. law forbids it. You have to interview the shrimp to find out whether they are Communist or Hong Kong shrimp.

C. P. McColough: It is very difficult to operate around the world with our antitrust laws. We cannot select a foreign partner and say, "We are going to work with you forever." This leads to great difficulty for us because we have to write agreements that are short-term when we really intend them to be long-term. I don't know any other government that makes companies obey not only the laws of the foreign nations where they operate but also certain laws of the home country. We are unique in that.

Bradshaw: The U.S. operates with a huge albatross around its neck, and that is the albatross of its traditions. They are the traditions that brought about our antitrust laws and created the private enterprise system and made it anathema for anyone around this table to talk about the benefits of a corporate state. But that is what Japan is today. I would hope that we will consider today what it means to have national goals with industry and government working hand in hand toward those goals. Look at my industry, oil. I have been struggling to get a national energy policy instituted in Washington, recognizing that it must mean more controls for the oil industry rather than less; recognizing that we are going to have to give up vast portions of what we consider to be our inherent rights in free, private enterprise in order to arrive at an implemented national oil policy. There is a *quid pro quo* for the backing of the Government and that is to accomplish certain things for the nation and not necessarily for the company itself.

Flanigan: Japan's strengths are not so great that we must change our whole society in order to counter them.

WHY ARE TRADE RELATIONS ESPECIALLY STRAINED WITH JAPAN?

Callaway: I cannot think of any major industry in America that is not subject to great invasion or attack by the Japanese. The problem is that the Japanese system is the most effective monopoly that has ever been developed in the economic history of the world. The Japanese will do whatever they need to do to take over whatever part of the richest markets in the world that they want to take.

D. McCullough: They zero in on a segment of our market and take it over. Then they will move into the next segment and the next.

C. William Verity: The Japanese have allocated tremendous moneys to building up their steel industry. In doing so, they have used the justification that if they cannot sell steel in their own market, they can always get rid of it in the U.S. In many cases, their price in Japan is higher than in either Europe or the U.S. They don't sell on the basis of profit but to fulfill a national need.

Flanigan: It is almost impossible to find out the true domestic prices of Japanese steel.

Wriston: The British sent a group of chartered accountants to Japan for a six-month study to find out what it costs to build a tanker there. At the end of six months they had had a lot of hot baths and a lot of polite conversation, but they did not find out the real costs. A platoon of cost accountants could make it a life's work and still not find out.

Callaway: Well, Burlington's spy system may be a little bit more effective than somebody else's, and we would be glad to service anybody for a fee and study the cost in your industry, I can tell you that on certain worsted fabrics in 1970, the Japanese textile industry sold its product at least 5% higher at home than in the U.S.

Flanigan: I think this view of Japan as an invincible monolith probably is not right. The thrust of the argument has been that because they can have a monopoly in Japan, then obviously they are going to be able to beat us. It is my understanding that American business in general feels that monopoly is bad, that it makes people less efficient.

C. P. McColough: There are some Japanese computers coming into this country; yet my company cannot manufacture computers in Japan.

Kendall: The road into Japan is about three inches wide. The road into the U.S. is about three miles wide.

Russell DeYoung: Japan also has the ability to go into other countries and take our markets. We used to export to the Philippines, but now Japan is going in there and taking our market away.

Wriston: Another thing is that they have complete exchange control, and the yen is not free. You can sell it for dollars or buy it for dollars only under limited circumstances. So a free market has never set an exchange rate for the yen. I think that is ridiculous. Until they have convertible currency, we will never know what their real trading power is. Everybody says the yen is strong. Let it go out into the world market to compete, and then we will find out.

WHAT SHOULD THE U.S. DO—AND NOT DO—TO HELP ITSELF NOW?

Callaway: We have to have some clout. We should go to Congress and get new legislation—trade laws that say that every nation has a fair and reasonable opportunity to sell its products here, but not to the extent that it can wreck any significant part of American industry or agriculture because of a system like a monopoly in Japan. Then we can call for reconvening of a meeting of GATT [General Agreement on Tariffs and Trade]. With the political clout of the laws having been passed in this country, we might have a pretty good opportunity to get the members of GATT to adopt some rules that would represent fair play.

Robert Ingersoll: I would not like to see us get into a position where there would be retaliation against us from other countries. We had such an experience in the early '60s, when the glass and rug industries prevailed upon President Kennedy to raise tariffs because they were being injured. The Common Market did not retaliate in those industries, but it immediately put a 40% tariff on styrene-based plastics. My company happened to have built a plant in Britain, thinking we could ship into the Common Market, and the new tariff just cut us off. Foreign countries will hit you where you are most vulnerable.

C. P. McColough: We have to show the Japanese that if they are going to dump television sets, we will put an absolute embargo on them. In my experience that is the only way the Japanese are going to negotiate. Until you get their attention, until you have the power to club them over the head, they are not going to negotiate.

Wriston: We have a Treaty of Commerce and Friendship with Japan, and it requires reciprocity of investment and trade. No one has ever leaned on them to really observe that. Japan also signed Article VIII of the International Monetary Fund,[1] yet their currency is not convertible. Nobody has leaned on them for that either, so far as I know.

Callaway: If we could get the European Economic Community to ease its nontariff barriers and take 10% of Japan's exports, instead of only the present 2%, that would ease Japanese pressure on the U.S.

Wriston: I have just been over to Europe, and I got this curve ball thrown into every conversation. They would say: "Why don't we join hands against Japan?" I would say: "You have textile quotas against Japan; why don't we join hands and lower those, too?" And they would say: "You don't understand the problem."

Kendall: Through its import quotas and other barriers, Japan now maintains import restrictions on 80 items that are in violation of the General Agreement on Tariffs and Trade. Under the GATT arrangement, we can project what these violations cost our industries in total dollars and then stop an equivalent amount of Japanese goods at our own borders.

Flanigan: It would be nice to take that proverbial two-by-four and get somebody's attention. But Japan has reduced its items in violation of GATT from 120 to 80, and we expect the number to be down to 40 by September. Meanwhile, we are attempting to negotiate an extension and tightening of the voluntary limitations on steel imports. We have negotiated a voluntary limitation on stainless-steel flatware. We are now talking about shoes, and we may attempt to solve that problem by a voluntary limitation. Is it appropriate that while we are discussing these voluntary limitations with the Japanese, we take off after them on their remaining GATT violations, when they are already reducing them?

WHAT IS THE CASE FOR FREE TRADE?

Lazarus: When you put up a barrier and there is retaliation, the consumer ends up losing something. I am not sure all industries should be protected when they are threatened by foreign trade. For instance, in the shoe situation: Italy knocked the socks off the U.S. by developing shoe styles that hit right with the trend of dress and the predominant fashion today. They beat our industry not nearly so much in price as in style. That kind of thing is important to the U.S. consumer. You have to put the consumer's interest first.

Bradshaw: The question ought to be, what are the goals that we are trying to accomplish? Are we trying to protect every industry in the U.S. in its present form? Are we trying to maintain full employment by erecting trade barriers? Are we trying to protect high labor wages? Are we trying to protect our current technology? Are we trying to freeze our economy? I could not agree with most of these objectives. We can start with selecting of certain industries that essential to the basic economy of the U.S., and they must be protected in some way. Beyond that, I don't think that we should hamper the free flow of trade to the building in of rigidities that are likely to strangle us in the end.

Wriston: I am not sure that we should throw away the benefits of free trade because at the moment we haven't found the levers of power to pull to compete against Japan. To remedy our present problem, we will have to examine many things: our antitrust policy, our policy of excluding unions from antitrust legislation, our tradition of the natural antipathy of business and Government. The way to fix our problem is not through an escalating trade war but through opening up markets of the world to more goods. Protectionism is a losing game any way you play.

Senator HANSEN. One of the interesting things that occurs to me about the ability of Japan successfully to penetrate not only our markets, but markets around the world, stems from the fact that government and business over there work very closely together, and I read from that article the following:

[1] Article VIII of the IMF agreement forbids the fund's 117 members to maintain exchange controls except under "special or temporary" circumstances.

"Most of the government's influence is exercised by the all-important Ministry of International Trade and Industry, MITI"——

Secretary CONNALLY. MITI.

Senator HANSEN (continuing). "Which issues"—and I won't try to pronounce the next two Japanese words, but they mean administrative guidance.

"For instance, MITI may advise the Japanese company to buy a domestic computer rather than one from IBM," and I guess they have gotten the message over pretty well because I understand that our sales of computers in Japan have not been all as brilliant as they might be or all as outstandingly significant economically as they might be.

In response to a question by the distinguished Senator from Georgia, you said that you thought possibly, just looking in the crystal ball, that agriculture might be the only industry competitive possibility in the 1970s and 1980s. Yet it seems to me that the point made by most of our economic and business experts in this country suggests that we have got to look to the sales of technology sophisticated articles if we are to compete.

What I infer from your statement, if I did not misunderstand you then, that unless we can get a uniform rule that will be laid down that might be recognized by all of the world's countries that we are going to be in trouble in the 1970s and 1980s?

In other words, we cannot continue on the basis that presently characterizes our trade with other nations in the world without being in deeper trouble; is this a proper inference from your response?

Secretary CONNALLY. Yes; it certainly is. I would like to even go further, Senator Hansen, with the point you have raised.

Here you have a government agency known as MITI that basically controls the business of Japan, particularly in the export field.

By and large, it is 80 percent of all of the financing of Japanese industries is government financing. Their debt is roughly 80 percent, their equity is 20 percent, the reverse of what it is in the United States.

Far from having the restrictions and restraints that America has placed upon its businessmen, they are indeed partners with business there in a real sense. I do not necessarily recommend that we emulate them, but I think it is time, in light of what is happening to us around the world, and this goes back to Senator Fulbright, to the points that you also made and touched upon a moment ago, it may well be that we are approaching a time in our economic life where we have to restructure all of our antitrust laws in this country, both in their application to domestic as well as foreign aspects of the business of American enterprise.

Senator HANSEN. Well, Mr. Secretary, on that point I recall very vividly, as I am certain you do, the criticisms that were made of American oil companies trying to work cooperatively together in negotiating with some of the Middle Eastern nations not to long ago.

Senator CONNALLY. That is right.

Senator HANSEN. There were those on the floor of both Houses of the Congress who said, "Gee, we ought to stop this. This looks like collusion, it looks like consolidations in restraint of trade," and all of that.

Here we were, if it had not been for the ability of the oil companies to work together over there, I suggest we would be experiencing a far for serious crisis in the energy picture than we are today, and I contrast that with the attitude of Japan as regards business over there.

I think you said that 80 percent of the capitalization of business is financed by debt. From what I understand, about the reverse is true in this country.

Secretary CONNALLY. That is correct.

Senator HANSEN. Eighty percent is financing by funding, is that not the fact?

Secretary CONNALLY. That is correct. And, Senator, on the point you just made, in my judgment, that is one case where this Government did respond to help American business.

The Department of Justice—and I am not familiar with all the details—but nevertheless they sent a man, and, in effect, waived the antitrust provisions in order to let the international oil companies talk in their negotiations with governments, not with private concerns overseas, but with governments, and in that particular case I think the State Department entered into the negotiations in a very real and in a very effective way, and I think we should recognize that.

Senator HANSEN. Is there any doubt in your mind as to the attitude of the Government and the various Departments of the Government in that instance being any less than fully in the public interest of American consumers?

Secretary CONNALLY. No. Everyone was thinking of the interests of the American consumer. That was the whole purpose of the exercise.

Senator HANSEN. One further observation, Mr. Secretary. I gather from what I read that a decade ago there were two jobs being offered every high school graduate in Japan. Today, according to Time Magazine, each one of these high school graduates has job offers of 7.7 jobs available for him.

Now, when we are concerned about rising unemployment in this country, doesn't it make sense to you that there is indeed something wrong as we compare American industry's problem vis-a-vis those of Japan?

We ought to be taking a whole new look at this entire trade picture.

Secretary CONNALLY. Yes, sir. Now, then, there are a number of reasons for that. Some of them are governmental, some of them are private.

Beyond any question Japanese industry is much more nationalistic than ours and, in my judgment at least, they engage in many more discriminatory practices in restraint of trade and in the imposition of barriers.

But beyond that the people themselves, very frankly, are more industrious than we are, and they work harder than we do, they save more than we do.

Their percentage of savings runs about 19 percent. Ours has been running, the last few months, about 7.3 percent. But their productivity is tremendous, the highest in the world, and they capitalize on it through the combination of those factors.

Senator HANSEN. I agree completely with what you said. I think you pointed out in your statement that they—I have forgotten, I am trying to find it—here it is, where you say the simple fact is that in many areas others are outproducing us, outthinking us, outworking us and outtrading us, and I could not agree more.

Sometime ago, around the 12th of April or earlier, I believe you were interviewed by U.S. News and World Report, and you said:

"I am not one of those who treats this whole question of world trade with benign neglect. I am worried about it. I am saying if the other nations are concerned that we ultimately will be in trouble if we continue to have balance of payments deficits of $10 billion a year, they must be fair with us. We must have reciprocity in our trade agreements. I think we are entitled to it. I think it is just that simple."

I compliment you on that very astute observation, and I think you underscore what the problem is.

Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Fulbright.

Senator FULBRIGHT. Mr. Secretary, I am sure I cannot convince you, but I am trying to clarify my own mind as to just where we stand.

It seems to me you started out by endorsing all the hoary cliches in the last 25 years. You agree with everything that has been done, and you also agree we are in a hell of a shape and everything is wrong.

I do not agree that the analogy of a horse trade to the situation with Russia is any more appropriate than using the bank as appropriate to our situation regarding the $50 billion Eurodollars that the Senator from Georgia referred to.

I do not think that is analogous, that those analogies have any validity at all.

The fact is that for 25 years we have been following a policy which, in a general way, you endorse.

Secretary CONNALLY. That is correct.

Senator FULBRIGHT. Then you come down, how is it that if that is correct, and you wish to make no change, that we have arrived at such a disastrous condition in which the Senator from Wyoming says we are outtraded, we are outmaneuvered, we are outproduced, we are in terrible shape.

I cannot reconcile these two views—that we have been following a correct policy for 25 years, and which you want to continue to follow, and yet we have come to a disastrous situation.

If you can clarify to me just how this is arranged this way, isn't there something in this which suggests that we have not been doing exactly the right approach?

Isn't the fact we make no progress at SALT whatever, doesn't it indicate that maybe there is some other element than just the horse trading or that we make no progress in reducing our bases to speak of? We have brought a few troops home from Vietnam, but we are a long way from the end of that.

I just do not see how to reconcile these two contrary approaches.

Secretary CONNALLY. Senator, may I——

Senator FULBRIGHT. Would you clarify for me how you reconcile that?

Secretary CONNALLY (continuing). May I try to clarify it—simply this way: In the first place, I do not think we have reached the point of disastrous results.

If you analyze where we are today, we are a great Nation, we are still the greatest Nation on the face of this earth, with more freedoms, with more affluence, the highest standard of living that the world has ever known.

Second, I do not necessarily agree with everything that has been done in the last 25 years. I did say that I thought the Marshall plan and all that it involved when it was developed, I thought, expressed the humanitarian attitude and the compassion of America for less developed countries and for countries that had been under attack either by war, disease, famine or otherwise, and I thought this reflected nothing but praise on America to respond to the needs of other people.

Now, all of this, I think, has been to our credit. I think we have, perhaps, let it go too long. I do not think we have reached the point where it is disastrous. I think it has reached the point where we have to change it and, perhaps, we should have done it 4 or 5 years ago.

I think we probably should have seen it then. But our hindsight is better than our foresight always, and it is, I think, now time that we do start, that we do make a real appraisal.

So I do not think the two positions are entirely inconsistent because they are not all that sharp.

Senator FULBRIGHT. Well, but the implication of—they were generalized statements of the Senator from Wyoming—I think one of the things was we should negotiate only from strength, and so on. This has been used to permit negotiations in Vietnam and nearly every place else. I won't repeat all that he said, but you gave the impression you agreed with all of that, and then you also seemed to agree we are out-produced, we are out-traded, we are out-maneuvered, we are out-everything.

Secretary CONNALLY. Well, we are in many cases.

Senator FULBRIGHT. It seems to me conditions have resulted from these policies that account for this last conclusion. I agree with the latter part of what the Senator said. I keep coming back to Japan.

We have been carrying their burden of defense, spending a great deal of money there, and in many other ways acting so as to greatly benefit them, receiving their goods, yet they do not receive many of ours, and they are the one country that has refused to allow American capital to buy their plants, they have a strict prohibition of that. I do not think there have been many cases where an important industry has been purchased outright.

They have allowed very limited investment. There is now a negotiation going on for 20 percent of one of their motor companies, I think by Chrysler. It has not been concluded, but it is only 20 percent.

Then, in the meantime they have purchased the raw materials in all the basic industries. They have concluded enormous contracts for coking coal with Australia, which is the most scarce basic material in all the world, enormous contracts in this country for bauxite, iron ore in Latin America—you are familiar with this.

They have really gone out and purchased the raw materials.

We are a have not Nation. We don't have copper, bauxite. Nearly all of our bauxite except from Arkansas comes from outside this country. We have to go abroad for all these things. They have done things which has created a condition which I think bodes very ill for the future. They are in a position to become more and more competitive with us, it strikes me. You have already praised their energy and all that, I agree completely with what you said about them. And yet, you said you were glad to have this hearing to review just how serious our situation is. The effect of this $50 billion in Europe, Eurodollars really is they have financed our purchase of foreign plants and our expenses for the war, and they are fed up with it.

They have had enough of it. They are not going to continue to finance our continued expansion. So I would say you grossly underestimate the situation because we all eat well and so on here. We are living on our fat that was accumulated in prior years, and I don't think it is good to mislead the people as to how well off we are. Just as the Senator from Louisiana was making the point that we have been misled. He believes, and I agree with him, that on our exports and our trade balance that we are kidding ourselves. And I do think it is not right to mislead ourselves that we are in good condition economically.

Well, for that matter, I think there is considerable dissent and turmoil internally, I would go beyond economic. There is a substantial difference of opinion within our country that accounts for the difficulties we have had.

So it is a serious matter, I believe, and I submit that it is time to reexamine these old policies, and that you might trade from some other basis than making a horse trade. It might be wise to approach the Russians on a difference basis from what we have always done heretofore which has led to a virtual stalemate.

I must say I am confused about just where you do stand. Are you for changes or aren't you for changes in our basic policies especially with regard to security and our military commitments, and our economic policies, too.

Secretary CONNALLY. Well, Senator, obviously we have to define what policies we are talking about. With respect to our defense——

Senator FULBRIGHT. One of them is the troops in Europe. That is the specific one. I don't see how you justify that.

Secretary CONNALLY (continuing). I will try to respond to that simply by saying I don't think simply because of our financial concern, and I think much of it can be temporary, that we need to go to the point of trying to materially alter the mutual security pact that we have around the world or to endanger our own security as well as the security of all of our allies at the very time when it appears we are making some progress in our relationship with the Russians.

Senator FULBRIGHT. But you assume the very thing at issue. Does it endanger us? For 25 years we have had these troops there. We have made no progress. In fact there are more there now than there were in 1958 or 1959, and we have made no progress. Why isn't it reasonable to accept a little change. That is all the Congress is asking. "Look, let's approach it in a different way." How do you know the Russians won't respond?

Secretary CONNALLY. Senator, they have every reason and every opportunity to respond in advance if they want to. I think they know this country as well as know this country, and I think they know that we are not going to attack them, that we are not going to be the aggressor, and if they want to disarm, if they wanted troop reduction they can sure have it any time they want to.

Senator FULBRIGHT. Mr. Secretary, they don't know any such thing. I have had them in my office say "did it ever occur to you when you think we are the bad guys and you are the good guys, we think we are the good guys and you are the bad guys?"

They have the same attitude toward us. This idea, this assumption, that we are good and peaceloving, especially as they see what we are doing in Vietnam, just doesn't go down. I think you are absolutely wrong. They do fear us. We have surrounded them with bases and nuclear weapons. They have got them a lot closer to them than we have to us. We had a fit when they wanted to put them in Cuba and we have had them in Turkey and Western Germany for years. Why do we have them there? Because we are good fellows and they trust us?

Secretary CONNALLY. Senator, in respect to relations between this country and, us and, the world I would like for us to have a little fair advantage.

Senator FULBRIGHT. I don't quarrel with that but what we are trying to do here is to deal with a situation. I assume the reason for these hearings is serious and if it is not serious and we are in such wonderful shape we ought not pursue it. But everything indicated from the beginning we are in serious financial and economic condition.

Senator RIBICOFF. We are. I think we have no economic or investment policy. I think the Secretary would admit that. It isn't his fault we don't have a policy. We should have a policy and we are trying to understand what policies we have and I hope this committee can make a contribution.

Senator FULBRIGHT. I know he can make a contribution, that is why I thought he could tell us how to make a change. We start with these policies in bad shape. The next thing is let's examine the old policies that got us in this shape, but I get the impression when you answer the questions that you endorse everything, from the policies beginning with Dean Acheson, and you bring him down along with all these people, and we are going to now put pressure on the Congress not to change it.

I am only saying that Mansfield's amendment is one little indication of the Congress struggling and groping for a way to change the stalemate in which we found ourselves, that is all it is.

Secretary CONNALLY. That is right.

Senator FULBRIGHT. It isn't all this important, just those troops. I would say the same for a lot of troops in many other places, and bases, that we have tried to change. We tried, as I said, on the Spanish bases and others, in my committee. We failed every time because the administration has flatly and absolutely been against any change. Now being unable so far to influence the Russians why isn't it reasonable to take a little different tact? That is all I am asking you. You have always had this idea we deal from strength, we have got to stand up to them. As a matter of fact, we have been a lot stronger than they were militarily all during this period and we don't do anything, not a thing.

It is only recently that the idea of parity has even crept into the public dialog. There was no doubt about it, even now I think most scientists outside of the Pentagon agree that we are not inferior in nuclear strength and all the other things. But no progress is made in, really in, reducing these obligations, and that is what I want.

I get the impression on the one hand you are for it. On the other hand in response to the Senator from Wyoming you are against any change, and that is why I said I was confused about where you really stand.

Secretary CONNALLY. Well, basically you put such broad sweeping statements to me I can't agree with them completely.

Senator FULBRIGHT. They were started, the broad sweeping statements came, from the Senator from Wyoming at the beginning.

Secretary CONNALLY. Well, he asked me general statements such as——

Senator FULBRIGHT. You said yes to every one of them.

Secretary CONNALLY (continuing). That is right. He asked me if I thought we should lead from strength and I said yes. But you asked me if I agreed with everything that has been done in the last 25 years and I can't quite go that strong. I would have to say basically our policies have been very productive, and I am not willing really, I don't want to be argumentative with you, Senator, and you know so much more about this than I do not I am not going to be argumentative, that is not my place nor my disposition. But I think it is unfair to say that we are at a disastrous economic situation. I don't think we are.

In summary, I feel—

Senator FULBRIGHT. Serious, I will be corrected, maybe disastrous is too strong.

Secretary CONNALLY (continuing). We are in a serious situation primarily for the future.

Senator FULBRIGHT. That is right, that is what I mean serious for the future.

Secretary CONNALLY. Part of this has been brought about not because we didn't have policies. Mr. Chairman, not because we don't have policies today but because we have been impacted by the result of policies of other Nations to which we have perhaps not responded quickly enough or strongly enough. Much of the condition that we find ourselves in today is the result not of our actions but actions of other Nations who have strengthened their own position, and during the last decade both Germany and Japan have immeasurably strengthened their position.

Now, Senator Fulbright, with respect to our world situation I must say that I think we have made some progress in the last 25 years. We have committed a great deal of the resources, the materiel of this Nation, but I think right today you see more tranquility apparent, notwithstanding the Vietnam thing, which I think is going to wind down, which is going to wind down beyond any question, but you see now for the first time in the last few months a glimmer of hope in our relations with Red China. I think you have seen as a result of the Party Congress or perhaps not as a result of but at least during the Party Congress immediately on the heels of it, Brezhnev holding out hope for troop reductions. The SALT talks have not been as productive as everyone would have liked. But nevertheless we have seen in the last 25 years when it has been so enormously expensive for us we have seen nations get back on their feet, rehabilitate themselves, rehabilitate their freedoms, reestablish this choice of governments.

I think we have seen a lessening of the pressure between this country and Red China and Russia. You have seen the President of the United States go to Communist Rumania in recent months. So I just don't think the whole picture in the world is dark. I don't think we have been failures by any means.

Senator FULBRIGHT. I agree with what you say about these other countries, Japan and Germany, we have been talking about. I am talking here about the U.S. Our responsibility is, after all is, to my constituents here. The Secretary of State said yesterday when he went abroad, he said it on television, when he went abroad he was received, people acclaimed him. Sure they did. But he says why isn't it here when he goes around people do not. The trouble is we are the ones who are in such bad shape. I am not worried about the Japanese, I agree with what you say about other countries, and I suspect that a lot of them having seen our great wealth and degree of arrogance take some pleasure in seeing us discomfited.

Secretary CONNALLY. I don't think there is any doubt about that.

Senator FULBRIGHT. But the problem is here, I am not so concerned now about improving the others. At the moment we have done more than our share for it. Nobody quarrels that the Marshall plan was successful, it was overly successful in the case of Germany, I guess, but any way it has confronted us with problems. But I do not agree that we are not in a very serious economic, political and social situation. And all I am saying is we had better re-examine these policies and take a different tack negotiating with Russia, which is the major problem, calling for all these vast expenditures. That is what I am trying to get at.

The Secretary of State offers very dramatic evidence. It has never seemed to occur to him that the real reason why he is not acclaimed when he goes down our street is that the people in this country are not as pleased as the people in Germany or Tel Aviv. They like him in Tel Aviv because we have just been giving them all the money and planes and everything they want. But they are not giving the people in Arkansas, the money they need for sewer and water and other necessities.

Senator RIBICOFF. Would you like another bite, Mr. Long.

Senator LONG. I just want to ask one thing, Mr. Secretary.

I think you and I can agree on the balance of payments figures on a liquidity basis.

Now we publish in a document here, and I will be glad to make a copy of it available to you, some of these problems as our staff analyzes them for us. It shows that over a 20 year period 1950 to 1970 our balance of payments situation worsened by more than $48 billion. Gold stocks went down by $13½ billion, but the real alarming matter is this $48 billion.[1]

Now, there are some things we can talk about which brighten the picture a little bit, but we can both agree that we can't go on running these defecits for another 20 years—these foreign countries are not going to let us owe them that much money.

It seems to me there are two ways that we can go about trying to correct this situation. One of them is to negotiate with these people and try to get them to cooperate with us in a program to get our house in order.

The other is to say "Well, there are certain things we are just going to have to do, whether you agree with them or not. We will be glad to talk to you about them but if you can't agree we are going to have to do this any way."

My impression so far, Mr. Secretary, is that everybody wants us to solve our balance of payments problem in a way that benefits him.

[1] The document referred to appears as Appendix B, p. 885.

Secretary CONNALLY. Very true.

Senator LONG. We from Louisiana can't claim we are any different from anybody else. I guess if you are from Louisiana you would try to solve the balance of payments problems by reducing oil imports; if you are from Georgia or North Carolina, by cutting down in textile imports; from New Hampshire you want to reduce footwear imports. I am sure the UAW if they had not already reached that conclusion they may some day argue for reducing automobile imports.

The European bankers want to solve it by forcing us to raise interest rates. Everybody wants to solve it by their own ways. The maritime industry would like to solve it by using our merchant marine more and the other fellow's less.

Now if we don't find a way to solve this thing, with people all over the world thinking the Americans are not really serious about this thing, what is going to happen in the long run if we just keep running these kinds of deficits.

How will this problem be solved?

Secretary CONNALLY. Well, Senator, I don't think we can continue to run these kinds of deficits over the next 20 years as we have in the past 20 years and I think that is one of the reasons we are here today and I must say to you this is a matter of the highest concern to everyone that I know of in this administration, in the executive branch of Government as well, and we are working on some things right now that we hope will bring about a solution to some of these problems.

Senator LONG. But here is the thought I have and I would like to have you comment on.

Secretary CONNALLY. May I continue just one moment, sir?

The realization of the situation that we were facing became apparent to those of us who served on the Ash Council last year. We got up a report, we submitted it to the President, we spent 3½ hours talking with him about it, he was concerned, he was delighted to have the report and the information that the report contained; we felt there had to be a higher degree of coordination within this Government because of the very problem we have been talking about, particularly getting to the point Senator Talmadge discussed about the authority and responsibility being in different places in the Government. So there was created the Council on International Economic Policy with Mr. Peter Peterson who was the head of Bell & Howell, and he is working on it now, at the White House level, with the full support and backing of the President to try to bring some order out of the chaos that exists in all of these international agreements that we make.

I felt in fairness I should say that. That will indicate there is not any lack of awareness, and not any lack of concern in protecting American interests in this administration.

To the contrary, we are all looking at it, we are all trying to devise ways and means where we can obviously keep international trade flowing, but that we do it on the basis where we are treated fairly, and that we look at our own hole card first.

Senator LONG. Well, Mr. Secretary, it seems to me if we don't start getting our house in order in terms of balance of payments, and balance of trade, it is not very far down the road before these foreign countries are going to start saying things to us such as "we are not going to accept any more of your dollars. We don't think they are any good. We don't think you are going to make these dollars good over here.

There is nothing that you have we want. We will take your gold." But what happens after they call this gold? We only have $10 billion of it left and it is gone—and we only have $4 billion more of borrowing rights, and that is gone—and the deficit we are running right now can wipe it out in a single year in addition to the $34 billion net we owe them right now.

So it seems to me now they will say "it looks like this situation is never going to be straightened out, so let's see, you have $10 billion worth of modern plants over here and you owe us $20 billion. All right, we will take the $10 billion in plants and we will just nationalize them and sell them to our own people here and give you credit for $10 billion and you only owe us $10 billion more."

These American companies, fighting against restricting imports, might find for example, as a result of our policies, that the plants they bought with expatriated American dollars were just taken over by the foreign countries to pay for what we owe them which we wouldn't afford to pay with gold.

What sort of things are going to happen to us if we just never do decide that we are going to pay up, and start paying our own way in world trade, and international affairs.

Secretary CONNALLY. Well, I think we have always more than paid our own way, Senator, I think we would continue to do so and I think we will continue to take whatever steps are necessary. May I point out I think we are on the right road taking the various steps that are going to serve as the foundation for our stable economy. We are trying to expand this economy. We are trying to do it in a noninflationary way. We are trying to do it in a way so that we keep unemployment down to an acceptable level and when we do those things the inevitable result as every similar period in history shows we get an increased productivity per man hour of labor so we are more competitive in world markets, and I think this will begin to reflect itself next year and the year after and even in 1974. This is what we have to do, we have to get the Nation back to work. We have to get it back to work to supply the jobs and create the economic activity and, at the same time, do it in a noninflationary manner because the tide is running in our favor. There is a higher degree of inflation in almost every major industrial country in the world higher than in the United States.

There are also in spite of the high labor costs that we have today, the increased labor costs on a percentage basis are higher in almost every industrialized nation in the world so their standard of living is creeping up, so the disparity between our standard of living and our costs is going to be lessened and lessened as their own standard of living increases. So our job is to reestablish our own economic vitality here and to hold down inflation, and if we do that, in my judgment, you are going to see a complete change in the whole international picture, both in terms of trade balances and in terms of monetary situation because the mark is not all that undervalued.

For heaven's sake they float it and it goes up 3 percent, this is no great shakes. They float the Dutch guilder and it goes up approximately 1 percent or less. So the dollar is not that weak, and the other currencies are not that undervalued.

It is significant that this difficulty arises at a time when we are coming out of a slack economic period in the United States in a period of high unemployment, and a period where we had the highest interest rates in 100 years. So there obviously has to be some adjustments. But I think if we will follow the course we have set for ourselves, I think we will go a long way toward reestablishing the basic soundness of the American economy and the American currency and—I don't say in an arrogant fashion, but they are not going to make a run on the dollar, Senator. They have got no place to go. It is the currency of the world and every currency is valued in relation to it.

Now that doesn't mean we can be profligate with respect to it. It means we have to protect it and that is what we are trying to do. This doesn't mean at the same time we don't have to recognize that there are certain basic inequities that exist that we have already discussed and I won't repeat and we have got to direct our attention to those inequities in our foreign trade arrangements with other nations.

Senator LONG. Well, Mr. Secretary, the British may have said the same thing when their currency was a world currency, but look where they are today. My thought about the thing is that we are either going to solve this thing on our terms or we are going to see it solved on someone else's terms. If we solve it on our terms it seems to me that we should work out a program which we thought would be the best way to solve it, and we would tell our friends around the world, "Here is what we are going to have to do. We would be willing to talk to you about this and we would be willing to consider modifications to meet your problems. But if we can't agree on something with you then we are going to have to do this any way."

Now the alternative, it seems to me, is to say, to continue doing business where eventually the other people say, "We are sorry, here is what we are going to have to do. We are willing to talk with you about it but if we can't arrive at any understanding satisfactory to us, we will have to take action." If we ever get in that latter situation, it would be far worse for our country than to approach it in the way that I mentioned previously.

Senator RIBICOFF. Thank you very much, Mr. Secretary, we kept you much later than anybody anticipated. We respect your point of view and your patience. I think there is also an awareness that basically a member of the Cabinet doesn't always make policy. Policy is made by the President and it is the duty of the member of the Cabinet to go along with overall policy. But I do believe that there is a very important role for you to play in trade matters, the problem of the multinational corporation, the Eurodollar, and to determine how we can deal with all these factors that go into the balance of payments which have certainly been running against us, so strong, so long, and so deep.

Thank you very much for your testimony. We appreciate it.

Secretary CONNALLY. Thank you, Mr. Chairman, I am grateful for the opportunity to appear here.

Senator RIBICOFF. Mr. Wright.

## STATEMENT OF JOSEPH S. WRIGHT, CHAIRMAN OF THE BOARD, ZENITH RADIO CORPORATION

Mr. WRIGHT. Mr. Chairman, I have a long statement which I want to hit the highlights of, and cut it way down.

Senator RIBICOFF. That would be fine. We are sorry that our questioning of the Secretary took longer than we anticipated. Your entire statement will go in the record. Why don't you confine yourself to what you consider the highlights.[1]

Mr. WRIGHT. Thank you.

I am Joseph S. Wright, chairman of Zenith Radio Corp., and, among other things, a member of the newly-created Advisory Council on Japan-U.S. Economic Relations.

I know the committee does not want to get involved in the details of a particular industry or company except in so far as it contributes to a better understanding of the country's overall trade problems.

If I seem to be dwelling overmuch on Zenith and our industry, I hope you will understand it is not intended to ask this committee to solve the problems of the particular industry. I only hope that the background of our experience can be helpful to you at arriving at that better understanding, and I might say at the outset based on the comments of Secretary Connally and the members of this committee, we are already making a great deal of progress in this area.

The consumer electronics industry has for all of its existence been one of the most highly competitive, efficient and innovative industries in our country. It has made our mass communications the best in the world. Long before there was any competition of foreign imports our industry invariably passed on to the public in the form of lower prices and better products the full benefit of our producing technology and productivity. As a matter of fact, from 1950 to 1963 in the face of rising prices and wage costs throughout the economy, the average unit prices of black and white TV receivers decreased by more than a third, and TV receiver production has always been so extremely competitive that the mortality rate of companies in the business has been very high.

Many great names in our industry, just in the past 15 years, have found the going so tough that they got out of the business, Capehart, CBS, Dumont, Hotpoint, Stromberg-Carlson, Westinghouse, to name just a few.

You have before you attached to my statement a chart which shows the Bureau of Labor Statistics consumer price indices from 1952. You will note that the 1970 index of prices for all products and services stands at nearly 150 from the base point of 1952 while the indices of prices for TV and radio have steadily declined from 1952 and stand at 72 and 68, respectively, which is less than half of the point for the total index. This has been accomplished in the face of sharply rising wages and costs of purchased materials and, remember also, that in 1970 radios have FM and often stereo and that TV is not a small screen black and white of 1952 but includes large screen color and vastly improved products from the standpoint of service and reliability and containing advanced technology, semi-conductors and integrated circuits.

You will note that this steadily declining index of prices despite tremendous product improvement antedates by a long time the flood of imported products which has in the past few years virtually inundated our industry.

I dwell on these points merely to show you our situation is not merely that of an industry which has lost its vigor and must be protected

[1] Mr. Wright's prepared statement appears on p. 104.

from competition from abroad. On the contrary the prices of our consumer electronic products are lower in the United States than in any other country of the world with which I am familiar including of course both Japan and Germany.

Now, I have attached to this statement a series of charts entitled "U.S. Imports in the Consumer Electronics Industry" which are graphic representations, that is, statistics showing what has been happening in the major categories of our business for 1960.

You will note that in 1960 there had been a flood of Japanese radios into the U.S. market, and that slightly more than 50 percent of the production of radios was imported in that year.

This has gone up to a point where in 1970 somewhere in the neighborhood of 95 percent of the radios were imported from outside the country.

The broken line at the bottom of the chart is the percentage of imports that are represented by domestic label brands, that is radios, for instance that we or RCA or someone else either made or purchased abroad.

On the opposite page is a different form of representation of the same thing showing the increase of imports and of the total market and of the decline of the domestic industry.

I can say to you that the radio industry, except for automobiles, is virtually dead in this country. That only a few small specialty types are made.

There follows a graphic representation of the total radio business on the next page.

Now we come to black and white television. In 1962 approximately a little over two percent of the black and white television came from offshore. By 1970 this had increased by some 50 percent and we expect that this trend is going to continue at the same rate. At Zenith we produce about better than two million TV receivers a year. Every one of those has been made in the United States up to this time. We found it necessary, however, to establish an offshort plant in Taiwan in order to meet this competiiton, and I am sure that is not the end of it, we will have many more.

If you will look at the industries, the next chart deals with the industries most sophisticated product color television.

Senator LONG. Could I ask you this question to get this clear. Was the need for it dictated by wages or other factors?

Mr. WRIGHT. Well, Senator, we had to make this decision, we are the last major company in the United States to make it, because we simply could not compete in small screen black and white receivers paying $3 to $3½ an hour for labor in the United States. So we had to find a source of supply offshore.

Now our alternatives were three. We could either get out of that line of the business and leave our dealers without an important representation in this category. We could buy such receivers from other manufacturers in Japan or elsewhere in the Orient, or we could put up our own facilities producing things of our own engineering and design.

Senator LONG. What is it costing you for labor in Taiwan and how does the productivity compare?

Mr. WRIGHT. Well, we are so new there that I really can't tell you much about their productivity but from everything we have seen over there, they are highly productive people, they are very hard working, I think the wages in Taiwan are somewhere in the neighborhood of 25 cents an hour.

Senator LONG. Thank you.

Mr. WRIGHT. Now color television is one of the highest technology industries we have in the United States. We sometimes take things for granted in terms of technology, but believe me, there has been no more difficult product to make than a three-color picture tube for color television. It has for the big screen sets. It has to have a million different dots of phosphors laid down with great precision. This has to be constructed into a tube with three electron beams which will convert the energy, electron energy, into visible light in just exactly the right spectrum and with each gun to hit only its own kind of dot, and have to sweep the 525 lines making up the picture at a rate of 30 times a second. We have to set up to produce that in a factory that can turn out 10,000 tubes a day.

So I know of no higher technology than that is involved in this particular industry.

There were very few imports of color television, in fact none, you will notice, until 1965, but since then they have been going up on a steadily increasing curve so that at the present point one out of every 6 color TV's sold in the United States originates from offshore.

Now, obviously this increasing flood of imports has had an extremely adverse effect on our balance of trade. In 1969 the balance of trade in consumer electronics products was a negative $890 million, and in 1970 the deficit rose to over $1,075,000,000.

Actually, as this committee pointed out earlier the deficit is even greater since the value of imports is substantially understated. Imports are valued f.o.b. country of origin and do not include freight, duty and insurance.

In 1970 the U.S. consumer electronics market reached $4,069,000,000 and even on an understated dollar basis imports captured almost one fourth of the total U.S. market. Since the beginning of the Japanese invasion into our market, many of our manufacturers, fighting to survive have been forced by the competition first to purchase components from Japanese sources and then when this measure provide insufficient, Taiwan and now Mexico.

An alarming movement of American plants to Asia has taken place. Hong Kong, Taiwan and Mexico providing incentives, including cheap labor, have become new sites of former American based factories. This trend for survival by moving plants out of the country is continuing at an alarming rate.

Senator RIBICOFF. What percentage of the cost of a TV set is labor.

Mr. WRIGHT. This is going to vary, Senator Ribicoff. My recollection is that—well, first of all, it is a very difficult question to answer precisely. When we cost our products we will put in a factor for direct labor, which is the labor that we think this set should require in actual final assembly production. Then we also put a factor in there for labor variance and rework, because we know there is going to be a certain inefficiency in that labor, and we hope to keep that at a minimum point, but then these two things, assembly and final assembly, really don't give you a fair answer, because behind that there is a lot of labor in making a color picture tube.

There is a lot of labor in making a tuner, there is a lot of labor in making semi-conductors and integrated circuits. Some of these we make ourselves and others we buy. From my recollection, the last time I saw a contribution sheet in chassis assembly and final assembly, there was some $20 odd of direct labor and a labor variance in a color set.

Senator RIBICOFF. $20. What would the cost of a set be?

Mr. WRIGHT. Well, I am talking about a set now that would probably on the average sell for some $320.

Senator RIBICOFF. So you have $320——

Mr. WRIGHT. That would include consoles and table models all averaged out.

Senator RIBICOFF. If you have $320, and $20 is direct labor. That is not a very big percentage.

Mr. WRIGHT. That is why I say I would prefer to supply you with that information because really to get an accurate and meaningful answer to that you would have to get the labor that was involved in the principal components that went into that receiver some of which we make and some we buy.

(Mr. Wright subsequently submitted the following additional information:)

ZENITH RADIO CORPORATION,
1900 NORTH AUSTIN AVENUE,
Chicago, Ill., May 28, 1971

Hon. ABRAHAM RIBICOFF,
*U.S. Senate,*
*Washington, D.C.*

DEAR SENATOR RIBICOFF: During my testimony before your Subcommittee last week, I promised that I would supply you figures pertaining to the amount of labor in a television receiver. Your inquiry of this item appears at pages 123–125 of the transcript of the proceedings.

My reference to $20.00 of labor in the chassis and final assembly includes the labor for components and sub-assemblies which we manufacture. In addition to this $20.00 for direct labor per set, there is approximately $13.00 of indirect support labor. The color picture tube we manufacture also contains another approximately $20.00 of labor cost and there is an additional $3.00 of labor in components produced by our subsidiary plants. In total, there is approximately $56.00 worth of labor, excluding fringe benefits, in the color sets we produce, but this does not take into account the large labor content of components we purchase—including semiconductors, receiver tubes, cabinets, speakers, transformers, capacitors, etc.

At an average labor rate of $3.00 an hour, the $56.00 represents approximately 19 hours of labor. In Japan, where labor costs $.73 an hour, excluding bonuses and fringe benefits, the labor cost in a similar color television set would be $13.87. As you can see, this is over a 4-to-1 differential in labor costs alone. When you couple this with the tremendous export subsidies and incentives given to the Japanese exporter by his government, you can see that a U.S. manufacturer is under a tremendous handicap in competing in the U.S. market.

I do not have accurate figures on the amount of labor utilized in producing the components which we purchase from outside suppliers. This comprises the bulk of the components in our television receivers. We are certain it is a significant amount. When United States manufacturers are forced to purchase components offshore to lower the costs of their sets or complete foreign-built sets are imported into this country, the great amount of labor in these components is also exported out of the United States.

During my appearance last week you asked whether the Japanese might not have capitalized on the situation by entering a segment overlooked by U.S. producers. This is a theory which has been promoted by our Japanese friends in order to divert attention away from the charges of unfair trade practices. It is quite clear that the Japanese were not the first to supply the market with small screen portables such as the 9 inch and 14 inch sets.

From the start of TV production in 1946 through 1960, a total of 76,188,000 television sets were built in the United States. While most of these were of large screen size—19 inch and larger, there were also sets of the 16 to 18 inch size and smaller screens, including 14 inch and 9 inch portable receivers. Virtually all of these sets were U.S. produced. Large screen sets accounted for about 67% of the total sets in use, 16 to 18 sets 27%, and screens smaller than 16 inch about 6%. There was no Japanese imports prior to 1960.

Apart from very, very small quantities of novelty type receivers from Japan, the first Japanese import was in the popular 19 inch monochrome category. The chassis was made by Victor Company of Japan. The set was imported and a U.S. made picture tube added by the Delmonico International Division of Thompson-Starrett Company. U.S. sales of this Japanese set commenced in the latter part of 1960. This screen size accounted for the largest proportion of the total of 10,000 units that were imported from Japan in 1960.

Delmonico continued Japanese imports in 1961 with most of them being 19 inch monochrome portables. Battery operated 8 inch Sony portables also appeared in limited quantity during the latter part of 1961. This was a limited distribution, high-priced specialty item. In 1961, Japanese imports approximated 23,000 units, with 19 inch monochrome the largest single category. In monochrome, as 1962 commenced, the 19 inch set continued to dominate the market. In mid-1962 the popular 16 inch monochrome screen size was introduced first by General Electric, followed by announcements by Zenith, RCA, Admiral, Philco, Emerson and others. Present and anticipated Japanese competition began in earnest with announced plans for future activities in this screen size by Hitachi, Matsushita (Panasonic), Victor of Japan (Delmonico) and Sharp. Delmonico continued imports of 19 inch monochrome.

Late in 1962 Symphonic announced plans to import 19 inch and 16 inch monochrome from Nippon Electric Corporation. Other screen sizes that were imported in 1962, but in smaller quantities, includes specialty items by Sony, Matsushita and others. Imports of Japanese sets totaled about 150,000 units in 1962.

The 11 inch monochrome portable—a screen size that was new to the U.S. market—was introduced by U.S. industry in 1963. This screen size was promoted heavily, first by General Electric, then by Admiral, and later by others in the U.S. industry. Japanese imports in 1963 were primarily expansions of 16 inch and 19 inch lines plus continued but smaller volume sales of specialty and other sets which were for the most part smaller than 11 inches.

In 1963, the 16 inch size is believed to have been the most active Japanese import size followed by 19 inch. At the close of 1963, future massive Japanese efforts in the 11 inch line were indicated. In total, Japanese imports in 1963 amounted to about 400,000 units.

Japanese imports for 1964 were estimated at over 700,000 units and included 16-inch, 19-inch and 11-inch models. In the 11-inch and related screen category, sales by Admiral (who also introduced a 13-inch), General Electric, Curtis Mathes and Sears (Toshiba built) were supplemented by U.S.-built Emerson, Motorola (12-inch) and Zenith (12-inch), and by Japanese-built Montgomery Ward (12-inch), Westinghouse (12-inch Mitsubishi), Magnavox (12-inch Nippon Electric), and Sharp. There were also a number of very small sets by Sony and others.

In mid-1964, 9-inch transistor battery-operated units were announced by General Electric (U.S. produced but with picture tube sourced from Nippon Electric) and Philco-Japanese produced. Competition in this smaller volume sales category was presented by Delmonico and other importers from Japan.

The largest unit growth in the U.S. TV receiver industry has been in screen sizes below 20 inches for monochrome. As seen from above, U.S. manufacturers initiated and promoted this market. In monochrome, at the time of Japanese interest, the U.S. producers had started with the 19 inch screen size, then 16 inch, then the 11 inch. Other sizes were also developed and promoted by U.S. industry. In color, U.S. production also included the trend to screen sizes below 20 inches. The first portable small screen color television receiver sold in the U.S. market was designed, produced and promoted by United States industry, and large capacity U.S. facilities were built to supply the market for small screen color and monochrome.

It was in screen sizes below 20 inch, both monochrome and color, that the maturing Japanese television receiver industry, looking for export opportunity, chose to compete in this country, first in monochrome and then, as the technology became available, in color. This is the market segment that has borne the brunt of the Japanese attack but, as can be seen from above, it was not because this segment of the market had been overlooked by U.S. producers.

If you have any further questions on the subject of the foreign trade problems of our industry, I would be pleased to discuss them with you at your convenience.

With all best wishes, I am

Very truly yours,

JOSEPH S. WRIGHT.

Senator RIBICOFF. In other words, to assemble and make a television or radio set does not require much skilled labor?

Mr. WRIGHT. No. Actually in the final assembly of a set the labor is a surprisingly low factor but in the subassemblies and making the components and the things that go into it, there is a great deal of labor.

Senator RIBICOFF. But is that labor as much as machine work and technological imputs?

Mr. WRIGHT. Yes, it is a substantial and significant factor to us, Senator.

Now, may I say this, that we, along with everyone else in our industry, are working just as hard as we know how to develop new technology, which will enable us to compete in the United States for some of these things. We use an awful lot of automated assembly now that we didn't use 5 years ago, and if we are going to survive we are going to have to use a lot more. This will have an impact on jobs in this country too but it is the kind of orderly impact ——

Senator RIBICOFF. Trying to draw from my own observation and experience, weren't the Japanese the first to come out with the small transistorized appliances and radios?

Mr. WRIGHT. No, sir.

Senator RIBICOFF. And they took the market away from the American companies.

Mr. WRIGHT. No. sir. Let me say this. The first radio, the first use of transistors commercially that I know of, was our use at Zenith in hearing aids. I think transistors cost about $6 or $7 apiece in the initial stages.

Then we came out with a small portable transistor radio from Zenith that virtually captured the market; transistors were at that time still expensive and this radio I think sold for around $75 at retail.

Senator RIBICOFF. Then the Japanese—with their Sonys and Panasonics, came out and sold them for less when they first came out?

Mr. WRIGHT. Well, they flooded the United States with a bunch of very small transistor radios that sold at a very low price. It was a price that domestic manufacturers just actually couldn't meet.

Senator RIBICOFF. Were they of good quality?

Mr. WRIGHT. They varied all over the lot, Senator. Some of them were good, some of them were mediocre, and some of them were poor.

Senator RIBICOFF. Today when I pick up a radio, whether it is marked Zenith or GE or Westinghouse, and I look at the back of it I see they are made in Japan. In other words, are all the American brand names of radios—small table model radios, transistors, pocket radios—made in foreign countries?

Mr. WRIGHT. More than 95 percent of the personal portables, the small transistor radios, are made outside of the United States. We still make the multiband, transoceanic and some high performance FM portables in this country.

Senator RIBICOFF. How many of those small radios come into this country.

Mr. WRIGHT. I believe that the total radio market last year was some 40 million units.

Senator RIBICOFF. 40 million, and that is a market that the United States has lost completely?

Mr. WRIGHT. Yes, sir.

Senator RIBICOFF. Is the design or the quality of those radios better than yours?

Mr. WRIGHT. No, sir.

Senator RIBICOFF. I don't mean your particular company.

Mr. WRIGHT. No, sir. As a matter of fact, Senator, one of our problems you know is that it is often said you can compete here because we have advanced technology in the United States and we have better engineering and better research. As a matter of fact, all of the significant developments in this area; transistors, integrated circuits, color television, were invented in this country. But that technology has been systematically supplied to the Japanese at a very minimal cost.

Senator RIBICOFF. By whom?

Mr. WRIGHT. Well, Radio Corporation of America, General Electric.

Senator RIBICOFF. When you say you supplied it to them, for a royalty payment, I assume?

Mr. WRIGHT. Yes.

Senator RIBICOFF. So, therefore they were supplying these patents and methods to the Japanese for a royalty but in doing so they undercut their own business in this country.

Mr. WRIGHT. Absolutely. You wonder with Old Omar Khayam who said, "'What is it the vintner buys one half so precious as the stuff he sells."

Senator RIBICOFF. In other words, for all practical purposes the United States has lost the small radio business for good.

Mr. WRIGHT. Yes, sir.

Senator RIBICOFF. How many jobs were involved in manufacturing 40 million radio sets?

Mr. WRIGHT. I don't know that you could break down on jobs that way. You see at about the time that the radio business was falling off, our black and white TV business was booming, and also we were starting to get into color, so it was no problem then shifting people from radio operations into television first black and white and then color and, of course, when the same thing happened to black and white and these tremendous inroads began to be made, we still had color as a very booming industry, so the impact did not appear at the time as great as it really was.

Now we are losing the color business.

Senator RIBICOFF. Why?

Mr. WRIGHT. We are losing, well, I hope to get into that and tell you some of the things that have been involved in that loss, Senator.

Senator RIBICOFF. What keeps worrying me is that American industry which has always prided itself on its initiative, and being ahead of every body on method and design and quality in many products, has taken a backseat.

Mr. WRIGHT. Senator, in our industry, I can say to you without fear of any serious argument that we have one of the most innovative efficient industries in the country. You know how our product has improved and you can see the level and the rate at which we have translated that productivity and that improvement into lower prices and better products for the public.

Senator RIBICOFF. What I am curious about, for instance is the example of the portable Sony television set. They came on the market here with this small television set first.

Mr. WRIGHT. Yes.

Senator RIBICOFF. And there were no competitive American television sets of that size, and these sets gave a very good picture and were well received.

Mr. WRIGHT. Yes, sir.

Senator RIBICOFF. A lot of people just didn't want a big console television set. They might want one on a bedside table or they might want an extra one in a kitchen. When they went around to try to find a small television set the only small one they could find was Japanese, so they ended up buying a Japanese set.

Where was the American television industry at this stage?

Mr. WRIGHT. Let me say to you, Senator, that one of the problems involved in small screen sets is that there really is not the economy in a smaller set that there would appear to be. In other words a 12-inch color set has to provide and perform exactly the same functions as a 25-inch set.

Senator RIBICOFF. All right.

Mr. WRIGHT. There has got to be a bottle made that has almost a million dots, there are three guns that sweep it, the information coming into the tuner has to be processed and done the same way.

Now the way our Japanese friends really penetrated this market is one that I would like to get into with you and it has not been on the basis of any superior productivity or any more efficiency. Now they obviously saw a place in our market where they thought they could gain an advantage and, of course, when you are shipping half way around the world a small screen set is a much easier thing to ship but these small sets in Japan have sold for over $400, in the Japanese market but sell in this market, made in Japan, for $250.

How has that come about? That has come about because the Japanese have maintained a closed market and high fixed prices.

A set that we make in Chicago, with a 23-inch tube, a fine console set, has a list price in Japan, in the National line, which is Panasonic, of $1,200.

Senator RIBICOFF. But the point I wish to make is what if I don't want a 23-inch set?

Mr. WRIGHT. All right.

Senator RIBICOFF. And there are a lot of other people that don't want a 23-inch set. In the same way the automobile industry woke up too late because a lot of people wanted small automobiles and they were only selling big ones. Their attitude was why should we bother with the small ones, we don't make as much profit. They sell for $1,800 instead of selling for $3,500. That was probably the same way with television, if you can sell them for $500 why produce a television set that had to sell for $250. I am trying to get this straight because I find this in many foreign items. The consumer likes what he sees and the lower prices. Why are American industries so slow to emulate? Why are we so far behind on styling?

Mr. WRIGHT. Well, you could get an argument on style. We think that a great deal of it has been copied from us in styling. I will have to say on the small screen sets I do think our industry was late in coming to the conclusion that there was an important market in it.

And we now have a spectrum of American made smaller screen color sets which I think can compete with these people if our trade is established on a fair and reasonable basis.

Senator RIBICOFF. But isn't it too late? This is what is bothering me: forgetting the higher labor costs. I think that the American television industry allowed Sony to successfully market their small television. When people thought of a small television set they automatically thought of Sony and went and bought a Sony television set. By the time you come in people are Sony-oriented when it comes to small television sets.

Mr. WRIGHT. Well, you know, Senator, this is the free enterprise system; this has been the history of our business over the years. People that read the market well and came out with things that were acceptable to the public in competition with other products on the shelf prospered and others like the few I mentioned didn't and they are out of business now, and this is one of the things. I don't mind competing with the Japanese on a fair and open basis. I am the last one to say that the Japanese products should be shut out of this market. I am a real believer in the free enterprise system. And we have got to take our chances in competition, and if we read the market wrong, then under our system we pay a price for that.

Senator HANSEN. Mr. Chairman, would you yield at this point?

Senator RIBICOFF. Certainly.

Senator HANSEN. I may be in error. I suspected, Mr. Wright, that you might be trying to make a different point than to highlight the acceptability or relative unacceptability of a particular type or model. You just started to say that this color set that was made had a selling price in Japan of some $1,200. Would you be kind enough to expand upon what I thought may have been the point you had in mind?

Mr. WRIGHT. Yes. The prices at which the Japanese imported into this country—priced their merchandise—are very substantially below the home market prices in Japan, and I am delighted that Mr. Connally and his——

Senator HANSEN. That is the point I wanted to bring out.

Senator RIBICOFF. The Treasury has brought an antidumping action.

Mr. WRIGHT. We are proud of them.

Senator RIBICOFF. It took a long time but they have finally moved in with an antidumping action. Has that helped?

Mr. WRIGHT. Well, they haven't finished it yet. There has been no final dumping finding. By that I mean there has been no assessment of duties, and I was glad to hear the Secretary say that they had increased their staff from 10 to 30, but I will venture there are at least a hundred lawyers and engineers and public relations people for each one of those Treasury people who have been working on the other side of the dumping thing, so it has been a remarkable accomplishment, and on that line——

Senator HANSEN. Could I ask just one other question there, Mr. Chairman?

Senator RIBICOFF. Certainly.

Senator HANSEN. In other words, to have a better perspective in trying to understand the point you are trying to make, could you follow through and give us the figures on the $1,200 set, the price in Japan, and make comparable analysis or tell us what the situation insofar as the selling price of a radio or TV set in Japan was made in Japan and what they were selling for in the United States. I think this is relevant.

Mr. WRIGHT. One of the difficulties, of course, in this whole area of price comparisons is what the Japanese actually sell their sets for to importers into the United States and what they sell them for to the various levels of the trade in Japan has been a very difficult thing to find, and it has, I think, been made deliberately obscure, as a matter of fact, so all we really have are what the listed retail prices are.

I have here a Panasonic, which is Matsushita, the largest Japanese company, line folder, and list prices which were applicable in the first part of 1970. I am not sure that it is still applicable; there have been a lot of things going on in Japan.

Mama-San found out for instance she was paying substantially higher prices for TV products in Japan in order to subsidize sales at extremely low prices to the rich Americans.

The consumers established a boycott and MITI stepped in and ordered manufacturers to reduce prices by 15 percent.

Senator HANSEN. These retail prices are important to me. Maybe they don't tell the whole story, but I think to the average consumer they are the important item. What is the important thing there?

Mr. WRIGHT. Here is a 12-inch color picture tube set from Matsushita which has a list price of 123,000 yen in Japan, and that is $342.

Senator LONG. Let me just interrupt you to see if I can get this straightened out in my mind. As I read your statement, what you are saying, in effect, is that the Japanese found they could take American technology, put it to work in Japan, and capture the market for small portable radios in the United States, and they proceeded to do that and we did nothing to keep that from coming about.

Mr. WRIGHT. That is exactly right.

Senator LONG. So we let them have the advantage of free trade to capture our market for compact portable radios. After they captured that you found that you could manufacture a color TV set and sell it in Japan cheaper than they can?

Mr. WRIGHT. Absolutely.

Senator LONG. And then in that case they proceeded to impose every kind of barrier to keep you from getting your set in there.

Mr. WRIGHT. You are correct.

Senator LONG. Now they are sitting with a trade surplus with us of $1,200 million using unfair trade practices to keep our products out of their market while they insist on filling up our market for their products.

Mr. WRIGHT. That is correct, and, Senator, as I have said in this statement, we currently have a negative trade balance in our industry of over a billion dollars. If you take what we consider to be the growth of our industry over the next 5 years, it will grow from somewhere in the neighborhood of $4 billion to something around $6 billion and imported products will account for over 60 percent of that and we will have a negative trade balance in our industry alone of somewhere between $3½ and $4 billion.

And further more, we will have exported thousands and thousands of jobs out of the United States.

Now some years ago we embarked on an employment program at Zenith. We live in Chicago which is a large city which has all of the urban problems that you hear about and we spent an awful lot of our own money going down and getting the minority people that were underprivileged and had never been in the work force and helping them out and training them and then giving them jobs. It doesn't do them any good to train them unless you have got a place for them to work. We also had through our tube division a Government contract and we spent a couple of million dollars of the Government's money in order to accomplish this same purpose. Now we finally got to a point where we had a very significant part of our employment—more than 5,000 people in the Chicago area—who were blacks, Mexicans, Puerto Ricans, or other minority people, and it was wonderful to see it.

I mean here is an economic opportunity, a good job, incentive pay, a profit sharing, that at the end of 25 or 30 years they could walk out with $75,000 or $100,000. Now when we have had to cut our work force in the United States more than 5,000 jobs in the current 3-year period, we had no alternative but to lay off the newest people with the least seniority, and this fell hardest on the minority people we had worked so hard to hire. They were the first to go.

Senator RIBICOFF. How many people do you have abroad working for Zenith?

Mr. WRIGHT. I can't answer that specifically. It is going up very rapidly. We opened a new plant in Taiwan in February, and that plant will by fall have probably 1,500 to 2,000 people in it.

Senator RIBICOFF. What do you figure it will cost you to make a comparable set in Taiwan as against Chicago.

Mr. WRIGHT. Well, we think that we can save $10—between $7 and $10—per receiver on making it in the Orient as against making it in Chicago.

Senator RIBICOFF. $7 to $10 on an item that sells for how much?

Mr. WRIGHT. This is an item—small screen black and white TV now is what we are talking about—this is an item that sells for say $80 to $120. I am talking retail prices now.

Senator RIBICOFF. Your basic market for these set will be in the United States?

Mr. WRIGHT. Oh, yes.

Senator RIBICOFF. So you will take these $80 to $120 television sets and you will import them into the United States?

Mr. WRIGHT. That is correct.

Senator RIBICOFF. And it will have Zenith's name on it, but on the back will be stamped, "Made in Taiwan."

Mr. WRIGHT. But it will be Zenith engineered and Zenith designed and produced under our control and to our quality standards.

Senator RIBICOFF. In other words, the name in front would be Zenith and then you would have to look in back to find a little stamp that would say Taiwan?

Mr. WRIGHT. That is correct.

Senator RIBICOFF. So as far as an American was concerned he would figure he was getting a Zenith made in Chicago unless he turned the set around and took a look at it.

Mr. WRIGHT. Well, I am not exactly making a secret of the fact that we are building TV sets in Taiwan.

Senator RIBICOFF. I know, but when the dealer sells Zenith or GE or Westinghouse or RCA they won't say it was made in Taiwan.

Mr. WRIGHT. That is correct.

Senator RIBICOFF. The same would apply to your advertising.

Mr. WRIGHT. That is correct.

Senator RIBICOFF. Now, you say you save about $7 to $10 for making it abroad. Would this be a net saving? What will it cost you to ship it here—the insurance and freight Senator Long has been telling us about?

Mr. WRIGHT. No, I am talking about a net saving.

Senator RIBICOFF. Taking into account the shipping costs.

Mr. WRIGHT. Yes, you see, if there is a product that has a retail price of $100, there is a dealer margin in there and then there is a margin for the wholesaler, so our selling price could be say $60, $65 for that product so that $7 to $10 is a very significant item so far as we are concerned.

Senator RIBICOFF. Is this happening with practically every television manufacturer and radio manufacturer in the country?

Mr. WRIGHT. We are the last ones to do it, Senator.

Senator RIBICOFF. You are the last ones.

Mr. WRIGHT. We made our 25th million TV set last fall and every single one of those was made in the United States.

Senator RIBICOFF. And this is the end of the line.

Mr. WRIGHT. I dont' say it is the end of the line. We are fighting as hard as we know how, to develop technology and do things in research that will permit us to have a better product. We have a new development in picture tubes which increase the brightness of the tubes by 100 percent and the contrast by 20 percent. Of course our Japanese friends immediately wanted us to license them on it. I don't see how we can license these people on that kind of technology and make the stuff here in the United States and compete with them with their wage rates in the Orient, so we refused.

Senator RIBICOFF. Do you want to make some more highlights. These are important factors to weigh.

Mr. WRIGHT. Yes; I do.

Senator RIBICOFF. Do you have figures in your statement on the overall impact to the entire industry, or are you just talking about Zenith?

Mr. WRIGHT. No; I am talking about consumer electronics. When I said our total industry was $4 billion and some million and even under the understated import things which of course are f.o.b. and no c.i.f., they accounted for some 25 percent of the dollars last year, and we can see in a 5-year stretch using the last 3 years a yardstick that imports will be over 60 percent of the total dollars. And the negative trade balance of nearly $4 billion I am talking about now is going to be just in consumer electronics alone. I have not talked about what has happened in the supporting industry.

Actually there is a higher labor force engaged in components making semiconductors and coils and tuners and a lot of these other things, some of which we make but most of which we buy, and this industry has been hit even harder than our finished goods industry, and if you go along the road between Taipei and Neili in Taiwan you will see the names of virtually every large American and European company of importance in our business.

The industry has moved out of the Middle West and moved to the Orient.

Senator LONG. Let me see if I understand this. What you are saying to me is that, as far as your industry is concerned, Japan is the epitome of a protectionist country.

Mr. WRIGHT. Absolutely.

Senator LONG. In other words, Japan simply refuses to permit American electronic parts to be sold in Japan but at the same time insists on free access of their products to our market and are getting it. So, in effect, it is like that story about the duel where one man is standing behind a tree shooting at the other fellow standing in the open with no defenses.

Mr. WRIGHT. That is correct. Senator, Japan is the most fascinating study of any country that you ever saw. They have a system that is hard for us to understand just as I am sure our system is hard for them to understand. We never know where the Japanese Government begins and where it leaves off and where we are dealing with an industry matter and where it is really a matter of government policy. Some way or other the Japanese seem to be able to arrive at a consensus about what their national interests require, and I might add that when they are in the process of doing that they put their economic affairs in the number one priority, and political and diplomatic and other things are secondary.

Senator RIBICOFF. That is what we are trying to bring out in this committee.

Mr. WRIGHT. I understand.

Senator RIBICOFF. I think what you are talking about is true. There is a great identity in foreign countries between government policy and economic policy, and they are in tandem all the time. Everything is done in the national interest and the economic interests are identified. This is the point that I believe Senator Fulbright was trying to make with the Secretary. While we were worrying about NATO force levels and defense matters, the Japanese were more interested in selling Sonys, and the Germans in exporting Volkswagens. In the process they really began moving into our traditional markets.

Mr. WRIGHT. Senator, you are absolutely right. I remember when Mr. Sato was over here and had some meetings with Mr. Nixon. Afterwards, he gave a press interview and this was just typical of the difference in the Japanese approach and ours, and he said there had been understanding with the President that the United States would continue to take the major part of the burden of the defense of the Far East, and that Japan would take a larger role in the economic development of the Far East. Well, all that meant to me was that we were going to continue to pay all the bills, they were going to go in and sew up all these markets and they have.

Senator RIBICOFF. They have. But what is interesting to me now is that for example you went to Taiwan. Others are going to Korea and to Hong Kong which would indicate the Japanese are about to lose their markets to other more less developed economies.

Mr. WRIGHT. Senator, the Japanese have done the same thing. The Japanese are in Taiwan, Panasonic is in Malaysia, they are in Hong Kong, they have followed this same route.

Senator RIBICOFF. But when does it catch up. In other words, you can't keep running away all the time. The Japanese standard of living goes up, their wage rates go up, their social security benefits go up. Then the Japanese and American and the French and the Germans and the English have to find a place where they can start all over again with low wage rates.

Mr. WRIGHT. You are absolutely right. But the problem we have with the Japanese, if you look at the last few years, is they are going up at approximately 18 percent increase in wage costs per year. We are going up around 8, but if you start at three dollars and something and go up at 8 percent and start them at 70 cents and go up at 18 you see that none of us are going to have much interest in it by the time those two curves meet.

Senator HANSEN. Mr. Chairman, would you yield for a moment. In order that I don't become lost again because I want to understand what is going on here, and you had just observed that I had been lost on one other situation, let me say that it occurs to me that we ought not to be oblivious to the fact that there is a very significant difference between Japan's economy and our own. They have had the full co-operation of government on financing 80 percent of their operations, they have decided to cartelize the markets throughout the world so as to see that they didn't have any lost energy. I understand that they will look at a market and decide what the potential is insofar as Japanese business is concerned, and say "we will have six factories making this particular thing" and they also have, and I think it is extremely important, an increasing job opportunity. As I pointed out earlier——

Mr. WRIGHT. Yes.

Senator HANSEN (continuing). About 10 years ago, for each graduating high school senior there were two jobs offered. Today it is 7.7 jobs offered. We have got an unemployment picture in this country of 6 percent and we are concerned about jobs. When you say that we imported 40 million TV sets in this country, I think it is important to know how many jobs we are talking about. Now it would be all right if we were under the same rules as you have suggested, you are a free enterpriser and I compliment you on that but I suggest they are playing by one set of rules and we by another, and I think we have got to keep in mind always what we are talking about in jobs here.

Mr. WRIGHT. Senator, you are absolutely right, and I think one of the problems we have had in this area is one of understanding.

Now the Japanese are great pragmatists. They can always tailor their program to fit what they consider the realities of the situation. One of our problems is that we have had an awful lot of talk about protectionism raising its head in this country, and the State Department and other people running around and making speeches about it, and I think it has misled the Japanese into thinking they don't have to do something about these very unfair and discriminatory practices that they have engaged in, and I don't think we have done them a favor in misleading them that way about it.

They really didn't think they were going to have any problems with this dumping matter.

Senator HANSEN. When you spoke about their going into Taiwan and these other countries doing the same think that these multinational corporations in this country are doing, I think underscoring that fact is this important statistic and that is that they have more jobs today, and I am repeating here now, than there are people to supply these jobs in Japan, so anywhere they can go, whatever they may do further to enhance their economic situation, makes good business for them but it is too bad for people out of work in this country to witness American corporations because of the unfairness of the competition having to go abroad to take advantages of cheaper production, in order to be able more effectively to compete in our own country, and that is exactly what I understand you, as chairman of the board of Zenith are doing.

Mr. WRIGHT. That is exactly right.

Senator HANSEN. You are having to go over there because they have been bringing the TV sets and radios into this country, high quality products, that employ TV latest technology that has for the most part been supplied by the brains and genius of American engineers and electronics experts, they have been taking advantage of all of that known-how and shipping things over here so the only way you can compete with the great differential in the trade regulations and in wages as well is to take your plants abroad, is that what you are saying?

Mr. WRIGHT. Exactly, and the tragedy about it is this. Our industry has supported a great deal of research and development. It has been a very innovative industry.

Senator HANSEN. You said most of them in this industry.

Mr. WRIGHT. Yes, and if we have to move that industry offshore I am not sure how we are going to maintain the kind of high grade technology we have had here and, of course, the Japanese are now beginning to develop this competence and this capability themselves, and they are spending a great deal on research and I am sure it is going to be productive in the years ahead.

Senator LONG. Let me see if I can get something else straight here. What is the balance of trade in the electronics industry today? Are we importing more than we are exporting or is it the other way around.

Mr. WRIGHT. Senator, I think that the exports of consumer electronics last year were $77 million and I think that Zenith accounted for more than 50 percent of that. Virtually any place we go in the world we are forced to set up a plant in order to serve the local market. There are very few places in the world where we can ship things that we make here into the other country.

We had to fight 11 years to get the right to ship into Canada.

Senator LONG. Yes. How much imports do we have at the present time in consumer electronics?

Mr. WRIGHT. The imports were 1,153 million, I think, I have the figure somewhere in the statement.

Senator LONG. Then, reading at page 19 of your statement here then you are saying that by 1976 we will have a negative balance in this item alone of $3½ billion.

Mr. WRIGHT. That is correct.

Senator LONG. So we would appear to be in for minus $3,500 million in addition to the other minuses in our balance of trade and balance of payments on this one item alone looking down the road for 5 years.

Mr. WRIGHT. Exactly.

Senator LONG. This is the area in which the Secretary of the Treasury said Americans have been successful up until now—the area of technologically oriented production—is that correct?

Mr. WRIGHT. That is correct. Color television employs the highest technology of any mass consumer item that I have heard of. It requires an investment of some many million and a staff of engineers and research people that represents tremendous obstacles.

Senator LONG. If I understand what you are saying here—we are big losers in this area, and the principal reason why we are big losers is that Japan refuses to permit our products to enter her market.

Mr. WRIGHT. Senator, in 1961, we had a Japanese distribution company come to use and say, "we would like to handle your TV sets in Japan," black and white TV sets.

"We think there is a market for between 10,000 to 20,000 sets a month of your product in Japan," and we looked——

Senator LONG. How much a month?

Mr. WRIGHT. Between 10,000 and 20,000 TV receivers per month. We looked at the economics of what our own costs would be. We looked at shipping costs to Japan, and by the way this is another imbalance. They charge $70 a ton on high cost freight west and it is $40 a ton going east. The duties at that time were some 38 percent, based on the c.i.f. landed costs, whereas our duties are of course based on f.o.b. Japan, and despite all these high costs we found that this would be a good business proposition for us and that we could be competitive.

Well, what happened?. We were denied an exchange license, and what is more, the people involved were told in no uncertain terms by this administrative guidance thing that this was not what they were expected to do.

Another company in our industry, I understand, tried to take a whack at this Japanese market and if you would look at the prices it would make your mouth water. They got their sets in but they couldn't get any repair parts for them.

So they were squeezed out.

I was in Japan just a few weeks ago and they have a fantastic number of electronics stores up and down the streets in Tokyo and there is not a single American product I could see in any one of them.

Senator LONG. With regard to this fellow who was able to get his product in. I assume the Japanese felt the Americans were fly-by-night business people because they sold a product without making any parts available to repair it.

Mr. WRIGHT. I wasn't there, Senator, but I am sure they did everything necessary because they dried up a big and important American company in this business. And we now have got a new plant in Taiwan and I would love to ship those sets from Taiwan into Japan and we are going to do our best to take a whack at it.

You know another thing, I spoke about the pragmatism of the Japanese. In our Kennedy Round of negotiations we negotiated our tariffs downward, and I believe that we got them down to 10 percent and then they were to drop in one percent increments for 5 years to 5 percent. I think we are down to 6 percent now.

The Japanese started at a level three times that and came down by the same percentage increase, but you still wind up with the Japanese tariffs on a c.i.f. landed cost at three times what they are into the United States, and I pointed out to the House Ways and Means Committee this does not make any sense. Why shouldn't we have an upward revision of tariffs to meet the Japanese. Well, what happens? Two months later MITI decides to reduce the incoming tariffs on consumer, incoming consumer TV sets, to something like 7.5 percent. This looks like a great victory but after all 7.5 percent of nothing is still no better than 15 percent of nothing or 20 percent, whatever the duties were before.

I just don't believe that the Japanese are ever going to open up their market to free trade the way we have done, and the way they insist we keep on doing.

Senator LONG. It is clear they won't do it as long as they are confronted with American negotiators who won't insist on it.

Mr. WRIGHT. I will agree with you and I think it is a great tragedy we have had so many different agencies that have been preoccupied with the diplomatic and political considerations. We have had no touch with our trade negotiators, they haven't tried to get down into our problems.

Senator RIBICOFF. This is one of the basic objectives of this committee to try to highlight all these differences and bring into the public forefront as well as the government forefront the importance of economic matters and the seriousness in which our government has to pay attention to problems such as this.

I think this has been the complaint of Chairman Long of the committee and many of us have complained constantly. We hope as a result of these hearings and more to follow at least we will highlight this to the country so they will understand what the relative problems are. It isn't a question of free trade and protectionism which are two fake words, it is a question of freer trade and reciprocity. I think you have to have an element of reciprocity between all nations to give everybody a break and have it the same way.

Mr. WRIGHT. Senator, you have done a great service and I am glad Pete Peterson is down in the White House. He is a great man and will make a contribution. We have a great many people, we have the Attorney General in charge of antitrust telling the Tariff Commission all of this evidence of injuries from imports is greatly exaggerated and chasing American companies around on things and paying no attention whatever to the cartel arrangements in Japan.

After all the Japanese government found the Japanese companies fixing prices of TV sets on the domestic market and I have no doubt there has been collusion on these export matters that affect our foreign trade.

There is a section of the law that provides criminal penalties for dumping under these circumstances. There has been no activity whatever to look into the matter on that basis and that is why I am so glad to see Senator Fannin's new bill which I think would make sense at simplifying the procedures in this anti-dumping.

I remember when we first got the right to do business in Canada and this was after a long battle in the courts with a cartel that controlled the business up there. When we started shipping sets into Canada, the Canadian customs came down to Chicago and came into our office and wanted to determine from our original books and records we were not selling to distributors in Canada at a lower price than we were selling to distributors in the United States or we weren't giving them any more advertising and promotion money, and they satisfied themselves in four hours that we were doing it properly and that was the end of that.

We have had in this the dumping thing, that is still not settled after 3 years one of the most complicated procedings that has been going on, I am not critical of Treasury about it, I mean this is a procedure that has been built up over the years and they have done a fine job with it but it shouldn't take more than 3 years to find out whether an industry is being wrecked by dumping. If machinery requires that then it is worthless.

We have got another statute on the books, Senator, that has been a dead letter for 70 years. I am talking about the countervailing duty statute. The most recent version of that appears in section 303 of the Tariff Act. Now this section has been on our books for 70 years and it says that the Secretary shall have the duty of imposing a countervailing duty where bounties or grants have been provided on dutiable goods coming into the United States.

Congress' theory in this was it is all right to have free competition but American industry shouldn't have to compete with a foreign government. I think it is just as sound now as it was then. The Supreme Court has interpreted this section a number of times. The Treasury Department, as far as I can see, has no policy on this statute at the present time. They have been to Congress twice asking for it to be amended, to give the Secretary discretion as to when he would do this kind of thing, and in each case Congress has refused to act, but it is treated as if the Secretary had complete discretion whether to act in this or not. I know it is not his fault that the State Department has been calling policy in these matters.

Senator RIBICOFF. The staff memorandum raises the point you make. While we have no legislation before us at these hearings, we can highlight some of these problems, some of the weaknesses, and some of the changes that have to be made.

You are very knowledgeable and I feel your statement is very worthwhile. It is unfortunate that it comes after such long testimony and questioning of Secretary Connally. However, what you have to say is of great significance, and it will be part of the permanent record, and I think all of us here have had an opportunity to raise specific points, I hope you would allow us, if we have any other questions, to write you and have you answer us.

Mr. Wright. I would be very happy to.

Senator RIBICOFF. We do appreciate the opportunity. Certainly, Senator Long.

Senator LONG. May I get into one point with you. I refer to the point I raised with Secretary Connally. These Japanese people came over here and called on me. When I suggested that they let more American imports into their market, they said.

"Well, Senator, here is an article right here in the New York Times which shows that you have a favorable balance of trade of $2.7 billion. After all, the rest of the world has to live too."

What the New York Times did not tell is that if you take out the give aways for which we are not being paid and then you add in the freight and insurance on imports you find that you didn't make $2.7 billion, you lost $3.2 million for the year 1970. You are going busted, notwithstanding which the only American paper they read in Japan, the New York Times gloats that we are just making a fortune.

They say "why can't we shake these Americans down and skin them for some more, because by their own New York Times story put out once every 3 months they are getting rich," when the truth is that we are going broke. In other words, it is a fraudulent news release published to try to maintain a policy which I fail to understand.

Can you explain to me why we publish figures to try and make the world think we are getting rich in this foreign trade picture when we are going busted.

Mr. WRIGHT. Well, Senator, I don't understand it and I don't understand either the great effort that is made by the State Department, putting out pamphlets and having people making speeches around about decrying protectionism and saying we shouldn't consider modifying our traditional American policy at all because this misleads our trading partners into thinking they can get away with some of the tactics they have employed in the past and I don't think we are rich enough to let them do it any more.

Senator LONG. It seems to me if you are going to get those people to agree to something that makes sense, you have to first start out by explaining why you can't keep supporting balance of trade and balance of payments deficits, this is wrecking this country. We can't keep going this deeply in debt. There must be a change in the situation.

Then having pointed out what the problem is, you suggest what the answer is and work for it, insist on it and fight for it.

I have been surprised to have outstanding people come from Japan and to me and say, "If you Americans have this problem why don't you explain that to us and we will talk about that to you."

So the best I can make of it our Nation must not even be telling them the kind of things you are telling me, which I should think they would be willing to concede if you have the facts as you indicate here to prove your point.

But as long as we insist that we are getting rich, and insist on trying to inform our own people and the whole wide world of that, can you blame them for taking us at our word?

Mr. WRIGHT. No, sir. I wish I could see the answer as clear as I see the problem, Senator. I don't like import quotas. I don't like us to build a wall around the country and shut out goods from other countries, we would not stay great and rich that way; but certainly I don't think we have to stand for the kind of tactics Japan has employed in our industry.

Senator LONG. Well. I would like to make it clear, I am not a free trader. I don't think you are going to find anybody who is going to trade entirely freely without taking other considerations into account.

I am willing to accommodate free traders in areas that don't particularly effect my State one way or the other. It is all right for you to be a free trader if you want to be and the other fellow, too. Coming from a State that manufactures practically no electronics and certainly none for export, it would be perfectly all right with me for you to say, "Well, fine, why don't we free trade in electronics, so then we can ship Japan color television more cheaply than they can produce it there and they can ship us portable radios and black and white TV cheaper than we can make it here."

That would sound all right to me. That would be free trade, that is what we are talking about, I should think.

What you are telling me is that when you try to do that they will not permit the color sets to come in even though they have been permitted to completely monopolize our market for portable radios.

Mr. WRIGHT. That is right. And, Senator, I agree with you, I don't think we are ever going to solve this problem on the basis of trading one industry off for another.

The complexities and difficulties of trading textiles for electronics or steel for oil or something else like that just doesn't seem to me to be a sensible approach to the problem. This is one of the difficulties.

Senator RIBICOFF. Thank you very much, Mr. Wright. You have made a very valuable contribution.

(Mr. Wright's prepared statement follows. Hearing continues on page 119.)

STATEMENT OF JOSEPH S. WRIGHT, CHAIRMAN OF THE BOARD, ZENITH RADIO CORP.

I am Joseph S. Wright, Chairman of Zenith Radio Corporation, and, among other things, a member of the newly-created Advisory Council on Japan-U.S. Economic Relations.

While our company is a leading member of the consumer electronics industry in the U.S. and many parts of the world, I wish to make it plain that I am speaking only for myself in this testimony and that while there are many people in our industry who share my views on many points, ours is an extremely competitive industry and it is composed of many diverse components which lead us to divergent points of view on most any subject that you could name.

I would like to tell you a little something about our industry as a background. I know the Committee does not wish to get involved in the details of a particular industry or company, except insofar as it contributes to a better understanding of our country's over-all trade problem. If I seem to be dwelling over much on Zenith and our industry, I hope you will understand that it is not intended to ask this Committee to solve the problems of a particular industry. I only hope that the background of our experience can be helpful to you in arriving at a better understanding of the nation's over-all trade problems.

Zenith was a small company, started on a kitchen table more than 50 years ago, and has grown and prospered to its present size by achieving a reputation for quality and integrity among dealers and consumers of our products throughout the world. We are not a conglomerate, but have specialized in consumer electronics over the years. We have played a major role in almost every development in our industry. We have also played an important part in producing highly sophisticated electronic products and systems for national defense, although from a dollar standpoint this is a small part of our business. Our sales volume in 1970 was 573 million dollars and our average employment in the U.S. was approximately 20 thousand people. In addition to our own direct employment, we provide employment for many thousands of other people who make components which we use in our operations—tuners, speakers, semi-conductors, capacitors, tubes, cabinets, and a host of other products. We are the largest producer of TV receivers both black-and-white and color, having produced and sold more than 2 million TV receivers per year for many years. Last fall we produced our 25 millionth TV receiver, and up to now every one of these sets has been made in the U.S. In addition, we are the largest exporter of such products from the U.S. and have fought for many years to open up foreign markets for American made products. I deeply appreciate the opportunity to appear before this Committee to tell you about some of our experiences and some of the problems that we see facing our country and our foreign trade, employment and balance of payments problems.

I would like to start out by saying that I think we do ourselves a very grave injustice when so often we discuss this matter of our trade policy by using the polarizing terms of "free trade" and protectionism." These are emotional tags which stir people up one way or another and they really work against our ability to solve some of these most difficult problems.

THE CONDITION OF OUR INDUSTRY

The consumer electronics products industry has for all of its existence been one of the most highly competitive, efficient and innovative industries in our country. It has made our mass communications the best in the world. Long before there was any competition from foreign imports, our industry invariably passed on to the public in the form of lower prices and better products, the full benefit of our growing technology and productivity. As a matter of fact, from 1950 to 1963, in the face of rising prices and wage costs throughout the economy, the average unit prices of black-and-white television receivers decreased by more than one-third. Television receiver production has always been so extremely competitive that the mortality rate of the companies in the business has been very high. Many great names in our industry just in the past 15 years have found the going so tough they got out of the business—Capehart, CBS, Dumont, Hotpoint, Stromberg-Carlson, Westinghouse, Webcor to name just a few.

I would like to show you a chart which contains the Bureau of Labor statistics consumer price indices from 1952. You will note that the 1970 index of prices for all products and services stands at nearly 150 from the base year of 1952, while the indices of prices for TV and radio have steadily declined from 1952 and stand at 72 and 68 respectively. This has been accomplished in the face of sharply rising wages and costs of purchased materials. Remember also that radios in 1970 have FM and often stereo; and that TV is not the small screen black-and-white of 1952 but in 1970 includes large screen color and vastly improved products from the standpoint of service and reliability. You will note that this steadily declining index of prices, despite tremendous product improvement antedates by a long time the flood of imported products which has in the past few years virtually inundated our industry.

I dwell on these points with some pride only to show that our situation is not that of an industry which has lost its vigor and must be protected from more efficient competitors abroad. On the contrary, the prices of our products are lower in the United States than in any other country in the world, including Japan and Germany.

I have attached to this statement a series of charts entitled "U.S. Imports in the Consumer Electronics Industry," which are graphic presentations of official Electronic Industries Association statistics showing what has been happening in the major categories of our business from 1960 through the first quarter of 1971. The red parts of the bar showing imports have an added broken line which shows the portion of imports which are under U.S. label; the balance, of course, are under foreign labels. The numbers are all in units produced or imported.

In the late 1950's, millions of low-priced Japanese transistor radios poured into the United States. As shown in the charts, by 1960, 55 percent of all portable radios sold in the United States were of Asiatic origin. By 1968, this figure rose to almost 95 percent and has remained at almost that level through the first quarter of 1971. For total radios, including portables but excluding automobile radios, imports accounted for approximately 91 percent of the market in 1970 and we estimate that the U.S. will produce less than 5 percent of the whole U.S. home radio market of about 40 million sets in 1971. Except for certain specialty types, the manufacture in the United States of radios was made economically impossible within ten years of the invasion by the Japanese.

I would like to turn now to television products. As shown in the charts, in 1962, monochrome imports, exclusively from Japan, held 2.4 percent of the total black-and-white television market of 6 million 609 thousand units, but in 1970, imports accounted for 51 percent of the total U.S. market of 7 million 47 thousand black-and-white units and, as you can see from the charts, imports held approximately this same share in the first quarter of 1971. Imports have thus increased their percent sare of the U.S. market by over 20 times in a black-and-white television receiver market which will continue to be of great importance, despite increased color television receiver sales. While 90 percent or more of the imported receivers since 1960 originated in Japan, in recent years black-and-white television receivers are beginning to be imported in quantity from Taiwan, Mexico, and other countries, as American manufacturers have sought to compete with the Japanese.

In the area of color television, in 1965, imports from Japan were only 2.6 percent of the total color market of 2 million 649 thousand units, but in 1970, imports—almost all of which came from Japan—held almost 18 percent of the total U.S. market of 5 million 219 thousand color units. This increase of market share of seven times in a short span of five years has brought us to the point that in 1970, one out of every six color television sets sold in the total U.S. market—a market which doubled between 1965 and 1970—was imported.

Obviously, this continuously increasing flood of imports has had an extremely adverse effect on our balance of trade. In 1969, the balance of trade in consumer electronic products was a negative 890 million dollars, while in 1970 this deficit rose to over 1 billion 75 million dollars. United States consumer electronic exports were only approximately 77 million dollars. Actually, the deficit is even greater since the vaue of imports is understated in that they are valued f.o.b. country of origin and do not include freight. duty and insurance. In 1970 the U.S. consumer electronics market reached 4 billion 69 million dollars and, even on an understated dollar basis, imports captured over one-fourth of the total U.S. market.

Since the beginning of the Japanese invasion into the U.S. consumer electronics market, many American manufacturers, fighting to survive, were forced by this competition first to purchase components from Japanese sources and, when this measure proved insufficient, to make or procure their sets in Japan, Hong Kong, Taiwan, and now Mexico. An alarming movement of American plants to Asia has taken place. Hong Kong, Taiwan and Mexico, providing incentives including cheap labor, have become the new sites of many former American based factories. This trend for survival by moving American plants out of our country is continuing at an alarming rate. Although we have never purchased television sets offshore, even in the face of the great invasion of Japanese television receivers over the years, Zenith also was forced to open a large new plant in Taiwan two months ago in which we may ultimately employ several thousand people.

In 1971, Zenith's average employment in the United States is forecast to be down by approximately 5 thousand jobs compared to our average employment in 1968. This is in large part due to the competitive necessity of making, or having made offshore, products which we had planned to produce here in the United States. If we considered the loss of employment in our television receiver manufacturing operations alone for the same period, the number of lost jobs would be significantly greater. Department of Labor figures show that between October 1966 and October 1969, there was a loss of 20 thousand 3 hundred jobs in manufacturing radios and TV receivers in the United States, and between October 1969 and November 1970 there was a further loss of 27 thousand 4 hundred jobs for a total loss of such jobs during these four years of 47 thousand 7 hundred.

What has happened in the finished goods end of our industry has also, of course, had a substantial impact on the even larger labor force engaged in the components industry—on the people who make coils, picture tubes, speakers, tuners and the like. Most of these companies have also established offshore facilities in the low labor cost countries of Hong Kong, Taiwan and Korea in order to support runaway set production.

One of the most distressing aspects of Zenith's reduction of work force as a result of imports is its impact upon our program for providing training and employment opportunities for the unemployed and under-employed drawn largely from minority groups in the Chicago area. In the last several years, we have invested a great deal of money and time and effort to recruit and train members of such minorities as blacks, Puerto Ricans, Mexicans and Cubans from the Chicago area, to the point where they represented a large and significant portion of our total employment.

In addition to our own financial investment, we have carried out government contracts for training and employing the chronically unemployed and underemployed. This has resulted in our giving good jobs to several thousand members of minority groups, who developed pride in their work and in having the kind of economic opportunity that would permit them to raise substantially their standard of living. The loss of jobs resulting from imports has fallen heaviest upon the most recently added people in our work force who, for the most part, are non-whites. This is required under union rules, and I do not known any other way to reduce our work force under such conditions, even if we did not have such rules.

PAST TRADE POLICY

The U.S. has been for many years a world leader in efforts to achieve reciprocal trade between the developed nations, with a minimum of commercial burdens by way of tariffs, commercial red tape and all the other non-tariff barriers to trade. As you are well aware, we are signatories to the General Agreement on Tariffs and Trade, and have taken the leadership over the past twenty-odd years in reducing our own tariffs and other trade barriers into the U.S., purportedly receiving reciprocal undertakings on the part of the other great trading nations.

Over the years, these GATT agreements have provided for substantial reductions in U.S. tariffs on consumer electronic products. We have purportedly secured corresponding reductions in tariffs on U.S. electronic products imported imported into highly developed industrial countries such as Japan. Unfortunately, we seem to have a peculiar American tendency not to fare very well in negotiating international agreements. As Will Rogers said, we have never lost a war nor won a conference. The fact is that while our GATT arrangements have opened up the U.S. markets to imports on a large scale, we are still left with systematic discrimination against American consumer electronics throughout most of the world, with high tariffs and a whole host of non-tariff barriers which, separately or in combination, prevent any effective U.S. export competition.

Let us see what kind of reciprocal trade policy regarding tariffs the U.S. established with Japan under GATT's "Kennedy Round" which is now in effect. From 1968 to 1972 U.S. import tariffs on imported TV sets were to be reduced from ten to five percent at the rate of one percent per year. During the same period the Japanese duty on imported sets was to be reduced from 24 percent to 15 percent. Forgetting for the moment about the fact that the U.S. duties are based upon an f.o.b., Japan price while the Japanese duty is based upon a c.i.f., landed price, thereby making the effective Japanese rates even higher, at the end of the Kennedy Round we were left with about a three to one ratio between Japanese and U.S. tariffs on imported television sets.

During my testimony before the House Ways and Means hearings on international trade in June of last year, we suggested that perhaps instead of import quotas, the interests of the U.S. would best be served by a moderate upward revision of tariffs on consumer electronics. We could see no reason why our Japanese friends should complain if our tariffs were partly equalized by raising them to those of Japan. How did the Japanese respond to such a suggestion? The August 6, 1970 issue of *The Japan Economic Journal* carried a story entitled "TV Tariff Cut Sought" containing the following introductory paragraph:

"The Electronic Industries Association of Japan has decided to appeal to the Ministry of International Trade and Industry for reduction of Japan's import tariffs on American and other foreign television sets to about the same level as the U.S. equivalents."

Subsequently, in December, the same paper container an article stating that tariff rates were due to be slashed in April on radios, TV sets, gramaphones and record players. Rates on these items were to be uniformly cut to 7.5 percent.

While this sounds like a major step in the right direction, the fact is that 7½ percent of nothing is really no better than 18 percent of nothing, because there are no American sets on the Japanese market, and you can be sure that our Japanese friends will bend every effort to keep it that way.

## JAPAN'S CLOSED MARKET

In order to support her invasion of the U.S. TV set market with the use of extremely low pricing policies, Japan has maintained a closed market to imports of television products and has fixed and kept domestic prices at artificially high levels. With a closed domestic market, insulated against foreign competition, domestic prices can be easily fixed at a high figure. It has been reported that the Fair Trade Commission in Japan recently found six of the larger Japanese TV set makers guilty of fixing retail prices in Japan and that decision coupled with the TV dumping case here in the United States appears to have the Japanese consumer quite upset for he has realized that he has been subsidizing exports to the U.S. by paying higher than necessary purchase prices, as well as higher taxes to support Government subsidies. Furthermore, according to press reports, delegates to the National Consumer Association's Convention, a group representing 20 million consumers or one-fifth of Japan's total population, meeting in Tokyo last November, decided to boycott all products sold by one of the largest Japanese set manufacturers because of its refusal to disclose its pricing structure on color television sets. At the Convention it was also decided to launch a "non-buying" campaign against color television receivers of all Japanese brands. Last March, it was reported that the boycott campaign against all of the products of that large manufacturer had been lifted in view of the fact that that company had accepted the Fair Trade Commission's charge on price fixing, apparently admitting that such practices had existed.

If the Japanese market were completely open and competitive as is the case in this country, television receivers could be manufactured in the United States and successfully sold in Japan at competitive prices. The Japanese Electronics Industry Association admits that large screen TV receivers made in the U.S. could be delivered to a Japanese importer for a total cost of about $449 even prior to the April tariff reductions. Similar large screen Japanese sets have carried list prices of from $1,200 to $1,600 in Japan. A similar large screen Zenith set with an advanced premium Chromacolor tube carries a suggested retail price of $579.95 in the U.S. A U.S. factory worker in Chicago making $3 an hour must work 193 hours to buy our large screen color set (forgetting about taxes for the moment) while a Japanese factory workers in Japan making 73 cents an hour (excluding his bonus and benefits) must work 1,860 hours, or almost ten times as long, to buy the Japanese set.

It would, therefore, appear that Japan would be a great place for U.S. TV manufacturers to sell sets, but even with the recently lowered tariffs a whole host of barriers still prevent American entry into the Japanese market. Our attempt to enter the market of several years ago was blocked. A recent market study indicates that, while some of the barriers to our entry have theoretically eased somewhat, there are still clear-cut obstacles. Japanese government regulations still block free entry of necessary repair parts, and the Japanese are notorious for applying what they call "administrative guidance" to influence sales outlets in their handling of imported goods.

## DUMPING

It has long been a well recognized principle in our law that the practice of dumping goods into the United States at prices far less than they are sold for in home or other markets is unfair and illegal. This has nothing to do with whether you are a "free trader" or "protectionist" or anything in between these polarizing terms.

The reason behind this principle is obvious. Dumping is a method of international price competition or, more properly, price discrimination between national markets which is of economic significance to both the exporting country, for example Japan, and the importing country, the U.S. Dumping is simply selling the same commodities at different prices in different markets. Dumping occurs when merchandise is imported into the U.S. and sold for less than the price for which the merchandise is sold in Japan, taking into consideration the conditions and expenses of sale. It is an undesirable method of competition because the resulting cheapness is not due to basic superiority in production efficiency in Japan.

I am sure it is clear that with a closed domestic TV market in Japan, dumping TV sets into the U.S. is an easy task since domestic prices fixed at a high figure help support dumped prices here in the U.S., and incremental costing is used for export pricing. Following a lengthly investigation, the Secretary of the Treasury announced on December 4, 1970 his determination that television receivers imported from Japan were being, or were likely to be, sold in the United States at less than fair value as compared to sales made in Japan. The U.S. Tariff Commission then, in accordance with Federal anti-dumping law, conducted an investigation to determine whether "an industry in the United States has been or is likely to be injured" by this unfair practice, a finding necessary, under the law, before additional duties can be imposed.

After a thorough study, the Commission on March 4, 1971 unanimously ruled that ". . . the imports of television receivers from Japan, sold at less than fair value, have adversely affected the prices of comparable domestically produced receivers in the U.S. and have caused substantial loss of sales by U.S. producers." In order to correct this unfair practice, all shipments of color television receivers from Japan to the United States since September 1970 will now be examined by the Treasury Department to determine to what extent additional duties are required to be assessed. While the amount of these extra duties is not known due to the nature of the dumping proceedings and will probably vary from set to set, these findings should result in fairer TV set price competition by Japanese imports in the United States market.

SUBSIDIES

In the area of Japanese government export subsidies and incentives, there is good reason to believe that the Japanese government provides a whole host of subsidies beginning with the remission of a commodity tax and including such things as export credits, accelerated depreciation and a variety of other tax advantages and insurance against loss in export. While these bounties and grants are a little difficult to find in the orginal Japanese statutes, they are effectively summarized in a State Department memorandum of November 6, 1968 entitled "Japan's Export Promotion Techniques." The existence of such bounties and grants thus discloses yet another factor contributing to Japan's success in the U.S. consumer electronic products market.

INDUSTRY GOVERNMENT COOPERATION

There is one subject that I am glad to see get increasing attention in the United States at the present time and that is the proper relationship between government and the business community in this whole area of international business and trade practices. The scheduling of this hearing itself is a further indication of the increasing interest in the trade problems of U.S. business. All of us who had any exposure to Japanese competition are immediately struck by the tremendous difference that exists between the Japanese outlook on this subject and our own. In dealing with Japanese competition or in seeking to penetrate the Japanese market, one is immediately struck by the great difficulty in discerning where Japanese business ends and the government begins. There apparently is a way by which the Japanese business community and the Japanese government arrive at some concensus of what serves best the national interests of Japan, and then both government and industry do what is necessary to carry out the program. We, on the other hand, fight among ourselves and with the government and there is probably a large feeling on the part of the business community that many people in our federal government who deal with high level negotiations on trade matters are thinking almost wholly of political and diplomatic considerations and have no real understanding of or interest in the practical day-by-day problems of business. I am sure this is not a one-way street and our government people may similarly feel that the business community is preoccupied with its problems and not sufficiently interested in the political and diplomatic headaches.

It is interesting as background to the Japanese government-industrial combination, which has sometimes been called Japan, Inc., that is many cases it was the government itself which fostered business enterprises as government functions and that private business firms were formed to take them over. It has been suggested that this may explain what still remains as an unusually close working relationship between Japanese business and government.

This brings me to a related subject. The Japanese are great pragmatists and they have an exceptional ability quickly to adapt their course of action to the realities of the situation. Despite the fact that there has been a great outcry by the Japanese on the textiles, shoes, steel and electronics issues, they have felt considerable pressure from various domestic industry sources and from their government to moderate their assaults on our market through dumping and other similar practices. But when we have widespread publicity compaigns against "protectionism" and organized efforts to stop any enactment of new laws, or against enforcing old laws, our Japanese friends are misled into thinking that American public opinion will permit them to continue dumping and similar unfair practices and that they can continue keeping a closed market to American manufactured goods with various discriminations against our products.

It is only by convincing them fully and finally that we really mean business that they will ever decide that they really must put their house in order both at home and abroad. And only this Congress and the federal government can do the convincing.

FUTURE TRADE POLICY

Up to this point, I have directed most of my remarks to telling you what our problems are. I wish I could see the answers as clearly as I see the problems.

Most of us in our industry recognize that as a long range-solution, import quotas have as many built-in problems as they would solve and I have never seen any machinery for working them out without serious risks of arbitrary and unfair action, not to mention the temptations of possible political corruption. I would be in favor of import quotas only as a short-range method of dealing with the situation, if it would give our government the muscle and the authority to force a rationalization of our trade with certain countries such as Japan.

I mentioned earlier that we have just opened a new plant in Taiwan. This probably will not be our last offshore plant and in the next few years, lacking some change in our Administration's trade policy, more and more of our productive facilities for serving the U.S. market will have to be located in foreign countries.

Our market studies tell us that with projected new family starts and population growth, and with the products we see immediately at hand, the consumer electronics products industry business in manufacturers sales and imports will increase from the current 4 billion dollars plus to 5 billion 5 hundred million dollars in the next five years. Projecting the increase in imports as a share of the domestic market at the rate by which they have increased over the past three years, the current 1 billion 153 million dollar import figure contributing to the massive negative trade balance in our industry alone will increase to 3½ billion dollars and represent approximately 60 percent of our industry by 1976. It is hard to believe that this can happen to a high-technology industry which has been so effective in the U.S. that it has been able to produce and sell at prices which are far below the applicable prices in any other principal country of the world despite our American wage scales.

While we are certainly pleased to see the Treasury Department active in anti-dumping matters, there is much the Secretary could and should do under another Federal statute. For some 70-odd years we have had on the books a statute which requires the Secretary of the Treasury to impose countervailing duties in the amount of any bounty or grant which is made in connection with the import of dutiable articles into the U.S. It currently appears in Section 303 of the Tariff Act of 1930. Congress originally enacted this statute on the theory that while it was perfectly proper for domestic industries to compete in the areas of productivity, efficiency, price, and quality it was not fair to ask them to compete with foreign government subsidies. Many years ago this statute was upheld by the Supreme Court as a mandatory requirement on the Secretary.

As far as I know this section of the law had been a dead letter and the Treasury Department still has not made up its mind what its policy ought to be on countervailing duties. On two occasions over the years the Treasury Department has recommended to Congress that the countervailing duties statute be amended to limit the Secretary's duty to impose countervailing duties to cases where he found injury to a domestic industry and to completely exclude from the statute the remission of commodity taxes, a familiar device used by Japan and other nations to subsidize their exports. In each case Congress has refused to amend the statute with the result that while it leaves him no discretion the Secretary has in fact acted as if he had complete discretion.

We filed a Petition with the Secretary more than a year ago pointing out indicated areas of large direct subsidization of Japanese exports to the U.S., and

I understand a countervailing duty petition by the steel industry has been pending since October 1968. I respectfully suggest that if we are not going to enforce this basic satutory principle of our foreign trade policy we must then face the burden of devising a competitive American system of export subsidies that will put us on a fair and equal footing. I really do not recommend the latter course because I do ont think it is a contest we can win. Instead we should face up to the realities and enforce the law the way it is written.

In another area, the Assistant Attorney General in charge of the Antitrust Division has taken a peculiar and ambivalent position. For example, while he is closely watching for violations of the law by U.S. businessmen, he apparently has chosen to take no action against those who have dumped imports into the U.S. is criminal violation of Sec. 72. Title 15 of the U.S. Code which is part of the Revenue Act of 1916. The Assistant Attorney General, if anything, appears to be biased away from helping the U.S. businessman injured by imports for he has gone on record in recent testimony before the United States Tariff Commission stating that in determining forces responsible for alleged injury, he is confident that in a number of cases the role of imports will be found to have been greatly exaggerated. And he has taken no apparent note that the Japanese export TV pricing and practices in the United States through their U.S. is criminal violation of Sec. 72. Title 15 of the U.S. Code which is part and illegal under our laws as the Japanese government found their domestic pricing to be under their laws.

The foregoing are just a few of the many examples available to illustrate how U.S. trade policy can again be placed in the proper posture merely by enforcing existing U.S. law.

In the past, we have seen legislation introduced to liberalize the escape clause and adjustment assistance provisions of our tariff laws. It is difficult to believe that a solution to our complex foreign trade problems lies in such factors as adjustment assistance to workers and firms where the cost of such a program must be borne by all taxpayers and is in no way charged to the damage-causing imports and practices. At the heart of the problem is the displacement of workers, and we do not believe the answers to our problems lie in making it easier for such individuals to get relief.

In the area of new legislation, we believe it is important that limits be set on the time given to the Treasury Department to act on dumping and countervailing duty matters. We believe that if the executive branch of the government refuses to enforce the laws, then business should be given standing to enforce appropriate laws in the courts so it no longer need wait for the government to act. Along these lines, it is heartening to see legislation such as S. 1476 recently introduced by Senator Fannin for himself and others help protect American business from unfair foreign competition.

The previously mentioned Revenue Act of 1916, condemning international price discrimination injurious to competition and providing criminal sanctions as well as civil redress, apparently was intended to be a part of the antitrust laws. Senator Fannin's bill expressly declares the 1916 Act to be one of the antitrust laws as it was intended to be. As an antitrust law, the amendment would provide the government and injured persons with the remedy of injunctive relief, prescribe the statute of limitations to be tolled for injured persons during government proceedings and further encourage enforcement by business by making available government judgments and decrees as *prima facie* evidence in private suits.

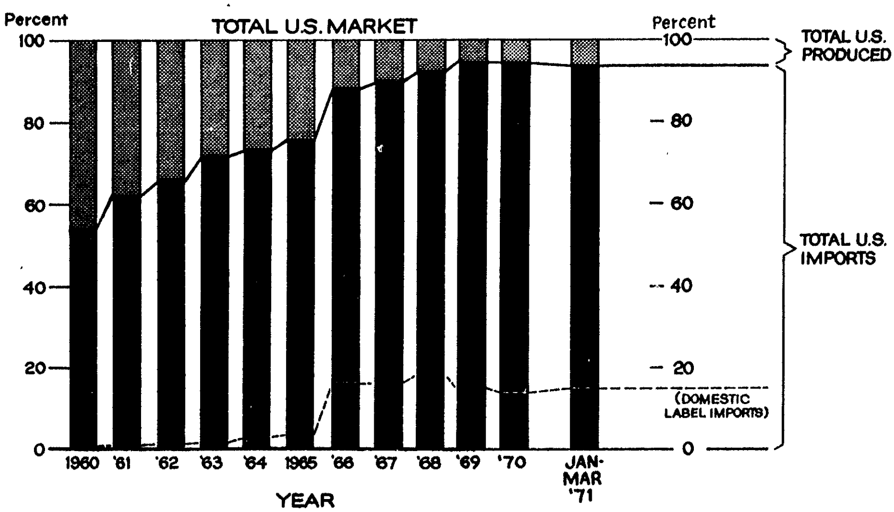
One of the most powerful aspects of the bill relates to gathering the necessary evidence which appears to be the biggest bottleneck in enforcing anti-dumping laws. With the amendment, in a suit under the 1916 Act, failure to comply with requests for evidence would result in the withholding of imports alleged to be dumped until there is compliance with the court's request. This provision would certainly speed up determination of the case thereby reducing the extent of injury to American business. With these amendments to the 1916 Act, injured U.S. industries would not have to wait for the government to act since they would have a new, effective weapon with which to fight unfair import competition.

## CONCLUSION

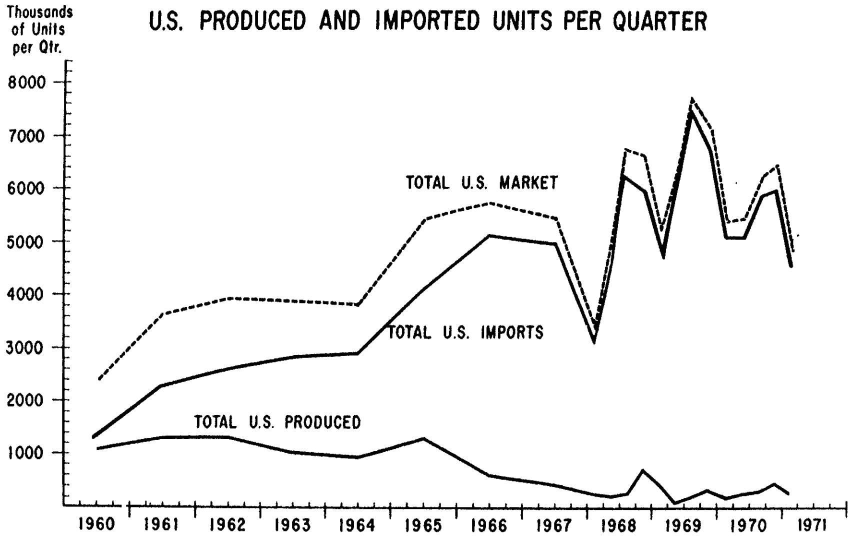
Traditionally, the United States has opened its doors to the trade of the world. We have a challenge in our industries and in our government to be as hard-nosed and practical in dealing with our trade problems as our trading partners have been. If we do that and insist that trade with our trading partners to be put on a reciprocal, rational and fair basis, then our industries with their tremendous resources of engineering and technology, of production and of marketing know-how will compete effectively both here and abroad, and despite the very obvious advantages that are inherent in such factors as the much lower wage levels of the Far East.

May I conclude by saying that we are most encouraged by the recognition of the members of this Subcommittee of the need for a re-evaluation of the competitive position of the U.S. in world trade. Hopefully, your investigation will have a salutary effect on those government agencies charged with carrying out our trade policy and through it the Congress and the public can be made more aware of our nation's trade policies and their impact on our economic well-being.

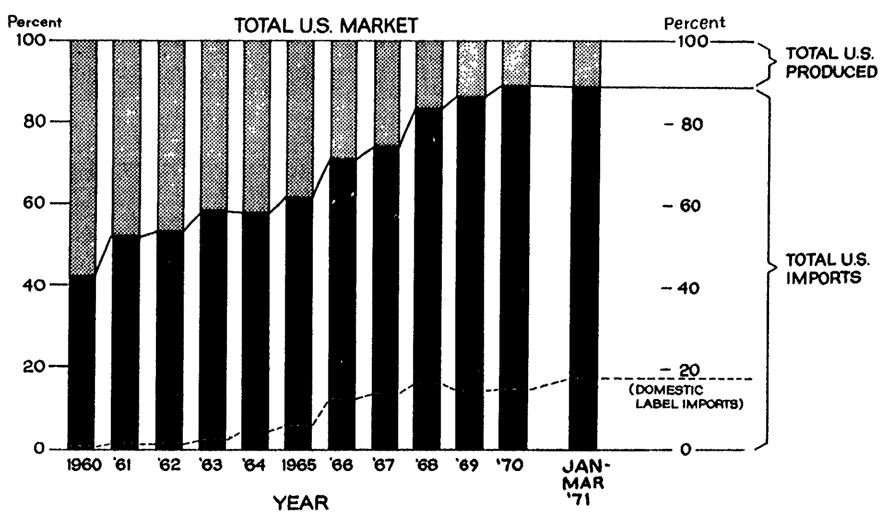
ALL PORTABLE RADIOS
U.S. MARKET 1960-1970 FACTORY PRODUCTION
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL



ALL PORTABLE RADIOS
U.S. MARKET 1960 TO PRESENT-FACTORY PRODUCTION
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER

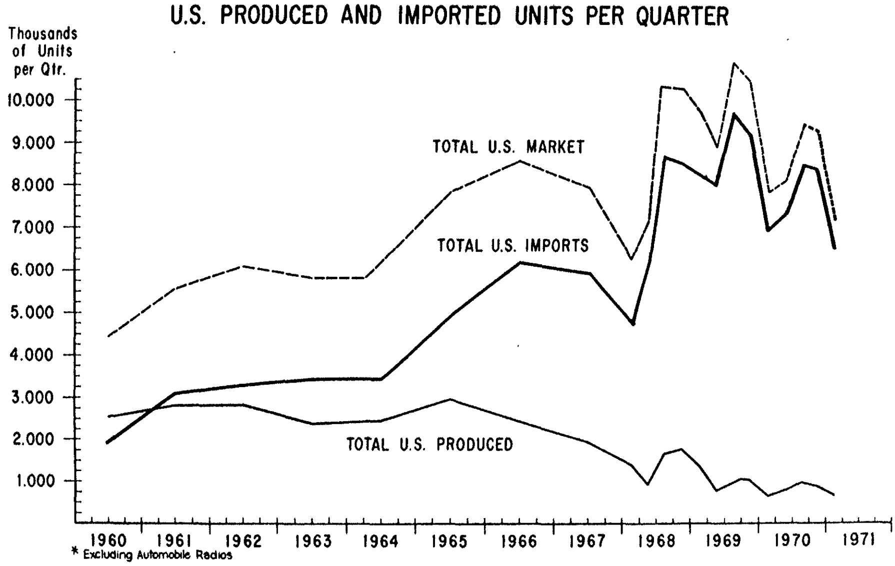



U.S. MARKET FOR RADIOS-ALL TYPES*-1960-1970
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL
FACTORY PRODUCTION



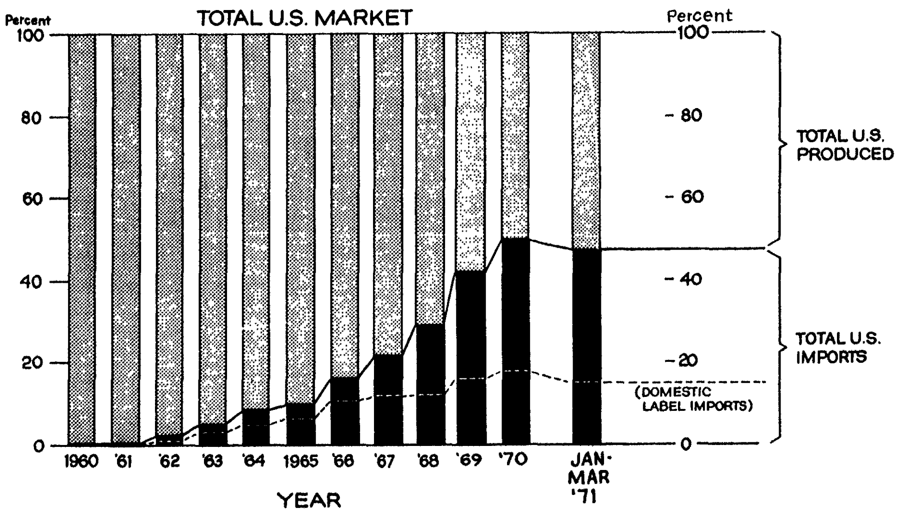

* Excluding Automobile Radios

U.S. MARKET FOR RADIOS - ALL TYPES *
1960 TO PRESENT-FACTORY PRODUCTION
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER

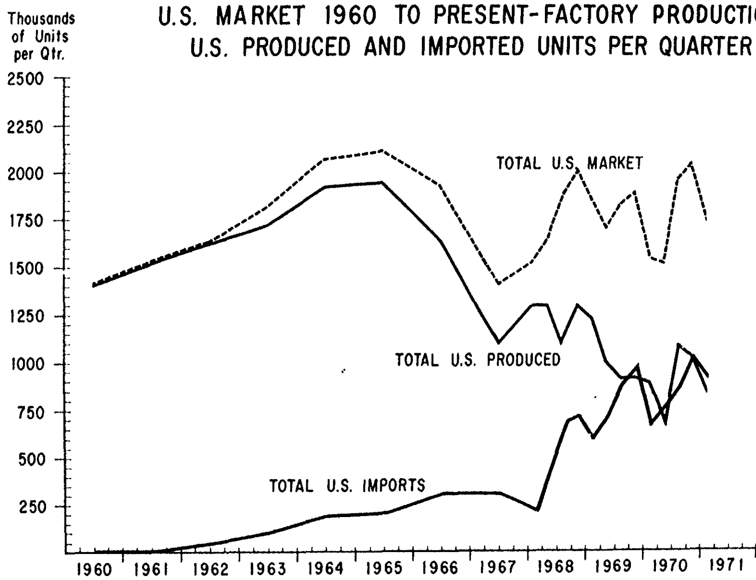



* Excluding Automobile Radios

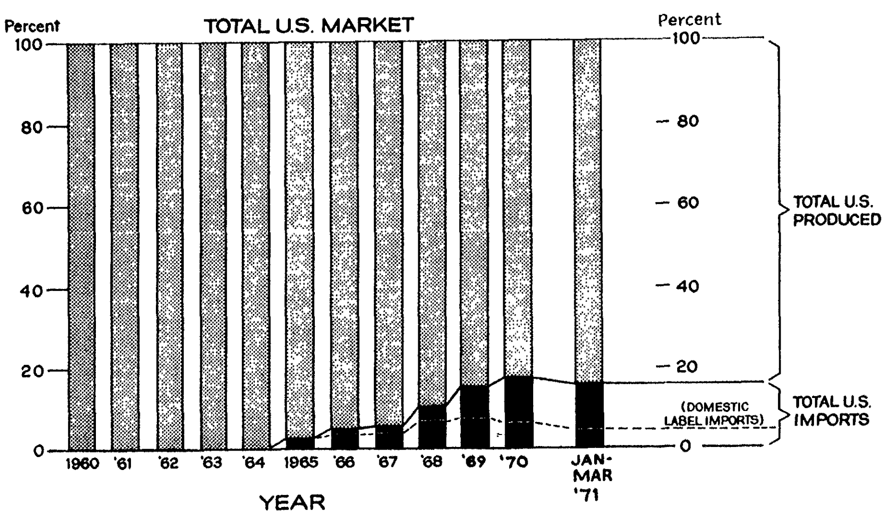
# B/W TELEVISION
## U.S. MARKET 1960-1970 FACTORY PRODUCTION
## U.S. PRODUCED VS. IMPORTS AS % OF TOTAL

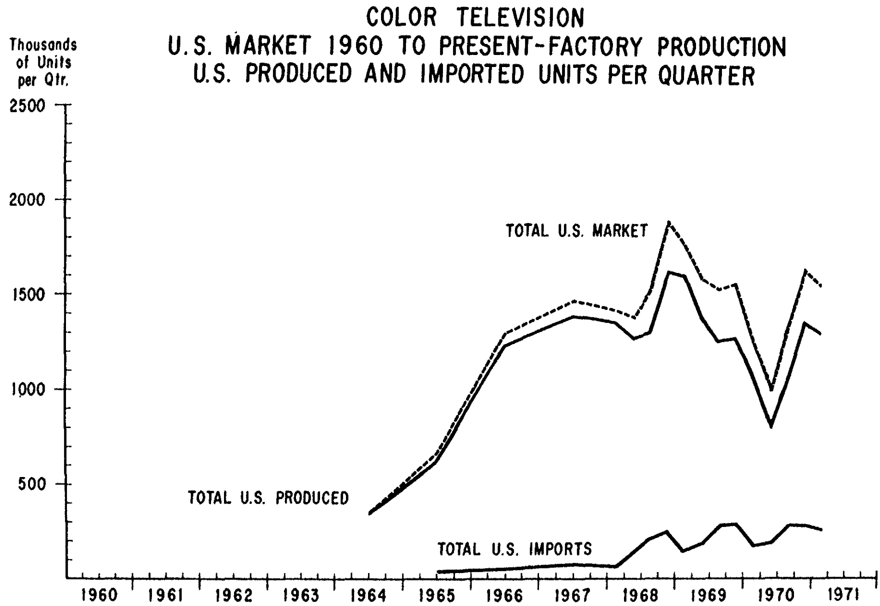


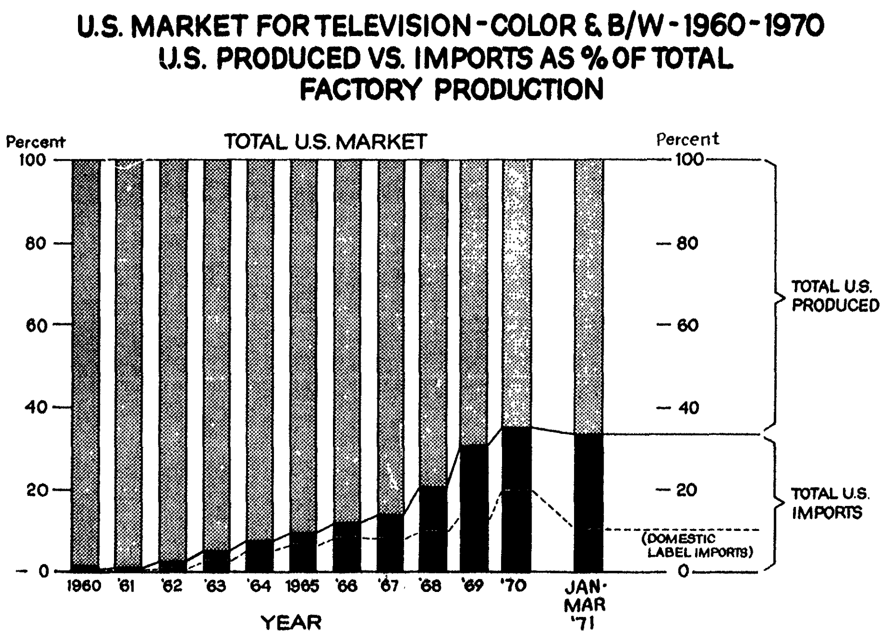
B/W TELEVISION
U.S. MARKET 1960 TO PRESENT-FACTORY PRODUCTION
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER



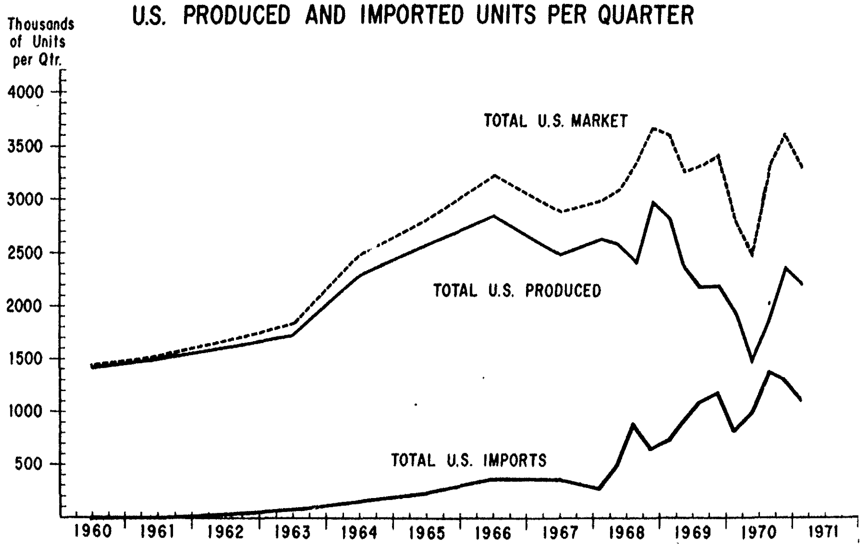

**COLOR TELEVISION**
**U.S. MARKET 1960-1970 FACTORY PRODUCTION**
**U.S. PRODUCED VS. IMPORTS AS % OF TOTAL**



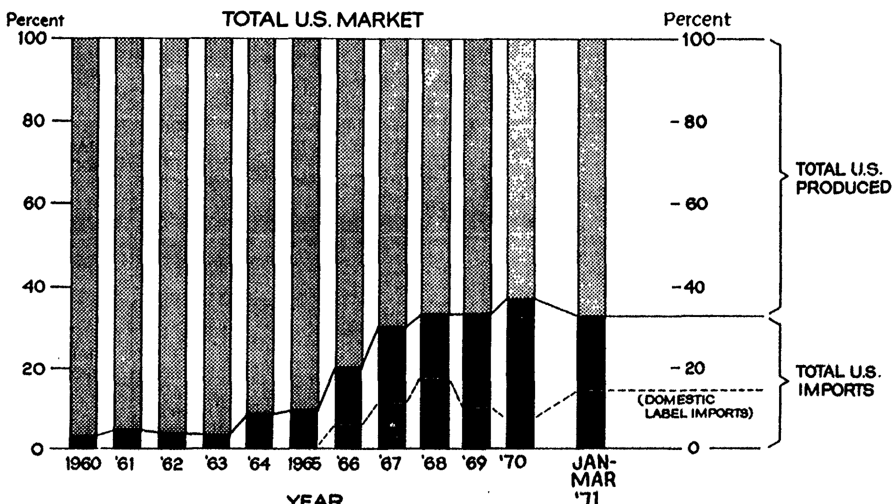

COLOR TELEVISION
U.S. MARKET 1960 TO PRESENT-FACTORY PRODUCTION
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER
Thousands of Units per Qtr.
2500
2000
1500
1000
500
TOTAL U.S. MARKET
TOTAL U.S. PRODUCED
TOTAL U.S. IMPORTS
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970
1971


U.S. MARKET FOR TELEVISION-COLOR & B/W-1960-1970
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL
FACTORY PRODUCTION
Percent
TOTAL U.S. MARKET
Percent
100
80
60
40
20
0
TOTAL U.S. PRODUCED
TOTAL U.S. IMPORTS
(DOMESTIC LABEL IMPORTS)
1960
'61
'62
'63
'64
1965
'66
'67
'68
'69
'70
JAN-MAR '71
YEAR

U. S. MARKET FOR TELEVISION - COLOR AND B/W
1960 TO PRESENT-FACTORY PRODUCTION
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER

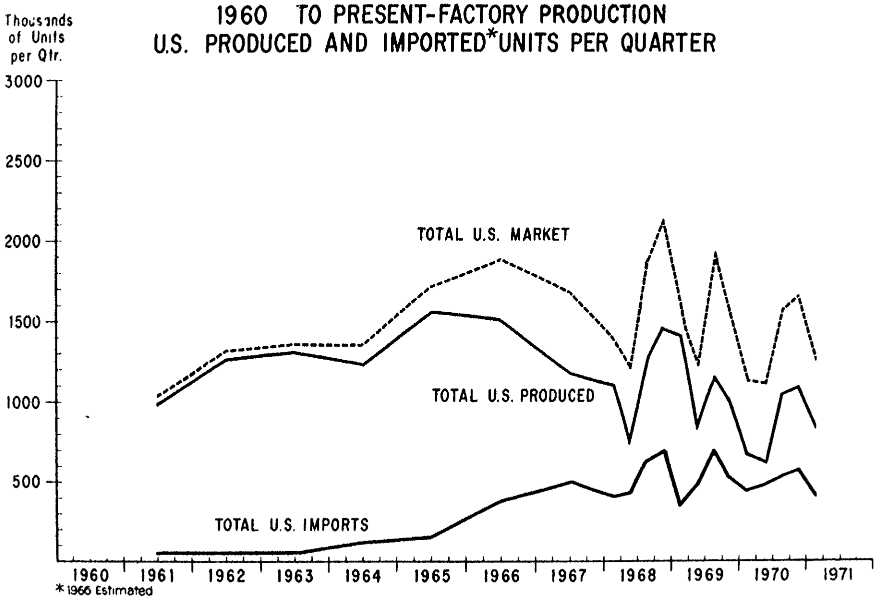



U.S. MARKET FOR PHONOGRAPHS - PORTABLE & CONSOLE - 1960-1970
U.S. PRODUCED VS. IMPORTS* AS % OF TOTAL
FACTORY PRODUCTION



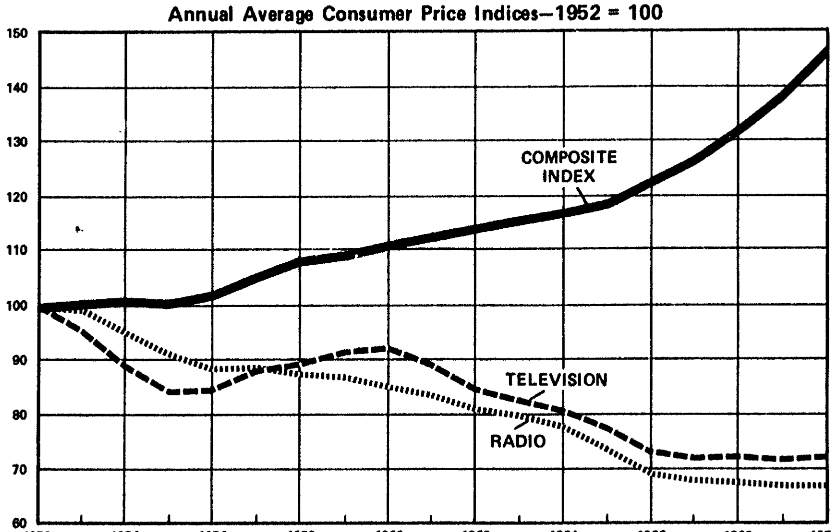

*1966 Estimated

U.S. MARKET FOR PHONOGRAPHS-PORTABLE & CONSOLES
1960 TO PRESENT-FACTORY PRODUCTION
U.S. PRODUCED AND IMPORTED*UNITS PER QUARTER




* 1966 Estimated

TRENDS IN RADIO AND TELEVISION CONSUMER PRICES
COMPARED WITH GENERAL PRICE LEVELS
Annual Average Consumer Price Indices—1952 = 100




Source: U.S. Dept. of Labor, Bureau of Labor Statistics

Senator RIBICOFF. With the committee's indulgence we will call one more witness so we won't have to come back this afternoon. It has been a long day.

## STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. DANIELIAN. I want to express my admiration for your patience and for your effective conduct of the meeting and I am not going to impose on you any further because I am sure you gentlemen are hungry and weary. I would like to ——

Senator RIBICOFF. Your entire statement will go into the record.

Mr. DANIELIAN. All right.

Senator RIBICOFF. Not only the summary but your entire statement will go in the record as if read so please give us the benefit of your basic observations.

Mr. DANIELIAN. I am merely going to point out the recommendations we make. I think the problems have been quite thoroughly aired this morning, and these recommendations relate to our trade policy.

On trade policy, gentlemen, we feel that we should be prepared to change from an unconditional to a conditional most favored nation principle, namely amend section 251 of the Trade Expansion Act of 1962, making access to our markets conditional on the granting of reciprocity and national treatment to our interests in their market.

Along with that we would like to see section 257 changed. This is the retaliatory section of the act, to include not only agricultural but all products.

At the same time we feel that GATT gives us sufficient authority in light of the present economic and balance of payments difficulties of the United States to invoke articles XII and to start negotiating. Article XII has the advantage that it does not give other countries the right to retaliate. And furthermore it can be temporary if we reach satisfactory agreements with the other nations, by executive action the application of article XII can be terminated.

It is to be hoped that the invocation of article XII would lead these nations to negotiate on such things as a division of mutual security lecturing the United States authorities on the severity of our balance- and finance ministers have laid the groundwork over the past year lecturing the United States authorities on the severity of our balance-of-payments situation. We don't need to prove to IMF that we are in a difficult balance-of-payments situation. They have proved it for us and there should be no difficulty in finding the logical grounds for the innovation of article XII.

On foreign aid, our basic studies have shown—and I want to acknowledge here, Mr. Best, of your committee who was in large measure involved in these studies before he was with your committee—indicate that the principal cause of the balance-of-payments deficits are the foreign aid and military expenditures.

If you look at table 1 at the end of our statement, you will find that the private account has always been in balance and the Government account has always been in deficit year after year.

The accumulated deficits, the liquid liabilities outstanding, are really equal to, by and large, the total out of pocket Government expenditures in foreign exchange for aid and military costs.

In this respect I disagree with Secretary Connally. The same thing is true with regard to private investments. The private accounts including capital outflows and income flow have also been in balance; so you cannot blame private investments, and you cannot blame the private sector of the international transactions, as being responsible for the balance-of-payments deficits. Therefore, we have come to the conclusion that in foreign aid it is really untimely to untie it as proposed by the Administration at this time, and the internationalization of foreign aid is in effect untieing foreign aid.

In other words, we do not have dollars to lend to other countries. We have to borrow dollars from Japan and Germany in order to lend, say, to India and Brazil, and then they turn around and buy their products on their untied condition from Japan and Germany, and we go round and round and build up our liabilities without getting the business.

We have unused capacity and unemployment in this country, and we can afford to give foreign aid and we can possibly increase it, but it has got to be in kind, in terms of goods and services.

It cannot be in dollars because we haven't got surplus dollars to give away. So, Mr. Chairman, I recommend that both in international izing foreign aid and in considering the Administration's program of untieing, attention be given to this particular aspect which is one of the contributing factors to our balance-of-payments deficits.

There has been much criticism of the multinational corporation. We seem to be caught in the contradictions of our policies in defense, aid, and trade. I think the implication that the international or multinational corporations are responsible for our import situation or for export of jobs is overstated. For instance, in the automobile field last year we had 1,321,000 foreign cars imported. Only 123,299 were products of American subsidiaries abroad. The rest of them were in Volkswagens, Fiats, and Toyotas and so forth, so it is not the question of ownership that matters.

I think we seem to confuse in the discussion of trade the question of trade policy and the differential cost between countries, and the question of who owns the plants. American companies, as you just heard, are forced to go abroad in order to keep in business to be competitive. But if Zenith doesn't go to Taiwan, a Japanese firm will be going to Taiwan and exporting the product back to the United States anyway, so we must not confuse the discussion because the multinational corporations have been earning money for us—in total, I think about $17 billion in foreign investment income and also in exports that they send to their own affiliates.

About 25 percent of our total exports are accounted for by the multinational corporations who service their foreign affiliates, and all the statistical evidence is that the import problem that you may be concerned with is not caused by the multinational corporation, not U.S. multinational corporation, they are caused mostly by foreign-owned enterprises.

Now, I think it is very important to understand this because you are not going to solve the problem by shackling the multinational corporations and trying to keep them at home. That will merely lose us more income and worsen our balance-of-payments position.

Finally, we recommend, since security costs are fundamental to this problem, the creation of an International Security Fund. Now we have an International Development Association for sharing of foreign aid costs with other nations. We have an International Monetary Fund for monetary stability. But we have found out now historically that security expenses are responsible for a large part of this instability in the monetary field. That being the case, why not create an International Security Fund for a sensible division of costs of mutual security, the foreign exchange components of mutual security.

We are glad to see that the Council on International Economic Policy has been established, but still this is somewhat short of what we hope for. As you might recall our organization has been recommending this for the last 3 years. I thing we need something with a really longer range perspective, rather than another agency among existing executive departments, and we propose therefore that you create by legislation a Foreign Economic Policy Board which will have the professional qualifications of, say, the Council of Economic Advisors, but longevity and long tenure of, say, the Federal Reserve Board, straddling the different administrations and hopefully non-partisan or bipartisan in composition, so that they can focus on the long range interests of the United States without being swayed by transitory factors.

I just came back from Europe last Tuesday. I was in Paris on the day the markets were closed on the dollar, and I can assure you that it is a sobering experience to realize that with dollars in your pocket, if they didn't accept them you may not be able to buy a hotel room or a meal and you may have to end up in the park.

There are two issues in this situation at the present time that seem to get confused. One is, of course, the continuing balance-of-payments deficits of the United States; and the other one is the Eurodollar market. Now, we do not share the idea of benign neglect on the first. You cannot have benign neglect when a country like ours continues, year by year, living beyond its means in its relations with the external world, but we feel that the proposals of variable exchange rates will not solve this problem.

For this reason, in the case of the balance-of-payments deficits, since they are caused by the fixed expenditures of the Federal Government abroad, a devaluation of the dollar is merely going to increase the dollar costs of these expenditures and our liabilities, actually, our balance-of-payments deficits, are going to increase rather than diminish as a result of the devaluation.

And certainly variable exchange rates or devaluation are not going to do anything with the $50 billion Eurodollar market. That is now a rather serious problem for international central bankers to deal with.

Senator RIBICOFF. You don't agree with Secretary Connally that this is not a great problem?

Mr. DANIELIAN. Not at all, sir.

Senator RIBICOFF. You think it is a big problem?

Mr. DANIELIAN. In my statement I emphasize this part because it is a separate problem from the balance-of-payments deficit problems. In other words, it was created by the balance-of-payments deficit over the last 20 years but now it is here, it is half owned by central bankers, and the other half by private individuals.

It is mostly invested in short term funds, and they are sloshing from country to country like dropouts from society trying to get a quick capital gain or an interest rate differential.

Here we have a pool of capital and what use this pool of capital is going to be put to should be the subject of very serious discussion among us first, and I hope the Treasury will not only consult bankers but also industry people because this pool of capital can be used for a number of things. It can be used for public works, to finance Government deficits, it can be used to finance housing, foreign aid, or the World Bank.

Now what this pool of capital is going to be put to is most important really as to the direction that western countries are going to take. Up to this time they have been used for short term gain on short term paper and this is why we have this sloshing around in the international markets, creating these unsettling conditions.

It seems to me that the Treasury Department must come up with a constructive program for the utilization of these funds.

Senator LONG. Might I just interrupt one moment to say. Dr. Danielian, I have to depart at this time but I think you have made a magnificent statement. I am going to take your full statement together with your table home with me and study them tonight.

Thank you.

Mr. DANIELIAN. Mr. Chairman, that about ends my presentation. I will be glad to come back.

Senator RIBICOFF. I think you have made a very good statement too and you have raised some very provocative issues. We are very glad to have them because I do believe it will be a very important contribution to the record and my apologies to you for putting you on so late, but you were here and I wanted to give you this opportunity.

Mr. Danielian, we might want to call you back at some other time. We will be in touch with you.

Mr. DANIELIAN. I will be glad to discuss this problem with the subcommittee.

Mr. Danielian, we might want to call you back at some other time. page 167.)

SUMMARY OF STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

These hearings are most appropriately timed. The so-called dollar crisis in Europe, the pending Mansfield amendment, the British-EEC negotiations in Brussels, the unresolved trade policy debate in the United States, the mounting attacks on multinational corporations, the discussions of exchange rate flexibility as a means of trade adjustment, the tentative gestures toward more trade with Communist countries, even with China—all these underscore the validity of the chairman's thesis that geoeconomics has moved to front stage.

We have tried to comment on these subjects comprehensive in a fairly length statement which I would like to offer for the record. Here, I propose briefly to focus on a few key issues.

THE U.S. BALANCE-OF-PAYMENTS DEFICIT

The theory of "benign neglect," implying that this country can do anything it wishes at home and abroad without worrying about the consequences or the reactions of our creditors, is patently absurd. Our balance-of-payments deficit means that each year we are financing several billion dollars' worth of such activities as troop deployments, foreign aid grants and even imports for consumption and tourism abroad by borrowing from foreign sources. If our creditors one day should refuse to lend us money, then what would we do?

I was in Europe on May 5 when several of the European central banks suspended purchases of American dollars. It is a sobering feeling to have dollars in your pocket and yet suddenly realize that if nobody would accept them for a meal or a hotel room, you would be out in the park.

There is a current fad in this country of urging flexible exchange rates or revaluation of other currencies—that is to say, a de facto devaluation of the dollar—as a solution to American balance of payments deficits. As with benign neglect, this too overlooks the consequences. Revaluation can only increase both our budgetary and balance of payments costs. The 1969 revaluation of the Deutsche mark by 9.3 percent has cost us an extra $100 million in our troop costs each year. The same will happen to our Pacific military expenditures if the Japanese yen is revalued.

It may be said that flexible rates or de facto devaluation of the dollar would increase exports and diminish imports, offsetting these added costs and more. To solve the problem, we would have to earn an additional $3 to $5 billion each year through increased exports and reach a trade surplus of some $6 to $8 billion a year. Realistically, who is going to buy that much more from us on a unilateral basis in order to compensate for our military and foreign aid expenditures? Will revaluation of a few currencies yield results of such magnitude? I don't think so. Academic economists are tilting at quixotic windmills with this unrealistic concept.

THE EURODOLLAR MARKET

Nor would flexible exchange rates make any real dent in the problem of the $50 billion Eurodollar market. It is more likely that Europe will have to move in the direction proposed on the weekend of May 8–9 in Brussels by the French and the EEC Commission—that is, strict controls on access to the Eurodollar market.

The U.S. Government should be in the forefront of proposing means for the orderly and useful employment of Eurodollar funds for worldwide economic development on a nondiscriminatory basis. It is tragic that in a world, most of which is starving for capital, the billions in the Eurodollar market should be allowed to act as "dropouts" from society, skittering from country to country for short-term, 1 or 2 percent interest differential. Central bankers, instead of acting merely as money changers, should assume the role of economic statesmen and find the institutional means for putting this pool of capital to work on long-term investments in economic development through private and public media.

EUROPEAN VIEWPOINT

Since 1963, my colleagues and I have made annual surveys of European opinion about the United States and the status of the dollar. I have been repeatedly impressed by the analytical brilliance of European bankers and economists. And they apply this brilliance to defending the interests of their own countries.

Generally, they attribute our deficits to U.S. fiscal and monetary policies, the resultant inflation and to U.S. capital investments abroad. Although this may serve to justify the actions they recommend, they have the wrong facts.

Our studies on this subject, going back to World War II, have convinced us that the basic balance-of-payments deficits of the United States, if you eliminate cosmetic arrangements in the statistics and temporary shifts of funds, have very nearly equalled the U.S. Government's foreign exchange expenditures abroad for military purposes and foreign aid. In contrast, the private commercial and financial transactions of the United States, including both capital outflows and the earnings thereon, have either been in balance or have earned a surplus.

As their analysis is wrong, the remedies European bankers and economists recommend are inapplicable. In Switzerland and France some would like to see gold revalued. What sense is there in increasing the price of gold—most of which is held by the very countries complaining of excess liquidity? It is said this action is needed for psychological reasons. Let us call it what it is: An attempt to earn a quick capital gain at U.S. taxpayers' expense.

Inflation is often blamed for our payments deficits because of its "pulling" effect on imports. Hardly a country in the world today has a lower rate of inflation than the United States. The remedy some Europeans propose is high interest rates and U.S. deflation. We tried this in 1969 and 1970, with results that we like to forget and hope to correct. It is unrealistic of Europeans to expect the United States to suffer a deflation and unacceptable rates of unemployment, particularly when, as we learned, such action will not diminish or offset the balance-of-payments deficits.

In private conversations, however, one can find many enlightened Europeans who realize that the deficits are due to troop deployments in Europe and the Far East, the Vietnam war and foreign aid grants—much of which is given for security reasons. They also realize that if the United States did not have to bear these burdens unilaterally, they would not be suffering from a dollar glut. Some are candid enough to say that we should demand more of them.

## TRADE POLICY

I supported the various reincarnations of reciprocal trade legislation during the late 1940's and 1950's. Then I could understand the emphasis on unconditional most-favored-nation principle and the necessity for giving unilateral concessions, because this was a period of economic reconstruction for Western Europe and Japan.

The general agreement on tariffs and trade (GATT), negotiated in 1948, was understandably biased in favor of countries needing our help: The grandfather clause, continuing the British Commonwealth preference system, and the authorization for common markets and free trade areas in the interest of Western European unity—both were clear denials of the unconditional most-favored-nation principle.

Statemanship requires not only generosity, but also the ability to recognize the turning points of history. I am afraid our insights have not been too sharp; we have missed the turns.

The EEC may soon be expanded beyond the original six to include Britain, several other members of EFTA and, by association agreements, former African dependencies, the Caribbean Islands, and most Mediterranean basin countries. This expansion will create an enormous discriminatory trading bloc which was never contemplated during the negotiation of GATT and which is inconsistent with GATT's underlying philosophy. We are told to be patient because the enlarged community, when it is established, will be willing to negotiate with us a more outward-looking trade policy.

Mr. Chairman, I take this with a grain of salt. We really have only three choices: We can accept the situation and let bad go to worse in our balance of trade and payments; we can exercise our rights by enforcing compensatory adjustments or taking retaliatory action under GATT—which, however, the executive branch has opposed; or, we can amend section 251 of the Trade Expansion Act of 1962, changing the unconditional most-favored-nation principle to a conditional basis—that is, conditioned on reciprocity and national treatment. In this case, the retaliatory authority of section 252 should be expanded to include all categories of commodities. At the same time, we should create authority to negotiate tariff and other trade barriers with all countries and trading blocs.

Such changes would put the United States in a better bargaining position vis-a-vis other key developed countries and blocs to achieve reciprocal liberalization of trade.

The United States has another alternative: it can invoke article XII of GATT which gives any country power, after consultation with other countries and the IMF, to impose quotas on a temporary basis to rectify a serious balance of payments deficit. The advantage is that these measures can be revoked anytime and do not give rights to other countries to retaliate.

The European central bankers and government ministers have laid the groundwork for the invocation of article XII by their continuing complaints about the so-called "dollar glut" stemming from our persistent balance of payments deficits. It is to be hoped that the invocation of article XII, in principle, would lead to a more rational division of security costs in Europe and Asia and a more receptive policy toward U.S. exports so that restrictive measures would not have to be imposed in practice.

The negotiations which might stem from an invocation of article XII or from a revision of Section 251 of the Trade Expansion Act of 1962 are particularly important with regard to protecting our agricultural markets abroad. The concessions made in the name of European unity during the Dillon and Kennedy rounds of negotiations in 1962 and 1967 close the door to the most competitive and efficient sector of American production. The accession of Great Britain to the EEC will harm our agricultural interests even more.

FOREIGN AID

Another area in which our trade policies have taken a perverse turn is foreign aid. Because of balance-of-payments deficits, President Eisenhower instituted and Presidents Kennedy and Johnson broadened the practice of "Buy American" under foreign aid. European governments and Japan never liked this. Although they accuse the United States of flooding the world with too many dollars, they have been pressing our Government to do away with "Buy American" so they can earn more of these unwanted dollars! With a sense of timing for which "maladroit" is too kind a word, it is now proposed that we internationalize aid and repeal Section 604 of the Foreign Assistance Act, both of which would effectively untie aid.

Mr. Chairman, with our present unemployment and unused plant capacity, we can give aid and even increase it in terms of goods and services, but we simply do not have dollars to lend so they can be spent abroad, perhaps in Germany and Japan, from which we are forced to borrow.

THE MULTINATIONAL CORPORATION

The multinational corporations are caught in the contradictions of our policies in defense, aid, and trade. Their alleged sins are now being decried among academics, certain spokesmen of labor and even in ministerial conferences in Europe. These corporations are accused of exporting jobs; but they seldom receive credit for the jobs they create from exports—as in fact they produce one-fourth of the total U.S. exports with their shipments to their overseas affiliates.

The implication that "run-away" U.S. companies serve the U.S. market with cheap, foreign labor simply is inaccurate in all but a few cases. To take one example: Of the 1,321,000 foreign cars imported during 1970, only 123,299, or 9.3 percent, were made by U.S. subsidiaries abroad. The rest were Volkswagens. Toyotas, Fiats and the like, all produced by foreign-owned companies. In the case of the 13 million short tons of iron and steel imported during 1970, hardly any could be attributed to American-owned subsidiaries abroad.

If all U.S. investments abroad were suddenly eliminated, the United States would be worse off by nearly $17 billion in its international receipts, two-thirds in exports and one-third in investment income, not including the $1.5 billion income from royalties and fees. As sympathetic as I am to labor's viewpoint in the matter of employment, I sincerely believe that they are whipping the wrong horse in attacking international or multinational corporations. Most of our imports come from foreign-owned enterprises; and if third country markets could not be supplied by U.S. subsidiaries abroad, they would simply be supplied by foreign competitors.

European opinion tends to blame U.S. direct investments for the balance-of-payments deficits. Everyone talks about the $30 billion of American investments in Europe, two-thirds of which are direct and one-third are in portfolio investments, roughly speaking; but it is rarely mentioned that European investments in the United States are about equal—some $29.5 billion—even though more of theirs are in portfolio investment.

Many people who should know better blame American companies for the recent currency crisis. Multinational corporations are in the business of manufacturing and selling products, not gambling with huge cash reserves. They would not be in business long if they speculated with a magnitude of liquid assets which could shake the foundations of the combined central banks of Europe.

## RECOMMENDATIONS

I would now like to caution about over-reacting to what I see as a "Rip Van Winkle Syndrome." We must not wake up to rush into a protectionist frame of mind, nor shackle the multinational corporation, which is producing much of the world's economic growth, and we must not indulge in meat-ax slashing of foreign aid or defense commitments.

Instead, we need cooly and rationally to set our house in order; to regain, for bargaining purposes, control of access to our own market. We should insist on reciprocity and national treatment for our trade and investments; and to require the applications of international standards of fair compensation for expropriated property as a criterion of our aid. We must get our balance-of-payments under control by insisting that other people do their share in protecting their boundaries, their supply sources and their sea lanes, whether in the Mediterranean, east of Suez or in the Far East.

## AN INTERNATIONAL SECURITY FUND

We have an International Development Association to internationalize the costs of development aid and an International Monetary Fund for monetary stability. Why not an International Security Fund to neutralize the foreign exchange costs of mutual security, which is one of the principal causes of monetary instability? Countries—for example, Belgium, Germany, Italy, and Japan—which are in surplus on the military account and also in overall balance of payments, each year could deposit into such a fund a sum equivalent to the foreign exchange costs of troop maintenance in the common defense. Countries in deficit on the military account—Britain and the United States, for example—could draw upon this fund.

We should therefore negotiate the creation of an "International Security Fund." This would be more decisive in creating conditions of monetary stability than flexible exchange rates and dollar devaluation.

A FOREIGN ECONOMIC POLICY BOARD

The Administration deserves credit for one long-overdue reform—the establishment of a Council on International Economic Policy and the appointment of its Executive Director. But we still need, in my judgment, a longer term focus and a more independent mechanism. Structurally, it should be a combination of the Council of Economic Advisers and the Federal Reserve Board, but with an international mandate, which would be established by statute with a built-in continuity. Such a body—call it a Foreign Economic Board, for example—could present to Congress an annual "foreign exchange budget" which would be a most useful policymaking tool for all concerned with decisions on priorities.

NEGOTIATIONS ON EURO-DOLLAR MARKET

The Euro-dollar market is a huge pool of capital, owned, perhaps half and half, by central banks and private interests. It will continue to be an element of instability so long as it is invested in short term paper and moves from country to country for speculative gains or interest differentials. How these funds are used will make a profound difference to the future of Western society—whether they are used for financing trade, government deficits, public work, World Bank activities, housing or industrial development through private corporations. The United States has a vital stake in this question. We cannot afford to stand aloof from what happens on this front in Europe.

In short, gentlemen, we must start acting like other people in preserving our vital interests. We have a "Nixon Doctrine" for security affairs. But we need to apply this burden-sharing philosophy to economics as well as manpower.

Perhaps in time our allies will find among themselves a leader who can rise above squabbling politicians to stand as a true world stateman. Such a man might be able to see in 1971 what George Marshall and others saw so clearly in 1947: that circumstances may require short term sacrifices for long term interests. This has been America's philosophy ever since World War II. Now it is the turn of others; and surely our allies have an interest in seeing America restored to a post-Vietnam mental health and a balance of payments economic health so that we can resume our place in the front ranks of those trying to produce a livable world for the next generation.

## Statement of Dr. N. R. Danielian, President, International Economic Policy Association

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## I. Introduction

These hearings are most appropriately timed. The so-called "dollar crisis" in Europe, the pending Mansfield Amendment, the British-EEC negotiations in Brussels, the unresolved trade policy debate in the United States, the mounting attacks on multinational corporations, the discussions of exchange rate flexibility as a means of trade adjustment, the tentative gestures toward more trade with Communist countries, even with China—all these underscore the validity of the Chairman's thesis that geo-economics has moved to front stage.

Our organization was established in 1957, soon after the first Sputnik went up, on this same perception, namely that military power in the nuclear age would soon lead to a stalemate, and that economic policies would become one of the major instruments of National survival.

Unfortunately, in a large democratic country like ours, there is a time gap between the first perceptions of a problem and public and official reaction. In the past decade, the United States has been going through a transition in both its military and economic posture, but has been acting as if there were no change in the conditions, and hence no need for a change in policies.

The problems that have come to the front page in the past year or two have been with us for a long time. All the major elements of the recent dollar crisis in Europe—accumulating balance-of-payments deficits against dwindling reserves—have been developing for a decade. So has the Eurodollar market, a creation of this cumulative deficit, which is a $50 billion pool of uncontrolled liquidity.

The theory of "benign neglect," implying that this country can do anything it wishes at home and abroad without worrying about the consequences or the reactions of our creditors, is patently absurd. Our balance-of-payments deficit means that each year we are financing several billion dollars' worth of such activities as troop deployments, foreign-aid grants, even imports for consumption and tourism abroad, by borrowing from foreign sources. If our creditors one day should refuse to lend us money, then what would we do?

I was in Europe on May 5 when several of the European countries suspended purchases of American dollars. I can assure you that it is a sobering feeling to have dollars in your pocket and yet suddenly be confronted by the fact that if nobody would accept them for a meal or a hotel room, you would be out in the park!

On the other hand, European bankers and economists have a narrow view of the causes of the U.S. balance-of-payments deficits and the dollar glut. Any they offer equally unrealistic solutions. They generally attribute the causes to U.S. fiscal and monetary policies and resultant inflation, and to U.S. capital investments abroad. They are wrong on both counts. These factors may have aggravated the statistics in some years, but the basic causes of the deficits lie elsewhere.

In 1964, for instance, when our trade surplus was $6.6 billion, we still had $2.8 billion in deficits on a liquidity basis. Our studies on this subject, going back to World War II, have convinced us that the basic balance-of-payments deficits of the United States—eliminating cosmetic arrangements in the statistics and temporary shifts of funds—have very nearly equalled the U.S. Government's foreign-exchange expenditures abroad for military- and foreign-aid purposes. In contrast, the private commercial and financial transactions of the United States, including both capital outflows and the earnings thereon, have been in balance or earned a surplus.

If the European analysis is wrong, the remedies they recommend will be inapplicable. Some in Switzerland and France would like to see gold revalued. When they are complaining about excessive liquidity and the export of American inflation, what sense is there in increasing the price of gold—most of which is held by the very countries complaining of excess liquidity?

Inflation is often blamed for our balance-of-payments deficits because of its "pulling" effect on imports. Hardly a country in the world today has a lower rate of inflation than the United States. And here the remedy some Europeans propose is high interest rates. We tried this in 1969–70 with results that we like to forget and hope to correct. It is certainly unrealistic of Europeans to expect the United States to suffer a deflation and unacceptable unemployment in order to maintain the value of the dollars they hold.

In private conversations, however, one can find some enlightened Europeans who realize that the deficits are due to troop deployments in Europe and the Far East, to the Vietnam war, and foreign-aid grants—much of it given for security reasons. They also realize that if the United States did not have to bear these burdens unilaterally, Europe would not be suffering from a dollar glut. They recognize that no deflationary policy, and no interest rate policy could intrinsically alter these basic costs abroad.

American economists also have proceeded from wrong premises to wrong conclusions. This is the case with the "voluntary" controls on direct private investments, instituted in 1965, which soon became mandatory and are still in force, although advertised as "temporary." These controls have handicapped American business while hurting our balance of payments in the long run and merely introducing artificialities in the short run. Moreover, we have gotten into the absurd position of applying the "Trading with the Enemy Act" to our NATO allies!

There is not a fad of urging flexible exchange rates or revaluation of other currencies, that is to say, a de facto devaluation of the dollar, as a solution to American balance-of-payments deficits. As with "benign neglect," this overlooks the consequences. As far as the foreign exchange cost of our widespread defense deployments is concerned, revaluation can only increase both our budgetary and balance-of-payments costs. The 1969 revaluation of the deutsche mark by 9.3 percent has cost us an extra $100 million a year in our troop costs. The same would apply to the Japanese yen, if revalued. On the defense account, the only solution I can see is a responsible program for joint sharing of foreign exchange costs.

The belief that flexible exchange rates or revaluation of other currencies will turn the trick on our commercial transactions is a hangover from classical international trade theory. Unfortunately, this is not applicable to a world where the classical model of competition, free trade, and mobility of capital and labor simply does not apply. To solve the problems by exports, we would have to earn $4 to $6 billion more per year in increased exports, raising the trade surplus to $6 or $8 billion a year. Realistically, who is going to buy that much more from us on a unilateral basis so as to compensate for our military and foreign-aid expenditures?

If the EEC and Japan should revalue their currencies by, say, 5 to 7 percent—an unlikely prospect—would our imports from them really diminish and our exports to them increase so substantially that we could produce this order of improvement in our trade surplus? The less-developed countries are clients for foreign aid and hardly in a position to give us a unilateral trade advantage. The Eastern bloc countries are interested in balancing their trade accounts and in obtaining long-term credits form the West.

Nor would flexible exchange rates make any real dent in the problem of the multibillion dollar Eurodollar market—which, as I have noted, has been created by America's cumulative payments deficits. This pool of liquidity will tend to slosh over national boundaries and financial controls as, indeed, none other than Dr. Otmar Emminger of the Deutsche Bundesbank stated in a response last week to questions from the Washington Post. Flexible exchange rates might make this situation even worse, by encouraging speculation. One result of the recent crisis may be a concerted attempt by the European central banks to "control" the Eurodollar market by one means or another, even if this involves capital controls. The U.S. Government should be in the forefront of proposing means for the orderly and useful employment of the Eurodollar funds for worldwide economic development on a nondiscriminatory basis.

It is tragic that in a world most of which is starving for capital, the billions in the Eurodollar market should be allowed to act as "drop-outs" from society, skittering from country to country for short term 1 or 2 percent interest differentials. Central bankers, instead of acting as money changers, should assume the role of economic statesmen and find the institutional means for putting this pool of capital to work on long-term investments in economic development through private and public media.

Turning now to our trade policy, we have also suffered from a delayed perception of basic changes. I personally supported the various reincarnations of reciprocal trade legislation during the late 1940's and 1950's. Then I could understand the emphasis on unconditional most-favored-nation principles and the necessity for giving unilateral concessions because this was a period of economic reconstruction for Western Europe and Japan.

The General Agreement on Tariffs and Trade (GATT) was negotiated in 1948 and was understandably biased in favor of countries needing our help, such as the "grandfather clause" continuing the British Commonwealth preference system and the authorization for common markets and free trade areas in the interest of Western European unity, albeit they were clear denials of the unconditional most-favored-nation principle.

Statesmanship requires not only generosity but also the ability to see the turning points in history. I am afraid our insights are best described as shortsighted when we get ourselves into a position where, as today, we have to borrow money from Japan and Germany, some to give it away as foreign aid, and some to help pay for their defense; and then we urge them to depreciate our currency so that we can keep on doing the same old things in the same old ways.

The EEC may soon be expanded beyond the original six to include Britain and several other members of EFTA, and by association agreements, former African dependencies, the Caribbean islands, and most Mediterranean basin countries. This expansion will create an enormous discriminatory trading bloc which was never contemplated during the negotiation of GATT and is inconsistent with its underlying philosophy.

We are told to be patient because the enlarged community, when established, will presumably be willing to negotiate a more outward-looking trade policy with us. We really have only three choices: we can accept the situation and let bad go to worse in our balance of trade and payments; we can exercise our rights by enforcing compensatory adjustments or taking retaliatory action under GATT—which, however, the executive branch has opposed; or we can amend section 251 of the Trade Expansion Act of 1962, changing the unconditional most-favored-nation principle to a conditional basis; that is, conditioned on reciprocity and national treatment. In this case, section 252, the retaliatory authority, should be expanded to include all categories of commodities. At the same time, we should amend section 211 to extend the authority to negotiate tariff and other trade barriers to include countries and trading blocs besides the EEC.

Such changes would put the United States in a better bargaining position vis-a-vis other key developed countries and blocs. We would be in a stronger position to insist on reciprocal liberalization of trade.

The United States has another remedy: It could invoke article XII of GATT, which gives any country power, after consultation with other countries and the IMF, to impose quotas on a temporary basis to rectify a serious balance-of-payments deficit. The advantage is that these measures can be revoked anytime and do not give rights to other countries to retaliate.

The European central bankers and government ministers have laid the groundwork for the invocation of article XII by their continuing complaints about the so-called "dollar glut" stemming from our persistent balance-of-payments deficit. It is to be hoped that the invocation of article XII, in principle, would lead to a more rational division of security costs in Europe and a more receptive policy toward U.S. exports so that restrictive measures would not have to be imposed in practice.

The negotiations which might stem from an invocation of article XII, or a revision of section 251 of the Trade Expansion Act of 1962, are particularly important with regard to protecting our agricultural markets abroad. The politics of the European farm bloc have created one of the most onerous trade barriers in the form of variable levies. The concessions made in the name of European unity during the Dillon and Kennedy Rounds of negotiations in 1962 and 1967 close the door on the most competitive and efficient sector of American production. With the accession of Great Britain to the EEC, the harm to our agricultural interests will be even greater. In short, events have conspired to prevent the theory of comparative advantage from being applied to the United States in the one area where it would definitely work to our advantage.

We have thus managed to create for ourselves through retarded cognizance a curious position: The most productive nation in the world is becoming the "least-favored-nation" in international trade! The United States cannot sustain the enormous responsibilities resting upon it in the world by continuing in such a supine position.

Another example is foreign aid, where we are currently borrowing billions in Europe to give it away to Latin America and other countries so that they can expropriate American investments with it or buy what they wish in Japan and Europe. With a sense of timing for which "maladroit" is too kind a word, we are proposing to "untie" U.S. aid at a time when the Europeans and Japanese ought to be collecting their unwanted dollars and making them available to the less-developed world as a part of a balance-of-payments "moratorium" on the U.S. contributions.

The multinational corporation has become the scapegoat caught in the contradictions of our policies in defense, aid and trade. Its alleged sins are now being decried among academics, certain spokesmen of labor, and even in ministerial conferences in Europe. The multinational corporations are accused of exporting jobs; but they seldom get credit for the jobs they create from exports—and in fact they produce one-fourth of the total U.S. exports with their shipments to their overseas affiliates.

The implication that "run-away" U.S. companies serve the U.S. market with cheap foreign labor is simply inaccurate in all but a few cases. To take one example: of the 1,321,000 foreign cars imported in 1970, only 123,299, or 9.3 percent were made by U.S. subsidiaries abroad. The rest were Volkswagens, Toyotas, Fiats, and the like, all produced by foreign-owned companies. In the case of the 13 million short tons of iron and steel imported in 1970, hardly any could be attributed to American-owned subsidiaries.

The problem is one of cost differentials and not of ownership, and the continual use of the multinational corporation as a scapegoat merely diverts attention from real issues. If all U.S. investments abroad were suddenly eliminated, the United States would be worse off by nearly $17 billion in its international receipts, two-thirds in exports, and one-third in investment income, not including the $1.5 billion earned from royalties and fees. As sympathetic as I am to labor's viewpoint in the matter of employment, I sincerely believe that they are whipping the wrong horse in attacking international or multinational corporations. Most of our imports come from foreign-owned enterprises; and if third country markets could not be supplied by the U.S. companies abroad, they would simply be supplied by foreign competitors. The idea that if we could only shackle American companies and keep them at home, the foreign markets would be supplied from here, at prices that may be 20 or 30 percent higher than foreign prices, plus shipping costs, is simply an illusion.

Everybody talks about the $30 billion of American investments in Europe—two thirds direct, one-third in portfolio investments, roughly speaking—but one rarely finds it mentioned that European investments here are about equal, some $29.5 billion, even though more of theirs is in portfolio investment.

Having just spent 3 weeks in Europe, I am astounded that so many people who should know better take out their frustrations—over the recent currency crisis, for example—by blaming American companies. Multinational corporations are in the business of manufacturing and selling products, not gambling with huge cash reserves. They would not be in business long if they maintained a magnitude of liquid assets which could shake the foundations of the combined central banks of Europe. And to the extent that responsible corporate treasurers do try to avoid losing money (and their jobs) by being caught with too much of a weak currency at the wrong time, they follow rather than lead the European speculators—among whom one must number some of the leading public and private banking institutions. One cannot help noting that to the extent there are temporarily unemployed capital balances in Europe, they very often result from the artificial requirements of America's foreign direct investment controls—whose removal is opposed by many Europeans!

If there is any American blame for the dollar crisis, it should attach not to our cupidity but to our stupidity. By that I mean failure to negotiate realistic solutions to the problems I have cited with our European and other allies.

What can we do about all this? As one who has sometimes been criticized for crying "wolf" about the U.S. economic position in the world, I would now like to caution about over-reacting to what I see a "Rip van Winkle syndrome." We must not wake up to rush into a protectionist frame of mind, nor shackle the multinational corporation which is producing much of the world's economic growth, and we must not indulge in meat-ax slashing of foreign aid or defense commitments.

Instead, we need coolly and rationally to set our house in order. We need to regain, for bargaining purposes, control of access to our own market. We should insist on reciprocity and national treatment for our trade and investments; and to require the applications of international standards of fair compensation for expropriated property as a criterion of our aid. We must get our balance-of-payments under control by insisting that other people do their share in protecting their boundaries, their supply sources, and their sea lanes, whether in the Mediterranean, east of Suez, or the Far East.

In short, gentlemen, we must start acting like other people—like Germans and Japanese, like Frenchmen and Britons and Russians in preserving our vital interests. We have a "Nixon Doctrine" for security affairs. But we need to apply this burden-sharing philosophy to economics as well as manpower.

Let me be quite clear on this: America cannot opt out of its special interests and responsibilities in aiding the developing countries. We can make substantial contributions of goods and services. But no substitute instead an "untying" of aid and a shift to international institutions, merely serves to give away more of the dollars which we cannot afford under a basic balance-of-payments deficit of about $4–$5 billion per year.

Nor do I think we can, or should, withdraw from all of our security commitments. But while these may be in our interest, these are commitments to our friends, as well as deterrents to our enemies, Instead of "offsets" via arms sales, some of which would be bought anyway, and others of which may not be needed, or paper transfers which add—with interest—to our obligations, we should negotiate the creation of "international security fund."

We have an International Development Association to internationalize the costs of development aid, and an International Monetary Fund for monetary stability. Why not a fund to neutralize the foreign exchange costs of mutual security, which is one of the principal causes of monetary instability? Countries—for example, Belgium, Germany, Italy, and Japan—which are in surplus on the military account and also in overall balance of payments, could deposit annually into such a fund a sum equivalent to the U.S. foreign exchange costs of troop maintenance in the common defense. Countries in deficit on the military account, Britain and the United States, for example, could draw upon this fund. The payments would, to be sure, represent an additional tax burden on the citizens of these surplus countries; but it is a burden they can afford, especially given the windfall from our military deficits, and which equity requires that they undertake.

I want to conclude by giving the administration credit for one long overdue reform—the establishment of a Council on International Economic Policy and the appointment of an executive director. But we still need, in my judgment, a longer term focus and a more independent mechanism. Structurally it should be a combination of the Council of Economic Advisers and the Federal Reserve Board, but with an international mandate, which would be established by statute with a built-in continuity. Such a body—call it a foreign economic policy board, for example—could present to Congress an annual "foreign exchange budget" as proposed in a recent bill introduced in the House, which would be a most useful policymaking tool for all concerned in deciding on priorities. Foreign economic policy badly needs to be decompartmentalized, both in our own Goverment, to give the President control of the levers of power, and in our international negotiations.

Perhaps our allies will find among themselves a leader who can rise above squabbling politicians so as to be a true statesman. Such a man might be able to see in 1971 what George Marshall and others saw so clearly in 1947: That circumstances may require short-term sacrifices for long-term interests. This has been America's philosophy ever since World War II. Now it is the turn of others; and surely our allies have an interest in seeing America restored to a post-Vietnam mental health and a balance-of-payments economic health, so that it can resume its place in the front ranks of those trying to produce a livable world for the next generation.

## II. The U.S. Balance of Payments

The United States has had a sizable liquidity deficit in its balance-of-payments since 1958 and, for several years, on an official settlements basis. The several currency crises of the last 2 years show that the liquidity measure is a good indication of the potential danger to the dollar—a danger which manifested itself most recently through the massive speculation on May 3, 4, and 5. Based upon a detailed breakdown of the U.S. payments deficits, our figures indicated that the Government sector has been in consistent deficit while the private sector has had to struggle to finance the Government spending abroad. The margin of its failure to do so is the U.S. deficit.

### THE PUBLIC AND PRIVATE SECTORS

Table 1* shows a breakdown of the Government and private sectors in the balance and payments. We have two balances of significance: The basic balance, which includes only long-term transactions; and the total balance (liquidity basis excluding some special Government cosmetic transactions), which includes long-term and all short-term transactions. As can be seen in the basic balance, the private sector has been in surplus and the Government sector in deficit for all years. On the overall balance, the private sector has held its own in near balance or surplus for all years except 1969. However, the deficit in 1969 represents the short-term circular flows associated with heavy Euro-borrowing by the U.S. citizens because of the tight money conditions here. The Government sector was in deficit for all years.

*P. 152.

Looking further into the Government sector deficits, one can see clearly that our military and foreign aid expenditures are responsible for them. Net military expenditures were in deficit by $3.4 billion in 1970 and the net dollar outflow from all U.S. Government aid programs equalled --$700 million. Thus, deficits of $4.1 billion were accounted for by these two government categories.

### PRIVATE OVERSEAS INVESTMENT

United States direct private investments have played an important role in financing U.S. Government expenditures abroad. Table 2* shows that U.S. direct investments have returned more in repatriated income in each year than they have sent abroad in capital outflows. Without continued investments abroad, the U.S. balance-of-payments would suffer.

### TRADE TRENDS

Trade flows, as evidenced by Tables 3 to 12**, show that since 1964 substantial shifts have taken place. Our nonagricultural surplus has slipped from a $4.4 billion surplus to a deficit of $1.24 billion in 1969. This major shift has taken place in our trade with Canada, the EEC and Japan. We are also losing in that part of the world where we have pumped billions of dollars in foreign aid and military expenditures—East and South Asia.

On the other hand, our agricultural trade surplus has usually given the United States a favorable overall trade balance. Without our sizable agricultural exports to the EEC and Japan, the United States would be in a more critical situation. Japan, our own Department of Agriculture reports, is stepping up its efforts to diversify its sources of food supply, and the EEC, especially after enlargement, represents a threat to our wheat, corn, oil cake and oil seed exports.

In individual commodity groupings, the U.S. trade balance has shifted substantially. The deficit in our oil import/export relationship has reached $2.3 billion; in automobiles and parts, it is $1.9 billion; in certain manufactured goods including textiles and footwear, $5.6 billion; and in food and related products including beverages, $1.2 billion. Some of these major categories were in surplus in 1961, others were in deficit by up to $1 billion, but when a product grouping (such as "other manufactured goods" including textiles and footwear) shifts from a $768 million deficit in 1960 to a $5.6 billion deficit in 1970, then the time has come for a practical re-evaluation of the situation.

### THE STATISTICAL PITFALLS

It should be remembered that there are two measures of the U.S. trade balance. One balance shows that in 1969 we had a $63 million surplus and in 1970 a $2.185 billion surplus. This includes Government-financed aid and Public Law 480 exports. If we net out these U.S. Government-financed exports, as Senator Long, for one, has recently urged, the result is the purely commercial trade balance which is a better measure of our competitiveness. It shows a continuous deficit since 1967. For 1969 the commercial trade balance was in deficit by $2.459 billion and in 1970 the deficit amounted to $841 million.

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*P. 153.
**Pp. 154–158.

### AID POLICY AND THE DEFICIT

U.S. aid policies also add to the balance-of-payments deficits. We are a debtor Nation and no longer earn enough foreign exchange to give away dollars—as opposed to goods and services. To do so, in effect, we have to borrow the dollars in Europe—paying interest of course; then many of those dollars are given to developing countries, finding their way back in trade channels to European central banks. Then the United States has to borrow them back again because of "dollar glut" in Europe! U.S. aid policies over the last 8 years have been centered on a "buy American" and additionality principle. Former AID Administrator Gaud has testified that tied aid has earned $500 million annually and additionality has earned up to $45 million. The present AID staff has used the appeal of "buy American" to sell the aid program to American business. Yet the Administration's new International Development Assistance bill, now before Congress, proposes to do away with the requirement for U.S. procurement completely! Already, by administrative action, many aid expenditures are untied.

In addition, the President's policy of internationalizing aid by channeling more money through the international banks will untie U.S. funds because, by their charter provisions, no purchases made through these institutions can be tied. The hope is that the United States will improve its share of procurement under the programs of the various international institutions through reciprocal untying by other donor countries. Experience suggests this is a dim prospect. The U.S. share of the World Bank's International Development Association procurement has been under 16 percent, compared with our contributions of 37.5 percent; the figure is believed to be even lower in other institutions such as the Inter-American Development Bank. As far as the OECD's mutual untying is concerned, I find it hard to imagine an American firm actually receiving a fair chance to bid on a contract, say, under a French aid program in Africa, where there was a strong French competitor. In the reverse case, however, an award to the foreign competitor seems more likely. Congress should, therefore, look very carefully at the balance-of-payments implications of the new aid proposals.

### MILITARY EXPENDITURES

We have already referred to the $3.4 billion net deficit last year on the military account. The Senate is already considering Senator Mansfield's amendment—now recast as a separate title of the Selective Service Act—which would deny funds for supporting more than 150,000 military personnel in Europe beyond next December. While this is hardly a "trade" issue, it is part of the overall fabric of our relations with Europe and thus interrelated with the economic questions before this committee. Since the proposal is advanced at this time on a balance of payments basis, I would like to suggest an alternative which will deal with that question without raising strategic military issues.

The problem is primarily in the fact that U.S. forces are stationed abroad rather than at home, thus giving rise to additional distortions in our balance-of-payments deficit via a form of involuntary tourism and off shore procurement. We have tried offset agreements involving military purchases; we have postponed the problem by issuing paper IOUs—most of which add interest payments to our obligations; and we still have a substantial drain on the military account of $1.1 billion a year in continental Europe alone.

I think the time has come to insist with our allies that they must completely neutralize the net foreign exchange loss to the United States on the military account, at least insofar as that loss accrues to their benefit. The simplest and most direct way to do this, in our judgement, is to establish an "International Security Fund." It need be composed of only those countries where the balance-of-payments effect from military activities is significant; but it should certainly include Germany and Japan. Under this concept, countries having an overall balance-of-payments surplus would deposite into this account currencies in the amount earned from countries having a military (and an overall) deficit. Obviously, the more such deficas were offset by military purchases, payment of supporting costs or other means, the smaller would be the liability of surplus countries to the fund. Such a proposal from this Committee would be hard for the Executive Branch to ignore, and might well find acceptance in the present climate of concern over the future of the dollar. I am sure that both the Executive Branch and our allies would vastly prefer this approach to that in some other legislation now before Congress.

### STRUCTURAL REFORMS

The recently established Council on International Economic Policy is a useful step forward as is the appointment of Mr. Peter Peterson as Executive Director. But we still need a longer term focus and a more independent mechanism, a body established by statute which combines the advisory role of the Council of Economic Advisers—but on international economic policy—with the greater independence and long tenure of the Federal Reserve Board. Such a "Foreign Economic Policy Board" could work with the interagency coordinating Council to give the United States a true policy planning capability for international economic problems over the long term, as well as tightened coordination of current policy and implementation at the White House level.

The balance-of-payments issues discussed above underline all our international economic activities, including trade, investment, travel, industrial and property rights discused in subsequent sections, as well as defense and foreign aid. They symbolize the need to reform and decompartmentalize our governmental machinery.

One of the major satutory tasks of this Board should be to submit to the President and the Congress an annual foreign exchange budget for the United States.

We hear less frequently these days the argument that since U.S. exports are only just over 4 percent of the GNP, the imbalance in our international payments is of little significance. Recent events make clear that the proper comparison is not between foreign exchange earnings and GNP, but between what we earn abroad and what we spent abroad. For more than a decade, the U.S. balance-of-payments deficits have continuously run high. This means that many of the things we do abroad are done with money borrowed abroad. And this is one of the factors which has brought on the so-called dollar crisis. To bring our payments in balance, we must either earn more or spend less, and it is vitally important, therefore, that we plan for the future by means of a proposed foreign exchange budget. It should include all estimated foreign exchange earnings and all estimated foreign exchange costs, and the proposed Board and the Council on International Economic Policy should develop programs for bringing them into balance. In this way, the United States will have a tool for sorting out its priorities for the foreign exchange available, without continual increases in U.S. liquid liabilites abroad.

## III. U.S. Trade Policy in a Changing World

### THE RISE OF TRADING BLOCS

The world is changing and the United States must adopt policies to meet the challenge of the changes. The formation of trading blocs has changed the trade intercourse that should naturally evolve from the unconditional most-favored-nation principle. Attention must be drawn to the further enlargement of the European Community by the addition of new members or associates and by special agreements. Formerly at sixes and sevens, Europe is moving to expand the EEC by the addition of Britain and others of the outer seven who have formed EFTA.

Latin America is developing an Andean trading bloc and, slowly, a Latin American Free Trade Association. There is the Central American Common Market and what might be called a de facto "Common Market" formed by the Communist bloc countries. (Actually, it might better be described as a multinational conglomerate, ideologically incorporated.) There is talk that Japan may form a common trading area in the Pacific (PAFTA) and mainland China may become a trading power to contend with by the year 2000.

All of these common markets favor the insiders and tend to discriminate against those on the outside.

These formations of blocs are helpful in the aggregate: to themselves, as they encourage economic growth, and to the trade of the United States with them, as this trade will probably rise. But the U.S. percentage share of th bloc countries' imports has and will continue steadily to decline. This can be called the trade-diverting effects of bloc formation. Table 13 shows that the U.S. share of world trade has declined. The U.S. share of EEC imports, for instance, has declined from over 12 percent in 1958, to 9.5 percent in 1970.

Bloc formation is not to be opposed; but U.S. policy must change in its approach to negotiations with them. We have operated under an unconditional most-favored-nation principle; that is, those concessions given to one country are automatically granted to all contracting parties to the GATT. We negotiate a deal with the EEC on, let's say, auto tariff reduction, where by 1792 we will charge 3 percent on the f.o.b. value while we allow Europe to charge 11 percent and Japan 10 percent on the c.i.f. value.

In addition, we allow negotiations to be completed in the nonagricultural sector alone—a sector in which the United States has been in a trade deficit—while we set aside discussions in the agricultural sector—our primary breadwinner. The Common Market is also in the midst of making "association" agreements, some of which violate in spirit the tenets of the GATT.

### MOST-FAVORED-NATION AND RECIPROCAL AND NATIONAL TREATMENT

There have traditionally been three basic principles in international trade policy: namely, unconditional most-favored-nation treatment, reciprocity and national treatment. The United States, by and large, has adhered to all three of these principles. Unfortunately, however, other countries have not been equally faithful in observing them. The Commonwealth preference system, still tolerated under the grandfather clause of GATT, is a violation of the UMFN principle. The EEC itself, as well as its expansion through new members, associate members, and special agreements, is in violation of UMFN principles, although in part sanctioned by the GATT.

The Communist world, as a trading partner, will simply not accept reciprocity because they say it is against their constitutions. As for the MFN principle, which they wish to be accorded by others, they say they respect it, by excluding everybody! The Communist countries can conform to the national treatment principle, but there is such a difference in the status of individuals between their countries and ours that there is little solace in equal treatment here.

Many countries like Japan are violating the national treatment principle; and there are ideas circulating in the European Economic Commission concerning favored treatment of locally owned companies.

The variable levies on agricultural imports imposed by the EEC, without any compensation, certainly violate the principle of reciprocity. Under force of circumstances, we, too, find ourselves in the position of increasing nontariff barriers, such as quotas, in order to rectify the results of unsatisfactory negotiations of the past, but, nonetheless, in violation of the basic principles of the GATT.

A major proportion of the 1970 world trade of some $278 billion was carried on under conditions that violate these principles of liberal trade.

The principles of GATT, and for that matter of the OECD Conventions—to which Japan is also a party—are being violated right and left; and the so-called liberal trade policy, which has made a religion of the UMFN principle, is increasingly a shambles.

These persistent departures by other countries from the reciprocity and national treatment principles and liberal trade policies, added to high U.S. production costs and an erosion of our technological edge, sharply diminish the U.S. ability to compete in world markets and to earn our way through the sale of exports. The results is a persistent deterioration of U.S. commercial trade from a large surplus to a net deficit. This factor, added to our military and foreign aid expenditures, creates a situation which is antithetical to the freedom of movement of goods and capital, which is the very marrow of multinational enterprise and international growth.

### POSSIBLE REMEDIES

How do we find our way back to a policy of expanding rather than restricting the opportunities for trade? We must regain control of access to the U.S. market, so that in negotiations we can be more successful in obtaining respect for the principles of MFN, national and reciprocal treatment. We can do this by making access to our markets conditional on adherence in practice to these principles by other countries. The application of these principles should not be confined merely to matters of commodity movements, but some encompass investments, repatriation of earnings, industrial property rights and other considerations of quantitative economic value. Economic progress is indivisible: Trade, investments, property rights, travel, military expenditures, and the balance-of-payments are all interdependent.

An amendment of section 251 of the Trade Expansion Act of 1962 as amended, could change from unconditional to conditional MFN and enumerate the conditions of reciprocity and national treatment in both trade and investments. The negotiating authority of section 211, now applying only to the European Economic Community, could be expanded to all nations, common markets, trade blocs, and free trade associations.

Because there would be some effects on a number of existing treaties, this would not be a step to take lightly. But unless we are more successful than we have been so far in securing effective reciprocity through multilateral negotiations, this may be the only way to enable the United States to negotiate from a position of strength. It must be kept clearly in mind, however, that although the techniques of negotiation may change, as in fact, they are changing, from multilateral to bilateral, the end purpose for which our negotiating strength should be used must remain freer movement of goods and capital on a reciprocal basis.

Everyone knows that the world in the seventies is not that of the fifties. Yet in our international economic relationships, the Government continues to act as if America's "super power" size and status obligated us to higher standards of behavior and self-sacrifice than other states. There is, of course, some continuing validity to this notion. But surely the special conditions which prevailed after World War II have now been corrected—in no small part due to America's generosity. In short, having met the special obligations imposed by relative affluence, the United States can begin to act like other countries again. We have major domestic priorities and problems of our own. While we must continue, as in the past, to carry out our basic responsibilites, we must insist on more reciprocal treatment in our economic relationships. Such a shifting emphasis—if you will, an "economic" version of the "Nixon doctrine" on defense—makes its possible to look at another major option open to the United States.

### ARTICLE XII OF GATT

Article XII of GATT entitles any member country in serious balance-of-payment difficulty to impose temporary quotas on imports after consultation with other countries affected, without being in violation of GATT rules, thus precluding retaliation. They would be so entitled if the United States enacted restrictive measures unilaterally.

Such special measures ideally should be temporary rather than cemented in legislation. The consultations required by article XII could be helpful in developing some realistic bargaining leverage! It has been argued that article XII was never intended to apply to countries with reserve currencies. However, Britain, whose pound was and is a reverse currency, has used article XII on more than one occasion.

So have France and Japan. Are we still that much "holier than they?" In any case, the world's bankers are complaining about our balance-of-payments deficits which produce their "dollar glut." They would therefore be hard pressed (or at least embarrassed) to complain about U.S. invocation of article XII.

EXPORT FINANCING AND TAX INCENTIVE

The United States must meet the increasing measures taken by other countries to abolish restrictions and to adopt financial assistance and incentives to encourage exports. This is essential to meet foreign competition and to help our industries and labor. The Senate recently passed S. 581, to increase the lending authority of the Export-Import Bank from $13.5 billion to $20 billion and to increase the Bank's political and credit risk guarantee authority from $3.5 billion to $10 billion. This is a step in the right direction, but other measures must be taken. The Treasury's DISC proposal providing for tax deferrals on exports failed of passage in the Congress last year. Instead of merely a tax deferral, tax reduction incentives should be considered to encourage the export of American goods.

Special tax reductions on export of goods are prohibited, in theory, by GATT. But expert of services, ranging from inbound tourism to engineering and technical, can be given preferential tax treatment. And even on good, the United States is certainly entitled to equalize the rebates which foreign governments and the EEC, in particular, granted under the guise of TVA and other taxes. Consideration could therefore be given to an extension of the Western Hemisphere Trade Corporation concept permitting a 14-point reduction on income from all exports of goods and services or to a drawback on exports equal to local, State and Federal taxes and duties.

TOURISM

International tourism is an integral part of U.S. trade, for it represents what we might call "trade in tourists." The U.S. ranks on the lower rung in its promotion of foreign tourism. In 1970 approximately 167 million tourists traveled the world; yet the U.S. attracted less than 10 percent of them. U.S. tourism receipts represent $2.3 billion ($2.8 billion, including transportation) in foreign exchange earnings, yet we spend less than $5 million on the promotion of inbound tourism through the U.S. Travel Service. Fifty-two countries around the world give substantial tax concessions and rebates for the promotion of tourism and tourist facilities and gain $4.9 billion a year servicing Americans. We in the United States do not. Even the DISC proposal, aired in Congress last year, dealt only with the export of goods.

I am pleased to note, however, that the Export-Import Bank is trying its best to increase our exchange earnings from tourism by providing a new program of financing inbound travel. In recent hearings before the House Committee on Merchant Marine and Fisheries, industry witnesses advocated a tax deduction of 10 percent of the price of a ticket bought for passage on an American-flag passenger vessel. This, they hope, will increase American vessel usage and keep at home some U.S. dollars spent by American travelers.

In my judgment, what we need is a tax reduction giving initiative to companies engaged in bringing foreign tourists to the United States and servicing them here. Such a tax benefit could help to stimulate inbound tourism without involving a violation of GATT, which, as noted above, applies only to goods—not services.

In 1970, the Congress passed the International Travel Act amendments authorizing $15 million a year for the U.S. Travel Service to help earn more foreign exchange. This legislation was a milestone in our efforts to earn more foreign exchange through added promotion of inbound travel. Yet we understand that for the first fiscal year U.S. Travel Service was allowed a request of less than $6 million; and for fiscal year 1972 they will ask for approximately $9.4 million This, at best, is a half-hearted attempt to do the job that Congress asked to be done. The U.S. Travel Service's hands are tied by the Office of Management and Budget and congressional approximation committees. For once, the United States should be daring, with a less tight-fisted approach in this important area. If we do not take positive and progressive action, our travel deficit will widen, and several years from now we will be trying to evaluate "where we went wrong." Doubtless there would then be renewed pressures to restrict the right of Americans to travel and spend abroad. How much better to act imaginatively now to earn the foreign exchange necessary to maintain travel as one of the basic freedoms!

## IV. U.S. Investment Policy and The Multinational Corporation

World investment has been growing at a rate which outstrips the growth in trade. And, indeed, it is often referred to as the more important of the two facets of international economic intercourse. In the United States, for example, exports have increased less than 11 percent since 1964 and their net contribution (trade balance) has decreased more than 11 percent annually. In the same period, the net contribution (including outflows) of U.S. private foreign investments ($4.2 billion in 1970) has increased over 16 percent!

Much of this increase in the net contribution of foreign investments is due to the so-called multinational corporation—as, indeed are about one-fourth of U.S. exports (some $10 billion a year) which go to American affiliates abroad.

### THE ATTACK ON THE MULTINATIONAL CORPORATION

In testifying last year to the Joint Economic Committee, I suggested that a special medal should be struck for the entrepreneurs of the multinational corporation in doing for the world economy what the limited liability company did for Europe during the industrial revolution some 200 years ago; namely, pooling development capital and skills and applying them to the world at large. These entrepreneurs are, of course, motivated by profit; but in pursuing it, they are buffeted by nationalism, socialism and opportunism, castigated as unpatriotic by labor, and treated as public enemy number one by some academic therists. Now, of course, they are being blamed for Europe's currency crisis. Multinational corporations are convenient scapegoats for events over which they have very little control.

To the extent that corporate treasurers try to avoid currency losses on large liquid balances abroad, this is as much as anything due to the U.S. Government's policy. It has imposed a system of direct investment controls (partly at the urging of European central bankers) and the Treasury threatens to tax money, which might otherwise be repatriated, as soon as it is brought home.

A rising chorus of allegations claim that the multinational corporation "exports jobs." This committee will doubtless hear something on that subject. But the "export of jobs" critics never talk about the "jobs from exports"; that is, those involved in producing one-fourth of the total U.S. exports that go to overseas affiliates and which might not go at all without the investment which maintains access to foreign markets.

Nor do the critics cite the fact that the products involving the heaviest U.S. direct investment abroad tend to fall into the lowest category of U.S. imports. Conversely, the areas of heaviest imports, such as shoes and textiles, are among the sectors having the lowest direct investment abroad. As noted in the introduction, the imports of automobiles and of steel are overwhelmingly by foreign-owned companies, not American "multinationals." They are Volkswagens, in short, not the Simca (see table 14). Thus the implication that "runaway industry" services the U.S. market by using "cheap foreign labor" is certainly not true at the macrolevel of aggregation; and it is true only in relatively few cases. Even the components manufactured across the border in Mexico for reimportation back into the United States, which do take advantage of wage differentials, were found by the Tariff Commission to promise only a modest number of jobs returned to the United States in the event of repeal of the tariff provisions. And even these, in the words of the Commission, ". . . likely would be more than offset by the loss of jobs among workers now producing components for export and those who further process the imported products."

Labor's desire to "supervise and curb the substantial flows of American capital for the investments of U.S. companies in foreign operations" can only result in a further decline in America's global competitiveness and a further loss in the very jobs labor is attempting to preserve. There is a confusion here between a very difficult and fundamental issue in international trade, the comparative costs of production and international competition and the question of who owns the plants. Whatever the desirable policy decisions may be on the first issue, they cannot be carried out by regulatory restrictions on multinational companies on the basis of ownership.

Apart from the ill-founded balance of payments and labor-related criticisms, U.S. investment abroad is threatened not only by expropriation without compensation, but also by emotional attacks on the multinational corporation—a symbol of foreign imperialism. While I am convinced that many American businesses abroad can improve their local image and develop their mutual interests with local groups, there are some things for which business is entitled to look to the U.S. Government for help. U.S. policy must uphold—and must be known to uphold—the rule of international law regarding the sanctity of contracts and international obligations, such as full compensation for expropriation. Our scarce public aid resources should be used in ways which maximize new economic development, rather than various "divestment" schemes; and they should make clear our preference for countries which desire to maintain a cooperative role between public aid and private investment.

The various investment insurance and guarantee programs have a great importance in insuring that the capital needed by developing countries will be forthcoming; the new Overseas Private Investment Corp. (OPIC) should develop its programs as rapidly and on as broad a basis as possible. Similarly, the World Bank's investment insurance program should receive strong support from the United States.

### FOREIGN DIRECT INVESTMENT CONTROLS

In 1968 the United States acted to control capital movements for investment purposes. The Office of Foreign Direct Investment Controls was established to help the balance of payments and please the Europeans who were concerned about our investment presence in Europe. Today, figures indicate that the controls have not helped the balance of payments and may indeed have caused some of the "hot money" problems we are experiencing.

As table 2 shows, U.S. investments abroad are foreign exchange earners, not spenders, so that the whole premise of these controls may have been wrong. But let us examine what has happened since 1968:

The United States recorded its largest balance-of-payments deficits in 1969 and 1970. Therefore, the strict controls were hardly the cure-all some thought they would be. In addition, the controls forced U.S. corporations to borrow abroad to finance direct investments and to repatriate these funds, if need be, to bring their yearend position in line with their allowables. What has happened is that corporations bring money back each December and rechannel it out early in the next year.

Corporations have borrowed $4 billion from 1968 through 1970 in the Euro-bond market and $2.1 billion from banks (long-term only). However, of the $4 billion, they only used $1.67 billion to refinance direct investment, leaving $2.3 billion as excess balances. Bank loans might well have the same proportion of current utilization. In effect, many companies have been forced into borrowing this money against future needs to satisfy the paper balance approach OFDI has used. No corporate treasurer who expects to hold his job long can remain unmoved by obvious trouble in the foreign exchange markets; he reacts, therefore, to any disequilibrium in the exchange markets but he does not cause basic currency movements. If he had not been forced to borrow, his funds would be in the U.S. parent company and he would not have to react to the sudden crisis.

OFDI hasn't had the cure-all effect because direct private investments are an asset which bring in a net return to the United States. In no year have U.S. investments caused more outflow than inflow of foreign exchange. However, the gap between U.S. earnings abroad and the return on foreign investments in the United States is narrowing.

There is reason to believe that the OFDI controls are hurting our exports as well as our investments. The regulations consider that exports of capital such as machinery and equipment to a subsidiary abroad are an outflow of dollars, even though it does not involve a transfer of money and hence has no effect on the balance of payments in a strict sense. Many companies with limited allowables are thus handicapped from exporting from the United States. Some have had to develop foreign sources of equipment to escape this limitation, offsetting the higher cost of borrowing abroad with lower prices of equipment. Thus, they are helping to create a permanent foreign competitive source damaging to the long-range export potentials of the United States.

There is now broad agreement in the administration that the OFDI controls are not in the long-run national interest of the United States. The only real reason for keeping them on is the fear of public criticism from European financial leaders. In view of the expressions we have heard from across the Atlantic in the past 2 weeks, it is hardly possible that the complaints would become any more accrimonious if we simply abolished the OFDI regulations; in any case, they have not proved very effective, and they have created artificial demands for liquidity abroad which have complicated the financial management of European governments, as well as U.S. companies. Indeed, the current concern of Europeans to control the Euro-dollar market themselves by one means or another may soon make U.S. controls irrelevant.

### U.S. ANTITRUST LAWS

The U.S. antitrust laws are drafted in broad and general terms, and judicial interpretations have been embarrassing, vague, and conflicting to businessmen and government officials alike, as one attorney general described them.[1] When the laws are applied extraterritorially, as they have been, American exporters and investors find themselves in a confused and poorly defined gray area, and foreign governments resent the invasion of their sovereignty. The subject is especially confusing for companies operating in developing countries where there is a local trend to compel American companies to enter into joint ventures.

Most other industrial countries exempt from their restrictive business practices laws export agreements that have no domestic restrictive effects and even encourage export combinations and joint investment ventures. Articles 85 and 86 of the European Economic Community Treaty of Rome have been construed to apply solely to activities within the Common Market.

The subject is so complicated and involves such different laws of the various countries that an international agreement would be difficult. The Council of the Organization for Economic Cooperation and Development (OECD) on October 5, 1967, adopted a paper "Concerning Cooperation Between Member Countries on Restrictive Business Practices Affecting International Trade," but this is only a recommendation for closer cooperation in the form of consultations and coordination of efforts regarding restrictive business practices.

Congress might give consideration to one of the following courses of action: (1) Establish an Antitrust Review and Revision Commission as recommended by Senator Javits in S. 1486 which he introduced April 5, 1971; (2) create a new organization, or designate an existing one, with authority to grant exceptions, including exemptions from

[1] Attorney General Robert H. Jackson, later Associate Justice of the Supreme Court.

criminal suits, in cases involving political and economic policies in foreign commerce; or (3) issue a declaration of congressional policy that U.S. private foreign investment is in the national interest, that the U.S. antitrust laws should not be applied to activities outside the United States which do not adversely affect the domestic or international commerce of the United States, or where such actions are required by the law or policy of the country in which the action takes place.

TAXATION

The Report of the President's Task Force on Business Taxation of September 1970, points out that:

> The existing provisions of the Internal Revenue Code are extremely complex and, in our opinion, present unnecessary obstacles to American business in selling goods or services in foreign markets.

In addition to the tax incentives needed to increase our exports referred to above, the Internal Revenue Code should be revised to place U.S. oversea operations on a competitive basis with foreign companies and to encourage the repatriation of funds from abroad. There should be reasonable means whereby U.S. companies could repatriate funds from abroad to improve our balance-of-payments account without incurring tax liability. Bona fide loans to, or investments in a U.S. firm in the United States by a foreign affiliate should not be subjected to U.S. taxes as constructive dividends. Special tax reductions should be applied to dividends paid by controlled foreign corporations doing business in less developed countries. These and other revisions of the Internal Revenue Code should be considered to place our companies on an equal footing with foreign competitors and to help our balance of payments.

TECHNOLOGY: INDUSTRIAL PROPERTY RIGHTS

The protection of our technology, one of our major assets in bargaining, is a much more complex problem. As a minimum, however, U.S. Government should clarify by legislation the conditions under which the results of Government-financed research and development can be made available to other countries. These conditions now vary from department to department and product to product with much latitude, ranging from public dedication at one extreme to almost exclusive licensing at the other. The results of the $16 billion annual research and development expenditure by the Government should prove to be a valuable source of income if carefully husbanded.

In the private field, we come inevitably to the protection of patents, copyrights, and trademarks. Ever since the establishment of the Republic, the Congress has been resolute in protecting these rights as they apply to our own jurisdiction. In other countries, however, we have been somewhat less vocal than the importance of the subject merits. The rights of ownership of patents should be defended, because these technical frontiers may prove to be more important to our long-range welfare than physical plants. This is a question of priority in the thinking of our own people and in our dealings with other nations. I frankly cannot conceive, however, of a machinery whereby the Congress can impose its views upon our governmental representatives in this area, unless it is done as a part of trade legislation defining the contents of economic negotiations. As a condition of granting most-favored-nation access to our markets, we should propose protection and compensation for industrial property rights as one of the conditions.

## V. East-West Trade

Expansion of East-West trade, while desirable in principle wherever feasible, should not be regarded as an area for greatly improving the U.S. balance of payments.

### PROSPECTS: A REALISTIC VIEW

With the exception of China, centrally planned economies have tended to balance their trade bilaterally. The question therefore arises: what do Communist countries produce which would be desired by any meaningful segment of the U.S. market? At the moment, it must be said very little. The industrially "mature" eastern European countries of the pre-World War II era (East Germany and Czechoslovakia) lost their competitive edge and the momentum for technological advance through confinement to a Soviet market undemanding in terms of both quantity and quality. Czechoslovakia especially was known prior to the war for its fine engineering, footwear and textile products. The constraints of COMECON have led several of these countries to look to the West for new technology, supplies, and the markets they need to maintain production at an economically feasible level.

New Hungarian legislation has been adopted to permit foreign firms to buy into domestic companies. The Department of Commerce recently reported that modernization of key industries in that country affords good opportunities to Western business concerns to sell up-to-date equipment and technology which is often unavailable in the centrally planned economies. As recently as January of this year the Romanian Ambassador to the United States was actively soliciting American business support for joint ventures in his country.

Why should we encourage advancement in an area whose interests have long been considered hostile to ours? The answer is that to grow, we must allow others to grow; and to export, we must import. The days of a $7 billion American trade surplus have passed. While, because of the quid pro quo negotiations insisted upon by the state trading countries, expanded trade with these countries would provide no panacea for our balance of payments, a case for such expansion can be made. Five years ago the utilization factor of manufacturing capacity in this country stood at 90 percent; as of the first quarter of this year, it had dropped to 73.2 percent with the advanced processing industries being hardest hit. At home, industry must contend with a slack demand. In Eastern Europe, demand for U.S. products is potentially high.

### CONSTRAINTS ON BUSINESS

Industry is, however, shackled by various regulations. The intent is often to prevent Communist nations from securing strategically useful items—but often there are readily available alternative sources of supply. Thus, these regulations often succeed only in causing American business to needlessly lose, by default, sales they could otherwise make. Delays due to licensing procedures and confusion over commodity lists for different geographical areas frequently mean loss of sales to less cumbersome channels in Western Europe and Japan.

We believe that the President should be given discretionary authority to control trade with all countries for national security reasons; but, while retaining national security provisions, we think controls should be simplified to permit American companies to compete more effectively with other countries for this trade.

Further, where our own export control list exceeds the COCOM list, and where such goods as are in question are available elsewhere, the controls should be liberalized making the COCOM list the lower limit. In a policy paper prepared in 1969 by the Committee for the Promotion of East-West Trade, it was noted that:

> The main result (of the restrictive policies of the United States towards trade with Eastern Europe) has been the forfeiture of U.S. export sales to our West European and Japanese competitors and the forfeiture of political and economic leverage in an area of the world where normalization of relations would be a true benefit to mankind.

Consumer end-products should be decontrolled to the fullest extent now. Modernized societies have been marked by an increasing demand for consumer products and there is no reason to suspect that the centrally planned societies will proceed any differently as they modernize. While the limited foreign exchange reserves of these countries will be used sparingly for such purposes in the near future, even minimal exposure to American products and the prospect of their availability may assure us a portion of that market as it develops. Maintenance of those present restrictions and red tape which are not essential will tend to direct sales elsewhere.

## THE LONGER RANGE FUTURE

High-ranking East European officials have made recent overtures to American businessmen and Government leaders to foster joint ventures in their countries (Yugoslavia, Romania, and Hungary). In Hungary alone more than 150 such joint projects with non-Communist block countries have been undertaken. Italy, France and Britain are in the forefront along with West Germany. Several American companies which have participated in such projects in Eastern Europe (Corning Glass Works and American Metal Climax in Romania) have expressed satisfaction with the cooperation extended and the results obtained.

Concurrently with the need to encourage U.S. trade with East Europe, given the competition of other countries, Congress should provide safeguards to American exporters against antitrust prosecution, especially in cases where the national interest requires restrictions upon the unauthorized re-export of know-how, technology and products.

With respect to agricultural products, cargo preference requirements for the commercial export of agricultural products should be eliminated. A prime effect of these requirements has been the inhibition of U.S. wheat exports to Communist countries (see table 15). At the same time, a requirement placed on exports, the result of which is to kill the trade, has done nothing to enhance the domestic maritime labor situation.

In conclusion, since 1966, total two-way trade between the Communist countries and the United States, Japan and the European OECD countries has increased from $9.8 billion to an estimated $13.4 billion in 1970 (see tables 16–18). During the same period, the U.S. share of this trade increased slightly from 3.9 percent to an estimated 4.3 percent. These percentages represent a small portion of an East-West trade market that has been increasing at more than 10 percent annually in the past few years.

The current interest in a European detente should remind use of the need for America to be more active and imaginative in East-West trade, unless we are to be left on the outside looking in. If we are to live in a peaceful world, we must encourage flexibility and receptivity to imaginative new ideas that can promote mutually advantageous relations.

(Tables attached to Dr. Danielian's prepared statement appear on following pp. 152–165:)

TABLE 1.—PRIVATE AND GOVERNMENT SECTORS IN THE U.S. BALANCE OF PAYMENTS, 1960-70 [1]

[In billions of dollars]

| | 1960 | | 1964 | | 1966 | | 1967 | | 1968 | | 1969 | | 1970 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Private | Government | Private | Government | Private | Government | Private | Government | Private | Government | Private | Government | Private | Government |
| Exports | 17.4 | 2.0 | 22.4 | 3.0 | 26.2 | 3.2 | 27.2 | 3.5 | 30.3 | 3.3 | 33.4 | 3.1 | 39.0 | 3.0 |
| Income on investments | 3.0 | .3 | 5.0 | .5 | 5.7 | .6 | 6.2 | .6 | 6.9 | .8 | 7.9 | .9 | 8.7 | |
| Other service receipts | 4.0 | .2 | 5.2 | .3 | 6.5 | .3 | 6.9 | .3 | 7.5 | .4 | 8.3 | .4 | 9.5 | .9 |
| Long-term capital inflows | .4 | | .1 | | 2.2 | | 2.3 | | 5.9 | | 4.0 | | 3.1 | |
| Repayments to U.S. Government, including military sales [2] | | .9 | | 1.3 | | 1.6 | | 2.2 | | 2.6 | | 2.8 | | 3.0 |
| Government liabilities [3] | | | | .5 | | .1 | | | | −.1 | | .1 | | −.6 |
| Total receipts | 24.8 | 3.4 | 32.7 | 5.6 | 40.6 | 5.8 | 42.6 | 6.6 | 50.6 | 7.0 | 53.6 | 7.3 | 60.3 | 6.7 |
| Imports | −14.7 | | −18.6 | | −25.5 | | −27.0 | | −33.0 | | −35.8 | | −39.9 | |
| Services, including income paid to foreign investors | −5.3 | −.9 | −6.6 | −1.3 | −8.2 | −1.5 | −9.2 | −1.7 | −9.9 | −1.9 | −12.2 | −1.9 | −13.7 | −2.2 |
| Private long-term investments including direct investment abroad | −2.5 | | −4.4 | | −3.8 | | −4.3 | | −3.9 | | −4.7 | | −5.2 | |
| Military cash outflows | | −3.1 | | −2.9 | | −3.7 | | −4.3 | | −4.5 | | −4.9 | | −4.8 |
| Government grants and loans | | −3.4 | | −4.3 | | −4.7 | | −5.2 | | −5.3 | | −5.0 | | −5.0 |
| Total payments | −22.5 | −7.4 | −29.6 | −8.5 | −37.5 | −9.9 | −40.5 | −11.2 | −46.8 | −11.7 | −52.7 | −11.8 | −58.8 | −12.0 |
| Basic position | 2.3 | −4.0 | 3.1 | −2.9 | 3.1 | −4.1 | 2.1 | −4.6 | 3.8 | −4.7 | .9 | −4.5 | 1.5 | −5.3 |
| Short-term capital outflows | −1.3 | | −2.1 | | −.4 | | −1.2 | | −1.0 | | −.6 | | −1.1 | |
| Short-term liabilities of U.S. private residents | −.1 | | .1 | | .3 | | .5 | | .8 | | .1 | | .7 | |
| Unrecorded outflows or inflows | −.9 | | −1.1 | | −.5 | | −1.0 | | −.6 | | −2.8 | | −1.3 | |
| Balance [4] | 0 | −4.0 | 0 | −2.9 | 2.5 | −4.1 | .4 | −4.6 | 3.0 | −4.7 | −2.4 | −4.5 | −.2 | −5.3 |

[1] Preliminary.
[2] Excludes debt prepayments ($270,000,000 in 1968, −$87,000,000 in 1969, and $244,000,000 in 1970).
[3] Excludes sale of medium-term Government securities to foreign governments which represent the bulk and so-called special transactions. ($2,000,000,000 in 1968, −$41,000,000 in 1969, and $723,000,000 in 1970).
[4] To reconcile this balance to the liquidity balance, net private and Government columns and add or subtract lines 45 and 58 of table 1, Survey of Current Business, March 1971, p. 44.

Note: Private exports equal value of all merchandise exports excluding military and U.S. Government expenditures on U.S. merchandise exports which were $3,102,000,000 in 1969, $3,026,000,000 in 1970. These figures represent Government exports. Details may not add due to rounding. Table excludes allocations of SDR's.

Source: Survey of Current Business, U.S. Department of Commerce, June 1969, pp. 26 and 34, and March 1971, p. 44.

TABLE 2.—DIRECT INVESTMENT OUTFLOWS, INCOME AND NET BALANCE, 1945-70

[In millions of dollars]

| Year | Outflows [1] (1) | Net outflows [2] (2) | Income (3) | Royalties and fees (4) | Balance (cols. 3 and 4 minus col. 1) (5) | Net balance (cols. 3 and 4 minus col. 2) (6) |
|---|---|---|---|---|---|---|
| 1945 | −100 | −100 | 426 | NA | 326 | 326 |
| 1946 | −230 | −230 | 589 | 64 | 423 | 423 |
| 1947 | −749 | −749 | 869 | 77 | 197 | 197 |
| 1948 | −721 | −721 | 1,064 | 83 | 426 | 426 |
| 1949 | −660 | −660 | 1,112 | 100 | 552 | 552 |
| 1950 | −621 | −621 | 1,294 | 126 | 799 | 799 |
| 1951 | −508 | −508 | 1,492 | 129 | 1,113 | 1,113 |
| 1952 | −852 | −852 | 1,419 | 130 | 697 | 697 |
| 1953 | −735 | −735 | 1,442 | 128 | 835 | 835 |
| 1954 | −667 | −667 | 1,725 | 136 | 1,194 | 1,194 |
| 1955 | −823 | −823 | 1,912 | 158 | 1,247 | 1,247 |
| 1956 | −1,951 | −1,951 | 2,171 | 229 | 449 | 449 |
| 1957 | −2,442 | −2,442 | 2,249 | 238 | 45 | 45 |
| 1958 | −1,181 | −1,181 | 2,121 | 246 | 1,186 | 1,186 |
| 1959 | −1,372 | −1,372 | 2,228 | 348 | 1,204 | 1,204 |
| 1960 | −1,674 | −1,674 | 2,355 | 403 | 1,084 | 1,084 |
| 1961 | −1,598 | −1,598 | 2,768 | 463 | 1,633 | 1,633 |
| 1962 | −1,654 | −1,654 | 3,044 | 580 | 1,970 | 1,970 |
| 1963 | −1,976 | −1,976 | 3,129 | 660 | 1,813 | 1,813 |
| 1964 | −2,328 | −2,328 | 3,674 | 756 | 2,102 | 2,102 |
| 1965 | −3,468 | −3,416 | 3,963 | 924 | 1,419 | 1,471 |
| 1966 | −3,661 | −3,216 | 4,045 | 1,030 | 1,414 | 1,859 |
| 1967 | −3,137 | −2,859 | 4,517 | 1,136 | 2,516 | 2,794 |
| 1968 | −3,209 | −2,424 | 4,973 | 1,246 | 3,010 | 3,795 |
| 1969 | −3,070 | −2,439 | 5,639 | 1,369 | 3,938 | 4,569 |
| 1970 | [3] −3,700 | [3] −3,440 | 6,095 | 1,538 | [4] 3,933 | [4] 4,193 |
| Total | −43,087 | −40,636 | 66,315 | 12,297 | 35,525 | 37,976 |

[1] Includes funds borrowed abroad through security issues and used abroad to finance direct investment. This corresponds to the outflow figure in line 33, "Survey of Current Business," June 1971, table 1, p. 44.
[2] Excludes funds in footnote 1. To establish actual dollars that leave the United States, funds borrowed abroad are excluded. Before 1965, these funds were minimal.
[3] Adjustment has been made to omit $267,000,000 in negotiated liquidations in Latin America involving the sale of investments for foreign interest-bearing obligations.
[4] In accordance with footnote 3, adjustment has been made for forced liquidations.

Source: "Survey of Current Business," U.S. Department of Commerce, June issues through 1971, Washington, D.C.

TABLE 3.—U.S. TOTAL [1] AND COMMERCIAL [2] NONAGRICULTURAL TRADE BY AREA, EXCLUDING MILITARY, 1963-68

[In millions of dollars—census basis]

| | Total | | Canada, total | E.E.C., total | Other Western Europe | | United Kingdom, total | Japan, total | Africa and Near East | | East and South Asia | | Oceania, total | 19 Latin American Republic | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Commercial | | | Total | Commercial | | | Total | Commercial | Total | Commercial | | Total | Commercial |
| Exports: | | | | | | | | | | | | | | | |
| 1963 | 16,491 | 15,406 | [3] 3,571 | [3] 3,279 | 1,255 | 1,138 | [3] 784 | [3] 1,161 | 1,079 | 971 | 1,723 | 1,043 | [3] 515 | 2,747 | 2,670 |
| 1964 | 18,999 | 17,936 | [3] 4,186 | [3] 3,485 | 1,472 | 1,352 | [3] 1,127 | [3] 1,271 | 1,325 | 1,203 | 1,755 | 1,091 | [3] 742 | 3,212 | 3,035 |
| 1965 | 19,721 | 18,630 | [3] 4,879 | [3] 3,433 | 1,510 | 1,402 | [3] 1,166 | [3] 1,169 | 1,453 | 1,331 | 1,620 | 969 | [3] 793 | 3,257 | 3,055 |
| 1966 | 21,871 | 20,742 | [3] 5,880 | [3] 3,723 | 1,621 | 1,525 | [3] 1,220 | [3] 1,373 | 1,501 | 1,411 | 1,687 | 1,098 | [3] 714 | 3,645 | 3,305 |
| 1967 | 23,756 | 22,484 | [3] 6,480 | [3] 3,951 | 1,709 | 1,618 | [3] 1,401 | [3] 1,774 | 1,516 | 1,438 | 1,925 | 1,076 | [3] 864 | 3,555 | 3,307 |
| 1968 | 26,862 | 25,893 | [3] 7,325 | [3] 4,564 | 1,987 | 1,920 | [3] 1,554 | [3] 1,987 | 1,749 | 1,694 | 2,034 | 1,448 | [3] 949 | 4,094 | 3,837 |
| 1969 | 29,881 | ([4]) | 8,232 | 5,425 | 2,165 | ([4]) | 1,608 | 2,494 | 1,920 | ([4]) | 2,080 | ([4]) | 882 | 4,324 | ([4]) |
| 1970 | 34,050 | ([4]) | 7,982 | 6,605 | 2,607 | ([4]) | 2,043 | 3,355 | 2,033 | ([4]) | 2,410 | ([4]) | 1,048 | 5,047 | ([4]) |
| Imports: [5] | | | | | | | | | | | | | | | |
| 1963 | 13,049 | .......... | 3,675 | 2,278 | 855 | .......... | 1,044 | 1,448 | 918 | .......... | 712 | .......... | 68 | 1,764 | .......... |
| 1964 | 14,582 | .......... | 4,074 | 2,573 | 959 | .......... | 1,111 | 1,723 | 707 | .......... | 829 | .......... | 73 | 1,871 | .......... |
| 1965 | 17,258 | .......... | 4,605 | 3,046 | 1,161 | .......... | 1,379 | 2,364 | 771 | .......... | 1,049 | .......... | 105 | 2,017 | .......... |
| 1966 | 20,944 | .......... | 5,893 | 3,793 | 1,374 | .......... | 1,731 | 2,909 | 869 | .......... | 1,212 | .......... | 135 | 2,208 | .......... |
| 1967 | 22,418 | .......... | 6,939 | 4,124 | 1,460 | .......... | 1,683 | 2,967 | 715 | .......... | 1,375 | .......... | 146 | 2,149 | .......... |
| 1968 | 28,173 | .......... | 8,779 | 5,517 | 1,742 | .......... | 2,026 | 4,017 | 883 | .......... | 1,757 | .......... | 209 | 2,289 | .......... |
| 1969 | 31,089 | .......... | 10,140 | 5,437 | 1,799 | .......... | 2,086 | 4,851 | 877 | .......... | 2,264 | .......... | 275 | 2,314 | .......... |
| 1970 | 34,298 | .......... | 10,783 | 6,188 | 1,898 | .......... | 2,160 | 5,838 | 795 | .......... | 2,582 | .......... | 275 | 2,588 | .......... |
| Balance: | | | | | | | | | | | | | | | |
| 1963 | 3,442 | 2,357 | [3] −104 | [3] 1,001 | 400 | 283 | [3] −260 | [3] −287 | 161 | 53 | 1,011 | 331 | [3] 447 | 983 | 906 |
| 1964 | 4,417 | 3,354 | [3] 112 | [3] 912 | 513 | 393 | [3] 16 | [3] −452 | 618 | 496 | 926 | 262 | [3] 669 | 1,341 | 1,164 |
| 1965 | 2,463 | 1,372 | [3] 274 | [3] 387 | 349 | 241 | [3] −213 | [3] −1,195 | 682 | 560 | 571 | −80 | [3] 688 | 1,240 | 1,038 |
| 1966 | 927 | −202 | [3] −13 | [3] −70 | 247 | 151 | [3] −511 | [3] −1,536 | 632 | 542 | 475 | −114 | [3] 579 | 1,437 | 1,097 |
| 1967 | 1,338 | 66 | [3] −459 | [3] −173 | 249 | 158 | [3] −282 | [3] −1,193 | 801 | 723 | 550 | −299 | [3] 718 | 1,406 | 1,158 |
| 1968 | −1,311 | −2,302 | [3] −1,454 | [3] −953 | 245 | 173 | [3] −473 | [3] −2,030 | 866 | 811 | 277 | −309 | [3] 740 | 1,805 | 1,531 |
| 1969 | −1,208 | ([4]) | [3] −1,908 | [3] −12 | 366 | ([4]) | [3] −478 | [3] −2,357 | 1,043 | ([4]) | −184 | ([4]) | [3] 607 | 2,010 | ([4]) |
| 1970 | −248 | ([4]) | [3] −2,801 | [3] 412 | 709 | ([4]) | [3] −117 | [3] −2,483 | 1,238 | ([4]) | −172 | ([4]) | [3] 773 | 2,459 | ([4]) |

[1] Total trade excludes certain exports of military equipment and other special category items but includes Public Law 480 and AID-financed shipments.

[2] Commercial trade excludes Public Law 480, AID-financed exports, and exports of military equipment.

[3] Commercial trade is the same as total trade, little or no shipments of Public Law 480 or AID goods to these areas.

[4] Not available.

[5] Certain DOD military imports are included in imports. These cannot be broken out by separate areas.

Source: U.S. Department of Commerce, Overseas Business Report No. 69, May 11, 1969, and No. 70, May 21, 1970.

TABLE 4.—U.S. TOTAL [1] AND COMMERCIAL [2] AGRICULTURAL TRADE, EXCLUDING MILITARY, 1963-68

[In millions of dollars—census basis]

| | Total | | Canada | | E.E.C. | | Other Western Europe | | United Kingdom | | Japan | | Africa and Near East | | East and South Asia | | Oceania | | 19 Latin American Republics | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Commercial [3] | Total | Commercial | Total | Commercial | Total | Commercial | Total | Commercial | Total | Commercial | Total | Commercial | Total | Commercial | Total | Commercial | Total | Commercial |
| Agricultural exports: | | | | | | | | | | | | | | | | | | | | |
| 1963 | 5,584 | 4,111 | 597 | S | 1,173 | 1,158 | 622 | 429 | 408 | S | 651 | 638 | 494 | 199 | 956 | 201 | 44 | S | 423 | 276 |
| 1964 | 6,348 | 4,736 | 615 | S | 1,417 | 1,412 | 585 | 434 | 440 | S | 720 | 710 | 556 | 247 | 1,064 | 239 | 47 | S | 531 | 319 |
| 1965 | 6,229 | 4,906 | 620 | S | 1,477 | 1,471 | 633 | 490 | 398 | S | 876 | S | 502 | 266 | 1,057 | 240 | 52 | S | 434 | 339 |
| 1966 | 6,875 | 5,569 | 626 | S | 1,559 | 1,557 | 740 | 608 | 471 | S | 943 | S | 620 | 399 | 1,154 | 358 | 50 | S | 487 | 399 |
| 1967 | 6,380 | 5,143 | 556 | S | 1,460 | S | 566 | 531 | 424 | S | 865 | S | 404 | 269 | 1,373 | 429 | 45 | S | 482 | 379 |
| 1968 | 6,228 | 5,049 | 595 | S | 1,367 | S | 490 | 471 | 374 | S | 933 | S | 391 | 229 | 1,297 | 463 | 52 | S | 500 | 360 |
| 1969 | 5,936 | 4,918 | 710 | S | 1,269 | S | 506 | 471 | 361 | S | 934 | S | 366 | 233 | 1,097 | 374 | 50 | S | 444 | 342 |
| 1970 | 7,174 | 6,217 | 810 | S | 1,559 | S | 605 | 566 | 402 | S | 1,241 | S | 454 | 305 | 1,252 | 583 | 52 | S | 562 | 478 |
| Imports: | | | | | | | | | | | | | | | | | | | | |
| 1963 | 4,017 | ........ | 174 | ........ | 238 | ........ | 258 | ........ | 27 | ........ | 46 | ........ | 437 | ........ | 650 | ........ | 432 | ........ | 1,652 | ........ |
| 1964 | 4,082 | ........ | 176 | ........ | 258 | ........ | 252 | ........ | 23 | ........ | 40 | ........ | 561 | ........ | 689 | ........ | 361 | ........ | 1,633 | ........ |
| 1965 | 4,088 | ........ | 234 | ........ | 270 | ........ | 292 | ........ | 24 | ........ | 37 | ........ | 501 | ........ | 666 | ........ | 344 | ........ | 1,628 | ........ |
| 1966 | 4,492 | ........ | 240 | ........ | 306 | ........ | 361 | ........ | 30 | ........ | 37 | ........ | 521 | ........ | 674 | ........ | 455 | ........ | 1,767 | ........ |
| 1967 | 4,472 | ........ | 201 | ........ | 330 | ........ | 427 | ........ | 28 | ........ | 32 | ........ | 498 | ........ | 679 | ........ | 437 | ........ | 1,729 | ........ |
| 1968 | 5,054 | ........ | 226 | ........ | 368 | ........ | 454 | ........ | 32 | ........ | 37 | ........ | 595 | ........ | 742 | ........ | 487 | ........ | 1,999 | ........ |
| 1969 | 4,954 | ........ | 244 | ........ | 363 | ........ | 418 | ........ | 35 | ........ | 37 | ........ | 514 | ........ | 776 | ........ | 553 | ........ | 1,900 | ........ |
| 1970 | 5,665 | ........ | 308 | ........ | 424 | ........ | 469 | ........ | 36 | ........ | 37 | ........ | 664 | ........ | 820 | ........ | 596 | ........ | 2,191 | ........ |
| Trade balance: | | | | | | | | | | | | | | | | | | | | |
| 1963 | 1,567 | 94 | 423 | S | 935 | 230 | 364 | 171 | 381 | S | 605 | 592 | 57 | −238 | 306 | −449 | −388 | S | −1,229 | −1,367 |
| 1964 | 2,266 | 654 | 439 | S | 1,159 | 1,154 | 333 | 182 | 417 | S | 680 | 670 | −5 | −314 | 375 | −450 | −314 | S | −1,102 | −1,314 |
| 1965 | 2,141 | 818 | 386 | S | 1,207 | 1,201 | 341 | 198 | 374 | S | 839 | S | 1 | −235 | 391 | −426 | −292 | S | −1,194 | −1,289 |
| 1966 | 2,383 | 1,077 | 386 | S | 1,253 | 1,251 | 379 | 247 | 441 | S | 906 | S | 99 | −122 | 480 | −316 | −405 | S | −1,280 | −1,368 |
| 1967 | 1,908 | 671 | 355 | S | 1,130 | S | 139 | 104 | 396 | S | 833 | S | −94 | −229 | 694 | −250 | −392 | S | −1,247 | −1,350 |
| 1968 | 1,171 | 5 | 369 | S | 999 | S | 36 | 17 | 342 | S | 896 | S | −204 | −365 | 555 | −279 | −435 | S | −1,499 | −1,639 |
| 1969 | 982 | −36 | 466 | S | 906 | S | 88 | 43 | 326 | S | 897 | S | −148 | −285 | 321 | −402 | −503 | S | −1,456 | −1,558 |
| 1970 | 1,509 | 552 | 502 | S | 1,135 | S | 136 | 97 | 366 | S | 1,204 | S | −210 | −359 | 432 | −237 | −544 | S | −1,629 | −1,713 |

[1] Total agricultural trade includes Public Law 480 shipments.
[2] Commercial trade excludes Public Law 480 financed shipments.
[3] Commercial total includes agricultural products bartered for strategic materials not included in area data for 1964-1967.

S=Same: Since there are little or no shipments of Public Law 480 or AID goods to these areas, commercial trade is the same as total trade.

Source: U.S. Department of Commerce, Overseas Business Report No. 69-11, May 1969, and No. 70-21, May 1970.

TABLE 5.—U.S. AGRICULTURAL EXPORTS TO THE UNITED KINGDOM AND EUROPEAN ECONOMIC COMMUNITY, TOTAL AND BY SELECTED COMMODITIES—FISCAL YEARS 1964-70 [1]

[In thousands of dollars]

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|
| United Kingdom: | | | | | | | |
| Total exports | 448,293 | 417,227 | 434,982 | 453,997 | 397,333 | 328,842 | 405,419 |
| 1. Wheat and flour | 31,410 | 7,862 | 41,881 | 41,205 | 16,222 | 5,139 | 14,082 |
| 2. Rice, milled | 6,681 | 5,670 | 6,305 | 10,006 | 10,421 | 10,193 | 11,418 |
| 3. Feed grains including corn, oats, and barley | 90,225 | 97,021 | 116,812 | 92,066 | 81,493 | 66,887 | 76,771 |
| 4. Oilseeds | 16,288 | 20,297 | 23,788 | 12,061 | 11,019 | 12,514 | 20,194 |
| 5. Oil cake and meal | 195 | 2,398 | 8,384 | 8,572 | 10,333 | 4,055 | 4,335 |
| European Economic Community: | | | | | | | |
| Total exports | 1,332,906 | 1,370,946 | 1,593,589 | 1,509,889 | 1,402,883 | 1,299,937 | 1,383,135 |
| 1. Wheat and flour | 98,961 | 40,557 | 105,396 | 99,131 | 87,854 | 86,008 | 48,301 |
| 2. Rice, milled | 15,569 | 9,817 | 14,910 | 22,255 | 25,545 | 27,408 | 32,167 |
| 3. Feed grains including corn, oats, and barley | 278,161 | 377,741 | 538,016 | 368,547 | 391,693 | 267,751 | 247,109 |
| 4. Oilseeds | 204,674 | 219,573 | 278,111 | 318,038 | 278,356 | 299,245 | 371,489 |
| 5. Oil cake and meal | 55,379 | 101,865 | 129,473 | 151,399 | 169,650 | 173,434 | 204,767 |

[1] Preliminary.
[2] Items marked are nonvariable levy items; all others subject to variable levies.

Source: U.S. Department of Agriculture "Foreign Agricultural Trade of the United States," November 1969, September 1970.

TABLE 6.—U.S. TRADE IN MINERAL FUELS AND RELATED MATERIALS—1960-70[1]

[In millions of dollars]

| Year | Exports | | | Imports | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Petroleum and products | Other mineral fuels including coal | Total | Petroleum and products | Other minerals including natural gas | Total | Petroleum and products | Other minerals including coal and natural gas |
| 1960 | 842 | 468 | 374 | 1,574 | 1,537 | 37 | −732 | −1,069 | 337 |
| 1961 | 797 | 433 | 365 | 1,725 | 1,672 | 53 | −928 | −1,239 | 312 |
| 1962 | 828 | 430 | 398 | 1,874 | 1,778 | 96 | −1,046 | −1,348 | 302 |
| 1963 | 978 | 474 | 504 | 1,924 | 1,814 | 110 | −946 | −1,340 | 394 |
| 1964 | 953 | 461 | 492 | 2,030 | 1,907 | 123 | −1,077 | −1,446 | 369 |
| 1965 | 947 | 418 | 529 | 2,221 | 2,092 | 129 | −1,274 | −1,674 | 400 |
| 1966 | 976 | 434 | 542 | 2,262 | 2,127 | 135 | −1,286 | −1,693 | 407 |
| 1967 | 1,104 | 539 | 565 | 2,248 | 2,086 | 162 | −1,144 | −1,547 | 403 |
| 1968 | 1,050 | 454 | 596 | 2,527 | 2,343 | 184 | −1,477 | −1,889 | 412 |
| 1969 | 1,150 | 433 | 697 | 2,794 | 2,560 | 234 | −1,664 | −2,127 | 463 |
| 1970 | 1,594 | 487 | 1,107 | 3,081 | 2,770 | 311 | −1,487 | −2,283 | 796 |

[1] Preliminary.

Source: U.S. Department of Commerce, "Overseas Business Reports" No. 67-43, No. 69-2, No. 69-59, No. 70-3, and No. 71-009.

TABLE 7.—U.S. TRADE IN AUTOMOBILES AND TRANSPORT EQUIPMENT—1960-70[1]

[In millions of dollars]

| Year | Automobiles and parts[2] | | | Transport equipment | | |
|---|---|---|---|---|---|---|
| | Exports | Imports | Balance | Exports | Imports | Balance |
| 1960 | 761 | 627 | 134 | 1,756 | 115 | 1,64 |
| 1961 | 757 | 378 | 379 | 1,589 | 197 | 1,39 |
| 1962 | 901 | 515 | 386 | 1,678 | 205 | 1,47 |
| 1963 | 1,012 | 527 | 485 | 1,528 | 237 | 1,29 |
| 1964 | 1,195 | 649 | 546 | 1,649 | 253 | 1,39 |
| 1965 | 1,268 | 757 | 511 | 1,936 | 391 | 1,54 |
| 1966 | 1,587 | 1,435 | 152 | 1,891 | 700 | 1,19 |
| 1967 | 1,922 | 1,960 | −38 | 2,372 | 735 | 1,63 |
| 1968 | 2,501 | 3,218 | −717 | 3,102 | 997 | 2,10 |
| 1969 | 2,766 | 3,887 | −1,121 | 3,500 | 1,305 | 2,19 |
| 1970 | 2,424 | 2,432 | −1,901 | 3,775 | 1,472 | 2,30 |

[1] Preliminary.
[2] Excludes engines and parts which are included in census data under "Machinery" but includes all other auto parts and accessories. Imports of auto engines and parts were about $373,000,000 in 1968, $440,000,000 in 1969, and $551,000,000 in 1970. Exports of auto engines were $245,000,000 in 1968, $273,000,000 in 1969, and $339,000,000 in 1970.

Source: U.S. Department of Commerce, "Overseas Business Reports" No. 67-43, No. 70-3, and No. 71-009.

TABLE 8.—U.S. TRADE IN OTHER MANUFACTURED GOODS, INCLUDING STEEL-MILL PRODUCTS, TEXTILES, FOOTWEAR, CLOTHING, AND PAPER PRODUCTS, 1960-70[1]

[In millions of dollars]

| Year | Exports | Imports | Balance | Year | Exports | Imports | Balance |
|---|---|---|---|---|---|---|---|
| 1960 | 3,791 | 4,559 | −768 | 1966 | 5,388 | 8,668 | −3,280 |
| 1961 | 3,646 | 4,912 | −1,275 | 1967 | 5,468 | 9,004 | −3,536 |
| 1962 | 3,753 | 5,180 | −1,427 | 1968 | 6,084 | 11,508 | −5,424 |
| 1963 | 4,046 | 5,546 | −1,500 | 1969 | 7,000 | 12,020 | −5,020 |
| 1964 | 4,795 | 6,188 | −1,393 | 1970 | 7,638 | 13,281 | −5,643 |
| 1965 | 4,890 | 7,528 | −2,638 | | | | |

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports No. 67-43, No. 69-2, No. 79-3, and No. 71-009.

TABLE 9.—U.S. TRADE IN CRUDE MATERIALS INEDIBLE EXCEPT FUELS, 1960-70[1]

[In millions of dollars]

| Year | Exports | Imports | Balance | Year | Exports | Imports | Balance |
|---|---|---|---|---|---|---|---|
| 1960 | 2,805 | 2,711 | 94 | 1966 | 3,071 | 3,309 | −238 |
| 1961 | 2,794 | 2,485 | 309 | 1967 | 3,284 | 2,997 | 287 |
| 1962 | 2,226 | 2,668 | −442 | 1968 | 3,541 | 3,346 | 195 |
| 1963 | 2,495 | 2,726 | −231 | 1969 | 3,569 | 3,460 | 109 |
| 1964 | 2,978 | 2,880 | 98 | 1970 | 4,609 | 3,312 | 1,297 |
| 1965 | 2,856 | 3,103 | −246 | | | | |

[1] Preliminary.

Source: U.S. Department of Commerce, Overseas Business Reports No. 67-43, No. 69-2, No. 70-3, and No. 71-009.

TABLE 10.—U.S. TRADE IN MACHINERY, 1960-70[1]

[In millions of dollars]

| Year | Exports | Imports | Balance | Year | Exports | Imports | Balance |
|---|---|---|---|---|---|---|---|
| 1960 | 4,476 | 724 | 3,752 | 1966 | 7,678 | 2,688 | 4,990 |
| 1961 | 4,968 | 789 | 4,179 | 1967 | 8,820 | 3,099 | 5,181 |
| 1962 | 5,447 | 954 | 4,493 | 1968 | 8,884 | 3,772 | 5,072 |
| 1963 | 5,702 | 1,054 | 4,648 | 1969 | 10,137 | 4,571 | 5,566 |
| 1964 | 6,525 | 1,314 | 5,211 | 1970 | 11,676 | 5,374 | 6,302 |
| 1965 | 6,935 | 1,800 | 5,135 | | | | |

[1] Preliminary.

Source: U.S. Department of Commerce, "Overseas Business Reports" No. 67-43, No. 69-2, No. 70-3, and No. 71-009.

TABLE 11.—U.S. TRADE IN CHEMICALS, 1960-70[1]

[In millions of dollars]

| Year | Exports | Imports | Balance | Year | Exports | Imports | Balance |
|---|---|---|---|---|---|---|---|
| 1960 | 1,776 | 821 | 955 | 1966 | 2,675 | 955 | 1,720 |
| 1961 | 1,789 | 738 | 1,051 | 1967 | 2,802 | 958 | 1,844 |
| 1962 | 1,876 | 772 | 1,104 | 1968 | 3,287 | 1,129 | 2,158 |
| 1963 | 2,009 | 701 | 1,308 | 1969 | 3,383 | 1,228 | 2,155 |
| 1964 | 2,364 | 703 | 1,661 | 1970 | 3,826 | 1,450 | 2,376 |
| 1965 | 2,403 | 768 | 1,635 | | | | |

[1] Preliminary.

Source: U.S. Department of Commerce, "Overseas Business Reports" No. 67-43, No. 69-2, No. 70-3, and No. 71-009.

TABLE 12.—U.S. TRADE IN FOOD AND RELATED PRODUCTS, BEVERAGES, TOBACCO, AND LIVE ANIMALS, 1960-70[1]

[In millions of dollars]

| Year | Exports | Imports | Balance | Year | Exports | Imports | Balance |
|---|---|---|---|---|---|---|---|
| 1960 | 3,167 | 3,392 | −225 | 1966 | 5,186 | 4,590 | 596 |
| 1961 | 3,466 | 3,455 | 11 | 1967 | 4,710 | 4,701 | 9 |
| 1962 | 3,743 | 3,674 | 69 | 1968 | 4,592 | 5,363 | −771 |
| 1963 | 4,188 | 3,863 | 325 | 1969 | 4,447 | 5,309 | −862 |
| 1964 | 4,630 | 4,022 | 608 | 1970 | 5,051 | 6,234 | −1,183 |
| 1965 | 4,519 | 4,013 | 506 | | | | |

[1] Preliminary.

Source: U.S. Department of Commerce, "Overseas Business Reports" No. 67-43, No. 69-2, No. 70-3, and No. 71-009.

TABLE 13.—TOTAL WORLD EXPORTS, WITH SHARE OF WORLD EXPORTS FOR SELECTED COUNTRIES, IN AREAS, 1959-70[1]

[In percent]

| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Industrial Europe | 31.8 | 33.2 | 34.4 | 34.7 | 34.9 | 35.2 | 36.4 | 36.3 | 36.9 | 37.4 | 38.4 | 39.3 |
| European Economic Community | 24.9 | 26.2 | 27.2 | 27.4 | 27.6 | 27.9 | 29.0 | 29.0 | 29.5 | 30.2 | 31.1 | 31.9 |
| Belgium-Luxembourg | 3.2 | 3.3 | 3.3 | 3.5 | 3.6 | 3.7 | 3.9 | 3.8 | 3.7 | 3.8 | 4.1 | 4.2 |
| France | 5.5 | 6.1 | 6.1 | 5.9 | 5.9 | 5.9 | 6.1 | 6.0 | 6.0 | 6.0 | 6.1 | 6.5 |
| Germany | 9.7 | 10.1 | 10.7 | 10.6 | 10.7 | 10.6 | 10.8 | 11.1 | 11.4 | 11.7 | 11.9 | 12.3 |
| Italy | 2.9 | 3.2 | 3.5 | 3.7 | 3.7 | 3.9 | 4.4 | 4.4 | 4.6 | 4.8 | 4.8 | 4.7 |
| Netherlands | 3.6 | 3.6 | 3.6 | 3.7 | 3.6 | 3.8 | 3.9 | 3.7 | 3.8 | 3.9 | 4.1 | 4.2 |
| Austria | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | .9 | 1.0 | .9 | .9 | .9 | 1.0 | 1.0 |
| Denmark | 1.4 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 |
| Norway | .8 | .8 | .8 | .8 | .8 | .8 | .9 | .9 | .9 | .9 | .9 | .9 |
| Switzerland | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | 1.7 | 1.8 | 1.8 | 1.8 | 1.9 | 1.9 | 1.8 |
| Sweden | 2.2 | 2.3 | 2.3 | 2.3 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.3 | 2.3 | 2.4 |
| 2. United States[2] | 17.4 | 18.2 | 17.7 | 17.4 | 17.2 | 17.5 | 16.6 | 16.8 | 16.6 | 16.3 | 15.6 | 15.5 |
| 3. United Kingdom | 9.8 | 9.4 | 9.3 | 9.1 | 9.0 | 8.4 | 8.3 | 8.1 | 7.5 | 7.2 | 7.2 | 7.0 |
| 4. Japan | 3.4 | 3.6 | 3.6 | 3.9 | 4.0 | 4.4 | 5.1 | 5.4 | 5.5 | 6.1 | 6.6 | 7.0 |
| 5. Latin America[3] | 7.5 | 7.0 | 6.8 | 6.9 | 6.7 | 6.5 | 6.3 | 6.1 | 5.8 | 5.4 | 5.2 | 4.4 |
| Total world exports (in billions of dollars) | 101.5 | 113.4 | 118.6 | 124.7 | 136.1 | 152.7 | 165.4 | 181.3 | 190.6 | 212.9 | 244.0 | 278.0 |

[1] Preliminary—In addition, the world total excludes the Soviet area countries and Cuba.

[2] The figures used to calculate this percentage represent U.S. exports, census basis, including Government-financed exports and military exports. This assures comparison with the other countries listed.

[3] 1969 percentage is based on 1st half at an annual rate.

Source: International Financial Statistics, International Monetary Fund, March, April 1970.

TABLE 14.—PASSENGER CAR IMPORTS BY COMPANIES, EXCLUDING IMPORTS FROM CANADA, 1969 AND 1970

| | 1969 | 1970 |
|---|---|---|
| I. Imports of cars produced by U.S.-controlled companies: | | |
| Capri (Ford) | 0 | 17,258 |
| Cortina (Ford) | 24,187 | 10,216 |
| Opel (General Motors) | 93,520 | 86,630 |
| Simca (Chrysler) | 7,776 | 6,035 |
| Rootes (Chrysler) | 2,980 | 3,160 |
| Subtotal | 128,463 | 123,299 |
| II. Imports of cars produced by foreign companies: | | |
| Volkswagen | 548,904 | 568,216 |
| Toyota | 127,018 | 169,350 |
| Datsun | 60,872 | 104,067 |
| British Leyland | 68,089 | 69,430 |
| Volvo | 36,146 | 44,513 |
| Fiat | 41,536 | 38,095 |
| Mercedes-Benz | 21,466 | 25,055 |
| Renault | 18,536 | 20,732 |
| Bavarian Motor Works | 11,777 | 14,584 |
| Saab | 10,922 | 11,121 |
| Porsche | 6,008 | 13,677 |
| Peugeot | 4,190 | 4,952 |
| Audi | 0 | 7,741 |
| Saburu | 0 | 6,151 |
| Subtotal | 955,464 | 1,097,684 |
| Total (I and II) | 1,083,927 | 1,220,983 |
| Other cars [1] | 72,073 | 100,017 |
| Grand total | 1,156,000 | 1,321,000 |
| U.S. made as a percent of total identifiable (I and II) | 11.9 | 10.0 |
| U.S. made as a percent of grand total | 11.1 | 9.3 |

[1] Other cars include cars brought back by U.S. tourists and other makes of cars not representing significant amounts.

Source: "Automotive News Almanac," Automotive News, Detroit; "Overseas Business Reports," U.S. Department of Commerce, Washington, D.C., No. 71-009, February 1971; and industry sources.

TABLE 15.—FREE WORLD WHEAT EXPORTS TO COMMUNIST COUNTRIES, FISCAL YEARS 1961-70

[In thousands of metric tons]

| Exporting country | Yugoslavia | Poland | U.S.S.R. | Other East Europe and Cuba | Mainland China | Total |
|---|---|---|---|---|---|---|
| United States: | | | | | | |
| 1960-61 | 381 | 1,116 | | 54 | | 1,551 |
| 1963-64 | 299 | 1,116 | 1,769 | 327 | | 3,511 |
| 1964-65 | 1,361 | 54 | 54 | (1) | | 1,470 |
| 1967-68 | 272 | 54 | | | | 326 |
| 1968-69 [2] | | 14 | | | | 14 |
| 1969-70 [2] | (3) | 10 | | | | 10 |
| Canada: | | | | | | |
| 1960-61 | | 54 | 281 | 354 | 844 | 1,470 |
| 1963-64 | 191 | 327 | 5,661 | 680 | 1,089 | 7,948 |
| 1964-65 | | 490 | 980 | 1,769 | 1,905 | 5,144 |
| 1967-68 | | 109 | 1,361 | 708 | 1,361 | 3,539 |
| 1968-69 [2] | | 182 | 147 | 476 | 2,127 | 2,932 |
| 1969-70 [2] | | 71 | 1,105 | 636 | 1,830 | 3,642 |
| Australia: | | | | | | |
| 1960-61 | | | | | 1,279 | 1,279 |
| 1963-64 | | | 1,551 | 54 | 2,585 | 4,190 |
| 1964-65 | | | 871 | | 2,286 | 3,157 |
| 1967-68 | | | | | 2,422 | 2,422 |
| 1968-69 [2] | | | | | 1,182 | 1,182 |
| 1969-70 [2] | | | | | 2,446 | 2,446 |
| Argentina: | | | | | | |
| 1960-61 | | | | | | |
| 1963-64 | | 27 | (1) | 82 | 980 | 11,088 |
| 1964-65 | | | 27 | 54 | 599 | 680 |
| 1967-68 | | | | (1) | | (1) |
| 1968-69 | | | | | | |
| 1969-70 | | | | | | |
| France and European Economic Community: | | | | | | |
| France: | | | | | | |
| 1960-61 | | | | | 27 | 27 |
| 1963-64 | | 354 | 136 | 136 | 218 | 844 |
| 1964-65 | | 209 | 109 | 816 | 463 | 1,687 |
| 1967-68 | | 245 | | 27 | 354 | 626 |
| European Economic Community: | | | | | | |
| 1968-69 [2] | | | | 253 | 254 | 507 |
| 1969-1970 [2] | (3) | 60 | (3) | 477 | 761 | 1,301 |

[1] Less than 13,500 metric tons.
[2] Exports of wheat and wheat flour (preliminary figures).
[3] Less than 500 metric tons.

Sources: "Wheat Situation," November 1969, p. 35 (U.S. Department of Agriculture Economic Research Service), bushels converted to metric tons. International Wheat Council: "Review of World Grains Situation," 1969-70 (London, 1970), and "1970 World Wheat Statistics," (London, 1970).

TABLE 16.—U.S. TRADE WITH COMMUNIST COUNTRIES

[Value in thousands of U.S. dollars]

| Country | Exports January to December— | | | | | Imports January to December— | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 | 1970 | 1966 | 1967 | 1969 | 1968 | 1970 |
| Total to/from Eastern Europe and Communist Asia | 198,006 | 195,150 | (1) | 249,288 | 353,323 | 182,179 | 179,812 | 201,014 | 197,819 | 226,534 |
| Eastern Europe excluding U.S.S.R. | 156,280 | 134,953 | (1) | 143,739 | 234,932 | 129,115 | 136,057 | 140,243 | 143,953 | 153,483 |
| Bulgaria | 3,631 | 4,219 | (1) | 4,645 | 15,294 | 2,529 | 2,814 | 3,731 | 1,598 | 2,431 |
| Czechoslovakia | 37,336 | 19,155 | (1) | 14,363 | 22,512 | 27,695 | 26,241 | 23,756 | 24,063 | 23,912 |
| Soviet zone of Germany | 24,864 | 26,330 | (1) | 32,373 | 32,545 | 8,194 | 5,647 | 5,934 | 8,018 | 9,394 |
| Hungary | 10,053 | 7,570 | (1) | 7,252 | 28,263 | 2,985 | 3,884 | 3,848 | 4,077 | 6,224 |
| Poland | 52,988 | 60,827 | (1) | 52,694 | 69,915 | 82,948 | 90,960 | 96,871 | 97,835 | 97,946 |
| U.S.S.R. | 41,725 | 60,195 | (1) | 105,547 | 118,390 | 49,553 | 41,165 | 58,445 | 51,504 | 72,312 |
| China | 1 | 1 | (1) | | | 102 | 181 | | 24 | 1 |
| North Vietnam | | | (1) | | | | | | | |
| Cuba | 82 | 18 | (1) | | 43 | | 44 | 11 | 15 | |
| Rumania | 27,242 | 19,796 | (1) | 32,394 | 66,399 | 4,655 | 6,176 | 5,820 | 7,966 | 13,425 |

1 Not available from same source at this time.

Note: Data are preliminary and unrevised.

Source: International Trade Analysis Division, Bureau of International Commerce, U.S. Department of Commerce, series 1966, February 1971.

TABLE 17.—JAPAN'S TRADE WITH COMMUNIST COUNTRIES

[Value in thousands of U S. dollars]

| Country | Exports | | | | | Imports | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 | 1970 | 1966 | 1967 | 1968 | 1969 | 1970 |
| | January–December | January–December | January–December | January–December | January | January–December | January–December | January–December | January–December | January–October |
| Total to/from East Europe and Communist Asia | 599, 230 | 565, 120 | (1) | 764, 541 | 862, 588 | 688, 001 | 868, 352 | 837, 424 | 848, 016 | 735, 682 |
| East Europe except U.S.S.R | 59, 161 | 70, 789 | (1) | 73, 620 | 79, 649 | 48, 629 | 107, 985 | 108, 887 | 113, 265 | 96, 601 |
| Bulgaria | 24, 549 | 24, 511 | (1) | 11, 810 | 13, 959 | 13, 559 | 15, 073 | 6, 574 | 8, 696 | 6, 997 |
| Czechoslovakia | 4, 297 | 6, 287 | (1) | 14, 341 | 6, 674 | 6, 921 | 17, 981 | 14, 672 | 10, 705 | 13, 222 |
| Soviet zone of Germany | 2, 531 | 3, 056 | (1) | 5, 853 | 10, 541 | 3, 553 | 15, 269 | 30, 702 | 30, 956 | 33, 082 |
| Hungry | 2, 088 | 3, 565 | (1) | 5, 171 | 9, 765 | 681 | 1, 355 | 2, 308 | 4, 977 | 3, 493 |
| Poland | 2, 983 | 5, 919 | (1) | 14, 070 | 17, 590 | 4, 121 | 26, 265 | 39, 384 | 43, 673 | 35, 770 |
| Rumania | 21, 931 | 27, 327 | (1) | 22, 216 | 20, 372 | 19, 776 | 32, 032 | 15, 244 | 14, 258 | 4, 037 |
| U.S.S.R | 214, 039 | 157, 701 | (1) | 268, 269 | 267, 572 | 300, 385 | 453, 954 | 463, 549 | 461, 600 | 406, 381 |
| China | 315, 175 | 328, 180 | (1) | 390, 834 | 489, 630 | 306, 262 | 369, 460 | 224, 203 | 234, 559 | 193, 943 |
| North Vietnam | 5, 549 | 1, 817 | (1) | 7, 260 | 4, 163 | 9, 651 | 6, 686 | 6, 108 | 6, 015 | 4, 172 |
| Cuba | 6, 500 | 7, 407 | (1) | 9, 796 | 31, 940 | 22, 229 | 26, 117 | 33, 273 | 68, 044 | 87, 528 |

1 Not available from same source at this time.

Note: Data are preliminary and unrevised.

Source: International Trade Analysis Division, Bureau of International Commerce, U.S. Department of Commerce, series 1966, February 1971.

TABLE 18.—EUROPEAN OECD COUNTRIES' TRADE WITH COMMUNIST COUNTRIES [1]

[Value in thousands of U.S. dollars]

| Country | Exports 1966 January-December | Exports 1967 January-December | Exports 1968 January-December | Exports 1969 January-December | Exports 1970 January [2] | Imports 1966 January-December | Imports 1967 January-December | Imports 1968 January-December | Imports 1969 January-December | Imports 1970 January [2] |
|---|---|---|---|---|---|---|---|---|---|---|
| Total to/from East Europe and Communist China | 3,927,862 | 4,614,427 | (3) | 5,555,408 | [2] 4,574,273 | 4,224,818 | 4,403,708 | 4,684,516 | 5,289,864 | [2] 4,452,218 |
| Eastern Europe except U.S.S.R. | 2,721,252 | 2,967,947 | (3) | 3,412,816 | [2] 2,672,228 | 2,426,551 | 2,535,268 | 2,710,836 | 3,080,056 | [2] 2,486,380 |
| Bulgaria | 323,213 | 302,398 | (3) | 246,466 | [2] 222,538 | 178,886 | 177,956 | 192,380 | 186,050 | [2] 176,851 |
| Czechoslovakia | 475,435 | 429,430 | (3) | 581,806 | [2] 556,407 | 407,298 | 426,854 | 474,218 | 580,527 | [2] 517,683 |
| Soviet zone of Germany | 729,221 | 686,198 | (3) | 876,399 | [4] 562,923 | 604,787 | 604,647 | 666,267 | 714,025 | [4] 490,074 |
| Hungary | 313,112 | 361,565 | (3) | 406,152 | [2] 461,876 | 321,088 | 335,488 | 338,135 | 438,687 | [2] 397,675 |
| Poland | 515,994 | 599,117 | (3) | 704,377 | 621,131 | 601,688 | 606,990 | 645,583 | 708,507 | [2] 705,066 |
| U.S.S.R. | 714,425 | 1,020,524 | (3) | 1,621,452 | 1,438,116 | 1,380,879 | 1,493,514 | 1,592,629 | 1,757,163 | [2] 1,593,991 |
| China | 472,542 | 609,804 | (3) | 466,184 | [2] 457,062 | 406,102 | 366,116 | 367,895 | 425,226 | [2] 342,560 |
| North Vietnam | 1,892 | 2,395 | (3) | 1,313 | [2] 1,467 | 3,544 | 1,178 | 937 | 1,175 | [2] 1,440 |
| Cuba | 149,791 | 161,291 | (3) | 233,246 | [2] 220,285 | 93,485 | 92,341 | 99,673 | 95,606 | [2] 81,663 |
| Rumania | 353,608 | 581,044 | (3) | 581,632 | [2] 504,508 | 309,460 | 378,752 | 387,597 | 418,168 | [2] 411,639 |

[1] European OECD countries include Austria, Belgium-Luxembourg, Denmark, Germany, Federal Republic of, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom.

[2] Data for 1970 is cumulative as follows: Austria, January-October; Belgium-Luxembourg, January-August; Denmark, January-November; France, January-November; Germany, Federal Republic of, January-October; Greece, January-May; Iceland, January-October; Ireland, January-October; Italy, January-September; Netherlands, January-October; Norway, June-November; Portugal, January-November; Spain, January-October; Sweden, January-October; Switzerland, January-November; Turkey, January-July; United Kingdom, January-November.

[3] Not available at this time from same source.

[4] Includes Germany only, May-September.

Note: Data are preliminary and unreviewed.

Source: International Trade Analysis Division, Bureau of International Commerce, United States Dept. of Commerce, Series 1966-February 1971.

Senator RIBICOFF. The committee will stand adjourned until 9:30 tomorrow morning. The staff will notify the witnesses of the earlier time tomorrow.

(Whereupon, at 2 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Tuesday, May 18, 1971.)

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# FOREIGN TRADE

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**TUESDAY, MAY 18, 1971**

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 9:30 a.m., in room 2221, New Senate Office Building, Senator Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Long, Talmadge, Fulbright, Bennett, and Hansen.

Senator RIBICOFF. The subcommittee will be in order.

Our first witness is Mr. George Meany, president of the AFL-CIO. We welcome you, Mr. Meany. All of us have the highest respect for you and your organization. I appreciate your changing your schedule to be here at 9:30 but we found yesterday that our hearings were running so long we wanted to try to accommodate as many witnesses as possible. You may proceed as you will, Mr. Meany.

## STATEMENT OF GEORGE MEANY, PRESIDENT, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. MEANY. Thank you, Mr. Chairman. The AFL-CIO welcomes these hearings because world trade and international investment are of direct importance to American workers.

Specifically, the current deterioration of the U.S. position in world trade is having a major adverse impact on America's steelworkers, machinists, electrical workers, on clothing, garment, textile, and shoe workers, on glass and pottery workers, on shipyard and maritime workers and many others.

Almost no segment of America's work force has escaped some adverse effect. The American worker is today the major victim of the falloff in exports or the flood of imports, or both.

The American workers have come to their unions for help. And their unions, in concert, seek redress and remedies to this very great threat. Tens of thousands of American workers are suffering loss of jobs, underemployment, a lowered standard of living, and loss of their dignity and their role in our work-oriented society. These workers' grievances are with the Government of the United States because it is the Government's foreign trade and investment policies that have been responsible in most part for this situation.

The AFL-CIO intends to pursue this issue and intends to fight for international trade and investment policies that will end these hardships.

The AFL–CIO seeks a national policy of healthy expansion of international trade on a reciprocal basis. We seek a trade policy that enhances the well-being of the American people in place of one that enhances private greed.

This is not a problem of the unions alone. It is a problem of all Americans because the loss of our productive base and the loss of our industrial employment will most certainly be followed by job losses in all segments of the economy. And with those losses will go much of the American standard of living.

Since 1934, the trade union movement has provided consistent support to Government policies for the expansion of world trade. We have based our support on the trade union goal of increasing employment and improving living standards both at home and abroad. We are not interested in trade for trade's sake alone.

For many years, as world trade expanded, the majority of Americans and, for that matter, the majority of the people of the world benefited. But, during the 1950's, changes in world economic conditions occurred and they accelerated in the 1960's. The benefits to Americans of expanded world trade decreased. The problems grew. And the Americans workers suffered.

By the late 1960's, imports were taking over large and growing portions of U.S. domestic markets of manufactured goods and components.

The United States has become a net importer of steel, autos, trucks, and parts, as well as such products as clothing, footwear, and glass. In consumer electrical goods, imports have taken over major parts of the U.S. domestic market. Even in electrical and nonelectrical machinery, during the 1960's, imports increased more rapidly than exports—posing serious potential problems for the days ahead.

These events are the result of changes in world economic conditions; they require that changes be made in the U.S. trade policies. The hard facts of life dictate that the Government's foreign trade policies be swiftly modernized in light of these rapidly moving events.

Our insistence on change is not a new concept for us. Since 1965, the AFL–CIO has sought a shift in Government policy. To date, our proposals have not been met and the situation has grown more urgent.

The causes are rooted in the many changes in the world economic scene.

## MANAGED ECONOMIES

Since World War II, most countries have moved to manage their economies. As part of such national economic management, governments have established direct and indirect subsidies for exports and barriers to imports.

All countries, including the United States, have every right to protect and advance their interests as they see them. But certainly subsidies for exports and barriers to imports are not free trade.

These policies are one reason for the flood of imports into the United States—the market that is most open to imports of all major industrial nations. At the same time, expansion of U.S. exports is held down by direct and indirect barriers erected against American-made goods by other governments.

FOREIGN INVESTMENT

Another major change, which gained momentum in the 1960's, is the soaring rate of investment by American companies in foreign operations. These investments—combined with patent and license agreements with foreign companies—have transferred American technology to plants throughout the world. Many of these plants, operating with American machinery and American know-how, pay workers as little as 15 cents an hour.

In 1960, for example, U.S. firms invested about $3.8 billion in plants and machinery in foreign subsidiaries. In 1971, the Commerce Department says U.S. firms plan to invest over $15 billion. These estimates for 1971 show that more than $8 billion will be invested abroad in manufacturing. This is about one-fourth of the $32 billion planned investment in manufacturing, in the United States this year.

This large investment of U.S. corporate funds abroad has now changed the meaning of trade, investment, and production worldwide. For example, in 1969, Ford was reported to be England's biggest exporter and IBM was the leading French exporter of computer equipment.

In the past 25 years, according to estimates by Harvard Professor Raymond Vernon, about 8,000 subsidiaries of U.S. companies have been established abroad, mostly in manufacturing. Their impact on the U.S. market and U.S. exports to other nations is obvious. It is estimated that the annual sales of foreign branches of U.S. firms are approximately $200 billion—about five times U.S. exports.

Let me cite an example of what all this means in terms of U.S. foreign investment, U.S. technology, and U.S. jobs. During last year's trade hearings before the House Ways and Means Committee, William Sheskey told how he purchased a modern U.S. shoe plant and immediately shut it down.

He told the committee:

> I shipped the lasts, dies and patterns and management and much of the leather to Europe, and I am making the same shoes under the same brand name, selling them to the same customers, with the same management, with the same equipment, for one reason. The labor where I am now making the shoes is 50 cents an hour as compared to the $3 that I was paying. Here is a perfect example of where I took everything except the labor and that is exactly why I bought it.

Another example is an advertisement in the Wall Street Journal of July 15, 1970, which said, "If you have a patented product or a product that has a market in the United States, we can help you find a responsible licensor in Mexico."

Mexico, incidentally, is a managed economy. It won't let imports into Mexico unless it wants them in. But the advertisement seeks U.S. firms to produce their ideas behind the Mexican trade barrier to sell in the U.S. market at U.S. prices—while taking advantage of low Mexican wages.

In March 1970, the Wall Street Journal reported that Zenith Radio Corp., in the process of completing a large plant in Taiwan, had said it would reduce its work force by about 3,000 jobs this year, and more than one-third of those laid off would be blacks. The chairman, Joseph S. Wright, said that, in addition to the 3,000 layoffs in 1970, probably another 4,000 layoffs will occur in 1971.

Such operations by American companies obviously displaces U.S.-produced goods in both American markets and in world markets. These companies export American technology—some of it developed through the expenditure of Government funds paid by American taxpayers. Their biggest export, of course, is U.S. jobs.

### EXPORT OF U.S. TECHNOLOGY

As an example of the export of U.S. technology, let me cite one particular company, General Electric.

This firm is divided into five international GE spheres of influence—Area Division Europe, Area Division Far East, Area Division Latin America, IGE Export Division, and International Business Support Division.

In all of these areas U.S. technology has been exported, but for the sake of example here I shall cite only examples of U.S. technology that have been licensed by GE to Japan alone. All of these examples—from a list of 84 separate licensing agreements—were, with little doubt, developed at the expense of the U.S. taxpayers.

The licenses to Japan for production include: Carrier system microwave device; torpedo; a new type of radar; an M–61 Vulcan type of 20mm machine cannon for defense aircraft; gunsight for F–4E jet fighter; technologies pertaining to hull of spaceships, communications systems of spaceships and other controlling mechanisms for spaceships; nuclear-fuel energy, aircraft gyrocompass system, and boilers for nuclear power reactors.

As you can see, none of this is outmoded technology, but the latest, most sophisticated type of manufacture upon which our industrial society is based. This is the technology upon which Americans depend for their jobs and upon which our national defense must rely.

### MULTINATIONAL FIRMS

An additional major change since World War II—and particularly in the last decade—is the emergence of a new kind of business, the multinational firm. These are often American-based companies with plants, sales agencies, and other facilities in as many as 40 or more countries around the world. Some are conglomerates, such as ITT and Genesco.

Some are big auto firms, such as Ford and General Motors. Some are big names in computers, such as IBM.

These multinational firms can juggle the production of parts and finished products from one subsidiary in one country to another. A multinational corporation can produce components in widely separated plants in Korea, Taiwan, and the United States, assemble the product in Mexico and sell the product in the United States at a U.S. price tag and frequently with a U.S. brand name. Or the goods produced in the multinational plants in a foreign country are sold in foreign markets, thus taking away the markets of U.S.-made goods.

The multinational firms can juggle their bookkeeping and their prices and their taxes. Their export and import transactions are within the corporation, determined by the executives of the corporation—all for the benefit and profit of the corporation. This is not foreign trade. Surely it is not foreign competition.

The complex operations of multinationals—with the aid of Madison Avenue advertising—have utterly confused the picture of the national origin of products. For example, Ford's Pinto has been heralded as the U.S. answer to imported small cars. But the engines are imported from England and Germany, and the standard transmissions are imported from Europe.

This phenomenon is far different from the development of corporations here in America during the last 100 years. The multinational is not simply an American company moving to a new locality where the same laws apply and where it is still within the jurisdiction of Congress and the Government of the United States. This is a runaway corporation, going far beyond our borders. This is a runaway to a country with different laws, different institutions, and different labor and social standards. In most instances, even the name changes.

To demonstrate how far reaching are the tentacles of American industry in foreign lands, we have attached as an appendix to this statement a list of some major U.S. multinational corporations and the names by which they are known in other lands.

Ironically these are the same multinational corporations who have sought to influence U.S. trade legislation in the name of "free trade."

Meanwhile, back in the United States, expansion of large national corporations has been tempered to a degree by Government regulations, standards, and controls. And, in the past few decades, large U.S. corporations have had to meet responsibilities to their employees through labor unions. Moreover, the multinationals' global operations are beyond the reach of present U.S. law or the laws of any single nation.

IMPACT ON UNITED STATES

All of these developments—the multinational corporations, the managed economies, the foreign investments, the export of technology—have had a serious impact on U.S. international economic relationships and have displaced large portions of U.S. production.

A congressional estimate—and this is conservative—is that auto imports are now 20 percent of the U.S. market, TV receivers 30 percent, glassware over 40 percent, sewing machines and calculating machines nearly 60 percent. As far as we have been able to determine, 100 percent of all casettes are imported. Nearly all radios sold in the U.S. are imported. Similarly, large proportions of U.S. production of shirts, work clothes, shoes, and knitgoods are being displaced by imports.

And many of the parts and components of products assembled in the U.S. are imported—including defense items.

IMPACT ON JOBS

The impact on America's production is, of course, most adversely felt by the American worker. Unlike capital, the worker cannot move about with ease.

While capital and machinery can be moved from one part of the country to another—or to other countries—workers do not have full mobility. Workers have great stakes in their jobs and their communities. They have skills that are related to the job or industry. They have seniority and seniority-based benefits, such as pensions, vacations, and supplemental employment benefits. Workers have investments in their homes, a stake in the neighborhood, schools and churches.

This lack of mobility is not a fault. It is a virtue. It is an important factor in giving stability to a community and to society.

Moreover, a worker's skill is among his most valuable assets. It cannot, however, be transferred to another industry or occupation with ease, if at all.

Labor is not an interchangeable part, as some economists believe. A jobless shoe worker in Maine does not automatically become a clerical worker in New York or even in Portland. More likely, a displaced worker will be unemployed for many weeks and may wind up with a job at lesser skill and lower pay.

Unfortunately, there is a marked indifference to these trade-caused worker problems. There are those who recommend, airily, that a worker must "adjust"—equating a worker with the retooling of a machine. This attitude is not only shocking in terms of social ethics, it also reflects an ignorance of workers problems.

Further illustration of this indifference is the lack of data and information on the impact that international trade has on U.S. workers. There is a great void of information bearing on the employment impact and other effects on workers. This shortcoming can only be attributed to a lack of interest by foreign trade experts in Government and business. We note that there is a great abundance of information and data available from the U.S. Government to businessmen who wish to relocate their business abroad.

One scrap of data is available, however. The U.S. Department of Labor estimates that there was a loss of about 700,000 job opportunities in the 1966–69 period because of imports. This does not include an estimate of the job loss caused by foreign trade barriers to exports from the United States or the markets lost to U.S. multinational companies abroad. For the same period, the Bureau of Labor Statistics estimated that the number of jobs attributable to exports increased by only 300,000. Thus, in that 3-year period we suffered a loss of 400,000 job opportunities. These figures are undoubtedly conservative, but they do make clear a heavy net loss of jobs to imports.

More recently, the Department of Commerce disclosed that employment in the electronic industries declined by an estimated 107,000 last year. For years, Government statisticians have told the unions that jobs were not being lost and there were no problems in that industry. The Commerce Department statement pointed out that imports now represent more than 30 percent of domestic consumption of consumer electrical products and rougher times are ahead. It warned that a new area of electronics—the domestic telephone equipment industry—would be the next to suffer rapidly rising imports.

It must also be pointed out that imports and exports do not of themselves necessarily create an industry and jobs for Americans. We are the world's largest trading Nation—with ports on two oceans and the Gulf of Mexico—yet the merchant marine sector of our economy has nearly gone down the drain.

We carry about 5 percent of this Nation's trade in ships flying the U.S. flag. We have suffered staggering job losses among seamen, shipbuilders, and ship repairmen. Yet, at the same time, runaway shipping operations of U.S.-owned firms, including multinational firms, are flying the tax-haven flags of Panama, Liberia, and Honduras. Needless to say, the wages paid to the foreign seamen on these vessels are a fraction of the American wage standard.

But the impact on U.S. workers is not solely the loss of jobs. We are told that imports serve to "discipline" prices. Often, however, the American consumer receives no benefit at all. The imports are sold at the American price, with substantially widened profit margins.

Frequently, the process results in the loss of workers' jobs, while the consumer receives little, if any, benefit.

The actual "discipline" is often more directly on the workers' wages and fringe benefits, and his union's negotiating strength. For example, copper imports by major U.S. corporations in 1967 and 1968, contributed to prolonging the copper strike.

It is also false to claim that increasing imports to compete with U.S. products will benefit consumers through lower prices.

There is little, if any, genuine price competition in many areas that are dominated by powerful corporations. For example, the auto companies raised prices on their 1971 models despite a surge of auto imports. And shoe prices rose 38 percent between 1960 and 1970—faster than the 31-percent increase in the overall Consumer Price Index. During this period shoe imports skyrocketed, thousands of American shoe workers lost their jobs, yet the consumer benefited very little.

INTERNATIONAL BANKS

In the 1960's we have seen an important related phenomenon—the expansion of U.S.-based international banks, which service and help to finance foreign subsidiaries of U.S. companies. At present, there is a vast global network of branches of U.S. banks, which moves funds easily from one country to another, beyond the direct reach of the monetary policies of any government, including our own.

In 1969 when the Government's squeeze on the American money market threw homebuilding into a recession and hit other groups in the American economy, the U.S. international banks increased their borrowing from their foreign branches by an amazing $7 billion.

This $7 billion was for the aid and comfort of the American central offices of those international banks and their prime customers—the big corporations. The rates to the special customers were considerably less than those paid by small businessmen or home buyers.

When the money squeeze eased here, and the interest rates declined, this same "hot money" was transferred back abroad, and was partly responsible for the recent dollar crisis in the European money market. Financial reporters attributed much of the manipulation in the money market to the treasurers of multinational corporations who were busy selling their dollars for stronger currencies.

In view of these developments by the banks, the multinational firms and the radically changed concepts of international relationships, the question must be asked: How long can the U.S. Government and the American people permit such operations of private companies and banks to continue without regulation?

The worldwide operations of U.S.-owned multinational companies do not represent free, competitive trade among the nations of the world. What they do represent is a closed system of trade, within the corporation, among its various subsidiaries in numerous countries. They represent the export of American technology and the export of American jobs.

These issues of foreign trade and investment require U.S. Government attention. They need Government action. Government controls over the investment outflows of U.S. companies to foreign subsidiaries are essential. In addition, the Government must develop machinery to regulate the U.S.-based multinational companies and banks.

We in the AFL-CIO are not isolationists and have no intention of becoming isolationists.

We support the orderly expansion of world trade. We oppose the promotion of private greed at public expense or the undercutting of U.S. wage and labor standards. We want expanded trade that expands employment at home and abroad, and that improves living standards and working conditions, here and abroad.

We want the U.S. Government to protect the interests of American workers against the export of American jobs.

Because of our great concern with this problem, the AFL-CIO Executive Council last week adopted a program calling for new international trade and investment legislation.

I ask that our statements, the "Export of Production and Jobs," and "The Critical Need for New International Trade and Investment Legislation," be included in the record at the conclusion of my remarks.

Senator RIBICOFF. Without objection, so ordered.*

Mr. MEANY. In these statements we offered specific steps for the protection of American workers and for the preservation of our industrial society. These proposals include:

1. The U.S. Government must stop helping and subsidizing U.S. companies in setting up and operating foreign subsidiaries. Sections 806:30 and 807 of the Tariff Schedules should be repealed; these sections of the Tariff Code provide especially low tariffs on imported goods, assembled abroad from U.S. made parts. Moreover, the U.S. tax deferral on profits from foreign subsidiaries should be eliminated, so that the profits of these subsidiaries will be subject to the U.S. corporate income tax for the year they are earned.

2. The Government should regulate, supervise, and curb the substantial outflows of American capital for the investments of U.S. companies in foreign operations.

3. The Government should regulate, supervise, and curb the export of American technology—by regulating the foreign license and patent arrangements of American companies.

4. The Government should press, in appropriate international agencies, for the establishment of international fair labor standards in world trade.

5. In the face of growing unresolved problems, an orderly marketing mechanism is needed immediately—to regulate the flow of imports into the United States of those goods and product lines, in which sharply rising imports are displacing significant percentages of U.S. production and employment. Such quotas that bar the rapid displacement of U.S. production and employment by floodtides of imports, could slow down the disruptive impacts on American society and help to provide an orderly expansion of trade.

(Attachments to Mr. Meany's statement follow. Hearing continues an page 185.)

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*See pp. 181 and 183.

AMERICAN FEDERATION OF LABOR AND CONGRESS
OF INDUSTRIAL ORGANIZATIONS,
*Washington, July 31, 1970.*

A full page advertisement in the Washington Post of July 13, 1970, urged Congress not to enact a trade bill that would place quotas on imports that have recently cost 100,000 American workers' jobs and threaten tens of thousands more. The advertisement (attached) gave the impression that all the group of 51 corporations named as the "Emergency Committee for American Trade" oppose quotas solely to preserve their role as U.S. companies engaged in world trade.

In the interest of fair play—if not fair trade—we believe that Congress should be aware of these companies' non-American interests, particularly that many of these companies have large foreign operations and export goods to the United States. Thus, any import restriction legislation would have a direct effect on their foreign-made products. These companies are not American firms in the textbook sense. In matters of U.S. imports, they are no different from any other foreign corporations which ship foreign-made products (often made at pitifully low wages) into the U.S. to compete with U.S.-made goods at the same or only slightly lower prices.

The companies in the ad have foreign affilitates in 108 countries, and 32 of the companies have ownership in Japanese firms, many producing the same goods abroad they once produced in the U.S. Wouldn't it be fairer to the reader and to the Congress, for example, if Xerox had identified itself as Fugi-Xerox and Caterpillar Tractor had identified itself as Caterpillar-Mitsubishi, Ltd.? Wouldn't it have been fairer if Singer Sewing Machine had identified its affiliation with Pine Sewing Machine Company of Japan and its full ownership of Matsumoto Mokko, Ltd. of Japan?

A full list of the foreign ownerships, patent arrangements, joint ventures and marketing agreements of these companies in unobtainable, but some public records (attached) show a high degree of financial involvement abroad, particularly in Japan. Similar ties exist in Canada, England, the European Economic Community, Sweden, Mexico, Taiwan, Hong Kong, Korea and elsewhere.

The corporations that paid for the advertisement should level with Congress and the American public by using their real names. It would then be clear that these "American" companies in ECAT seek more investment abroad, more manufacturing abroad and thus more goods to be shipped into the U.S. That is not foreign trade. That is intra-corporate transfers, and the losers are American citizens who lose their jobs in machinery, electronic plants, sewing machine plants and many more. Eventually, the loser is the entire American standard of living.

Sincerely,

DEPARTMENT OF LEGISLATION,
ANDREW J. BIEMILLER, *Director.*

# CONGRESS: Please don't declare a world trade war!

We're talking about the kind of trade war that may well result if protectionist quota legislation now pending in Congress before the Committee on Ways and Means of the House of Representatives is passed.

After 36 years of trade expansion, Congress now is considering the enactment of protectionist quota proposals that run contrary to our traditional trade policy, contrary to the needs of most American business and agriculture, contrary to the budget of every American household and contrary to our vital, immediate interests in international negotiations. If passed, this legislation could touch off a chain reaction of retaliatory measures by our trading partners around the world.

This threat of a global trade war is one of the reasons the Emergency Committee for American Trade is concerned about the proposed protectionist legislation. But there are other close-to-home reasons. Enacting such protectionist legislation would:

• Gravely jeopardize foreign markets for American business, labor and agriculture that now total some $37 billion

• Create further harmful inflationary pressures to the détriment of the consumer by arbitrarily limiting foreign sources of supply.

• Weaken the U.S. balance of payments position by reducing the U.S. balance of trade surplus. Government experts currently expect that, under present circumstances, the 1970 trade surplus will be double that of 1969's $1.3 billion. A trade wa will drastically alter these circumstances.

• Blunt domestic incentives to modernize, to cut costs, to increase productivity and output by erecting shields of government restrictions about certain industries.

• Jeopardize jobs of American workers now employed in foreign trade, a labor force of some 4 million.

We urge Congressmen, the Administration and every American to think of these things when considering the import quota legislation.

After all, who wants to start a trade war which nobody wants —and nobody wins?

## Emergency Committee for American Trade

1211 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036 • 790 BROADWAY, NEW YORK, NEW YORK 10003

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Chairman of the Board
The Boeing Company

LEE S. BICKMORE
Chairman
National Biscuit Company

JAMES H. BINGER
Chairman of the Board
Honeywell Inc.

WILLIAM BLACKIE
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Caterpillar Tractor Co.

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Vice Chairman
The Bendix Corporation

ROY D. CHAPIN, JR.
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McDonnell Douglas Corporation

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W. P. GWINN
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United Aircraft Corporation

PATRICK E. HAGGERTY
Chairman
Texas Instruments Incorporated

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Boise Cascade Corporation

H. C. HARDER
Chairman of the Board
CPC International Inc.

D. J. HAUGHTON
Chairman of the Board
Lockheed Aircraft Corporation

ELLISON L. HAZARD
Chairman of the Board
and President
Continental Can Company, Inc.

H. J. HEINZ II
Chairman of the Board
H. J. Heinz Company

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Chairman
Deere & Company

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President
Hewlett-Packard Company

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IBM World Trade Corporation

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Chairman and President
Clark Equipment Company

FRED M. SEED
President
Cargill, Inc.

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The Quaker Oats Company

CHARLES E. SWANSON
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Encyclopaedia Britannica

A. THOMAS TAYLOR
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Deltec International Ltd.

CHARLES B. THORNTON
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Litton Industries, Inc.

LYNN TOWNSEND
Chairman
Chrysler Corporation

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Chairman of the Board
American Export
Isbrandtsen Lines

JOSEPH C. WILSON
Chairman of the Board
Xerox Corporation

WALTER B. WRISTON
Chairman
First National City Bank

*Chairman of ECAT

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PARTIAL SUMMARY OF FOREIGN HOLDINGS OF MULTINATIONAL COMPANIES LISTED IN ADVERTISEMENT PAID FOR BY "EMERGENCY COMMITTEE FOR AMERICAN TRADE"

*Boeing Company*

1. Wholly owns Boeing of Canada Ltd.; engaged in overhaul, modification, field service and spare part support for Vertol helicopters in Canada.
2. Is affiliated with and owns 10% of the largest aerospace company in Germany Messerschmidt Bolkow–Blohm GmbH.
3. Company planning to construct a $3.5 million structural fiberglass factory near Winnipeg, Manitoba.

*National Biscuit Company*

1. Company has world-wide operations.
2. Some of the company's subsidiaries are: Christie, Brown & Co. Ltd. (Canada); Nabisco, Ltd. (England); Fireside Food Products Co. Ltd. (Canada); Griffin & Sons, Ltd. (New Zealand); Nabisco-La Favorita C.A. (Caracas, Venezuela) 60% owned; Kut-as-Sayyid Estate, Ltd. (Iraq); Saiua Biscotti ed. affini S.P.A. (Italy); Reid Milling Ltd. (Canada); Nabisco-Fomosa, S.A. (Mexico); National Biscuit (France); Oxford Biscuit Factory Ltd. (Denmark); Industrias Nabisco-Cristal, S.A. (Nicaragua).

*Honeywell, Inc.*

1. Some subsidiaries are: Honeywell Controls, Ltd. (Toronto); Honeywell, A.B. (Stockholm, Sweden); Honeywell, N.V. (Amsterdam, The Netherlands); Honeywell Europe, Inc., (Brussels. Belgium); Honeywell, S.A.I.C., (Argentina); Honeywell GmbH. (Frankfurt, Germany); Honeywell Defense Products Europe, S.A.R.L.; Oy Honeywell A.B. (Helsinki, Finland).
2. Affiliates: Yamatake-Honeywell Keiki Co. Ltd. (Japan) 50% owned; Yamatake-Honeywell Co. Ltd. (Taiwan).

*Caterpillar Tractor Company*

1. Wholly owns: Caterpillar of Australia Ltd.; Caterpillar of Belgium S.A.; Caterpillar do Brasil S.A.; Caterpillar of Canada Ltd.; Caterpillar Mexicana, S.A. de CV.; Caterpillar Overseas Credit Corp. S.A.; Caterpillar France S.A.; Caterpillar (Africa) (Pty) Ltd. Johannesburg S. Africa; Caterpillar Far East Ltd. Hong Kong.
2. Affiliates: Caterpillar Mitsubishi Ltd. Tokyo, equally owned with Mitsubishi Heavy Industries Ltd., Sagami, Japan.

*Bendix Corporation*

Some subsidiaries are: Akebono Brake Industry Co. Ltd., (Tokyo) 10.3% owned; Jidosha Kiki (Tokyo) 13% owned; Bendix Taiwan Ltd. (Taiwan); Ducellier et Cie, (Paris, France) 60% owned; Jurid Werke GmbH (Hamburg, Germany) 49% owned; Bendix Mintex (Pty.) Ltd. (Australia) 51% owned; Greenpar Engineering Ltd. (Essex, England).

*American Motors Company*

1. Some subsidiaries are: American Motors (Canada) Ltd. Canadian Fabricated Products Ltd.; American Motors of South Africa (Pty.) Ltd.; American Motors del Peru; A.M.C. de Venezuela, C.A.
2. Affiliates: IKA–Renault S.A.; Vehiculos Automotors Mexicanos, S.A.

*McDonnell-Douglas Corp.*

Some subsidiaries are: Douglas Aircraft Co. of Canada Ltd.; McDonnell-Douglas Japan Ltd. (Tokyo).

*McGraw-Hill, Inc.*

1. Some major subsidiaries are: McGraw-Hill Co. of Canada, Ltd.; McGraw-Hill Book Co. (South Africa) (Pty) Ltd.; McGraw-Hill Publishing Co. Ltd. (England); McGraw-Hill Book Co., GmbH, Dusseldorf, Germany; Libros McGraw-Hill de Mexico S.A. de C.V.
2. Affiliates: Technic Union, Paris, France (49% interest); New Medical Journals Ltd. London, England (50% interest); World Medical Publications S.A. Brussels, Belgium (50% interest); Nikkei-McGraw-Hill Inc. Tokyo (49% owned); Tatu–McGraw-Hill Pvt. Ltd., New Delhi, India (40% owned); Penguin Publishing Co. Ltd. (Great Britain) 10% owned.

*Ford Motor Company*

1. Ford Motor Company, Ltd., Britain, produces cars, trucks, commercial vans and Ford tractors, and is the 2nd largest producer of such items in the British Isles.

2. Ford Motor Company of Canada Ltd. (81% owned) is the 2nd largest producer of passenger cars and the largest producer of trucks in Canada.

3. Ford-Werke A/G produces Ford cars, light buses, pickups and vans, and is the 3rd largest producer of such vehicles in Germany.

Subsidiaries and branches:

4. Ford also has affiliates in many countries: Ford Motor Co. S. A. Mexico; Ford Motor Argentina; Ford (Uruguay) S.A.; Ford Motor Co. del Peru S.A.; Ford Motor Co. A/S Denmark 78% owned; Willys Overland do Brazil S.A. Industria E Comercio (Brazil) 52% owned.

*Sperry Rand Company*

1. Main subsidiaries are: Sperry Rand Canada; Sperry Rand Ltd. (England); Sperry Rand Italia, S.P.A. (Italy); Vickers (Germany) GmbH; Sperry Rand Australia Ltd.

2. Affiliates: Tokyo Keiki Seizosho Co. Ltd.; Nippon Univac Kaisha Ltd. (Japan); Oki Univac Kabushiki Kaisha (Japan); West & de Toit (S. Africa).

*Bristol Myers Company*

1. Subsidiaries: Bristol Banyu Research Institute Ltd. (Japan); Bristol Laboratories (Japan) Ltd.; Bristol Industries Ltd. (Taiwan); British Laboratories of Canada Ltd.; Bristol-Myers Co. Ltd. (England); Deutsche-Drackett Inc.; Bristol-Myers, Canada Ltd.; Bristol-Myers (Japan) Ltd.; Clairol (Japan) Ltd.; Hair Coloring Industries (Japan) Ltd.

*W. R. Grace and Company*

1. Some subsidiaries are: Dearborn Chemical Co. Ltd. (Canada); Dubois Chemicals of Canada, Ltd.; Golding Bros., Canadian Ltd.; Howard & Sons (Canada) Ltd.; Leaf Confections Ltd.; Williard Chemical of Canada Ltd.; Leaf Belgium N.V.; S.A. Rene Weil, France 85% owned; Hughes Bros. Ltd. Ireland; N.V. Cacaofabriek de zoan (The Netherlands).

*United Aircraft*

1. Subsidiaries: United aircraft of Canada Ltd. 90.6%.

2. Affiliates: Ratier-Forest S.A. France (15% owned) makes aircraft and missle components; Precile S.A. France (15% owned) makes aircraft and missle components; Precilec S.A. France (20% owned) makes electronic components; Orenda Ltd. (Ontario) 40% owned.

*Texas Instruments*

1. Texas Instruments Japan Ltd. (owned equally by Co. and Sony Corporation).

2. Some subsidiaries are: Geophysical Service International Ltd.; Texas Instrumentos and Electronicos do Brazil Ltda.; Texas Instruments Ltd. (England); Indonesia Surveys S.A.; G.S.I. de Mexico, S.A. de C.V.

*Boise Cascade Corporation*

1. Company has foreign utility operations, mainly sale of electricity, conducted through subsidiaries in Ecuador, Guatemala and Panama—the subsidiaries are: Empresa Electrica del Ecuador Inc.; Empresa Electrica de Guatemala, S.A.; Cia, Panamena de Fuerza y Luz.

2. Company has subsidiaries including: Boise-Cascade International, Inc. which owns Ontario-Minnesota Pulp and Paper Company, Ltd.; Mobile home and recreational vehicle plants in British Columbia, France, England, and The Netherlands.

*CPC International*

Principal subsidiaries: Clifford Love & Co., Ltd. (Australia): Refineries de Maiz, S. A. I. y C. (Argentina); Refinacoes de Milho, Brazil Ltda. (Brazil); Canada Starch Co. Ltd.; Brown & Polson Ltd. (England).

*Lockheed Aircraft*

1. Among the companies principal subsidiaries, wholly-owned, are: Lockheed Aircraft Int'l. A.G. (Switzerland); Lockheed Aircraft Int'l. Ltd. (Hong Kong); Lockheed Aircraft Corporation of Canada, Ltd.; Lockheed Offshore Petroleum

Services Ltd. Canada; Lockheed S.A. de C.U. (Mexico); Lockheed Aircraft (Australia) Pty., Ltd.

*Continental Can Company, Inc.*

1. Principal subsidiary: Continental Can Company of Canada, Ltd.

*H. J. Heinz Company*

1. Subsidiaries: H. J. Heinz of Canada Ltd.; H. J. Heinz Co. Ltd. (91.16% owned) British Isle; Nichiro-Heinz Co. Ltd. (80% owned) to make and market Heinz products in Japan also in Australia, Belgium, Luxembourg, Holland, Portugal, Venezuela, Switzerland, Italy, Pago Pago, etc.

*Deere and Company*

1. Subsidiaries: John Deere Ltd. (Canada); John Deere Intercontinental Ltd. (Ontario, Canada); John Deere (France).
2. John Deere S.A. Mexico 75% owned; John Deere-Lanz Ver Waltungs A.G. Germany (99% owned); John Deere, Ltd., South Africa, 75% owned.

*Hewlett-Packard Company*

1. Company's European operations are handled by wholly-owned Hewlett-Packard S.A. (Switzerland). This company has 2 manufacturing subsidiaries and 9 marketing subsidiaries.
2. Affiliates: Yokogawa-Hewlett-Packard, Ltd. (49% owned) makes electronic measuring instruments in a plant at Hachoti, Japan. The affiliate also handles companies marketing operations in Japan. Also in Canada, Mexico, Argentina, Brazil, Venezuela, Australia.

*International Paper Company*

1. Subsidiaries: Canadian International Paper Company; British International Paper Ltd.; Canadian International Pulp Sales Ltd.; International Paper Company (Europe) Ltd.; International Paper (France).

*Carrier Corporation*

1. Subsidiaries: Carrier Air Conditioning (Canada) Ltd.; Camwell of Canada Ltd.; Toyo Carrier Kogyo Kabushiki Kaisha (Japan) 75% owned; Carrier International Sdn. Malaysia; Carlyle Air Conditioning Co. Ltd. United Kingdom; Carrier GmbH Germany.

*Borg-Warner Corporation*

1. Wholly-owned subsidiaries include: Arpic N.V. (Holland); Borg-Warner Investments Pty. Ltd. Borg-Warner (Canada) Ltd.; Borg-Warner Ltd. (England) which owns Marbon, Australia Ptdy. Ltd. (55%) Borg-Warner Australia Ltd. (75%) etc.
2. Affiliates (jointly owned); Ube Cycon Ltd. (Japan); Nsk-Warner KK (Japan); Aslin-Warner KK; York, India Ltd., New Delhi, India.

*Standard Oil Co. (New Jersey)*

1. Company owns 70% of Imperial Oil Ltd. (Canada); Company owns 23% of Interprovincial Pipe Line Co. (Canada); Company owns all of Esso Eastern Chemicals, Inc. which coordinates chemical interests in Japan; Southeast Asia, etc.; Company has extensive European, Latin American, Middle East and Far East holdings in Norway, Denmark, West Germany, Belgium, Venezuelan, Brazil, Argentina, Chile, etc.

*IBM*

Has 17 mfg. plants in 15 nations, including Japan; IBM World Trade Corp. and its subsidiaries operated facilities in 108 countries in 1969.

*Pepsi Co.*

1. Subsidiaries: Paso de los Torros, S. A. (Uruquay); Shani Bottling Co. (Pty Ltd. S. (Africa); Pepsi-Cola Italia S.PA.; Pepsi Co Oversea Corp.; Food Enterprises Ltd. (Japan); Mike Popcorn K. K. (Japan); Pepsi-Cola (Japan) Ltd; Pepsi-Cola (Pakistan); Pepsi-Cola Ltd. (England); Pepsi-Cola Refrigerantes Ltd. (Brazil).

*Kimberly-Clark Corporation*

1. Subsidaires: Kimberly-Clark of Canada Ltd.; Kimberly-Clark Pulp & Paper Co. Ltd. (Canada); Kimberly-Clark Lumber (Canada) Ltd. (inactive); Kim-

berly-Clark de Mexico S.A. (60% owned) ; Kimberly-Clark Far East Ltd. (Singapore) 60% owned; Kimberly-Clark Ltd. (England) 66⅔% owned.
2. Co. has property in Japan.

*Singer Co.*

1. Subsidiaries: Commercial Controls Canada Ltd. (Canada) ; Friden (Holland) N.V. (Netherlands) ; Friden S. A. (France)—86%; Singer Co. of Canada Ltd.; Singer-Cobble Ltd. (Great Britain) ; Singer Industries Ltd. Nigeria.
2. Affiliates: Pine Sewing Machine Mfg. Co. (50% owned) which make sewing machines in a plant in Utsunomiya, Japan; Wholly owns Matsumoto Kokko Ltd. which makes cabinetware; Owns 50% of Pine Transportation Ltd.; Owns 45% of Controls Co. of Japan.

*Time, Inc.*

Company publishes 6 international editions of Time Magazine.
Subsidiaries: Time-Life International de Mexico, S. A.; Time-Life International (Nederland) N. V. (with subsidiaries in England, France, Switzerland and Curacao) ; Time International of Canada Ltd.; Little Brown & Co. (Canada) Ltd. 60% owned.

*American Metal Climax*

1. Some subsidiaries are: Climax Molybdenum N.V. (Netherlands) Amax Exploration Quebec Ltd.; Amax of Canada Inc.; Kawneer Co. Canada Ltd.; Northwest Amax Ltd. (Canada) 75% owned the Climax Molybdenum Co .of Michigan owns the Climax Molybdenum Development Co. (Japan) Ltd.

*Cummins Engine Company, Inc.*

1. Subsidiaries (wholly owned) ; Cummins Diesel of Canada Ltd.; Komatsu-Cummins Sales Co. Ltd. (Tokyo-Japan) 51% owned.
2. Foreign Licensees, etc.; Komatsu Mfg. Co. Ltd., Tokyo, Fried's Krupp (Germany), Diesel, Nacional S.A. (Mexico) etc., Mexico City.

*Lever Bros. Co. (Unilever Ltd.)*

Has interests all over the world, including Japan—subsidiaries and affiliates are not listed separately.

*Booz, Allen & Hamilton, Int.*

International consultant firm in Canada, West Germany, France, Mexico, etc.

*Bell & Howell Co.*

1. Markets in U.S. a line of cameras produced by Canon Camera Co. Inc., Tokyo and sold as Bell & Howell—camera equipment.
2. Owns 90% of Japan Cine Equipment & Mfg. Co.
3. Wholly owned subsidiaries include: Ditto of Canada Ltd. Toronto; Bell & Howell Canada Ltd. Toronto; Bell & Howell H.B., Sweden; Bell & Howell France S.A. Paris; Devry Institute of Technology of Canada, Ltd. and other subsidiaries in Sweden, Belgium, Switzerland, etc.

*Pfizer, Inc.*

Produces in Japan—owns Pfizer Int. Corp. (Panama) ; owns 80% of Pfizer Taho Co. Ltd. (Japan).

*Kaiser Aluminum & Chemical Corp.*

Company has world wide foreign affiliates in Japan, England, Canada, Germany, Italy, etc.

*Marcona Corporation—Subsidiary of Cyprus Mines*

Has some world wide affiliatesh—as $250 million contract to provide Japanese Steel Makers with 4.2 million tons of lump ore.

*General Motors Corp.*

Has world wide holdings such as: General Motors of Canada, Ltd.; Motors holding of Canada Ltd.; Vauxhall Motors Ltd. (England) ; Adam Opel (Aktienogsellschaft (Germany) General Motors Holden's Ptg. Ltd. (Australia) etc.

*Clark Equipment*

Company's products made world wide by licensees, some of whom are in Japan. Subsidiaries include: Canadian Tyler Refrigeration Ltd.; Clark Equipment of Canada Ltd.; Clark Equipment Ltd. (Great Britain). Also in Switzerland. France, Venezuela, West Germany, Belgium, Brazil, Argentina, Mexico, Spain, etc.

*Quaker Oats*

Subsidiaries: Quaker Oats Co. of Canada Ltd.; Quaker Oats Ltd. (England); Quaker Oats Co. (Germany); Quaker Oats Co. (New Zealand); Also in Mexico, Nicaragua, Colombia, Sweden, etc.

*Deltec International Ltd.*

1. Company is in investment banking business primarily in Latin America and Europe.

*Litton Industries, Inc.*

1. Has plants world wide, including Japan

*Chrysler Corporation*

1. Subsidiaries include: Chrysler Antemp Ltd. (England); Chrysler Australia Ltd.; Chrysler Canada Outboard Ltd. (Canada); Chrysler Canada Ltd.; Chrysler Antemp S.A. (France); Rootes Motors Ltd. (England) owns 73.3%; (Company entering into agreement with Mitsubishi Healy Industries Ltd. subject to Japanese government approval to form joint auto venture in Japan. (65% Japanese owned.)

*American Export*

1. American Export Industries owns 97.49% American Export Isbrandtsen Lines, Inc.
2. Owns 95% of Premium Iron Ores Ltd. (Toronto); owns American Export International, Inc.

*Xerox Corporation*

1: Company is world wide; some principal subsidiaries include: Universal Microfilms Ltd. (England); Xerox of Canada Ltd.
2. Company affiliates include: Bank Xerox Ltd. (England) owns 50% of Fugi-Xerox (Japan)

*Chase Manhattan Bank*

Has branches in many countries.

*First National City Bank*

Has branches in many countries.

*Bank of America*

Has branches in many countries.

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## STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL ON EXPORTS OF PRODUCTION AND JOBS

ATLANTA, GA., MAY 12, 1971

Programs to export U.S. employment and promote low-wage labor markets abroad undermine labor's goals everywhere. Such programs are a mockery of international development and goodwill. Policies to subsidize profit greed at public expense destroy labor's goals of better living standards and working conditions in the U.S. and every other nation. Such policies must be changed. The programs must be halted.

U.S.-Mexican economic relations are the closest and clearest example of a growing problem. Despite three decades of steady economic growth, a strong currency, and the production of autos, paper, glass, chemicals, and other industrial products, Mexico remains a non-consumer based economy, highly managed by government direction and closed to imports that it determines are not necessary for Mexican development. U.S. and foreign firms have invested billions in subsidiaries and other affiliates to produce in Mexico, because Mexican laws require production in Mexico for sale in Mexico of many products. Wages are low, often ranging from about 20 cents an hour to 46 cents an hour.

Despite economic development in the interior of Mexico and billions in investment by U.S. and other international firms, several years ago the Mexican government established a "Border Industralization Program," designed to lure U.S. firms to use low-wage Mexican labor along the 1,600-mile border between the Mexican and U.S. economies. The U.S. Administration has continued to encourage this program. Since its first public notice in 1967, when 30 U.S. companies were operating plants in the Mexican border industralization area, the number soared to 219 last year and about 250 at present. Regulations and measures of the Mexican and U.S. governments, in combination, have promoted this export of American jobs and displacement of U.S. production.

U.S.-owned plants on the Mexican side of the border receive special tax and tariff breaks from the Mexican government, including exemption from its tight controls on foreign trade. They pay substandard wages to assemble components from the U.S. into final products for export to U.S. markets. These goods usually come into the United States, under the special low tariff duties of items 806.30 and 807 of the U.S. tariff schedules, and are sold at American prices.

The Mexican government recently announced the extension of these border industrialization lures into the interior of the country, with reports of subsidies for exports. The lures are directed not only to American firms, but to companies of other countries, which would be given many tax and tariff incentives to operate plants to produce for export, essentially to the nearby lucrative American market, with low transportation costs, as well as low wage costs and Mexican concessions on taxes and tariffs.

There are now at least 500 manufacturing subsidiaries of U.S. companies in the interior of Mexico—in addition to those on the border and aside from licensees and other joint venture operations. There are also subsidiaries of numerous companies from other countries operating throughout Mexico.

The extension of the Mexican government's program of tax and other incentives for the production of goods for export presents American workers and trade unions with the immediate threat of a rising flood of imported goods, produced at substandard wages and with various Mexican government benefits.

In the world of 1971, international firms, with production units in Mexico, frequently have similar plants in Hong Kong, Taiwan, Korea, France, Germany, and Haiti and in other parts of the world. History has shown that U.S. tariff code loopholes, like items 807 and 806.30, merely aid companies to take advantage of the cheapest labor in the world for the assembly of goods, until the multinational companies, with the aid of foreign governments, can produce whole products for export to the United States.

The AFL–CIO's compilation of the numbers of industrial concerns moving from the United States to Mexico to export back to this country—first, the assembly of components, under tariff schedule items 806.30 and 807, and subsequently, the production of entire products with the further displacement of American jobs—confirms the view that the Border Industrialization Program has assumed utterly unacceptable economic and social proportions for the United States, far in excess of any questionable benefits to the Mexican workforce, employed at substandard wage rates and working conditions by U.S. firms operating in Mexico.

Technology and transportation have speeded up the process of exporting American jobs. A major part of a whole industry—such as consumer electronics—can be exported from the U.S. within five years. The export of American jobs and displacement of U.S. production is escalating at a tremendous pace.

The AFL–CIO views with grave concern the coincidence of high unemployment in the United States with government economic policy and the pursuit of low-wage labor markets abroad by U.S. companies, enhanced by subsidies and bootlegged assistance.

We urge the following actions by the U.S. government:

The Congress should repeal items 807 and 806.30 from the tariff schedules of the United States.

U.S. customs officials should enforce U.S. laws against dumping, the subsidy of exports to the United States and other practices which injure American workers and the U.S. economy.

Imports of products which displace significant proportions of U.S. production and/or employment should be regulated by quantitative quotas.

U.S. labeling laws—on foreign origin, as well as health, safety and similar standards—should be effectively enforced and expanded.

The reporting of investment, production, employment and trade by U.S. firms in Mexico should be required by the United States government.

The United States government should discourage participation in Mexican border industrialization arrangements by U.S. firms and direct government agencies to cease their encouragement of this mushrooming operation.

Border crossings of Mexican labor should be regulated effectively through legislative action and adequate administrative measures.

We urge the government to press in appropriate international agencies, for the establishment of international fair labor standards in world trade.

We support the orderly expansion of world trade. We oppose the promotion of profit greed at public expense or the undercutting of United States wage and labor standards. We want expanded trade that expands employment at home and abroad and that improves living standards and working conditions, here and abroad. We want the U.S. government to protect the interests of American workers against the export of American jobs. We want the government to halt the undermining of the American economy.

We serve notice on the Administration that we will not rest until the U.S. government effectively and adequately protects the interests of American workers and the American economy, by curbing the mounting displacement of U.S. production and export of American jobs.

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## Statement by the AFL–CIO Executive Council on the Critical Need for New International Trade and Investment Legislation

There is a critical necessity for the United States to adopt new international trade and investment legislation that will meet the realities of today's economic world and the needs of the American people for a healthy economy.

Rapid changes in international economic relationships have deteriorated America's position in world trade and affected the world standing of the American dollar.

Other major nations have adjusted their policies to benefit their national interests, but the United States has failed to adjust. These nations have managed national economies, subsidized exports, erected barriers to imports and geared their tax structures to foster these practices.

Meanwhile advances in transportation, communications and technological advances have accelerated the scope and pace of change. American technology has been transported overseas and production and employment have been exported to other lands. Multinational firms and banks, usually U.S.-based and sometimes in tandem with foreign-based multinationals, now have global operations which benefit from the policies of every country, but which are beyond the reach of present U.S. law or the laws of any single nation. The policies of these U.S.-based firms and banks are designed solely to profit the corporations and are made with disregard for the needs of the United States, its economy and its people.

Over the past decade, U.S. firms have invested billions of dollars in their foreign subsidiaries, rising from $3.8 billion in 1960 to $13.2 billion in 1970. Outlays for foreign affiliates this year are expected to be more than $15 billion, with $8 billion in spending projected for manufacturing facilities alone. In addition, joint ventures, foreign licensing and patent agreements and other relationships of U.S. firms abroad have changed the patterns of the U.S. economy in its relation to world trade and investment.

As a result of all these developments: U.S. exports have been retarded. Imports have been spurred. Production has been displaced. Jobs and employment opportunities have been exported.

In view of the fact that existing laws are no longer capable of meeting the problems and the realities of the 1970s, the AFL–CIO proposes that new trade legislation, embracing the following concepts, be enacted.

1. *New tax measures to halt the export of U.S. jobs, remove the incentive to establish production and assembly facilities abroad, and create tax disincentives to curb expanded production abroad.*

Profits earned by the foreign operations of U.S. corporations should be taxed at the time that they are earned. Under present law, corporations are allowed to defer U.S. taxes until they are repatriated to the U.S. and distributed, which may never happen. Foreign tax payments should be allowed a deduction on U.S. taxes, but the present allowance of a tax credit should be halted.

A treasury study and report should be undertaken to determine the degree of enforcement and compliance with Section 482 of the Internal Revenue Code. Under this provision, the IRS has the authority to require corporations to attribute their income to the specific foreign subsidiary where the income was earned. Its purpose is to prevent corporations from allocating their foreign income among various subsidiaries so as to pay the minimum possible taxes.

Wherever corporations with global accounting systems are found to be not in compliance with Section 482, they should be given a reasonable period of time for compliance, but compliance should be made mandatory in all instances.

The amount of write-offs, under U.S. tax laws, of depreciation presently allowed to U.S. corporations, for their foreign subsidiaries, should be replaced by a sliding scale allowance which relates to the tools, technology and purpose of the facility. If, for example, 100% of the capital assets (machinery, etc.) in the foreign subsidiary was developed at the expense of the U.S. government and the U.S. taxpayer, the depreciation allowed would be zero. However, if the production of the foreign subsidiary serves a great social purpose and has no adverse impact on U.S. trade, then the depreciation allowance could be the maximum.

A tax should be imposed on the value of any patents, licenses and technology that are exported. Further, a tax should be levied on the royalties received by U.S. companies.

Items of the Tariff Schedule which help to transfer production abroad should be repealed. As an example, item 807 and item 806.30 are an open invitation to U.S. multinational firms to use low-wage foreign labor to assemble products outside the U.S. and then ship them back to the U.S. at a specially low tariff rate. Both of these items should be repealed because they have spurred the export of production and jobs.

2. *Supervise and curb outflows of U.S. capital.*

Clear legislative direction is necessary to give the President authority to regulate, supervise and curb the outflows of U.S. capital. At the present time, controls on foreign investment are loose, inadequate and not related to trade and production. Authority within the President's hands should include considerations for the kind of investment that would be made abroad, the product involved, the country where the investment would be made, the linkage of the investment to the flow of trade and its effect on U.S. employment and the national economy.

We object to the AID legislation now before Congress which turns over to multilateral agencies, such as the World Bank, the supervision of private investment abroad for AID purposes.

In addition, there is a strong need for a report on enforcement of 22 USCA 2370 (d) of the Foreign Assistance Act of 1961. This provision in the law was aimed at keeping development loans from disrupting U.S. production. It requires that not more than 20% of production in a foreign factory created by a development loan may be exported to the U.S. to compete with U.S.-made products. To date there has been no disclosure as to the operation—or effectiveness—of this provision.

Similarly, the reports of the Export-Import Bank should include a yearly review of the impact its loans are having on U.S. exports, imports and the national economy.

3. *Supervise and Curb Export of Technology.*

U.S. government policy has encouraged the export of technology in recent years. U.S. companies have been licensing production to foreign licensees and patentees who produce behind foreign trade barriers for export to the U.S.

This policy should be reversed by giving the President clear authority to regulate, supervise and curb licensing and patent agreements on the basis of Congressionally determined standards. These would include, the kind of investment, the product involved, the country of investment, the linkage to trade flows from such transfers and the effect on U.S. employment and the economy.

4. *International Fair Labor Standards.*

Reports should be made to the U.S. government (Labor Department) on foreign wages paid by the military and U.S. business. These reports should be on the same basis that U.S. law now requires reporting on wages, hours, etc. within the U.S. Only by this means can data be acquired that gives a perspective of labor factors in these U.S. foreign operations.

The State Department and other U.S. agencies should press for international fair labor standards in trade agreements.

5. *Quantitative Restraints.*

It should be the expressed policy of the United States to recognize that the healthy expansion of the world economy is linked to the continuation of a diversified, productive and fully employed economic and social system here, as well as abroad. To assure this policy, mechanisms should be established to avoid the continued displacement of U.S. production, tax-base erosion, market disruption and export of American jobs.

Quantitative restraints, with a base year of 1965–69, should be applied to products and parts of products imported into the United States, allowing for a flexible growth factor related to U.S. production of the item. Exceptions to such quantitative quotas could be:

(a) where a legitimate voluntary agreement now exists or is negotiated on the item with other supplying countries; and

(b) where the failure to import the item would disrupt U.S. production and U.S. markets.

A review of the operations of such restraint mechanism should be made after one year to determine the degree of effectiveness in achieving the above stated objectives.

To carry out this program, a single agency with quasi-independent authority to serve the Congress should be established. This agency would determine the quantitative limitations based on the criteria established, advise, the Congress of necessary interim adjustments for items where data are not available, and supervise the maintenance of the program. Because of the broad spectrum of its operation, the agency should be composed of the merged operations of the Tariff Commission with the necessary trade-related parts of the Commerce, Labor and Treasury Departments.

6. *Truth in Labeling.*

Products should be clearly labeled to show the country of origin for components and parts as well as the final product. For example, a TV set made from parts produced and assembled in Taiwan, Hong Kong, U.S. and Korea should show the source of the components as well as the final product. The current law places labeling within the discretion of the Secretary of the Treasury and, as now functioning, does not give the consumer truthful evidence of where the product, or its parts originated.

Similarly, advertising of imported products should include references to the country of origin of the products and components.

7. *Consumer Protection Enforcement.*

All imports should conform strictly to all laws designed to protect the safety and health of American consumers.

8. *International Accounting.*

Federal standards for international accounting by U.S. firms with foreign operations should be established and enforced. Such accounting standards should be consistent with the uniform accounting required by Section 718 of the Defense Production Act of 1950.

Under current law Customs officials classify imports under general categories related to the collection of tariffs rather than to the actual description of the imported product. Census and Customs Bureaus should have consistent reporting systems so that imports can be related to production in the United States. The Tariff law should be amended so that shipping declarations and invoices include product descriptions.

9. *Escape Clause and Dumping.*

The Antidumping Act of 1921 must be modernized to assure effective action against dumping. Under current operations, dumping findings have taken as much as two years. Interpretations of the law have not made clear that employment and working conditions should be part of the test of injury to an industry. The law should shorten the period of a finding of sales at less than fair value (dumping) to 4 months, make the injury determination simultaneous with the determination of sales at less than fair value, and place the determinations within the single agency established to supervise international trade.

The escape clause of the Trade Expansion Act of 1962 has been interpreted to make findings of injury almost impossible. This provision allows the United States government to raise tariffs or impose quotas when a finding of injury is made by the United States government. The new agency should replace the Tariff Commission and much easier tests of injury should be available. These tests should include labor effects, such as underemployment, loss of fringes and wage effects.

Not all provisions of the Tariff and Trade laws grant standing to sue to employees and their representatives. Thus, in an investigation where multinational corporations are involved, the "U.S. industry" is the only party which is allowed to bring suit. In the escape clause, however, employees are permitted to bring suit. There should be a consistent provision throughout U.S. trade and tariff laws providing that workers in the United States have legal standing to bring suit cooncerning injury.

Senator RIBICOFF. Thank you very much for your very important contribution. I hope the other members of the committee will allow me to defer to our chairman, who has another committee meeting, for first questioning. Senator Long.

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

Mr. Meany, let me applaud you for a very fine statement. I was so impressed by the statement that Mr. Biemiller made on behalf of you and your organization some time ago that I put it in the Congressional Record, and even went back and asked that it be printed a second time. I think every American ought to read it.*

Now, while it is possible to have a trade policy that is good for the country although it might not be good for some small or isolated segments of our Nation, is it very likely that we could have a trade policy good for the country but at the same time bad for 70 million laboring workers and their families?

In other words, can you conceive of a trade policy being good for the Nation even though it is bad for 70 million laboring people and their families?

Mr. MEANY. No; because in the long run if it is bad for the 70 million people in the work force it must be bad for the entire economy because you are destroying the consumer purchasing power which must be the basis of our economy.

Senator LONG. It would seem to me if it is a bad thing for 70 million working people and their families there is not a great deal more than that in this country when you really get down to it. That I should think would take care of about 85 percent of the people—those that work for a living—wouldn't it?

Mr. MEANY. Yes.

Senator LONG. So when your organization finds that it can no longer support a trade policy that we have followed for many years, it is time to start really asking some questions.

Has your organization always taken this attitude toward free trade or was there a time shortly after World War II and for several years thereafter when you did support a world free-trade policy?

Mr. MEANY. We supported the so-called free-trade concept since the establishment of the Hull Reciprocal Trade Pact which I think was in 1934, and we have consistently been international minded with this. We want to trade with other countries in the world. But we have an entirely different picture today than we had 30, 35 years ago.

Senator LONG. Well, basically speaking, the kind of program that you were supporting, as I understand it, was the sort of program where we sell the other fellow something that we can produce more cheaply than he can produce, and he sells us over the long term an equal amount of commodities that he can produce more cheaply than we can produce, and it was that concept that you were supporting down through the years, I take it.

Mr. MEANY. Yes.

Senator LONG. You never intended to support a program where you are bankrupting the country on the one hand buying commodities you can't afford and displacing literally hundreds of thousands of honest working people from their hard-earned jobs. That sort of thing you never had in mind, I take it.

Mr. MEANY. No.

Senator LONG. Now, if you look at the pure theory of free trade, were you aware of the fact that the purist, in terms of free trade, thinks

*Congressional Record, May 11, 1971, pp. S6586–6589.

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in terms of a free flow of capital to go wherever it can produce goods more cheaply?

Mr. MEANY. Well, that may be the purist theory, but under that theory, of course, you go where you can produce most cheaply, but the theory was we could establish some other industries to take up the slack, but that is not happening.

The potential of this present trend is enormous. You now can't buy a radio that is made in this country any more, and they tell me that in television that it is almost the same. The shoe industry has been leaving the country. The manmade fibers and textiles are going out of the country. The tire industry is going out of the country.

Senator LONG. Well, a witness for the Zenith Corp. testified yesterday that while the Japanese and others have taken almost 100 percent of the American market for radios, and a great deal of our black-and-white television market, his company can still, even at American wages, produce and ship color televisions to Japan and sell in that market cheaper than the Japanese can do it, but they won't let him sell color televisions in Japan.

Mr. MEANY. This is the trouble. In this international picture we are the most open country in the world, and all these other countries have laws and rules that block our selling in this country. In fact, in a good many of these cases when they set up factories in these other countries they do so under the express agreement they will not even attempt to sell in that country; that is, the product will come back home.

Now, in the electronics industry, even though we can still produce things cheaper, we have figures compiled by the International Union of Electrical Workers, AFL–CIO, that in the 4 years from 1966 to 1970 this industry lost 127,000 jobs. This is in the consumer electronics industry alone—and the industry concurs in these figures.

Now, if this trend continues in the direction which it is going, and the figures show that it is expanding, especially this Mexican-border complex, the question naturally arises: Where is the purchasing power coming from to buy the things that we can make? In the final analysis the best customer of American business over the years has been the American people, the American worker. Now if we are going to continue to lose these jobs, I don't know where the purchasing power will come from.

Now we are told by some of the people you call the purists that, the minute we can't make something cheaper than another nation, we should stop making it and we should then do something in the way of a new product which we can make cheaper than anybody else, and put it on the market.

However, when you take a plant in a small town, a one-factory town, with 2,500 employees, and you put them out of business, what do you do with those 2,500 employees? Do you pay them their unemployment insurance, and then they go on relief, they go on welfare? The idea that you can train them to build up some new product is not a very practical idea, but this is the theory of the purist that we have got to meet this foreign competition by producing something with these workers that we can produce cheaper than anyone else. I don't see the new good-paying jobs coming up in this country to replace the jobs that we are losing, and in the final analysis I don't see where the purchasing power is coming from to keep American industry going if this trend continues.

Senator LONG. Well, it is sort of like saying that according to these pure theories in the long run everything is going to be all right.

But in the long run we are all going to be dead in our graves. Some of these workers you have been speaking for will have starved to death in the meantime waiting for all these things to correct themselves.

I applaud you for taking a practical, commonsense point of view. I support the kind of trade I believe you support, Mr. Meany, and that is where it is a good deal for both sides. But this sort of thing where it is a "heads I win, tails you lose" proposition—people who insist on frequent access to our market and who will not permit us to sell in theirs—I must say that I share your concern. I also share your concern about losing good jobs to be replaced by substandard jobs while we wait and hope for them to raise wage standards in these foreign countries.

Now, it may be that someday the Koreans and the Taiwanese, and the people of Hong Kong and the Japanese, will raise their wage standards up to where their pay is in line with ours, but meanwhile we would have lost most of our best industries. That is the way it is working out, isn't it?

Mr. MEANY. Yes.

Senator LONG. Thank you very much.

Mr. Chairman, I appreciate very much your kindness. I am supposed to be managing a bill in the Commerce Committee right now and I have to leave now but I appreciate having the opportunity to present my views.

Senator RIBICOFF. Thank you, Mr. Chairman.

Senator Hansen.

Senator HANSEN. Well, Mr. Meany, let me compliment you on your very excellent testimony. I happen to be in the livestock business in Wyoming and I recall a few years ago, and I am not trying to speak disrespectfully or to discredit any previous administration because as far as I am concerned this policy with respect to trade has not known any political label.

It has been the same one under Republicans and Democrats alike and I think it is no good, I think it is costing us jobs and putting people out of business, and will make inevitable the need for greater welfare rolls.

But I recall when there was some concern about the price of shoes in this country, if we continued to export hides to Japan and for the manufacture of leather that it might result in shoe prices going up so there was an embargo put on cattle hides.

Well, that cost the American stockman about $7 per annum. That is exactly what it amounted to in the decreased selling price of the average head of livestock.

Now, this year, the same thing can be said for wool. I have talked to a number of woolmen who, with the deteriorating textile industry activity in this country, can't find any place to sell their wool. Sales have been as low as 15 cents a pound, and have gone up; the highest one I know of has been about 29 cents a pound, and yet when we tried to develop an export business with Japan to provide them some livestock over there, just as soon as it was set up, Senator Bellmon tells me, and they had a little chance of getting off the ground, the Japanese immediately put a duty of $180 per head on each calf that we proposed to ship from this country to Japan. As far as I am concerned, I think the philosophical side of this argument has gone completely by the board.

I am not concerned any longer in trying to debate the issue, "Does free trade make good sense?" I think that there may have been a point at one time that we all started out evenly and, if wages were the same throughout the world, then I can agree with the philosophical idea; but to me it seems we have got to get down to the practical basis of trying to support, on the one hand, the standard of living that we have in this country, and I think it ties right directly to the 70 million laborers that you represent and I agree with you completely when you say that you can't separate their welfare, on the one hand, from the welfare of the 205 million people, all Americans, of whom they are a part. I think if you hurt the labor in this country you are going to hurt America.

It is just that simple, and I am not at all sympathetic with these multinational corporations or with foreign companies that want to have access to our markets and yet want to apply their own rules.

So, I don't really think I have any questions. You have made a wonderful statement. I think you underscore the important fact that must be kept in mind by every American as we consider this very serious problem today, and that is what we are doing to American jobs. Do we want to put Americans out of work by our shortsightedness and by our blindness as we contemplate the commerce that we have today, and if we want to do that all I can say is that we are sure headed in the right direction. If we are concerned about how our people live here then I think we have got to recognize that we, through our goodheartedness and our desire to try to set a standard, have been pursuing a course that will inevitably bring about the downfall of American labor and seriously result in the deterioration of our standard of living.

I compliment you on a very excellent statement.

Mr. MEANY. Thank you.

Senator RIBICOFF. Senator Talmadge.

Senator TALMADGE. Mr. Meany, I want to join my colleagues in complimenting you on your very excellent statement. I concur with virtually everything that you have said. Is it not true that at the present time there are about 50 billion U.S. dollars in Europe?

Mr. MEANY. Well, I don't have the detailed information on that. I read that in the paper.

Senator TALMADGE. Approximately correct, is it not?

Mr. MEANY. 50 billion, these so-called Eurodollars.

Senator TALMADGE. But we have only about $10.7 billion in gold to pay them if presented for payment, is that correct?

Mr. MEANY. I think so; yes.

Senator TALMADGE. You are aware of the fact, I am sure, that, on a c.i.f. basis rather than an f.o.b. basis, the true trade deficit over the past 5 years is about $15 billion, are you not?

Mr. MEANY. About that.

Senator TALMADGE. We wouldn't have these billions of dollars floating over the world unless there was something seriously wrong with our trade practices would we?

Mr. MEANY. I would think so.

Senator TALMADGE. I read with interest your concluding statement, and I refer to paragraph five:

In the face of growing unresolved problems, an orderly marketing mechanism is needed immediately to regulate the flow of imports into the United States of those goods and product lines in which sharply rising imports are displacing significant percentages of U.S. production and employment. Such quotas that bar the rapid displacement of U.S. production and employment by floodtide of imports could slow down the disruptive impacts on American society and help to provide an orderly expansion of trade.

What you are really talking about there is protecting the job opportunities of American people, are you not?

Mr. MEANY. What we are really saying here is that we don't want to shut out all the other people in the same area, but we are saying that they shouldn't be allowed to displace all of our people. That they should be given a quota that would at least leave our people in the industry. In some trades, in the shoe industry, in particular, we are face to face with the possibility of eliminating this country from the manufacture of shoes completely. That is now a definite possibility.

Senator TALMADGE. Also in many other areas, such as textiles.

Mr. MEANY. Oh, yes.

Senator TALMADGE. I believe Secretary Stans testified that we are losing about a hundred thousand jobs a year in our textile industry. Do you think that is in our national interest?

Mr. MEANY. I don't think so, no.

Senator TALMADGE. I certainly don't, either. In my State we have about a hundred thousand people that work in the textile industry and about 65,000 that work in the garment industry, and I don't believe they sent me to the U.S. Senate to help liquidate their jobs. Do you share that view?

Mr. MEANY. I certainly do, Senator.

Senator TALMADGE. If this continues, in my judgment, the textile industry in a few years will be completely destroyed. Do you think that is in our national interests?

Mr. MEANY. No, I do not.

Senator TALMADGE. About two and a half million people, I believe, are involved in textiles directly or indirectly. It has been reported that in the event of a war that is the second most important industry in our country, second only to steel. Do you share that view?

Mr. MEANY. Well, I don't have any comparative rating of importance. But it certainly is an important industry. I don't know whether——

Senator TALMADGE. You don't think the welfare check is any substitute for a job.

Mr. MEANY. No, sir; I do not.

Senator TALMADGE. Neither do I.

Some people talk about free trade, and it sounds fine as a theory, but do you know of any major power on the face of the earth that practices free trade to date?

Mr. MEANY. No, I do not and frankly I can't understand why the United States, in this area, shouldn't deal with the countries on the same basis as they deal with us.

Senator TALMADGE. In other words, bilateral rather than the most-favored-nation practice?

Mr. MEANY. Why should we be wide open to a country like Japan that blocks practically everything that we produce; why should we have this open-door policy when they shut the door in our face?

Senator TALMADGE. The last time I saw the record the Japanese had some 98 restrictive quotas on imports. Is that substantially correct?

Mr. MEANY. Yes, and it is not just Japan. It is other countries too.

Senator TALMADGE. That is true.

Mr. MEANY. I think we should deal with them on the basis of the way they deal with us.

Senator TALMADGE. For the last several years Japan has been running an enormous trade surplus of about one billion and a half dollars a year. Is that approximately correct?

Mr. MEANY. That is what our figures show.

Senator TALMADGE. And they send to us sophisticated products that are labor intensive. Our principal exports to Japan are coal and lumber and things of that nature which are not labor intensive. Are you concerned about that?

Mr. MEANY. Very much concerned about it. We are very much concerned about the fact that these American corporations are introducing into these countries machine tools and technology developed in this country, so that they not only get the cheaper wages but they get the advantage of modern methods of production, which further puts us at a disadvantage.

Senator TALMADGE. There is considerable talk about a trade war if we do anything to try to protect American jobs.

Mr. MEANY. Oh, yes.

Senator TALMADGE. Do you think any country that practices greater protectionism than we do and has a trade surplus with us is in any position to initiate a trade war?

Mr. MEANY. Well, I have no fear of a trade war. I think that we are already in some sort of a trade war, and I don't think that we can afford, and this is a very practical approach, I don't think we can afford to see our production go overseas. I don't think we can afford to lose any more jobs, because the inevitable result is the enlargement of the relief rolls.

Now the relief rolls are going up at a tremendous percentage, and we are going to get to the point soon where the whole thing is going to collapse. It is not going to be possible for those who work to support those who are on relief. In the city of New York last month 17,000 new people, I understand, went on relief. The ratio there is now one person on relief to every six-and-a-half persons working, something like that.

Where do we get, if that ratio gets down to 1 to 5, 1 to 4?

Senator TALMADGE. It gets to the point where the working people can't support the nonproductive people, does it not?

Mr. MEANY. That is right.

Senator TALMADGE. Now, with reference to Japan, you are aware of the fact that our country absorbs 50 percent of Japanese textile exports, are you not? European countries absorb only 5 percent. In other words, they take one-tenth of what the United States takes. Yet they have more people than we have, less unemployment than we have, and greater gold reserves than we have, is that not correct?

Mr. MEANY. That is so.

Senator TALMADGE. You know where the Japanese buy most of their cotton at the present time, don't you?

Mr. MEANY. No, I don't.

Senator TALMADGE. Mexico. They buy the cotton from Mexico and ship the textiles to us. Do you think that is a fair trade? Neither do I.

You made a reference in your statement as to whether consumers benefit by large imports. I wish you would restate your view on that, please.

Mr. MEANY. Well, we point out that in a good many cases the imports made by American corporations with American technology and with everything American except labor, that we point out that the consumer does not get the benefit of a price reduction in most of these areas. Now the auto companies in 1971 are importing a good deal of the things they put into the finished car. For instance, the motors for some of Ford cars are made in England, and despite the increase of auto imports, the automobile companies in this country have raised their prices. The prices have gone up in 1970.

Shoe prices have gone up 38 percent between 1960 and 1970, and this, of course, is at a faster rate than the Consumer Price Index, and this at a time that more and more shoes are being made abroad and more and more thousands of American shoe workers are losing their jobs.

Senator TALMADGE. And that provides jobs for foreign workers and displaces American workers, does it not?

Mr. MEANY. That is right.

Senator TALMADGE. Do you know if the Department of Labor has conducted the studies necessary to show the job impact of our trade policies?

Mr. MEANY. No, they haven't; so far as we know they have not. Most of the studies that we have are made by private organizations, including in most cases the representatives of the workers who are adversely affected. But the Department of Labor hasn't anything on this.

Senator TALMADGE. Has your staff ever done an analysis of the jobs created and lost by our foreign trade and, if so, can you submit that for the record?

Mr. MEANY. Yes, we can supply you with our figures on it.

(Information supplied follows:)

THE EMPLOYMENT IMPACT

AFL-CIO President George Meany pointed out to the Subcommittee, at its hearing on May 18, that there is a "lack of data and information on the impact that international trade has on U.S. workers. There is a great void of information bearing on the employment impact and other effects on workers."

The only available information from government agencies is the rough, limited and over-all estimates, presented by George Shultz, when he was Secretary of Labor, to the Joint Economic Committee of Congress in 1969 and to the Ways and Means Committee of the House of Representatives in 1970.

These rough general estimates of the U.S. Department of Labor indicate the net loss of 500,000 American job opportunities in the three years, 1966–1969.

In his statement to the Joint Economic Committee, Dr. Shultz reported that about 74% of imports, in 1966, were "nearly competitive with domestic products," about 13% were products not produced in the U.S. and another 13% were goods "produced in the U.S. but in short supply." In this regard, it should be noted that in the 1950s, according to trade experts, only about 30%–40% of imports were considered "competitive" with U.S.-made products. So, between the 1950s, and the latter 1960s, the total volume of imports rose sharply and "competitive" imports, as a portion of the rapidly rising total volume, approximately doubled.

Dr. Shultz reported to the Joint Economic Committee that "about 1.8 million jobs in 1966 would have been required to produce the equivalent volume of the 74% of imports that were competitive with U.S.-made products." He updated these estimates, in a later statement to the House Ways and Means Committee: "In 1969, if we had attempted to produce domestically goods equivalent in value to such imports, the Bureau of Labor Statistics has esitmated that we would have needed 2.5 million additional workers . . ."

These rough estimates indicate the loss of about 700,000 job opportunities, in the three years 1966–1969, due to the sharp rise of "competitive" imports.

During the same 3-year period, the Bureau of Labor Statistics estimates that the number of jobs attributable to increased merchandise exports rose only 200,000. This small increase of export-related employment was due to the small increase of the total volume of exports, the relatively low manpower requirements of much of those exports and the increasing productivity of the American economy.

Therefore, there was a net loss of about 500,000 employment opportunities in the three years 1966–1969, according to these Labor Department estimates.

The Labor Department's estimates are not precise and may well be understatements of actual developments. But the fact of substantial net losses of American job opportunities is clear.

However, there is scant information, from government or business sources on the details of direct job-displacement, resulting from trends in international trade and investment.

Reports from a number of unions indicate the following estimates of direct and specific job-displacement: In consumer electronics, reported job losses were 127,000 between October 1966 and 1969. Closings of shoe plants in 1971 involve about 10,000 jobs. In ball bearings, direct job losses were approximately 11,200 in 1970–1971. There are many others, involving plant or department shutdowns in a wide variety of industries and product-lines.

Comprehensive information on direct job-displacement is lacking because trade experts and government agencies have essentially ignored the employment and related social-impacts of developments in international trade and development. Until the U.S. government examines and publishes detailed information on these very important issues of direct job-losses—industry and product and location, as well as their impacts—such comprehensive data will be missing.

### COSTS AND BENEFITS OF DISC

The AFL–CIO maintains that by permitting corporations to spin off into a new form of corporate subsidiary organization—a so-called Domestic International Sales Corporation—the Administration is cavalierly willing to risk, through the creation of a new tax loophole, the loss of up to $1 billion annually in federal revenue, in the hope of gaining an uncertain, but at best, marginal increase in exports.

The Treasury estimates that, over time, exports will increase $1.25–$1.50 billion as a result of enacting DISC. The AFL–CIO contends that this is a highly subjective and overly optimistic estimate.

The DISC provides no incentive to increase U.S. exports. The benefits of tax deferral, under the proposal, would flow to all firms exporting goods, if the export trade is conducted by a DISC subsidiary, especially set up for that purpose—regardless of whether such exports increase, decline or remain stable.

The DISC tax benefits would go to some $33 billion of existing export sales, in order to induce a $1.25–$1.50 billion increase, if the Treasury's optimistic estimates are valid. In other words—using the Treasury's own estimates—95% or more of the tax benefits would go for exports that already exist. Therefore, the DISC "incentive" is grossly inefficient, with 95% or more of the tax benefit going for existing exports.

The annual loss of federal revenue, due to the adoption of DISC according to Treasury estimates, would be $630 million. However, the Joint Committee on Internal Revenue Taxation estimates the annual loss to be in the range of $720–$925 million, a 10-point cut in the tax rate for export corporations, using DISC. The loss in revenue would have to be made up by other taxpayers—by individuals and corporations which do not benefit from DISC operations.

In order to induce the outside estimate of a $1.25–$1.50 billion increase in exports, over time, the Treasury admits, by its own estimates, that it would give up $630 million in federal revenue—and the Joint Committee's estimate is a revenue loss of $720–$925 million.

Examination of the dollar costs and benefits indicates that DISC would result in little if any net addition to employment. In fact, adoption of DISC may result in a net loss of U.S. employment.

Approximately $630 million to $925 million of consumer income and non-DISC business income would be lost—with the accompanying loss of jobs in the production, distribution, and sale of consumer goods and services, as well as business plants and machines. Against such losses, the Treasury poses its benefit-estimate of $1.25–$1.50 billion of additional exports. But the manpower requirements of American merchandise exports are considerably less than the manpower requirements for domestic production. As a result, $1.25–$1.50 billion of additional merchandise exports would generate little if any more employment than the number of jobs lost as a result of the cost of DISC.

If one takes a less optimistic assumption about the DISC-induced extra merchandise exports—assuming merely a marginal increase—the cost to the taxpayer would possibly be greater than the increase in exports, due to DISC. And there would be a net loss of jobs. That would be the clear case, if, for ex-revenue-loss was about $600 to $900 million. Such eventuality may be closer to ample, the amount of DISC-induced exports were merely $500 million, while the reality than the Treasury's optimistic assumptions about DISC-induced extra exports.

Although it is not possible to accurately forecast the impact of DISC, it is reasonable to assume that its adoption would result in little if any net addition to employment and may result in a net loss of jobs. Surely, the Treasury Department can find better uses for $630 million to $925 million per year than to create a new loophole of special tax privilege for large export corporations.

THE EFFECTS OF FOREIGN INVESTMENT

Reports that income from U.S.-owned foreign investment are now greater than long-term capital outflows from the U.S. have resulted in a distorted interpretation of the effects of foreign investment. Such comparisons are misleading, particularly in relation to the displacement of U.S. production and employment.

It is reported, for exampe, that income returned to the U.S. from foreign investments was $8.8 billion in 1969, compared with outflows of $4.7 billion, in that year, for long-term investments in foreign countries.

Such comparison of balance of payments figures—dollar outflows and in-flows in a specific year—do not reflect the impact of U.S. investments in foreign subsidiaries and other ventures in foreign countries on imports into the U.S. or exports from the U.S. They do not present the picture of potential and actual impacts of foreign investments on America jobs and production.

The $4.7 billion long-term outflows in 1969, for example, are far from an accurate account of the actual long-term foreign investments of that year. In 1969, foreign affiliates of U.S. firms invested $10.8 billion in their foreign plants, machines and other facilities—financed by the re-investment of the profits and depreciation allowances of the foreign affiliates and by funds raised in foreign markets, as well as by dollar outflows from the U.S. While the balance of payments figures deal with the $4.7 billion of long-term outflows, the potential impact on U.S. production and employment is from the $10.8 billion invested by the foreign affiliates.

Moreover, the income returns from foreign investments, in a given year, are on the accumulated investments and re-investments in foreign operations made over a long period of time, such as 10, 20 or more years. In fact, some part of current returns are on accumulated foreign investments, including outflows, over the past half-century or more.

Comparisons of balance-of-payments investment flows, in a given year, therefore, present an utterly misleading picture ofthe actual foreign investments and their impacts on imports, exports, American employment, U.S. production and the domestic economy.

Senator TALMADGE. I believe in your statement you stated that from 1966 to 1969 imports displaced some 700,000 American workers and exports created jobs for some 300,000 workers overseas.

Mr. MEANY. 300,000. So there was a net loss of 400,000.

Senator TALMADGE. A net loss of 400,000. Do you think we can continue that policy and survive?

Mr. MEANY. It is obvious, Senator, we can't continue it. If this thing is going to go on and on, and the export of jobs is going to continue, the American standard of living is going down. This is a standard of life here in this country based on higher wages than in any other part of the world, and we certainly can't be a world leader if we are going to become a low wage welfare economy. It is just as simple as that.

Senator TALMADGE. I concur fully with you, Mr. Meany, and I congratulate you on your statement. Mr. Chairman, I yield.

Senator RIBICOFF. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Mr. Meany, I agree with much of your statement. I am concerned as you are, with the protection of American jobs. I don't think it is quite so easy to get at the problems of the multinational corporation as your statement would seem to indicate.

There is one position that AFL-CIO has taken that has puzzled me and I welcome the chance to talk to you about it briefly and that is your opposition to the Domestic International Sales Corporation idea as a means of encouraging American manufacturers to manufacture more of their components in this country, the multinational firms if you please, or companies that might become multinational firms.

I think I sense that since hearing your statement today, that part of your opposition is based on your feeling the tax deferral from multinational firms operating abroad should be denied to them.

Mr. MEANY. That is right.

Senator BENNETT. This proposal suggests that American firms manufacturing in the United States should be given the same deferral as is now available to their American counterpart manufacturing abroad.

Don't we have here the same kind of a problem that has been discussed earlier, that is the problem of the purists. As long as those tax deferrals are available abroad or until they are denied, don't you think American labor might be better off if we gave the companies the same kind of tax deferral on products manufactured for import with the idea that if we ever got——

Mr. MEANY. We have to carry the load for any taxes they don't pay, and we don't think they should have the tax deferral on their companies abroad, the American companies abroad.

We think they should pay taxes in the year they earn them, and what this DISC proposal does is take $40 billion odd of exports here and put it in a tax deferred status, because it is quite obvious if you pass this bill that all the American corporations, if they haven't got the subsidiaries here in this country they will set them up.

So you actually, you are actually giving them a tax break on some $42 billion. As far as increasing the trade, according to the Treasury statement, this would result in an increase of one and a half billion dollars. But at the same time it takes $42 billion and removes it from the current tax rolls.

Now we think any tax loophole must be made up by the rest of the people who are paying taxes at that time.

Senator BENNETT. I can't quite figure your $40 billion of a tax loophole. What is the total corporate tax paid in the United States? It is not much more than that.

Mr. MEANY. Volume. I didn't say the tax, I mean the volume.

Senator BENNETT. You said tax loophole, $40 billion of taxes.

Mr. MEANY. On $40 billion, yes, on $40 billion, not a $40-billion tax.

Senator BENNETT. On $40 billion of volume.

Mr. MEANY. Yes. According to the Treasury, this DISC bill would increase the exports by one and a half billion, one and a quarter billion, but the bill would give a tax benefit to all the present corporations.

Senator BENNETT. It was my understanding of the bill that it gives tax deferral only on the volume of business which is exported, and I don't see how you can say that it will give a tax deferral on $40 billion but only increase the export to a billion and a half.

Mr. MEANY. It is not given just a tax deferral on the increase. It is given a tax deferral on all exports and that is where the $40 billion figure comes in, all exports.

Senator BENNETT. OK. Have you estimated how many new jobs that might produce or how many jobs that might save?

Mr. MEANY. I haven't an estimate of how many jobs it would produce; no. We can give you a memo on that if you want us to go into it.

Senator BENNETT. I would think you would be concerned about that phase of it equally as you are concerned about this question of tax deferral.

Mr. MEANY. You would have whatever possible new jobs, you would have to weigh that against what the workers themselves would have to pick up in tax payments that these companies don't pay.

Senator BENNETT. Well, have you calculated the amount of tax that is involved on the $40 billion of sales.

Mr. MEANY. The Treasury estimates that the yearly loss of Federal revenue under this bill would be $630 million.

The staff of the Joint Committee on Internal Revenue Taxation estimates the annual costs would range from $725 million to $923 million. So the American taxpayer would have to make up that loss, whatever it was, whether it was $600 or $700 or $900 million.

Senator BENNETT. I think offsetting against that we should be concerned about the total volume of wages that might be paid to men in this country to produce the quantity of goods on which that much taxes would be paid.

Mr. MEANY. Well, the theory is that this would create new corporations, and we would have to test that out. Actually the first thing it would do would be to transfer the present American corporations into the status of DISC subsidiaries in order to get this tax benefit, that they don't get at the present time.

Senator BENNETT. Well, the whole thrust of your testimony is that you want to find ways by which American industry can be persuaded to stay home and manufacture their products in the United States. Now this is a way. It may not be the best way, but it is really the first specific way that has been suggested for a long time.

Mr. MEANY. Well, if this were to apply only to the increased production we, of course, would have to take another look at it but under the present circumstances it would apply on the present production that is covered by taxes.

Senator BENNETT. We don't have the other half of the balance to measure the value of the jobs against the $600 million or $700 million of potential tax deferral, and this is deferred, it is not lost.

Mr. MEANY. Yes, it is deferral and not lost.

Senator BENNETT. But if the new jobs, or if it is the old jobs saved.

Mr. MEANY. But it is deferral without limit isn't it. In other words, until the export company transfers the money to the parent company it is deferred, and there is no time limit on that.

Senator BENNETT. I think that is right because that is the situation, until it is set in dividend but of course you and I both know based on the experience of the European subsidiaries they don't hold that capital over there forever.

In fact, as I remember the figures, we are now getting more capital transferred back per year in terms of dividends than is represented by new investments boing abroad. So this thing does have a turn around point, and based on our experience abroad, can be a long range benefit. But I would be grateful if——

Mr. MEANY. We will check it.

Senator BENNETT. If you would check into the number of new jobs and the comparative volume of wages, I won't say new jobs, the jobs that would be involved in this program, either new ones created or old ones saved, because that was the objective of the idea which appeals to me.

Mr. MEANY. Yes. We will take a look at it and see what it adds up to on balance.*

Senator BENNETT. Thank you. That is all, Mr. Chairman.

Senator RIBICOFF. Senator Fulbright.

Senator FULBRIGHT. Thank you, Mr. Chairman.

On that last point, Mr. Meany, is it true that, do your figures show that, we are receiving more in return in dividends than we are investing. You said on page 3 the Commerce Department states we plan to invest $15 billion in 1971 abroad. It strikes me that if that had been true that we do not receive $15 billion dividends, do we? Do you have those figures?

Senator RIBICOFF. I believe, Senator Fulbright, last year we received $11.1 billion in interest and dividends from our investments abroad.

Senator FULBRIGHT. Is that private or overall government and private?

Senator RIBICOFF. Private investments that would not be government.

Senator FULBRIGHT. Not return of capital.

Senator RIBICOFF. Our investment abroad keep increasing and one of the saving graces in our balance-of-payments problem is the amount we are receiving on investments and interest and dividends from our investments abroad.

Senator FULBRIGHT. I am glad to know that. It looked as if $15 billion was more than we had received in dividends. I was not aware of that.

Mr. Meany, I don't want to prolong this, I am sorry I came in late, I have read your statement. As you know, the Secretary of Treasury emphasized yesterday that he considers we are in a very serious international financial condition.

Mr. MEANY. Yes, I read his statement.

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*See Mr. Meany's submission for the record, p. 192.

Senator FULBRIGHT. I think some of these matters you recommend are going to be extremely difficult—that is to supervise and curb the substantial outflows of American capital. We have toyed with the idea of restrictions on capital, we have this equalization of interest which is a very mild, ineffectual program, but I remember there were moves made to even restrict tourists abroad and everything broke loose, everybody was upset about that.

I wondered how do you think our business community is going to receive any proposal to curb their capacity——

Mr. MEANY. We are not making an issue of tourist dollars but we are making an issue of the tremendous outflows of American capital.

Senator FULBRIGHT. I know you are not, but some years ago there was an effort made to do it and there were all kinds of protests raised.

If you try to do this on business investments don't you think there will be an awful row about that. Do you think they will accept that lying down or won't there be an awful row?

Mr. MEANY. Well, Senator, when you look at this picture, with the potential, with the possibilities the way this thing is going, surely the Government would have to take some drastic action if we are going to get to the point where our mass purchasing power is down where it can't sustain American business, I think business themselves would be concerned about this. Where are the customers coming from. We haven't got to that point but the implications and the trends are all in that direction.

Senator FULBRIGHT. I certainly don't disagree with either the Secretary's statement or yours that we are in a very serious situation.

I wonder if I could approach it in a little different way. If you look back over the past 10 years what do you think is the No. 1 contributing cause to our serious situation? What has happened? As you well know not too long ago we were considered a rich country. There was even a dollar gap the other way. It was only 15 years ago that we were trying to find ways to siphon out our wealth into all kinds of countries.

Mr. MEANY. I think the major problem is really the outflow of American capital into these——

Senator FULBRIGHT. Why is it outflow. What has caused this?

Mr. MEANY. I think the basic reason is that American corporations are seeking cheaper labor, and the labor is cheaper, there is no question about it. But I contend that if we are going to maintain the type of society we have here in this country, we are certainly not going to maintain it on a competition which tends to get the lowest possible wage.

This is a high wage dynamic economy, it wouldn't look the way it looks at the present time and has looked for years. We certainly can't contemplate bringing our wages down to the Taiwan wages or even the Japanese wages, and very frankly, when you look at the present welfare system, and you look at the possible actions on that system here in Congress this year, I see the Ways and Means Committee is talking about a $2,400 minimum, and so on and other people are talking higher, well you could hire about eight to 12 workers for a full year at $2,400 in Taiwan. And I think not only the Government, I think the big corporations should take a good look at this picture. Over the years the best customer has been the American people, not overseas.

We were more or less free traders in the past. From the time of the Hull reciprocal trade tax we took a very, very broad position on international trade because we wanted to expand, expand for the benefit of the other countries, expand for the benefit of the American worker. But this situation we have today is not 1934. It is not international competition in the sense that it was back in those days. It is U.S. corporations exporting jobs, technology and capital overseas. If they can afford it, I don't think the rest of the country can afford it.

Senator FULBRIGHT. Then you think a direct prohibition of some kind by the Government on private corporations for foreign investments would be in order?

Mr. MEANY. I would like to see some study made of it. I would like to see some Government action. Surely I wouldn't want to see something that would really damage these corporations as American corporations because in the final analysis when we talk about this being a high wage economy, well somebody is putting those high wages into the pay envelope and we don't want to destroy that fellow.

But at the same time we think that we could get along without all this export of jobs and capital across the water.

Senator FULBRIGHT. It wasn't very long ago that the Government was urging private corporations to invest abroad. It was said to be a more efficient way to bring along these underdeveloped countries than direct Government aid. That was an official policy. You are familiar with that, aren't you? It wasn't very long ago that we were advocating that—isn't that true?

Mr. MEANY. We were not advocating that; no.

Senator FULBRIGHT. Well the Government was.

Mr. MEANY. Some——

Senator FULBRIGHT. I was under the impression you were.

Mr. MEANY. Maybe referring to the Peterson committee report on foreign aid putting it on a——

Senator FULBRIGHT. I was referring to before.

Mr. MEANY. Actually what we have got here we have got corporations running away from wages, high wages seeking low wages and we have had that over the years within the country, and now we are getting it on a global basis.

Senator FULBRIGHT. Well, you are familiar with the program of guarantee which has been in effect for quite a while in which the Government guarantees an American corporation if it would go to country X.

Mr. MEANY. Yes.

Senator FULBRIGHT. And invest, in other words this was an incentive, a direct incentive for American companies to go abroad. It was said to be part of their patriotic duty to go abroad and invest and a lot of these companies have.

Mr. MEANY. In the underdeveloped countries.

Senator FULBRIGHT. Some of them are now having those investments expropriated, as in Chile. Of course we do have the dilemma that particularly in minerals such as copper and iron and bauxite and gas and chrome and nickel, we are a have-not country. We have to keep our sources of supply of those coming if we are to maintain industrial society, but I would suggest to you for whatever it may be worth that our over involvement in military affairs all around the world has done much to contribute to the dislocation of our economy.

Take Japan, which you say is so profitable. We are spending hundreds of millions of dollars in the upkeep of our forces there. As was stated yesterday, we spend roughly 10 percent of our gross national product on the military, and they spend, I think, less than 1 percent on their defense. In other words, we are paying for their defense. The taxes of your workmen help pay for the defense of Japan, so that they have low taxes, not only low wages but low taxes compared with ours, which puts them at an advantage in competing with us.

I just suggest it as one element that could be considered as contributing to our lack of capacity to compete, as we used to many years ago. That is all, Mr. Chairman.

Senator RIBICOFF. Mr. Meany, I listened to your testimony with great interest. In my view it is about as significant testimony as could be given, and I would say to the foreign press for their own governments, it is an indication that there is very serious re-thinking in this country about the problem of foreign trade.

For years I think we have had a false debate in this country with words that have lost their meaning, "free trade" and "protectionism." I don't think anywhere in the world there is such a thing as "free trade" or "protectionism."

Mr. MEANY. That is right.

Senator RIBICOFF. Today I think the objective of the United States and the rest of the world has to be fair trade and reciprocity.

Here you are, representing one of the most important economic segments of American society. For years the AFL–CIO has been in the forefront of what euphemistically can be called "free trade." Now you would be accused of going all the way over, 180 degrees to protectionism.

Mr. MEANY. No.

Senator RIBICOFF. Let me make my statement.

Mr. MEANY. We will be accused of that but that is not our position.

Senator RIBICOFF. You will be accused of it, which would indicate that something is happening in the United States and in the world that we fail to recognize and the rest of the major world trading partners failed to recognize, at all our peril.

Last year our exports were some $42 billion, our imports were something like $40 billion so there is a very huge pool of trade taking place from the United States into the United States. Now there has been a great shift in philosophical thinking in this country. We do know that the countries that accuse the United States of protectionism, are themselves guilty, in many instances, of the most restrictive types of trade practices.

There are some 500 to 600 nontariff barriers in the world today. You have quotas, you have subsides from nations, border taxes, rebates, there is every conceivable type of restrictions. I don't imagine that you, as a leader, elected leader, of a large segement of the people of this country, would say that you are interested in cutting out the $42 billion of exports because certainly that would take away jobs, too.

Don't you think the time has come to appraise realistically and politically the trade conflicts in the world today. It is always right to talk about the comparative evaluation of labor and jobs, but no nation, no senator, no deputy, no foreign minister politically could sit back and watch the elimination of a large segement of his country or his State or his Nation against the inroads of imports. When you are faced with 50- to 60-year-old workers, the difficulty of retraining the shock of moving people around from generations of living in the same area, the accumulation of capital for new investments, the length of training for people for new jobs is a matter of a decade or two, it could not be done overnight—these are very real human problems we can't afford to overlook. Don't you think, with this in mind that since everyone is facing the same problem, the time has come for the major trading nations of the world—the Common Market countries, the United States and Japan—to come together for a conference to work out an agreement based on fairness, based on reciprocity, and the protection of the vital trade interests between nations and not the destruction of basic industries in each nation.

Don't you think that is over due in the world?

Mr. MEANY. I certainly do. We certainly don't want to destroy foreign trade. But we would like to have it on something of an equitable basis.

Now, I think any country that sets up those what you call nontariff barriers we should take a good look at that country and certainly try to treat them as they are treating us.

Now, I noticed that back in 1961 when Congress passed the Foreign Assistance Act that year they had a provision in there regarding development loans, and it was pointed at this very problem. It required that not more than 20 percent of the production of a foreign factory created by a development loan could be sold in the United States. We don't know how—we had never had a report of how that section of the law operated but it is an indication that Congress itself as long ago as 1961 was concerned with this problem. Now, we certainly have not been isolationists in our thinking. We have been more or less on the free trade end of it but now we are getting this, Senator, delivered to us in packages, with representatives of our workers come and say "Here is a city, here is what is happening to us, here are the number of jobs and they are gone."

So we are facing a very, very practical problem, and I think if we could look at the whole picture of world trade and set up a system on a completely reciprical basis I think we would be much better off. I think we can compete with these other countries but certainly it is not fair for them to look, to put every barrier to our trade or our selling something in their country and we sit here with open arms.

I think we have got to take a new look at this.

Senator RIBICOFF. In other words, the warning signals are up around the world, that there is very hard thinking going on in this country on the entire economic foreign policy. Do you, from your experience, think that the United States has an economic foreign policy at all?

Mr. MEANY. Not at the present time.

Senator RIBICOFF. It doesn't have any?

Mr. MEANY. No.

Senator RIBICOFF. As was testified yesterday the problem of economics in its relationship at home and abroad is one of the key factors of every basic trading nation in the world except in the United States. Can we sit idly by and have a nation without an economic policy and just have a geopolicy run from the State Department without an economic policy involving Treasury, involving Commerce, involving the Labor Department, and involving the President himself, because for the prime minister of every other country in the world, one of the key departments, and the level that is closest to him, is the economic minister of each particular nation.

Mr. MEANY. I think we have a right, as a nation, to look at the social policies of the nations we deal with. I feel that we certainly shouldn't encourage these nations that pay wages that are absolutely ridiculous, I mean these so-called coolie wages. I think one of our aims in this field should be to encourage them to develop a better standard of living in their own countries.

Senator RIBICOFF. Mr. Meany, in 1969 the countries that we protect with our defense umbrella—supposedly being protected against the danger of Eastern Europe—did an export-import business with Eastern Europe of $16.6 billion.

In the same year we did business with Eastern Europe to the extent of $444 million. Do you see any reason why the United States should not be more deeply involved in the east-west trade with nations that need American technology, need American products, not basically defense oriented, and my understanding is they would prefer to do business with the United States than any other nation in the world. Aren't we short sighted in not doing business with Eastern Europe while we are defending Western Europe against the East? Aren't we just being suckers?

Mr. MEANY. Well, it depends on what the goods are, what the strategic value of the goods is. I think we have got to look at what you call Eastern Europe. I think we have to look at that situation in a global context. Whether we like it or not this is still our competition, not only economically but militarily and otherwise, and we certainly should take a different look at Eastern Europe than we do with countries who have the same philosophy that we have.

Senator RIBICOFF. Well, if Fiat can build an automobile plant in the Soviet Union why can't Ford. I mean who's kidding who. They import the product anyway, but from our competitors who we protect with a NATO umbrella.

Mr. MEANY. If Ford would take a good look at Fiat he would not want to build in the Soviet Union.

Senator RIBICOFF. Ford wouldn't want to build.

Mr. MEANY. He would not want to build because that plant has not been successful.

Senator RIBICOFF. It may not be successful with Fiat but perhaps could be with our technology. Let me turn to China trade. We are talking about opening up China. Would you object for us to do business with China?

Mr. MEANY. I think that we could do business with China on the same basis. I think that what they really want, you know, what they really want from us is money. They want long term loans at favorable interest rates and American banks, of course would like this, too, providing Uncle Sam gives them a guarantee. I think when you are talking about the dictatorial countries. I think you have got to take a look at their policies and their purposes and their——

Senator RIBICOFF. Do you think after 50 years the United States is going to be able to tell other countries what type of government and economy they should have.

Mr. MEANY. I don't think we should tell them what type of government they should have but I think we should deal with them on the basis of our best interests and certainly our best interest, Senator, No. one, is to try to preserve this type of government we have here with all its fault.

Senator RIBICOFF. Well, in preserving this type of government, how do we hurt our Government by doing business and selling equipment that is not strategic in character to Eastern Europe.

Mr. MEANY. Well, I said before I said it depends on the strategic character of what we would sell these people. But I don't think there is an overall blanket policy that would apply to this.

Senator RIBICOFF. Now, are you concerned with this $50 billion of Eurodollars that float around between Europe and the United States, does that bother you?

Mr. MEANY. Yes, I am very much concerned with it when reports indicate that it was this money, this American controlled money that was being used about 10 days ago in a very deliberate attempt to bring down the value of the American dollar, to the profit of the people who had this money in Europe. Buying harder currency.

Senator RIBICOFF. Now you have $50 billion floating around and basically the way it has been used since it has floated around between the United States and Europe is on the basis of short term investment and speculation for manipulation of short-term gains.

You have this $50 billion. Don't you think that $50 billion could be used more constructively for investment where there is a shortage of capital, both in the United States and abroad. We could use this $50 billion constructively instead of using it for speculation.

Mr. MEANY. Well, I can't disagree with you on that argument that it should not be used for speculation. I think we could use some of it in this country.

Senator RIBICOFF. All right. Yes, we could.

Mr. MEANY. I think we have a lot of things to do in this country that this money could be used for.

Senator RIBICOFF. That is right. Under these circumstances with $50 billion floating around and no one knows where it is going to strike and who it is going to strike next don't you think there is an obligation on the part of our Government to get together with the central banks and the finance ministries of the governments that control this $50 billion, to work out some program of regulation of this $50 billion because somebody is going to do it, the Europeans are going to do it, it is mainly American money. Don't you think that the United States should be involved in making plans of how do you control this $50 billion outlaw that is riding around which could assault on any currency and no one having the control over it except speculators at any given moment.

Mr. MEANY. I don't see anything wrong with our Government havin some control over that kind of money; I don't see anything wrong.

Senator RIBICOFF. But the trouble is we have been very lax and very indifferent to this $50 billion floating around.

Now another question you raise and I think you raise a very important point. Like the $50 billion you have this multinational corporation that owes a loyalty to nobody. A corporation that is in this country, is subject to all kinds of laws and regulations of the State and Nation, and a corporation in a foreign country owes obligations in accordance with the laws of these countries. Now, what do you think U.S. policy should be toward multinational corporations basically based in the United States?

Mr. MEANY. I think the U.S. policies in this area should be based on what is best for the country as a whole. I think that there certainly should be some control of this money. I don't think the United States should allow private citizens to do things that the country itself feels it shouldn't do.

Now, as far as these multinational corporations they are now trading with Eastern Europe through their European subsidiaries, a good many of them. I think the Government has a perfect right in this situation to have something to say about how this money is used.

You say right now it is floating around, it is under nobody's control.

Senator RIBICOFF. That is right.

Mr. MEANY. Is there any other country in the world that allows its capital to run around like this?

Senator RIBICOFF. Well, I think what the world is facing today is corporations untrammeled, who are bigger than nations themselves. The multinational corporation has no loyalty, it is powerful, it can shift its money, its investments, its manufacturing as it suits them without a yes or no from anybody to anybody. So we have the question of responsibility. What should be the responsibility and to whom of the multinational corporation? Or does the multinational corporation continue operating bigger than nations themselves?

Mr. MEANY. I don't think so. I think the Government should take a good look at this whole business of multinational corporations. I ask again is there any other country in the world that allows this to happen?

Senator RIBICOFF. I think they do. I think the multinational corporation has gotten beyond any nation's control. It isn't just American companies, French companies are multinational now, English, Dutch, German.

Mr. MEANY. Are they exporting capital outside without consent? Do the British control the outflow of capital, the Germans likewise?

Senator RIBICOFF. Some. It is my understanding today that the multinational corporation is being formed over and above the sovereignity and the jurisdiction of any nation, and they have almost become a law unto themselves. Again I point this out as a grave economic responsibility of every important nation of this world to get together to come to an understanding on international investments, on currency, on reciprocity, and fairness of trade because remember we are going so fast and we are forming new economic giants, new economic conglomerates internationally such as the world has never seen before, and this is changing the economic progress of the world, because, and I think our thinking is based on past norms, Mr. Meany, and we don't have these conditions.

Mr. MEANY. I completely agree that the Government of the United States should certainly try to develop, for instance, we will develop a currency situation where allies, our allies throughout the world can work with us on currencies so that you could not attack the currency of one nation, in other words, to have some sort of a common front there, and insofar as getting into this position of the multinational corporation, setting up some sort of ground rules in connection with other governments, I am completely for that. But in the meantime while this continues, what is going to happen to the American worker, what is going to happen to our economy?

Senator RIBICOFF. This is what we are trying to find out, Mr. Meany. We are in a very, very complex situation. That is one of the reasons we have got you here and many other people this week. These hearings will continue for many more weeks to follow because I do believe that we have a responsibility here in Congress to address ourselves to basic problems in all elements of society, whether it is the geopolitics or through Senator Fulbright's committee or ecopolitics through the Finance Committee, and they both intertwine—ecopolitics and geopolitics. One final question.

On Wednesday we have a vote on the Mansfield resolution. One of the great problems of our balance of payments is that our overseas military costs us about $4.8 billion according to table 3 of the staff study. After 25 years, we still have some 300,000 men stationed in Western Europe, with some 200,000 families. You have developed a situation of the old saying, "You can do anything with bayonets but sit on them," still applies. Do you think that 25 years after the war we should have such a large contingent and we are paying for them with a short dollar supply, while our allies, who we are supposed to protect, have got all our dollars and are doing so well—should they pay for it?

Mr. MEANY. I think this is a question for the President of the United States.

Senator RIBICOFF. In other words you don't think——

Mr. MEANY. I think he has got to look at the whole global picture. I think when he looks at Europe he has got to look at Asia, he has got to look at any place where there is a threat to our way of life, I think he has got to look at Israel and everywhere else.

I don't agree with the Mansfield proposal at all.

Senator RIBICOFF (continuing). In other words, you don't think that Senator Fulbright or Senator Ribicoff or Senator Bennett or Senator Hansen no matter what their philosophy may be have an obligation as U.S. Senators to look at it as well as the President of the United States.

Mr. MEANY. I think they can look at it but I think in the final analysis the decision has got to be made under our system by the one charged with the responsibility.

Has the President of the United States?

Senator RIBICOFF. So in other words, you believe that the President of the United States should make all basic and economic and foreign policy decisions in this country and the U.S. Senate has no right to——

Mr. MEANY. No, I didn't say that. I think he should make all the decisions of a military nature. I think that is his job. And I think he has got to look at the whole global defense picture, not just the European picture.

Senator RIBICOFF (continuing). Well, of course there is no sense of any debate. I know how you feel about the Vietnam war and have felt about it but these are mistakes that Presidents have made and I think that this country is in position to change those mistakes. I think that a President doesn't have omniscience any more than a U.S. Senator or labor leader and this is in the public debate and public position.

Mr. MEANY. Well, our position on the Vietnam war is we would like to see it like everybody else, we would like to see it over. But we feel again this is a job for the President. The President said he was going to wind down the war, he was going to get the American troops home. Up to now his plan seems to be working.

Senator BENNETT. Mr. Chairman, when I was questioning Mr. Meany I discussed the question of the relative volume of income from receipts from abroad and outgo. In 1969 the total long-term investment of private capital abroad was $4,658 million and the total receipts from investment, the income balance, was $8,800 million, nearly twice as much. Now it has not, the difference has not, been that great in years immediately earlier than that, but I am quoting from tables in the hearing, in the report of the Senate Finance Committee on the interest equalization tax debate. So I think we have reached a point where in the long term we are talking now only as the Government in terms—no, talking only in terms of the effect on our balance of payments, where our investments abroad or our income from investments abroad, is substantially greater every year than our annual increase in investments abroad.

Senator RIBICOFF. Senator Long.

Senator LONG. Mr. Meany, you have left one important item out of your statement and it might be regretted. If you don't know about it I think your attention should be directed to it and your organization should be invited to put their economists to work on this matter and to comment on it. I am particularly concerned about these officially misleading trade statistics.

If I were speaking in a labor hall I wouldn't talk about officially misleading statements. I would talk about a down right Government lie so that the ordinary wage earner would understand me. We have been told for many years that the reason we have got the loss of these jobs in shipyards and on shipping and in automobile plants and electronic plants is that we are making a profit out of all this—we have to make this profit in foreign trade so we can sustain these other commitments that we have around the world. I would like for you to look at table 2 of the staff study.

(Table 2 referred to follows:)

TABLE 2.—BALANCE OF TRADE C.I.F. ADJUSTED 1960–70

[In billions of dollars]

| | Total exports (1) | Less Government-financed exports (2) | Commercial exports (3)=(1)−(2) | Total imports f.o.b. (4) | Estimated imports c.i.f. [1] (5) | Overall balance (6)=(1)−(4) | Commercial balance (7)=(3)−(5) |
|---|---|---|---|---|---|---|---|
| 1970 | 42.7 | 1.9 | 40.8 | 40.0 | 44.0 | +2.7 | −3.2 |
| 1969 | 37.4 | 2.2 | 35.2 | 36.0 | 39.6 | +1.4 | −4.4 |
| 1968 | 33.0 | 2.9 | 30.1 | 32.0 | 35.2 | +1.0 | −5.1 |
| 1967 | 39.9 | 2.8 | 28.1 | 26.8 | 29.5 | +4.1 | −1.4 |
| 1966 | 29.4 | 2.7 | 26.7 | 25.6 | 28.2 | +3.8 | −1.5 |
| 1965 | 26.7 | 2.6 | 24.1 | 21.4 | 23.5 | +5.3 | +.6 |
| 1964 | 25.7 | 2.8 | 22.9 | 18.7 | 20.6 | +7.0 | +2.3 |
| 1963 | 22.4 | 2.6 | 19.8 | 17.1 | 18.6 | +5.3 | +1.2 |
| 1962 | 21.0 | 2.1 | 18.9 | 16.4 | 18.0 | +4.6 | +.9 |
| 1961 | 20.2 | 1.7 | 18.5 | 14.5 | 16.0 | +5.7 | +2.5 |
| 1960 | 19.6 | 1.6 | 18.0 | 14.7 | 16.2 | +4.9 | +1.8 |

[1] Imports including the cost of insurance and freight.

Senator LONG. Incidentally, that table was from a speech that I made when I put your speech in the record. Look at that top column. The sixth column shows the way that this Government reports its "good news" announcements to say we had a favorable balance of trade.

Mr. MEANY. As distinguished from the balance of payments.

Senator LONG. Yes, sir. Well they don't even talk about the balance of payments in that good news announcement because the balance of payments is and always has been in the red for a long, long time.

But they said one good part of this is our favorable balance of trade. If you look at the sixth column you will notice for 1970 as an example, they report there we made a profit of $2.700 million. Now look at the seventh column. Just move over to the final column, and that is the way any other nation on earth would report the fool thing, and you would see we lost $3,200 million. So there is a difference there of $6 billion depending upon how you keep your books.

Here is what I am complaining about. If we buy a Japanese Toyota, and let's say we are going to pay $1,700 for it. We pay Japan for the Toyota at Japan, and plus that we pay for cargo to bring that thing over here in Japanese ships. By the time we pay them for the shipping plus the Toyota, we are paying let's say $2,000 instead of $1,700.

All right, now, 94 percent of all this cargo is moving in the other guys' ships, and we are paying him for his ship when he hauls these commodities into the United States.

Now, you are looking at about a 10-percent item, so on a $40 billion import bill you are talking about $4 billion that they are leaving off the books deliberately to mislead somebody. That's my judgment.

Furthermore, usually we give away part of our grain surplus to India because they are hungry and our people have enough food to get by with and we don't expect to get 5 cents back from it. If we do, it will be an accident. So they take all that wheat that we gave India, and put that down there as though India paid us for it. So by putting the giveaway down and by adding about $2 or $3 billion of giveaway and subtracting several billion dollars of ocean freight, they give us a quarterly good news statement which is always published on the front page of the New York Times. And any time somebody from Japan or Germany or South America or anywhere comes to talk about the fact that we may have to cut back on our generosity, they say "but you are making all this money, you have this big favorable balance." That is just an outright fraud.

Mr. Stans who is going to appear here agreed he was going to try to correct that mess. Here is the Republican Party platform; it says: "the basis for determining the value of imports and exports must be modified to reflect the true dollar value."

That is because of Everett Dirksen who was the Republican leader of the U.S. Senate who sat here on this committee and pointed up this fact.

How long are you going to let them give you these officially misleading statements before you and I start calling them what they ought to be called. It is one thing for a man to tell you something that is not true when he doesn't know he is telling you a falsehood. What do you call it when you know it is not true and he knows it is not true.

Mr. MEANY. Well, our staff people have been talking to the Budget Bureau on this very question. I notice here Public Law 480 is listed here as part of our favorable balance.

Senator LONG. Oh, yes; I will make you a fair proposition on that Public Law 480 and the rest of that AID stuff. Put it on that sheet only when somebody gives you a dollar back for some of that stuff. But as long as it is foreign currency to be spent in those countries, don't count it. As a matter of fact, I sat on that Foreign Relations Committee for years and tried to fight for a proposition when we gave all this money away to at least be able to take some of the money that was given in country A and apply that to country B if they need some help later on—instead of paying it back to themselves let them pay it to some third country that might need it worse than they do.

I couldn't even get that agreed to. Notwithstanding that, every time they give all this stuff away in these foreign countries they put it down as though we made that much money. If you are not going to get paid for it—leaving out the good feeling we get knowing we are feeding a lot of hungry people—but so far as our balance of trade is concerned wouldn't all that wheat to India just as well be dumped out into the ocean and save the ocean freight.

Mr. MEANY. Yes, so far as the ocean freight is concerned.

Senator LONG. That is the way it appears to me, I would appreciate it if you would do all you can do with your fine organizations to call these people down when they make that officially misleading statement saying we are making a profit when we are going broke all the way to the poor house.

You notice all those last 5 years. When you add it up they reported to us we made a profit of $12 billion, $800 million. If you add up that final column which is the way the other countries and IMF are trying to keep up with all these statistics, we didn't make $12.8 billion—we lost $14,800 million. I would suggest you do what you can to help me persuade them to give us honest figures and quit publishing this good news when we are going broke trying to get there.

Senator HANSEN. Mr. Meany, I would like to ask a few questions if I may. I would call your attention to the Business and Finance Section of the Washington Post for Friday, May 14. On that page D12 is a statement by, it reports an interview between Robert Irvin and Henry Ford. He said Ford talked about imports in response to a stockholders question. He said that for every 1 percent increase in foreign sales U.S. jobs decreased by 20,000.

(The article referred to follows:)

[From the Washington Post, May 14, 1971]

FORD WARNS OF INDUSTRY TROUBLES

PRICE OF PINTO COULD INCREASE $1,000 BY 1975

(By Robert W. Irvin)

Detroit, May 13—Henry Ford II admitted today that American car manufacturers have not been able to slow imports despite the new subcompact cars. He said foreign cars may wind up with 20 percent of the U.S. market.

The Ford Motor Co. chairman, speaking at the firm's annual shareholders meeting at Ford Auditorium in Detroit, also warned that government regulations and inflation could drive up car prices to the point where a subcompact car like the Pinto could cost $1,000 more in 1975.

Ford talked about imports in response to a stockholder's question. He said that for every 1 percent increase in foreign sales U.S. jobs decrease by 20,000.

"It's becoming a big problem and question of whether we're stepping up to it," he said. "Frankly, I don't see how we're going to meet foreign competition . . . we have tried to stem the tide (with the subcompacts) and we've been unsuccessful, I might say, to quite an extent."

Ford said there is a possibility—of which Americans should be aware—that we are moving toward becoming a service oriented country, rather than a manufacturing country. He said this is not strictly a problem for Ford or the auto industry but rather for the country at large.

Asked how he felt about protectionist sentiment and if there should be some restrictions on imports, he indicated he didn't favor them because of the consequences that might follow if other countries retaliated.

Ford noted that the U.S. auto makers are going to have to get used to the idea that foreign competition is going to be "tougher, tougher and tougher."

"Wait 'till (the Japanese) get a hold of the central part of the U.S., then see what they will do," he said. This referred to the fact that while the Japanese autos are second in import sales, their efforts to date have been largely centered on the West and East coasts.

Ford warned that the price tags for the American consumer for the safety and emissions programs alone would be $6 billion a year, assuming $10 million sales and a $600 per-car cost.

He noted that the Ford Pinto was introduced last fall at a $1,919 price, "but if we are to meet mandatory safety and environmental costs the Pinto may have to be increased by as much as $600 by 1975 and if you add inflation, the Pinto could be $1,000 higher by 1975," Ford said.

He urged the stockholders to "join with us in an effort to develop greater public awareness of the price pressures building up within our industry and the forces that are creating these pressures."

"You also can do much to encourage greater government sensitivity to the need for a more orderly scheduling of those product changes that are genuinely necessary and feasible, and provide benefits that justify their costs," he told the stockholders.

"Holding the industry's feet to the flame might be a satisfying and politically useful kind of exercise for some people, but it's not a justifiable practice when it costs the car buyer far more than he might otherwise have to spend for the same end result," he said.

Senator HANSEN. Do you think he is right?

Mr. MEANY. I have no reason to challenge him. I don't know. I couldn't tell you.

Senator HANSEN. You testified that a congressional estimate and in your opinion it was conservative, is that auto imports are now 20 percent of the U.S. market.

Mr. MEANY. That is right.

Senator HANSEN. If you were to take Henry Ford's figures and multiply that for each 1 percent would it be fair to assume that he is saying in effect that the UAW in this country has lost 400,000 jobs.

Mr. MEANY. That is the arithmetic.

Senator HANSEN. I want to clarify, if I can, the position of your union as contrasted with that of UAW's. It is my understanding, and of course we will hear later from Mr. Woodcock, but I believe generally the UAW has been on record as indicating its support of lowered trade barriers all around the country, not only in this country but in other countries as well, and has been quite an exponent of freer trade.

Mr. MEANY. Not any more than the rest of the labor movement has been for the last 30 years. We have been exponents of freer trade.

Senator HANSEN. Do you go as far as they go today.

Mr. MEANY. No of course not because I have got to think of the textile workers, I have got to think of the seafarers, I have got to think of the shoe workers, I have got to think of the steel workers.

Senator HANSEN. Are you thinking primarily of American textile workers, American shoe workers, American steel workers.

Mr. MEANY. Yes, that is what I am concerned with.

Senator HANSEN. Do you think the same concern motivates what the UAW says all the time. I mean are their concerns primarily nationalistic or are they trying to speak for an international union.

Mr. MEANY. Well, naturally they speak for an international union although I assume that they are looking at the whole picture but their primary concern is of course their own people.

Senator HANSEN. Well, I have before me a report on the Canadian automobile agreement and on page 50 of that report* I find these figures, that in 1965, comparing exports and imports, exports to Canada and imports from Canada, we had net exports totaling $800 million. This is in 1965. That situation steadily changed so that by 1969 we did not have net exports at all, rather we had net imports of $1,252 million representing a change in that 5-year period of time of in excess of $2 billion. Does that seem to you to be in the interests of American workers to permit that sort of a situation to manifest itself.

Mr. MEANY. Obviously it is not.

Senator HANSEN. I have before me the American Labor magazine, and I find in the March 1971 issue of that magazine this statement: Rubber products exports versus imports. In 1967 exports were 156 million, imports 92 million. Two years later exports totaled 195 million and imports totaled 275 million. And then I find along side this statement "that problem as far as the rubber workers are concerned started with shoes a long time ago," said the URW president.

"Now it affects tires and plastics, too," and he goes on to point out that there were about 500,000 tires imported into the United States in 1962. The aggregate figure for 1969 comes to an overwhelming total of 31,465,367.

Do you think this, these statistics bode good news for American rubber workers.

Mr. MEANY. The rubber workers' president told me a few weeks ago with the present trends, in a few years there will not be a single tire made in America.

Senator HANSEN. Your concern then just to reiterate and to be certain I understand, is while you have already testified that you would hope that we might take actions which would result in the bettering of the standard of living of all people everywhere in all countries, and that would have to start I think or at least you implied it would have to start with workers in these countries, your concern primarily is for American jobs and American workers.

Mr. MEANY. Definitely.

Senator HANSEN. That is what your statement tries to reflect here of what you think, whether you are talking about the job situation in this country or taxes or whatever it is, your statement reflects a concern that stems primarily from an interest in American workers.

Mr. MEANY. Completely, because these are the people that come to us with their problems. For instance the rubber workers, we have talked about this, I am concerned with the trend of this thing. Where is it ultimately going to lead us? In the case of the rubber workers what

*Canadian Automobile Agreement—Fourth Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965, September 1970. table 17, page 50.

is going to happen to the rubber workers whose whole lives have been spent in the tire industry if within 5 years, as this predicts, there won't be a single tire made in America? What is going to happen to the tens of thousands of workers? Are they going to go on relief rolls or are they going to make computers?

Who is going to train them? Who is going to relocate them? When you look at this picture it is a very gloomy picture as you see what could possibly happen down the road, and I think that it is part of the Government job, part of the Congress job to take a good look at it.

Senator HANSEN. Well, you spoke in your testimony following these statistics on autos to which I referred, that this same congressional estimate which you label as conservative, estimates that 30 percent of the TV receivers we have in this country are imported, glass is over 40 percent, sewing machines and calculating machines are 60 percent. I might point out that yesterday, Joseph Wright, the chairman of Zenith Corp., one of the major TV manufacturers in this country, testified that they were moving one of their operations into the Far East because of the great labor cost differential at which they could manufacture TV sets, I think in Taiwan. As I recall his testimony, they can bring a high-quality product over here, one that will measure up in every respect to those which are manufactured in this country, and do so at a savings, as I recall, of from $7 to $8 for a set. I am not sure if he was talking about TV or radio, but anyway, one or the other, for a set that would sell for from $80 to $110.

He could save that amount of money despite the costs of doing business over there, and the transportation that would be involved in bringing the manufactured product from there to America.

Now, he deplored the situation, but he said that his company was forced into this situation because of the unrealistic trade policies that have dominated America's way of doing business internationally for all too long. Do you disagree with the conclusions that he reached there?

Mr. MEANY. Well, his conclusion as far as the interest of his corporation is quite obvious. There is no question that he can produce cheaper in Taiwan, there is no question that he can get a good product because they use American technology, American machine tools, they use everything American except the labor.

They even go so far, and I am not referring particularly to the Zenith company but we had an experience where in Taiwan they were getting these young boys and girls to work in a production factory in the radio area, and in order to make it easier for them they built dormitories, outside of the city, and one of our American representatives talked to the manager of the concern and said "Well now, isn't this a tremendous experience, you are building dormitories for these people to live," and so on and so forth.

"Suppose these people want, suppose they want, higher wages, what is going to happen to your investment" and this fellow said "Well by the time we have to pay them higher wages we can just close up shop, leave the factory and the dormitories behind and have a net profit."

Senator HANSEN. Well, several of the electronic companies in this country, big ones, ones that are well known to all of us have set up plants just across the border in Mexico. At the time these plants were set up down there Senator Fannin tells me that our minimum wage set by the Congress in this country was a $1.60 an hour, I guess that is still where it is.

When they started up operations down there they were paying competent qualified Mexican workers 30 cents an hour, and they were putting out the same high-quality work that would be characteristic of an American worker. Now I know he was concerned about that. Does that concern you?

Mr. MEANY. Of course it concerns us. What is the answer? Do we bring the wages of American workers down to 30 cents an hour? Of course that is ridiculous.

Senator HANSEN. If we were to bring them down——

Mr. MEANY. As I said before, we are concerned with the type of society we have here, the standard of life, and so on and so forth. Now we have talked about this—in Mexico, in 1967 there were 30 U.S. companies operating plants at what they call the Mexican border industrialization area. This is where they have this so-called twin plant concept. There are now 250 concerns. Whereas in 1967 there were 30, there are now 250, and they have gone from the border, they have now gone into the interior of Mexico and built plants there.

If this is the type of competition we have got to have, if the American worker has got to bring his wage down then we have to change this whole picture. As I said before, the wages of some of these people are not only below our minimum wage, they are way below what they could get if they just went on welfare.

Senator HANSEN. Isn't it true that one of the main reasons that America is the great market that it is today and everyone wants an opportunity to sell their products here in this country is because of the high standard of living.

Mr. MEANY. That is correct.

Senator HANSEN. Which is directly keyed to what labor earns and the number of jobs that are here.

Mr. MEANY. Of course their actions in the long run could be self defeating because they go to these countries, they make an agreement not to try to sell in these countries, to bring the product back here, selling it at American prices, what happens if the American consumer buying power disappears or gets down to the point where they can't sell it they defeat themselves.

Senator HANSEN. Do you think our purchasing power might drop rather drastically if about half of our people were on relief and they were trying to buy things with relief checks instead of wages?

Mr. MEANY. I am quite sure it would.

Senator HANSEN. Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you very much. I just want to correct a figure. The amount of business done in 1969 by Western European countries with Eastern Europe was $16.6 billion. I misquoted the figure.

Mr. MEANY. Yes.

Senator RIBICOFF. Mr. Meany, we are very grateful to you. I hope we haven't taken too much of your time.

Mr. MEANY. No.

Senator RIBICOFF. And impinged upon your patience. But your testimony to this committee is very valuable. You represent a very important segment of American opinion and American interest, and again my thanks and the thanks of the entire committee for the excellence of your testimony.

Mr. MEANY. Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you very much.

Secretary Stans, please.

Mr. Secretary, we appreciate your coming here. Your Department is in the forefront of what is taking place. We know that your contribution is most valuable, and we thank you for your time, and you may proceed as you will, sir.

## STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE

Secretary STANS. Mr. Chairman, I have a prepared statement which is fairly long. If it would satisfy the committee I would like to submit it for the record and summarize it in a way in which I think we could focus on the issues involved.

Senator RIBICOFF. I think that would be very, very good of you, and your entire statement will go into the record.*

Secretary STANS. Thank you.

Mr. Chairman, this subject of international trade covers a very broad field and has a very great number of aspects to it. What I am doing in my testimony today is to select out five or six of the key factors in trade and to make some comments, and provide some information with respect ot them, particularly an analysis of the effect of technology on our trade, remarks with respect to trade with Eastern Europe, the problem of adjustment assistance for companies in the United States affected by imports, the matter of nontariff barriers imposed by the United States in other countries, and the multinational corporations. I have not included any remarks on Senator Long's favorite subject of the trade statistics.

I am deferring to George Shultz who is going to testify on that when he appears here but I will be glad to answer any questions on it when the time comes for questions.

Mr. Chairman, I would like to say I visited 28 countries since I have been Secretary of Commerce, exchanging views with officials of all of them. I have studied the problem of international trade since I have been Secretary of Commerce and I have come very close to the conclusions that you have expressed in your report on trade policy in the 1970s.

There have been massive changes in trade patterns around the world and in the United States, and the ambitions of the developing countries are creating more and more changes that will affect us.

My first conclusion is that economic considerations are moving more and more into the front of international affairs, and looking ahead I think they are going to force an increase in emphasis in all of our foreign policy aspects, perhaps taking precedence over many of the other elements of foreign policy today.

Now, second, I would like to say that I believe, as does the President, in a forward-looking trade policy. I believe essentially that we should try to have all of our efforts directed at freer trade among countries in the interests of ourselves as well as others. Any threat to the $85 billion of trade that now moves in and out of the United

*See p. 247.

States could have an impact on business, on employment, on our national economy, and I don't believe that the answer is to move back to trade isolation and high tariff walls.

I don't believe the answer is for people to line up in two forces, one in favor of free trade and one in favor of protectionism. These are out-of-date concepts. I think the answer today is we have to deal pragmatically and rationally with our problems, and we have to insist with other countries on a concept of fair trade and reciprocal action in trade matters.

I think in that respect I am agreeing with what you have said, Senator, in your report.

Now, with respect to our trade surplus, and if the Senator will permit me, I will use the traditional figures for this analysis; they can be modified to adopt the concepts that Senator Long advocates very simply.

Senator RIBICOFF. Of course, the problem that concerns me, it isn't what Senator Long's concepts are, but is Senator Long right or wrong. I think that becomes a problem. I think what is concerning me because I always went on the historic pattern, that we had a favorable balance of trade and then Senator Long brings up this very provocative point. If he is right then we are living in sort of a fool's paradise, and I do think there is an obligation to straighten this out because Senator Long, whether you agree with him or not, is usually right on his facts and I, in my own mind, like to get this straightened out because it has been a very confusing thing to me to listen to this between Senator Long and other witnesses and I read his statement and I am curious to know myself.

Secretary STANS. Could I answer that at the conclusion of this testimony?

Senator RIBICOFF. Certainly.

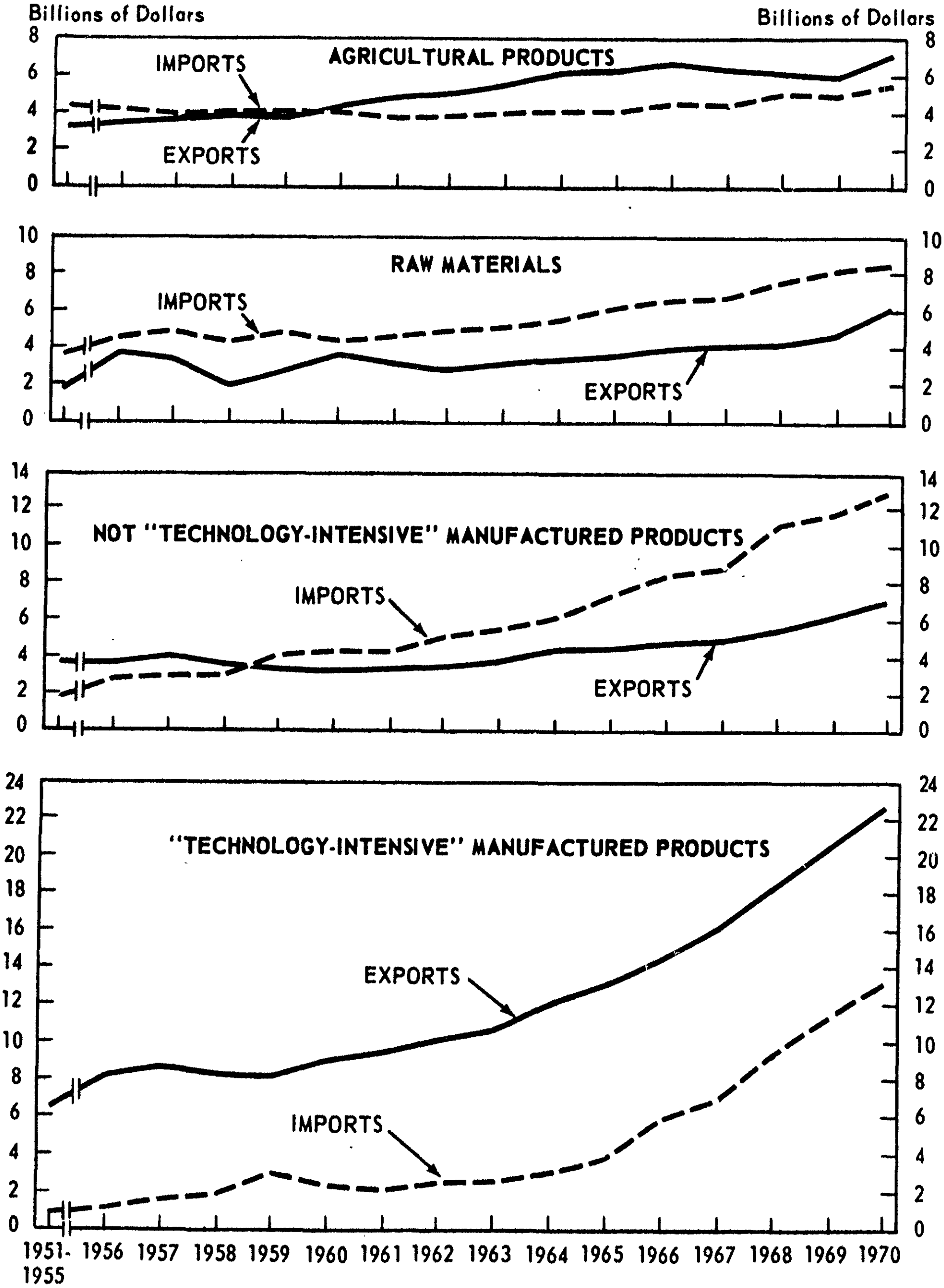
Secretary STANS. Taking the traditional figures though we had a trade surplus in the 1960's of somewhere between $4 and $7 billion a year up to 1968; then it dropped to a billion dollars a year in 1968 and in 1969. Last year it was back up to $2.7 billion, but we expect that it will be less favorable in 1971, perhaps $2 billion or less.

Now, there are many people who will argue that the deterioration in our trade position beginning in 1968 was the result of inflation. My feeling is that while inflation may have played a part and of course while wages in the United States compared with other countries are a significant factor, that the shifting of technology is a very important element in the deterioration in our trade position, and that whatever we do with respect to the wage problem, whatever we do with respect to the inflation is not going to return the kind of trade balances we had in the early 1960's. For that purpose I prepared some charts and they appear as figure 1 in the paper that I have prepared for the record, and I would like to refer to that and explain it very quickly because they present the basis of our concerns about technology.

In agricultural products, which are raw products and processed, running through the years we have had generally a small trade surplus, in the range of $1 billion to $2 billion. If the Public Law 480 shipments are excluded from that figure the surplus becomes a very small one, less than a billion dollars a year.

(The chart referred to follows:)

**Figure 1** TRENDS IN U.S. FOREIGN TRADE




Secretary STANS. I would say that, considering the strong efforts of the developing countries to become self-sufficient in agricultural products, there is not any likelihood that this agricultural trend line will change very much in the future. What I am saying is that I don't think we can depend on agricultural products to rebuild our trade balance.

Now, when you look at raw materials, you will see that we have been importing a great deal more than we are exporting, and in the last few years it has ranged from a deficit of $2 billion to $3 billion. This category includes oil, minerals, and similar items, and it is quite obvious that we are going to need to import more oil and minerals as time goes on so I see ahead a probable deterioration in our trade balance insofar as raw materials are concerned.

The third category is one which we define as manufactured products that are not technology intensive. They are products that come from industries that do not have substantial research and development activities, and here you can see not only that the line between imports and exports crossed in 1958 but the gap has been increasing very considerably and our imports now have a very wide margin over our exports.

In 1970, it was $6 billion. These are products such as steel, shoes, textiles, and items of that type, and it is quite clear from all we can observe that this gap is going to increase, that our trade position in low technology products is going to be less and less favorable through the years.

So we come to the fourth category which is the one where we now have an export surplus and where we have to depend, it this analysis is correct, on the maintenance and increasing of our trade balance.

This includes a considerable number of high technology items, such as aircraft, automobiles, machinery, computers, instruments, chemicals and so on. Our trade balance in the last 3 years has ranged between $9 and $10 billion and it does not seem to have any tendency to increase at this time, and there are evidences of increased competition on the part of some of the other countries, Japan and the European Common Market in particular in items like computers, aircraft, chemicals, and so on.

The substance of this set of charts, Mr. Chairman, is that we have a technology problem. If we do not maintain a technology advantage over other countries I foresee a further deterioration in our trade balance, and this judgment is supported by other analyses that have been made by other people.

Now, to get to the question of some of the things that might be done about this; first of all the United States is not export minded. It does not have a strong export environment. We only export about 4 percent of our gross national product. The other countries of the world average about 15 percent. We in the Department of Commerce have a considerable number of programs, trade shows, trade fairs, direct contacts with companies, trade centers, and so on. We spent $16 million last year in this, and we are doing perhaps as much as can feasibly be done in attracting American industry to export.

Japan and the United Kingdom and Italy spend in relation to exports about three times as much as we do in export promotion but I don't think a significant increase in our promotional activities is the answer.

We do need some of the things such as have been mentioned here, freeing the export bank from budgetary controls, so that U.S. exporters can arrange to borrow the money they need in the market, and meet the competition of any other country on export transactions which is a very important element in exporting.

Despite the feeling of the previous witness, I feel that the DISC proposal, the Domestic International Sales Corp., can be a very important element in stimulating increased exports, and that the overall value of jobs created, taxes earned and so forth will nevertheless be a net advantage to the United States.

As one last thought, there are a number of elements in this problem that are very difficult to evaluate, and that involves the incentives that our competing countries give exports. Some of them give financing advantages, some give direct government assistance, some give tax incentives, some give relief from antitrust regulations. Japan gives accelerated depreciation on capital equipment used in producing exports, France allows special deductions from taxable income for the expense of establishing foreign sales offices, and allows firms to exclude from taxable income special reserves to take care of the risk involved in export trade, and so on.

The United States does not match these incentives for business, and also there is a very close correlation in the United States between export and domestic pricing that does not seem to exist in some of the other countries.

From figures of the international monetary fund, I observe, for example, that in Japan domestic prices have gone from a base of 82 in 1960 to 146 in 1970 on an index in which 1963 equals a hundred, whereas their export prices from 1960 have gone up only from 102 to 110, which would imply that there is a very different range of pricing in export trade as compared with the domestic markets.

Now, it is possible that some part of this is due to the mix of the products, of course. Unfortunately we do not have the information at hand in order to enable us to determine why there is such a spread between their export pricing and their domestic pricing. But it is a matter of concern. In the United States there is no such distinction. Our trend of export pricing and domestic pricing is almost parallel.

Moving to the second subject, trade with Eastern Europe: As we see it, the significant factors are that the countries of Eastern Europe, excluding Yugoslavia, imported $6.3 billion of goods from the industrial countries of the West, and our share of that was about $350 million last year, a very small part of that market.

Now, there are a lot of problems in selling to Eastern Europe. One is that there is a geographical advantage, of course, for the Western European countries. The second is that the Eastern European countries do not have convertible currencies, and there is a question also as to the acceptability of many of their products in our markets. Since Congress enacted the Export Administration Act of 1969 we have reduced very substantially the export controls over trade with Eastern countries. We have taken off export restrictions on more than 1,500 commodities in the last year or so, and we are continuing that effort.

Obviously, there are political factors in the extent to which we deal with Eastern countries, which have to be taken into account. There are legal restrictions at this time on export financing, on investment guarantees and most favored nation treatment and, I think, that the studies that are being undertaken in the administration at this time under the Williams Commission's activities and under the activities of the Council on International Economic Policy, will help to focus on the question of East-West trade to a much greater degree in the months to come.





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The problem of imports into the United States raises a question of what we do about them. As you know, we have tried for some time to negotiate agreements with other countries on textiles, without too much success. Those negotiations are continuing. There are negotiations, preliminaries to negotiations, underway in the matter of shoes, and negotiations for an extension of the voluntary steel agreement which deal with three of the major problems caused by imports.

However, we need better long-range means of dealing with import problems, and one way is through adjustment assistance.

The 1962 act has not been very helpful. No company was found qualified for adjustment assistance until late in 1969 under the act. Since then 11 firms have qualified, and 31 worker groups have been certified as eligible for assistance. But the present law needs some modification to make it more workable, and to provide more relief to American companies. We made proposals to that effect last year which unfortunately were not enacted by the Congress.

The budget for 1972 does recognize the need of adjustment assistance because it provides a hundred million dollars in direct adjustment assistance funds, and it provides also for a hundred million dollars in guarantees of loans from private sources. The total of $200 million could be very helpful in providing adjustment assistance for American companies that are seriously affected by imports, and I would certainly hope that the relief that is intended could be granted at a much earlier stage in the game than it has been in the past.

The next subject is nontariff barriers to trade, on which I am sure other witnesses will testify to a greater extent. I think there are only two or three conclusions that are important. We also have nontariff barriers to trade but I think we are much more the victim than we are the culprit. I think others have many more barriers than we do.

In my trips to other countries, particularly in 1969, I suggested that the way to deal with these barriers is on an open table principle. By that I meant an honest and forthright discussion of these nontariff problems, including those that are not in writing, including the non-published administrative practices which in many cases are more significant than the laws and regulations that are officially published.

Now the GATT Committee on Trade in Industrial Products has gone to work on this, the OECD has gone to work on it, but progress is very, very slow. We have pressed the Japanese to reduce their quantitative restrictions. They have made some progress, but it is very slow again.

The Williams Commission will deal with this subject, and I am awaiting their recommendations in the next month or so. I think the only other point that I want to make in addition to the foregoing is that the Administration does not really have any authority to do any negotiating on nontariff barriers and it would be helpful if the Congress would make some expression of its desire that could speed the negotiations.

Now, we finally get to the last point I want to discuss, which is the multi-national corporation. I only want to make a few comments here. We have foreign investments now of about $77 billion on the part of American companies. 30 percent of that is in Western Europe and another 30 percent is in Canada, and we get very substantial returns on that investment, which help our balance of payments. I have heard criticisms of the multi-national corporation. I think those are prejudgments. It is very difficult to get all the facts, for example, as to what the return on investments are in total, what exports are generated and what jobs are created as a result of those exports that go to the multinational American companies that set themselves up in other markets and get part of their materials from here. We have meager information on how much of our imports come from multi-national corporations and what the circumstances of those imports are, and more than anything else, we really do not have any studies yet as to what the alternative is. Stopping foreign investments by American companies may turn out to be more disadvantageous to us than advantageous, and there is no evidence that the same circumstances would not exist with corporations from other countries taking advantage of these markets and lower labor rates and other circumstances if we were not there with our corporations. We also should remember that we do get returns on those investments.

Now, to get more light on this subject, the Department of Commerce is engaging in an effort at considerable expense to develop a comprehensive financial profile of the multinational enterprises. It will be done by a computerized data bank which can be kept up to date so we can retrieve the kind of information that we want. It is going to take another 6 months approximately to get that information, and I would hope that we would not make any prejudgments on the subject of the multinational corporation until we know a lot more about it.

Mr. Chairman, I will be glad to submit to questions.

Senator RIBICOFF. Thank you very much.

I would hope, Mr. Secretary, when you get that profile you would allow the committee to have the benefit of your study. I think it is very important. It is a field that we are going to have to go into, and I must admit there is great ignorance about what is a multinational corporation, and what its role is.

Now, Mr. Secretary, throughout these hearings and also before these hearings, I was somewhat concerned with all the adverse publicity that Japan is getting. There could be a very strong reaction, it seems to me, in Japan, against the United States. Do you share the concern that the Japanese are being made a whipping boy?

Secretary STANS. Mr. Chairman, I would like to put it in a different way. There is a lot of criticism of Japan; there is a lot of pressure on Japan to change its trade and investment policies. Much of this is justified by what I consider to be the national mood of the Government of Japan, and that is that it has still not come to the point of recognizing the important place it has gained in the world economy. Japan is now next to the United States in world trade and gross national product, and it still maintains measures that relate to the security that it looked for in earlier days when it was an insecure nation.

Japan has indicated a willingness to move to liberalize its practices. The real issue is whether it should not do it faster, and whether it should not face its responsibilities as one of the leading trade nations in the world.

My hopes, certainly, are that we can do this on basis of discussions, on a government-to-government basis, that will induce Japan to accept these responsibilities without causing rancor, bitterness or ill-feeling between the two nations.

Our relations with Japan economically and politically are very important, and its relations with us are, I think, very important to Japan. What we need is more discussion, more effort to understand each other's point of view, and work toward solutions at a faster pace than we have.

Senator RIBICOFF. But is not the textile problem multi-national in character? It involves European restrictions against as Japan's textiles, and now you have other nations besides Japan which are exporters of cheap textile goods, whether it is Taiwan, South Korea, or Hong Kong. So, basically, when we talk about the problem of textiles, we are talking of other nations besides the United States and Japan, are we not?

Secretary STANS. When we talk about the problem of textiles in the United States, we are talking about the relatively low-priced goods which are coming from the four countries of the Far East that you have named.

Senator RIBICOFF. Now, Mr. Secretary, you say in your statement that there is worldwide concern over which direction trade policy is taking. What philosophy of trade policy do you advocate which reconciles the contradictory positions of asking for liberalization of trade barriers in other countries, and at the same time asking for new import quotas in the United States?

Secretary STANS. I would advocate a policy of dealing more aggressively with our trading partners in trying to put trade practices on a reciprocal basis. I think we have not pushed hard enough to represent the interests of the United States because until recent years our trade position was not a matter of serious concern. But now that it is evident that our trade position has deteriorated, and now that there seems to be increasing acceptance of the fact that we do not have the circumstances that are automatically going to cause our trade position to recover, I think we need to put the cards on the table with our trading partners and say, "We can no longer be soft in our policies." And we have to fight aggressively for our own position in all of the matters, whether it is nontariff barriers or whether it is investment restrictions or whatever it may be.

Senator RIBICOFF. Well, do you think that this can be done on a bilateral basis or do you think the time has come for the United States, Japan, the Common Market countries to get at least 2 years to plan for such a complication, new round. GATT is old hat by now. We have gone far beyond GATT. The world has changed since GATT. But do you not think the time has come for a deep reciprocal understanding between the major trading nations of the world and also their relationships with the developing countries?

Secretary STANS. Well, as you know, we are having a number of problems with GATT, and certainly we ought to reexamine the entire concept of the GATT to see whether it is adequately serving our purposes in the United States. We also have been pressing the Common Market countries in Europe on a number of matters, and action in that respect has been delayed because of all of the work that has been necessary to deal with the expansion of the common market, so that those discussions have been delayed.

Whatever the forum, whether it is bilateral, whether it is by the United States with groupings of nations, certainly we need more discussion. I would not want to endorse the idea of a worldwide international meeting without developing an administration policy on it. But, Mr. Chairman, we do need more discussion, and we do need more effort to formalize a position on the part of the United States on a great many of the issues that are involved.

Senator RIBICOFF. One of the things that I find very disconcerting is, while we talk about relative problems between the United States and other countries, that nowhere do we have a list from an authoritative source such as your Department or Treasury or Mr. Peterson's office, of what these problems really are. What are the American problems in entering other markets. I know I would, and I think the rest of the committee also would, appreciate the opportunity to have set out before us a detailed list of the basic problems facing the United States in other markets. I think it would be helpful to us instead of doing it on just a hit or miss basis wherever we can pick up a bit of information.

Secetary STANS. Mr. Chairman, you have not been reading my speeches, and I would not expect you to, but I would be very happy to submit for the record a considerable amount of data that have appeared in speeches and in our various Department of Commerce publications, particularly the one we call International Business. There have been listings of these problems, and it is quite a list.

Senator RIBICOFF. I think then if that is the case I would appreciate if you would get them together in a compendium and just send them to the committee to go into the record at this point.

Secretary STANS. I would be happy to do it.

Senator RIBICOFF. I think it would be most appreciated.

(Information supplied follows. Hearings continue on p. 233.)

### INVENTORY OF NONTARIFF BARRIERS ON TRADE IN NON-AGRICULTURAL PRODUCTS

The inventory reproduced below of foreign nontariff barriers (NTBs) that can directly restrict entry of American non-agricultural products into the markets of other countries was submitted by the United States to the General Agreement on Tariffs and Trade (GATT) as part of a comprehensive GATT-wide inventory of such nontariff restrictions. The more important types of nontariff barriers that can directly limit U.S. exports are the following.

1. Quantitative restrictions limit imports to the specific quantities imposed by the importing country. While most quantitative restrictions established after World War II have been removed, there still are some important exceptions: a considerable but shrinking list of QR's by Japan; some European import licensing systems; and coal import restrictions imposed by the United Kingdom (presently suspended), Japan, and by all the members of the European Economic Community (EEC) except Italy.

2. Government procurement practices favor domestic over foreign sources of supply. Such preferential treatment, which is quite common, may be prescribed by legislation and administered according to detailed regulations, as in the United States. Our chief quarrel with the practices of a number of other countries is that their government procurement agencies and officials are permitted to exercise broad discretionary powers. In some cases there is little or no publicity in the bid procedures or public announcement following the contract award.

3. Valuation and taxes are additional burdens on trade. Valuation practices can constitute a nontariff barrier when the valuation is arbitrarily calculated or when it is subject to officially established minimum levels. A great variety of taxes, such as sales, commodity, stamp, and port taxes, are applied to imports. Although some are applied to both imported and domestic products, they generally apply more heavily on imports since they are usually levied on a c.i.f. duty-paid basis.

4. Border taxes take the form of additional taxes on imports and tax rebates or remissions on exports, and are designed to compensate domestic producers for the indirect taxes to which their products are subject. Import taxes and export rebates can under certain circumstances have trade-distorting effects comparable to those of tariffs and export subsidies.

5. Health, sanitation and safety standards which require that manufactured products, foods and drugs meet certain standards can have a deterrent effect on trade, particularly when the standards vary widely among countries. When these standards are applied for reasons other than health, sanitation or safety, they become NTBs.

FOREIGN NONTARIFF BARRIERS

Argentina, Quanitative restrictions (QR): Imports of automotive products, wheeled tractors from 12 to 120 hp., crawler tractors from 12 to 85 hp. embargoed. Valuation and Taxes (V&T): Nearly all imports except raw materials and capital goods need prior deposit of 40% c.i.f., which is held without interest for 180 days: imported tractors do not enjoy investment tax credit of up to 60% of liability given to domestic makes; tax of 1.5% on c.i.f. value of all imports (0.3% if item is duty free); 4% surcharge on ocean freight charges; consular fee of 1.5% f.o.b. value of import, payable to consulate within whose jurisdiction commercial invoices to be notarized are issued; special steel fund tax of 2–20 pesos per net kilo of iron and steel products; special tax of 4–10% of forest products' c.i.f. value; Executive can establish minimum values on which import duties are levied on various officially designated products; sales tax of 10–20% levied on c.i.f. duty-paid value of various products; excise tax on various products, which is specific on some and ad valorem on others. Health, Sanitary and Safety Restrictions (HS&S); Pharmaceuticals, cosmetics subject to prior registration in Argentina.

Australia: QR: Licenses required for some types of machinery, metals, vehicles, clothing. V&T: Sales tax levied on landed value of wide range of industrial and consumer items, as follows: household goods 2½%; general 15%, luxury 25% (tax base for imports is their duty-paid value inflated by 20%). Other Restrictions (OR); Screen-time quotas in New South Wales require 15% of all films shown to be British and 2% Australian; all packaged products subject to arbitrary weights and measures limitations (uniform system due in Nov.). Government Aids (GA): exports of many chemicals subsidized (Australia has not subscribed to GATT declaration banning such subsidies).

Austria. QR: License required for lignite, except bituminous coal; cinematographic film, exposed and developed, except for toy projectors; fish, plastic bags, detergents, shirts (not knitted), lumber, artificial sweeteners, toilet soap, batteries. Quotas restrict penicillin, thyrothium, antibiotics and medicaments containing antibiotics; wine, except sparkling wines in bottles. V&T: Border taxes ranging from 6.25 to 13% on all imports. Variable Levies (VL): on sugar, starch, and products made of these and other agricultural raw materials, in lieu of customs duties, skimming charges—based on price differentials between threshold and gate prices and consisting of fixed protective element plus a variable levy—may be collected. Currently in force: 20% a.v. plus 549 Austrian schillings per 100 kg. on core binders used in foundry work on basis of starch and dextrine: 20% a.v. plus 525 schillings per 100 kg. on starch-ether soluble in water, and starch esters. Government Procurement (GP): For all products and services, article regulating government purchasing provides that "if circumstances permit, only Austrian products shall be used and Austrian firms shall be engaged." Regulations do not apply to nationalized industries. EFTA members have equal opportunity with domestic firms under Art. 14 of Stockholm Convention. Draft law covering government procurement which eliminates discrimination against foreign firms submitted to parliament; enactment likely. OR: Antidumping procedures on all imports. Government establishes "guiding" or "minimum" prices for products which cause market disruptions. At present, minimum prices in force for cotton yarn, cotton fabrics, woolen fabrics, cardigans and pullovers of wool. Although imports of salt and products containing salt are liberalized, must be approved by Administration of the Austrian Salt Monopoly, State monopoly has sole right to import, produce and sell raw and processed tobacco and products. Industrially-produced raw spirits must be sold to the monopoly.

Barbados. QR: Licenses required for fish, plastic bags, detergents, some pharmaceuticals, shirts (not knitted), lumber, artificial sweeteners, toilet soap, batteries. V&T: Autos, initial registration tax of 20% on c.i.f. value; rum, beer, gasoline, diesel fuel, excise taxes on c.i.f. duty-paid value; clothing (not knitted), minimum c.i.f. value for Customs purposes; all imports except those in following list, surtax of 20% of c.i.f. duty-paid value; polishes, grease, hardware, implements and tools (ex. agricultural), lubricating oil, cosmetics and perfume, photographic appliances and accessories (ex. films), typewritten and parts, turpentine, wood headings and furniture, motor spirit for use in road vehicles, tobacco, snuff, beer and alcoholic beverages, motor vehicles and parts, surtax of 10% of c.i.f. duty-paid value.

Belgium-Luxembourg. QR: Anthracite and coking coal, under quota restriction, licenses required; on broad variety of products, licenses required but freely granted for U.S. goods. Changes may be forthcoming in quota system for coking coal because of short supplies. V&T: Transmission tax or lump-sum tax levied on all imported goods, generally 7% but may vary on certain commodities from 1% to 15% (transmission tax scheduled to be replaced by value-added tax Jan. 1, 1971); road tax based on fiscal horsepower levied on autos. GP: Belgium: For all products and services, foreign bids may be rejected if "for economic reasons it is essential that the contract should go to Belgian industry, subject however to the price differential not exceeding certain limits." (Price differential reported to be 10% normally). Luxembourg: Art. 10 (12/29/56) stipulates that "in principle, products of foreign origin shall not be used if producers in Benelux Customs Union are able to supply the same quality at prices which are substantially the same." (Products of Benelux origin believed given 10% margin of preference. License to trade, which foreign bidders must have, issued only to nationals of countries having reciprocal arrangements.)

Brazil. QR: Licenses, based on proof of purchase of like amount of domestic caustic soda, required for caustic soda. Autos and motorboats priced in country-of-origin at above $3,500 incl. accessories, embargoed. Prior authorization for petroleum products required (assures full utilization of domestic production and LAFTA sources of supply before third country imports are allowed). V&T: All products, port improvement tax of 1% levied on c.i.f. value and merchant marine improvement tax of 10% of freight charges; wide variety of processed or manufactured goods, industrialized products tax of 4–30% on c.i.f. duty-paid value; many products, minimum valuation system. GP: On all goods purchased for public account, public entities must give preference to locally manufactured goods and cannot import "nonessential" goods. State trading monopoly for packaged lubricating oil, petroleum, rubber. OR: On motion picture films, exhibitors must show one Brazilian feature for eight non-Brazilian films.

Burma. GP: On products purchased for public account, Government purchasing agencies often issue tender notices with short bid deadlines. Government is sole importer. V&T: Luxury goods taxed 18.75%; standard goods, 12.5%; privileged goods, 6.25%.

Burundi. QR: Licenses required for all imports. V&T: Statistical tax of 3% on all imports.

Cameroon. QR: Licenses required for all imports. For licensing, all trade classified into 3 categories: Franc Zone (free of restrictions); Common Market countries (separate import quotas); all other countries (more restrictive global import quotas); licenses not ordinarily issued for commodities available from Franc Zone; exchange quotas for all imports. V&T: Revenue tax up to 50% on all imports; turnover tax of 10% on c.i.f. duty-paid value on all durable imports (discriminatory in that certain countries are exempt from customs duties); additional tax of 5–35% on many products; minimum valuation system for used clothing. GP: Government procurement practices on products purchased for public account. OR: Bilateral trade agreements on various products (such agreements generally provide licensing guarantees to specified amounts of goods).

Canada. QR: Used aircraft prohibited with some exceptions; used autos and other vehicles manufactured before calendar year in which imported, with some exceptions, prohibited. V&T: Arbitrary valuation and surtax on gasoline-type fuels for use in internal combustion engines other than aircraft (surtax is equal to difference between export price and an arbitrary value of 10.5 cents for regular and 12.5 cents for premium per imperial gallon). HS&S: Safety regulations on electrical equipment. OR: Canadian provinces reluctant to carry U.S. liquor brands in Government-operated monopoly stores; canned foods imports permitted only if in cans of sizes established by Canadian Gov't.

Central African Republic. QR: Licenses required and exchange quotas established for all imports (for licensing trade classified in 3 categories—see description under QR for Cameroon); quota set for used clothing; used shirts embargoed. V&T: Revenue tax up to 50% on all imports; turnover tax of 10% on c.i.f. duty-paid value on all dutiable imports (certain countries exempt from customs duties); additional tax of 5–15% on textiles, men's and used clothing, radios, autos, trucks, eyeglasses; arbitrary valuation on used clothing.

Ceylon. QR: Numerous manufactured articles embargoed; items on Import Schedule 1—drugs, feed additives, agricultural hand tools and implements, fertilizers, petroleum products, surgical belts and hearing aids, artificial dentures, artificial eyes and limbs, scientific glassware—licensed under quotas at official rate of exchange of 5.95 Ceylon rupees to the dollar; items on Schedule 2 (long list) licensed under quotas and imported at depreciated exchange rate; some 350 other items (Sched. 3), mostly industrial raw materials, machinery, chemicals, on open general license but also imported at depreciated exchange rate; multiple exchange rate practices affect all imports except those in Sched. 1, through a certificate scheme (Foreign Exchange Entitlement Certificates). OR: Drugs and pharmaceutical preparations must conform to British Pharmacopoeia, Int'l Pharmacopoeia, or the British Pharmacopoeia Code; State trading monopoly for fish, cement, textiles, newsprint, paper and paperboard, petroleum products, caustic soda, other products.

Chad. QR: Licenses required and exchange quotas established for all imports; for licensing, all trade classified into 3 categories (see description under QR for Cameroon). V&T: Revenue tax up to 50% on all imports; turnover tax of 10% on c.i.f. duty-paid value on all dutiable imports (certain countries exempt from customs duties); additional tax of 5–45% on selected items; arbitrary valuation on used clothing.

Chile. QR: Importers required to register (license) all imports with Central Bank through authorized commercial bank; prior deposit of 15–50% of c.i.f. value on some imports (advance deposit of varying rates required depending on essentiality of product; deposit returned after goods have cleared Customs, and may be used toward payment of customs duties; this requirement being phased out); prior deposit of 10,000% of c.i.f. value on a few imports, including office machinery and public service vehicles; embargo on luxury goods; special ad hoc quotas on numerous products for government procurement and certain preferred activities. V&T: Turnover tax of 8% on c.i.f. duty-paid value for variety of processed or manufactured goods; port improvement tax of 2% of c.i.f. value, and merchant marine improvement tax of 10% of freight charges on all imports.

Congo (Brazzaville). QR: Licenses required and exchange quotas established for most imports; for licensing, all trade is classified into 3 categories (see description under QR for Cameroon). V&T: Import revenue tax of up to 50% on all imports; turnover tax of 10% on c.i.f. duty-paid value on all dutiable imports (certain countries are exempt from customs duties); additional tax of 5–15% on selected items; arbitrary valuation on used clothing. QR: Office National du Commerce is sole buyer and seller of all merchandise destined for "northern regions."

Cyprus. QR: Licenses, generally granted freely, required on certain chemicals and chemical products, textiles and textile products, manufactures of base metals, wood products, and most nonelectrical machinery; other items imported without restriction from any country other than communist countries of Asia, Albania, and those with which Cyprus has bilateral agreements.

Dahomey. QR: Licenses required for all imports originating outside Franc Zone; annual global import quota established for all goods not originating in EEC or from Franc Zone; matches, alcohol, alcoholic beverages, diamonds embargoed. V&T: Discriminatory 3-column tariff provides for 3 categories of countries, each assigned duties at different rate.

Denmark. QR: Licenses required on oysters (except spat); ethyl alcohol or neutral spirits, undenatured, of a strength of 80° or higher; denatured spirits of any strength; ethyl alcohol, undenatured, under 80°. V&T: Value-added tax of 12½% on c.i.f. duty-paid value on almost all manufactured goods; in addition, excise tax on c.i.f. value on autos and motorcycles. GP: On all products, discrimination favoring domestic procurement accomplished by administrative action. EFTA members have equal opportunity with domestic firms under Art. 14 of Stockholm Conventions. HS&S: State testing organizations for electrical equipment in Denmark, Finland, Norway, Sweden each apply separate standards for electrical equipment and require individual testing in country prior to certifying imports.

Dominican Republic. QR: Certain products subject to exchange quotas; passenger cars valued at more than $2,000 embargoed; wide range of food items and household goods, smaller number of manufactured goods embargoed; wide range importable only under prepaid letter of credit; prior import deposit of 10%, 20%, or 40% of f.o.b. value for 3-month period on wide range of products.

East African Community (See Kenya, Tanzania, Uganda).

Finland. QR: Global quotas on mineral tar, coal tar distillation products, solvent gasoline, aviation gasoline, bitumen, unwrought silver, gold, platinum; individual licenses required for coal, coke, petroleum and shale oils, gasoline, aviation and heating kerosene, gas-oil and fuel oils, processed foods. V&T: Turnover tax of 12.4% on almost all manufactured goods; in addition, on autos and motorcycles; excise tax of 140% (higher of higher priced cars) of c.i.f. duty-paid value minus 2,500 Finmarks ($595). Excise tax on c.i.f. duty-paid value of alcoholic beverages, confectionery, sugar, matches, auto tires, tobacco products, mineral waters, liquid fuels, certain fats and foods. QR: State trading in alcoholic beverages, crude petroleum, grains; for passenger cars from certain bilateral trading countries, minimum down-payment of 30% with 20 mo. to pay balance and, from other countries, 50% down payment with 12 mo. to pay remainder; compound fertilizers require Ministry of Agriculture permit. HS&S: See HS&S for Denmark.

France. QR: Quantitative restrictions and/or licensing or crystal diodes and triodes including transistors and parts, aircraft and parts, wine, rosin, certain textiles, semiconductors, canned tuna, petroleum products, numerous other goods; quota restrictions on watches, parts. V&T: Annual use tax on passenger cars (standard U.S. cars fall in highest tax bracket liable to payment in first year of $200; European cars generally pay $30); border tax of up to 33% on c.i.f. duty-paid value of most industrial products, excise taxes on whisky, other grain spirits. GP: Administrative practices not codified. French public sector operators effective "Buy French" policy; "absolute priority" given to procurement of domestic products "equivalent" to offered foreign product.

HS&S: Pharmaceutical regulations ostensibly protect public health, but also protect domestic industry; virtual embargo on imports of pharmaceutical specialties packaged for retail sale; severe restrictions on bulk mixtures that cannot be easily analyzed. With few exceptions, "visa"—required before distribution of pharmaceutical specialties packaged for retail sale is permitted—is not granted for imported products.

OR: State monopoly on cigarettes, other manufactured tobacco (following move toward CXT, retail prices of U.S. cigarettes have been increased proportionately more than on comparable domestic brands—contravening undertaking on pricing which U.S. obtained from France in 1947); State trading in coal, paper for periodicals, petroleum products; tripartite accord on electronic equipment (France, W. Germany, U.K. have drawn up accord to facilitate mutual acceptability of quality certification with membership open to all EEC and EFTA countries; it could lead to discrimination against U.S. goods); prohibition on advertising whisky, other grain spirits (wines, fruit-distilled spirit may be advertised).

Gabon. QR: Licensing and exchange quotas for all imports. For licensing, all trade is classified into 3 categories—Franc Zone and Common Market countries, free of restrictions; Far East, imports not to exceed 10% of total imports from all countries combined during a given year; all other countries, quotas established annually on basis of lists submitted by all important importers. V&T: Revenue tax up to 50% on all imports; turnover tax of 10%, on c.i.f. duty-paid value for all dutiable imports (certain countries exempt from customs duties); additional tax of 5–15% on c.i.f. duty-paid value for petroleum fuels, lubricants, firearms; arbitrary valuation on used clothing.

Germany, Fed. Rep. QR: Quotas on certain kinds of: fish, wines, fabrics, household articles, and other items; licenses for all those U.S. nonagricultural commodities in which the U.S. has a significant exporter interest are now being granted automatically and without limit. V&T: Value-added tax of 11% on c.i.f. duty-paid value of industrial imports. OR: Tariff quota on pit coal, briquettes of pit coal and similar solid fuels manufactured from coal except for bunkering of seagoing vessels, and for production of coke under processing contracts (use of imported hard coal throughout W. Germ. is now permitted if qualified consumers can show that they are unable to satisy requirements by purchases from EEC countries); tripartite accord on electronic equipment (see description under OR for France).

Ghana. QR: Licenses required for most imports. V&T: purchase tax of 5% to 100% on vehicles; sales tax of 11½% on c.i.f. duty-paid value for most imports; excise tax of 2½–75% a.v. on sales price which includes c.i.f. duty-paid value for selected luxury consumer goods. OR: Most imports must be handled on 180-day credit terms.

Greece. QR: Licenses required on List A items—products such as cosmetics, textiles, TV receivers, vehicles; licenses required on List B items—such as agricultural, mining, food processing and electrical machinery and spares; used machinery and spares except used earthmoving and roadbuilding equipment; quota for TV receivers. V&T: Turnover tax on all imports of 2.25–8.75%, on c.i.f. duty-paid value (rates are 25% more than those on like domestic products, and are applied on c.i.f. duty-paid value which has been uplifted by 20–50%); tax of 10–70% on c.i.f. value for luxury goods; consumption tax of 10–70% on specific rates, or on c.i.f. duty-and-tax-paid value for consumer goods; discriminatory license tax and discriminatory registration tax on motor vehicles.

GP: Principle of nondiscrimination is administratively limited (purchases in excess of $50,000 may be limited to Greek suppliers; no international bidding if purchases can be made from countries with which Greece has bilateral clearing arrangements; foreign firms may be required to bid in association with Greek firm; guarantees of participation, performance applicable to foreign bids may be waived for domestic firms; Law 3215/1955 grants preference of 8% to Greek goods). OR: Maximum permissible length for taxis, 5m., and maximum permissible hp., 20 (Greek hp.). State trading in cigarette paper, kerosene alcohol, matches, salt, playing cards, saccharine, petroleum products. Screen-time quota for motion-picture films. Limit on terms of credit, or advance cash deposit requirements, for all imports (requirement more severe for luxury items, less stringent for products considered essential).

Guyana. QR: Licenses required on alcoholic beverages, cigars, cigarettes, tobacco, extracts, mineral fuels, lubricants, toys, certain chemicals, other items. V&T: Special tax, for protection of home industries, on imports of chairs, footwear parts.

Haiti. QR: Licenses required for various products, exchange controls on all products; prior authorization for detergents, plastic articles, firearms & ammunition, rubber heels and soles, cotton fabrics (imports allowed only if domestic production fails to meet local demand); Christmas trees, used clothing, rags, hats, shoes, household linens and furnishings embargoed. OR: State trading in tobacco, matches, soap, detergents, cosmetics, textiles, tires, tubes, cement, various agricultural chemicals, household appliances, wine, beer, whisky, rum, toilet articles, non-agricultural machinery. State-licensed, private monopoly: TV sets and parts, fish, building construction materials.

Iceland. QR: Global quotas for electric transformers, building board, certain furniture, ladies' stockings, brooms and brushes, works of art, reconstituted wood, fishing lines and cords, ropes; licenses required for paperboard cartons and containers. V&T: Sales tax of 11% on c.i.f. duty-paid value for all products except footwear, aviation gasoline, packaging, fishing equipment, aircraft; special tax on gasoline, tubes, tires. Special foreign exchange fee of 0.5% of declared customs value for cement, timber, reinforcement iron for construction. Foreign exchange fee of 0.5% of import price as stipulated by license for products subject to import licensing. OR: Prior deposit on all imports except petroleum, fishing gear, fertilizers, industrial raw materials (deposit must be placed with bank selling exchange equal to 15–25% of amount of foreign exchange purchased; deposit held for at least 3 months). State trading in tobacco, fertilizers, wine and liquor, perfumes, safety matches.

India. QR: Licensing, exchange control, quota, embargo restrictions on all commercial imports. Special licensing terms for capital goods, heavy electrical plant, machine tools valued at $100,000 or more (such imports permitted if covered by long-term foreign loans or investments, private or governmental); also for maintenance and replacement and purposes requiring small cash payments. V&T: Licensing fees on all commercial imports discriminatory excise tax on numerous products.

GP: On items purchased for public account, price preference of up to 40% accorded indigenous products. Administrative practices include issuing bid invitation on short deadline, failing to identify source of financing, restricting quotations or specs to British and Indian standards, renegotiating bids. OR: State trading in artificial silk yarn and thread, caustic soda, soda ash, newsprint, cement, fertilizer, petroleum products, mercury, sulfur, tractors, printing and textile machinery, tires and other items determined from time to time; discrimination resulting from bilateral agreements on capital goods and other items; discriminatory import privileges on machine tools and on imports in general; restriction on appointment of foreign-controlled branches or subsidiaries.

Indonesia. QR: Exchange controls on all products; embargo on batik-motif textiles, cigarettes, certain types of tires. V&T: Surcharge of 50–60% based on import duty for all except essential commodities; sales tax rates same for comparable imported and domestically produced goods except for semi-luxury textiles and tires; 1% tax on letters of credit for all products; ½% import tax, on c.i.f. duty-paid value, and ½% customs charge, on all products; excess profit levy of 15 rupiah or 250 rupiah per U.S. dollar value on import of a few items to which surcharges do not apply special retribution tax on most items on GATT schedules. OR: State trading for some essential items; prior deposit for all products.

Ireland. QR: Licenses required for tobacco products; quotas set for superphosphates, certain hosiery and footwear, laminated springs for vehicles, spark plugs and metal components, certain bulbs, brushes, brooms, mops. V&T: Wholesale tax of 10% or 15%, or turnover tax of 2½% on c.i.f. duty-paid value for most imports.

Israel. QR: Licensing under quota for a few imports (countries with which Israel has bilateral agreements are favored in issuing licenses for goods available from these sources). V&T: Purchase tax of 5% to over 100% on c.i.f. duty-paid value for many imports; discriminatory purchase taxes and annual property tax on autos; import surcharge on numerous products. OR: "Mixing" requirements on tractors (25–30% of value of imported wheeled tractors required to be Israeli-produced); prior deposit of 50% of value on all imports.

Italy. QR: Quotas on tetraethyl lead, ant-knock preparations, wine; licenses required for essential oils other than terpeneless, obtained from citrus, cork and products, certain vehicles. V&T: Turnover tax of 4% on c.i.f. duty-paid value on most imports; compensatory tax of 1.2–7.8% on c.i.f. duty-paid value for majority of imports; road tax on autos; administrative service fee (½%) and statistical fee (10 lira per unit) on all imports; excise tax on cigarettes. GP: 30% of Government purchasing reserved to Southern Italy and Islands for development. Ministry of Defense has recourse to foreign products only if domestic sources are unavailable or not suitable to needs. Gov. Depts. do not in principle have relations with foreign firms—only with firms legally established in Italy. OR: Screen-time quota on motion-picture films. State monopolies on cigarettes, nicotine products, salt, matches, flint, cigarette lighters.

Ivory Coast. QR: Quotas established for all imports; goods from France, Franc Zone countries enter freely (separate quotas apply to products from EEC countries and to rest of world); licenses required for all imports (from all countries outside Franc Zone, EEC); embargo on paint, detergents, matches, coffee-husking machines. V&T: Fiscal tax of 10–15% of c.i.f. value and statistical tax of 1% of c.i.f. value on all imports; value-added tax of 8–43%, normally 18% of duty-paid value, and special duty of 10% on c.i.f. value on most imports; arbitrary valuation for used clothing, footwear, petroleum products, soaps, radio receivers, other items. OR: Discriminatory pricing formula and visa requirements for pharmaceuticals.

Jamaica. QR: Licenses required for many products, including asbestos cement pipes, earthenware pipes, metal structural forms, tiles, roofing materials, cement rubber products, metal furniture, aluminum hollowware, garments, hosiery, detergents; embargo on autos with wheelbase of 116" or over, which prevents import of standardsized U.S. cars.

Japan. QR: Quotas established for coal, gas oils, heavy fuel and raw oils, other petroleum oils, some chemicals and pharmaceuticals, leathers (excel. raw) and products, especially footwear, large turbines, office machinery incl. digital computers and parts, other products; automatic licensing (licenses freely granted but importer must submit imports for approval) for machinery, chemicals, drugs, processed foods, other products, license required for all imports. V&T: Internal tax of 150–220% on high-priced whiskies, brandies, auto (sales) tax of 15–40% and annual road tax of $100–$167 for large U.S.-sized cars, value uplift for customs purposes on a few imported goods, particularly parent/subsidiary transactions.

GP: On 14 categories of goods, including motor vehicles, electronic computers, aircraft, machine tools, agricultural and construction machinery, permission for procurement without open bidding granted by Cabinet Order 336 of Sept. 25, 1963. HS&S: Ban on foods containing unapproved food additives. OR: State trading for tobacco manufactures, alcohol of 90° strength or higher; on certain imports, weights must be indicated in metric measurements only; discriminatory credit restrictions on all imports; discriminatory treatment for premiums offered by importers and exporters of several products, such as air conditioners and instant curry; technical licensing requirement for heavy electrical equipment and possibly other products; restrictions on capital investment (many U.S. firms unable to establish facilities in Japan from which to direct sales, service operations because of such restrictions; even obtaining minority interest in a Japanese corporation extremely difficult).

Kenya. QR: Specific licenses required for many products, other imports enter under open general licenses; quotas on certain clothing. GP: Overseas procurement for Government handled through Crown Agents in London, giving British suppliers strong advantage. OR: State trading in dye-in-piece fabrics, khaki drill, colored fabrics, secondhand clothing, soap, detergents, salt, developed 35-mm. cinematographic films.

Korea. QR: About 75 miscellaneous manufactured products embargoed. Quotas maintained on about 55 SITC classifications, including plastics, iron and steel structures, glass, manufactures of metal. All imports subject to licensing, but approval is automatic for most. V&T: Special Customs duty of 70% of "excess" profit on items normally dutiable at 40% or less, and 90% on those over 40% applied to most imports. Commodity tax of 2–70% of landed cost plus applicable duty levied on wide range of items. OR: Prior deposits of from 30–150% of import value required for most imports.

Kuwait. QR: Embargoes in effect on alcoholic beverages, used trucks and buses, spiral weld steel pipe, medicines containing cobalt salts, industrial and medical oxygen gas, magnetizers, ethyl alcohol. Insecticides must be licensed. OR: Trade in asbestos pipe is run by a Government-sanctioned private monopoly.

Malagasy Republic. QR: All imports subject to exchange quotas and licensing Annual import program provides quotas for specified commodities from EEC countries other than France; global quotas for all other countries outside the Franc Zone. Special quotas apply to batteries for electric accumulators and alcoholic beverages. Prior authorization required for used metal casks and drums, used clothing, alcoholic beverages, used sacks and bags. New sacks and bags also embargoed, and partial embargo covers imports of cement into part of west coast. V&T: Import tax of 0–50% of c.i.f. value on most items. Consumption tax of 10–135% of c.i.f. duty-paid value on tobacco, footwear and alcoholic beverages. There is a charge of 300 francs per metric ton on cement. GP: Procurement practices are featured by short notification and administrative discrimination. OR: Beer container size is strictly regulated and beer with less than 4% alcohol is prohibited.

Malawi. QR: Discriminatory licensing policy for some products does not require licenses from Sterling countries. GP: Overseas procurement handled through Crown Agents in London, giving British suppliers strong advantage.

Malaysia. V&T: Surtax of 2% c.i.f. on most imports. Trucks and buses of non-Commonwealth origin pay 15% registration fee; Commonwealth suppliers pay none. GP: "Buy National" policy directs public agencies to pay up to 5% more for domestically-made goods. QR: as many as 100 items at any given time temporarily subject to specific licensing or quantitative restrictions. OR: Foreign-made films subject to screen-time quotas.

Malta. QR: Embargoes machinery for producing stockings, refrigeration machinery, motor buses, water pumps, cement floor tiles, basketware of cane, willow or wicker, other items. Steel wool, certain items of men's and ladies' apparel and electrical wiring accessories subject to licensing.

Mauritania. QR: All goods imported freely from France and Franc Zone countries; special quotas for EEC, global quotas for rest of world. V&T: All imports subject to fiscal tax of 10–15% of c.i.f. value: Standard import tax of 20–30% of c.i.f. plus duty-paid value; turnover tax of 10–22% of c.i.f. value plus all other taxes; and statistical tax which is generally four CFA francs per unit. OR: State trading in percales and guinea cloth.

Netherlands. QR: Various products subject to licensing; however, except for coal and coke, licenses automatically granted to U.S. products. V&T: Most imports pay a value-added tax with general rate of 12%: some necessities pay only 4%. Excise taxes on tobacco products, ethyl/propyl and isopropyl alcohol, beer, wine, petroleum products.

New Zealand. QR: 32% of value of imports subject to quotas or licensing. V&T: Sales tax on wide range of non-essential items: 20% for most; 30% for photo apparatus, watches, telescopes, stereoscopes, cigarette lighters; 40% for motor vehicles, motorcycles.

Nicaragua. QR: Prior authorization required for cotton ginning plants and textile manufactures, industrial plants for pasteurizing milk, equipment to slaughter cattle and hogs, rubber tires and tubes. V&T: Most products subject to import surcharge of 30% of c.i.f. value.

Niger. QR: Most products subject to exchange quotas and licensing from which Franc Zone countries are exempt; being removed gradually for EEC. No license issued if goods available in Franc Zone. Country and global quotas. Prior authorization on plastic articles, matches and soap. V&T: Taxes on c.i.f. value of all imports: fiscal, 10–15%; statistical, 1%; standard, 25% of c.i.f. duty-paid value (10% for industrial raw material and equipment); turnover, 10–22%. Arbitray valuation on used clothing. Transaction tax of 10% (c.i.f.) on perfume, cotton, knitted goods, aluminum household utensils. Discriminatory excise taxes on cigarettes.

Nigeria. QR: Many products subject to specific licensing. V&T: Surtax of 6.75% of amount of duty paid on all imports.

Norway. QR: Commercial vessels subject to licensing. V&T: Value-added tax of 20% c.i.f. duty-paid value on nearly all products (11% on capital goods for investment purposes); imports subject to traffic tax from which domestic goods moving in internal trade are exempted; progressive nature of automobile tax weighs more heavily on expensive models; trailers, buses, some motorcycles subject to 25% tax of c.i.f. duty-paid value plus traffic tax (35% for other motor vehicles). GP: Domestic and EFTA bidders get preference of 15% on all Government purchases. Monopoly control and price fixing on pharmaceutical products. OR: State trading in alcohol, medicines, fishing gear. Binding sole of all shoes must be made of single piece of natural leather, which precludes of artificial leathers such as "corfam." HS&S: Rigid technical standards for electrical items.

Pakistan. QR: Licenses required for private shipments of all but 14 items on Free List. Many products embargoed. U.S. autos virtually embargoed, as they must have landed cost of $2331 or less. V&T: Sales tax of 15% c.i.f. duty-paid value on most products, which are also charged a Defense tax of 25% of sales tax. Surcharge of 25% of customs duty on all except exempted machinery items. Equalization tax on landed cost of industrial raw materials and some other items from cheaper foreign sources is equal to difference between lowest- and highest-priced imports. OR: Remittance restrictions on motion picture films, and varying exchange rates apply to most other imports. State is sole importer of several metals, foods and artsilk yarns.

Peru. QR: Licenses required for all used machinery and new textile machinery. Indefinite embargo on many products, including footwear, radios, refrigerators, textiles and automobiles. V&T: Arbitrary customs valuation system. Statistical tax of 2% c.i.f. duty-paid value (3% c.i.f. if good is duty-exempt). All products arriving by sea must pay a maritime freight tax of 4% of ocean freight charges. Most products pay a surcharge of 10% of c.i.f. value. GP: Government agencies and institutions receiving government funds prohibited from importing goods produced domestically. OR: Prior authorization needed for pharmaceuticals, cosmetics, toilet articles, matches.

Poland. State trading in all products; bilateral purchase agreements influence buying practices rather than price, quality, etc. Marketing practices restrict foreign firms' access to potential buyers.

Portugal. QR: Global or bilateral quotas on about 50 items. Licenses required for all shipments valued at more than $87.50. Prior authorization needed for saccharine and foods containing saccharine. Used clothing is embargoed. V&T: Transaction tax of 7% (20% on luxuries) on 140% of c.i.f. duty-paid value of most products. Progressive sales tax on autos is particularly burdensome on higher-priced models. GP: Domestic and EFTA suppliers get preference on all purchases for public account.

Rwanda. QR: All products require licenses. V&T: Fiscal tax of 10–30% and Statistical tax of 3% on c.i.f. value for most imports. Alcoholic beverages, petroleum, tobacco products subject to consumption tax.

Senegal. QR: Exchange quotas allocated to all countries outside Franc Zone; separate quotas for EEC. Certicates required for liberalized imports. Matches, some clothing and certain construction materials embargoed. V&T: Fiscal tax of 10–15% of c.i.f. value, turnover tax of 10–22% of c.i.f. plus all other taxes, statistical tax of four CFA francs apply to all imports. Most others also subject to standard tax of 20 or 30% of c.i.f. plus tariff plus fiscal duty plus statistical tax. Lubricants must pay 15.5–25.5 CFA francs per liter. HS&S: visa (which may be denied) required for pharmaceuticals; fee for visa application is high.

Sierra Leone. OR: A few products require specific licenses. V&T: automobile valuation based on engine size, which discriminates against high horsepower vehicles.

South Africa. OR: Most products require licenses; subject to sales tax of 5, 10 or 20%.

Southern Rhodesia. OR: Many luxury and domestically-produced goods require licenses or have quotas. Light and heavy built-up commercial vehicles embargoed.

Spain. QR: Import declaration required for all liberalized goods. License (generally not granted) required for all used machinery and second quality goods. Motion pictures subject to screen-time quota. Global quotas in effect on about 58 categories. Others subject to bilateral import regime. V&T: Compensatory tax of from 3–15% on c.i.f. duty-paid value. Dubbing taxes on motion pictures (highest on U.S. films). Threatened "abnormal price" actions induce importers to pay prices which cancel out a low-cost producer's advantage. Import deposit of 20% c.i.f. on all products held for six months without interest (Decree in force through Dec. 1970). GP: Imports prohibited from projects involving government funds. Where Spanish products are unavailable, short bid deadlines often have effect of excluding foreign competitors. OR: State trading in certain types of coal, petroleum derivatives, tobacco. Requirement that several synthetic fibers must be imported directly from factory discriminates against middle-man organizations, which must procure licenses.

Sweden. QR: Licenses required for all automobile imports. V&T: Value-added tax of 10 or 14% on c.i.f. duty-paid value of all imports. Sales tax is based on the c.i.f. duty-paid value of certain rugs, gold and silver items, precious stones. Certain furs subject to 2–10% tax of c.i.f. duty-paid value. Toilet articles and cosmetics pay a commodity tax of 50% of wholesale price. HS&S: Rigid technical standards for electrical equipment. OR: State trading in wines, spirits.

Switzerland. QR: Licenses needed for trucks, cotton fabrics, jute textiles, clothing, certain carpets, and various minerals and chemicals. Quotas for wine in barrels. V&T: Road taxes and compulsory insurance rates based on horsepower. Turnover tax of 5.4% on c.i.f. duty-paid value of all products. OR: State trading in alcoholic beverages.

Tanzania. QR: Specific licenses required for various products other imports enter under open general license. OR: State trading for textiles, bicycles, motion-picture films, cement, matches.

Togo. OR: Licenses for all products V&T: Transaction tax of 18% of c.i.f. value plus all taxes. Statistical tax of 1% c.i.f. value. Warehouse tax of 1% c.i.f. value. Fiscal stamp tax of 3% of all duties and taxes. Special import tax on ten CFA francs per 100 kg. Luxury tax of 40 CFA francs on textiles, alcoholic beverages, perfumes. Tax of 125 CFA francs per ton of tobacco manufactures, jute goods. Lighthouse tax of 20 CFA francs per ton. Berthage tax of 125–510 CFA francs per kg.

Trinidad and Tobago. QR: Domestically-produced items subject to strict import quota licensing, and in some cases prohibited Soap, detergents, paper, cement, lead, air conditioners, cotton fabrics and furniture strictly controlled.

Tunisia. QR: Global and bilateral quotas apply to most products. Licenses required for all goods from non-Franc Zone countries. Various goods are completely embargoed. V&T: Production tax of 15.5–19.9% on duty-paid value of all imports. Customs formality tax of 1.81% of landed cost of all items. Luxury goods pay consumption tax of 7.5–25% of duty-paid value and a National Defense Fund tax of 10% of either consumption tax or duty, whichever is higher. Perfume, soap, tires, petroleum products, explosives, other items subject to consumption duty of 11–100%. Wide variety of products subject to state trading.

Turkey. QR: All products subject to licensing, with special consideration to items traded with bilateral agreement countries. Quotas on varied items. V&T: All goods imported by sea pay 5% port tax based on c.i.f. plus duty, surtax and customs clearance costs. All imports pay 15% surtax on customs duty, as well as stamp tax of 25% of c.i.f. value. Most pay discriminatory production tax ranging from 10–75% of c.i.f. value plus customs duty, customs surtax, port tax and customs clearing expenses. Foreign motion picture films pay a higher tax (41%) than domestic ones (25%). Automobile surtax varies according to weight and age. OR: Tobacco products, alcoholic beverages, salt, sugar, most agricultural equipment subject to state trading. 50% advance deposit required for goods on liberation list and quota list goods imported against letter of credit.

Guarantee deposits of 20, 50, 90 or 120%, depending on import list, required with import application. Smaller deposit (1–10%) on goods imported under certain investment programs.

Uganda. QR: Specific licensing required for many products: other imports enter under open general license; quotas established for motor cars, station wagons, motorcycles; embargo on used clothing. GP: Overseas procurement for Government handled through Crown Agents in London, giving British suppliers strong advantage.

United Arab Republic (Egypt). QR: Import trade nationalized. About half of all tariff items embargoed. Exchange allocations imposed to meet commitments under bilateral agreements. V&T: Statistical tax of 1% c.i.f. value on all imports except wheat. Revenue tax of 10% on foreign-made non-essential goods, with 5% tax on essential food items. Pavement tax of 3% of sum of customs duty, statistical tax, revenue tax and applicable excise taxes applies to all imports. Porterage fee, also. All goods imported through UAR ports pay marine duty of 0.2% of c.i.f. value. Excise duties apply to variety of items, mostly consumer goods.

United Kingdom. QR: License required for coal, coke, and solid fuels, but none are issued. Quotas on cigars, jute cloth, rum, motion picture and TV films. GP: While no procedures have been published, purchasing departments when intending to place orders abroad try to find out whether the products can be obtained on competitive terms within the Commonwealth. Some administrative measure of preference is given to firms in development districts. Preference is also specifically given to computers of U.K. manufacture. EFTA members have equal opportunity with domestic firms under Article 14 of the Stockholm Convention. British Admiralty requires that lumber for which tenders are invited must originate in British Columbia. OR: Tripartite accord on electronic equipment (see description under OR for France).

Upper Volta. QR: License required for all goods outside Franc Zone. EEC goods get preferential treatment. Used clothing embargoed. V&T: All imports subject to 5–20% fiscal tax; temporary development tax of 10% on c.i.f.; statistical tax of 1% c.i.f.; contractural tax of 2.25–25%; temporary maintenance tax of 1.5%; compensatory tax of 3%. OR: Medicaments not appearing in French Codex or authorized by Central Pharmaceutical Service prohibited.

Uruguay. QR: Prior deposits of from 150–400% on private imports exceeding a given percent (averaging 80%) of past levels. Three-year financing required for most capital goods. V&T: Non-essential goods subject to surcharges of 10–300%; global customs charge of 18%. All imports pay: a port handling fee of $.025 per 100 kilograms of gross weight or $.33 per 100 pesos of valuation; consular invoice charge of 12% c.i.f.; arbitrary customs valuation established for 80% of tariff items.

Yugoslavia. QR: All imports subject either to commodity or exchange quotas, licensing or exchange control. OR: Commitments to buy from certain supplying countries. End-users of raw materials and semi-manufacturers used in the shipbuilding, electric, textile and food industries given foreign exchange for import of these products in fixed ratio to exports.

The issue of nontariff barriers cuts both ways. Foreign officials and exporters also complain about U.S. Government regulations and administrative practices which allegedly restrict trade. The most commonly mentioned of these alleged measures are set forth below.

### Alleged U.S. Nontariff Barriers

Quantitative Restrictions: Presidential authority to impose quotas or fees on imports of agricultural commodities. Such restrictions are now in effect on wheat and wheat flour, cotton, peanuts, and several dairy products.

Presidential authority to limit any imports for national security reasons, currently applied only to petroleum shipments.

Sugar quota which reserves 65% of the national market to domestic producers.

Meat Import Act's provision for automatic import controls once a certain level (not yet reached) is attained.

Restrictions on firearms imports which are allegedly more stringent than regulations on interstate shipments or mail order sales.

A tariff rate quota on brooms, whereby all imports in excess of a stipulated number are assessed at higher rates of duty.

Ban on purchase of foreign-built containers by U.S. flag vessels if vessel's operations are governed by an operating differential subsidy contract.

Provision that vessels engaged in U.S. coastal trade must be U.S.-built and U.S.-manned.

Under a provision of the Long-Term Cotton Textile Agreement, the United States controls imports of cotton textiles under separate bilateral agreements with 24 countries which account for more than 80% of U.S. cotton textile imports.

Imports of ermine, fox, kolinsky, marten, mink, muskrat and weasel furskins produced in the USSR or Mainland China are banned.

The Atomic Energy Act of 1954 prohibits uranium enrichment servicing for nuclear materials of foreign origin intended for use in a facility within or under the jurisdiction of the United States.

Valuation Practices: U.S. system of Customs valuation provides nine different methods of establishing the value of articles, the two most frequently used of which employ f.o.b. values. Other countries contend that complexity of U.S. valuation provisions is in itself a barrier to trade, and some have proposed adoption of the Brussels definition of value, which is the landed (c.i.f.) value.

The American Selling Price System, whereby imported benzenoid chemicals, some rubber footwear, clams and certain wool knit gloves have duties assessed on the value of competing U.S. products rather than the value of the imported article.

Valuation of certain products on old system of appraisement rather than the method established in the Customs Simplification Act of 1956.

Other Customs and Administrative Entry Procedures: Special Customs Invoice used to report entries valued at more than $500 requests some data which foreign suppliers consider unnecessary and burdensome.

Tariff Schedules of the United States vary from the Brussels Tariff Nomenclature, which is used by more than 100 countries, including all our major trading partners except Canada. Among other things, foreigners say that TSUS classifies items so that many parts are no longer listed with the product to which they belong.

Special Dumping duties may be imposed under Antidumping Act of 1921, which by law takes precedence over International Dumping Code, to which the United States adheres, in case of conflict.

U.S. Countervailing Duty practice provides for no injury requirement, which is called for by GATT.

Certificates of origin are required for importation of commodities into the United States when goods of Communist Chinese, North Korean or North Vietnamese origin may be involved.

U.S. practice does not fully conform to the provisions of the international convention to facilitate imports of samples. The convention limits deposits on samples to the amount of import duties plus 10%, whereas the U.S. requires a deposit of double the estimated duties. (U.S. rules are being revised to bring them into line with the convention.)

Government Procurement Policy: Buy American Act of 1933 requires Federal Government to buy only domestic materials unless (a) they are not available, (b) their purchase would not be in the public interest, or (c) the cost would be unreasonable. Unreasonable is defined as more than 6% higher than the foreign bid. Another 6% is added if the material will be produced in a depressed area or by a "small business." The Defense Department currently appiles a 50% differential due to balance-of-payments problems.

The Department of Defense cannot buy any article of food, clothing, cotton, wool, silk or spun silk yarn for cartridge cloth, or synthetic and coated synthetic materials which has not been produced in the United States.

Safety Standards: Regulations affecting motor vehicles, boilers and pressure vessels, steel processes, plumbing, heating, lumber, firefighting and electrical equipment, and Coast Guard inspection of safety equipment have all been subject to complaint.

The Flammable Fabrics Act authorized the Federal Trade Commission to test merchandise believed to be in violation of established requirements. (This law applies equally to both domestic and imported products.)

Health Standards: Certain provisions of the Quarantine and Food and Drug Law, the Wholesome Meat Act and the Agricultural Marketing Agreement Act have been viewed as trade barriers by foreign suppliers.

Other Standards: Fair Packaging and Labeling Act of 1966 prescribes the manner in which certain consumer commodities are to be packaged and labeled. (This law also applies equally to domestic and imported products).

The name of the country of origin must be marked in a conspicuous place on all imports coming into this country. Exceptions are permitted, but in such cases the container must be marked.

Other Non-tariff Practices: Escape Clause actions allow the President to increase duties or otherwise restrict imports of items found to be injuring or threatening to injure a domestic industry.

Imports of bottled distilled spirits are assessed as though they were 100 proof, so that in effect a bottle of 86 proof Scotch is assessed for an additional 14 proof.

Legislation prevents the entry into the United States of more than 1,500 copies of any English-language book authored by a U.S. citizen. It is not applicable to books authored by nationals of countries adhering to the Universal Copyright Convention.

All subsidized ship construction must be done in U.S. shipyards, and equipment purchased must be of U.S. origin.

Corporations that conduct all of their business in the Western Hemisphere and derive 95% of their gross income from outside the United States are eligible for certain tax rebates.

Post exchanges at armed forces bases overseas may enter duty-free into host countries any goods, regardless of country of origin, and sell them tax-free to authorized customers.

The President may exclude goods imported through unfair acts, when the effect of the acts is to destroy or substantially injure an industry, prevent establishment of an industry, or restrain or monopolize trade in the United States. This authority has been invoked once, against imports of Furazolidone.

The Internal Revenue Service classifies sparkling cider as a sparkling wine. The law sets 0.277 grams of $CO_2$ per 100 milliliters as the upper limit for still wines and sparkling cider generally has more than 0.4 grams of $CO_2$ per 100 milliliters. (Once again, this law applies with equal force to foreign and domestic products).

The above list, among other things, does not include foreign assets control regulations, which apply to U.S. trade with Communist China, North Korea, North Vietnam and Cuba; voluntary export controls imposed by foreign governments to avoid disruption of the U.S. market; state and local government measures, and private practices.

Senator RIBICOFF. Now, one of the problems we are going to have, and I am very curious about this, here the Vietnam War is going to come to a close some day, I agree that the President is trying to do his best and we are trying to wind down the Vietnam War. Now, when you wind down the Vietnam War there are going to be grave economic problems in all of Southeast Asia, South Vietnam, Thailand, Cambodia, and Laos, the whole area. How are we going to work out an arrangement with these countries to get them back on their economic feet again? What should the policy be in the country again of these countries, developing countries, in Southeast Asia?

Secretary STANS. I do not believe, Mr. Chairman, that, other than what has appeared in the President's Report on the State of the World, as it is called, there is any specific publication in this respect but I believe that subject is covered there.

I would hope that whatever efforts are made are in terms of helping these countries to develop free enterprise type economies with private investment, and I believe that might very well include some investments from the United States.

Senator RIBICOFF. You are going to get into the same problem we have now. We helped build up Japan and Japan now sends merchan-

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dise that is in competition with us, then it goes to Korea, Taiwan, and Hong Kong, are you not going to have these other problems in these Southeast Asian countries that you now have. They will go into these items seeking the one big market in the world and that is the United States. These are some of the dilemmas, it is the complication of these problems.

Secretary STANS. I could not agree with you more. Trade is a two-way proposition and if we are going to sell to those countries goods of the higher technology, road-building equipment, and airplanes and computers and chemicals and so forth, you have to buy some things from them, and so long as we maintain our technological advantage we should be able to deal with those countries as their economies grow and sell them more and more of our goods, and that would be beneficial in both respects. But I agree with you that it fits into the overall question of our policy with respect to the multinational corporation and particularly our policy with respect to trade problems in all of the countries.

Senator RIBICOFF. You say ours is the most open market in the world, and I have the impression that about 20 percent of our imports are under quota, voluntary or legislated. Do you have a comparable figure for each of the other industrial countries of what is under quota, could you get it for us to see?

Secretary STANS. Mr. Chairman, we will take a look and see what statistics and data we have on that. The 20 percent, of course, in the United States is influenced very heavily by some restrictions on agricultural products, and by the quota on oil. Beyond that there is not so much, but we will break down our figures for you and we will also see what we can get with respect to other countries.

(The following was subsequently supplied for the record:)

U.S. IMPORTS OF COMMODITIES SUBJECT TO QUANTITATIVE RESTRICTIONS

Imports of the commodities listed below are subject to several types of quantitative restrictions which have been established for various reasons. While import data are provided for each of these commodities, it should be noted that the volume of imports is not a reliable measure of the extent or force of a quota's restrictive effect. A heavy import volume does not necessarily indicate a highly restrictive quota, since in most cases, the tighter the import restriction, the smaller the volume of imports. Conversely, a large import volume could indicate a relatively mild trade restriction. The most meaningful measure of the restrictiveness of a quota is how much more of a commodity would have been imported in the absence of a quota. However, that is a figure extremely difficult to quantify.

It should also be noted that U.S. quotas generally are less restrictive than those of some other countries. U.S. quotas usually consist of a ceiling based on the level of imports occurring during a recent period, plus a growth factor so that the net effect is not to reduce the existing volume of imports, but to limit their expansion to some proportional share of U.S. market growth. However, in some countries, the quotas can be tantamount to an embargo on imports. There are no published ceilings and importers are required to obtain a license to import, with no assurance one will be issued.

There are no reliable data available on the value of imports of commodities subject to quotas in other countries. However, for those countries whose quotas are more restrictive than those of the United States, the relative value of their imports likely would be smaller than those of the U.S.

[In millions of dollars]

| | 1969 | 1970 |
|---|---|---|
| 1. Brooms made of broomcorn (tariff quota) | 1.2 | 1.3 |
| 2. Buttons (from Philippines) (duty-free quota) | [1] (.1) | [1] (.1) |
| 3. Cotton textiles (long term agreement) (absolute quota) | 413.0 | 401.0 |
| 4. Hard fibre (leaf) cordage (from Philippines) (absolute quota) | 1.0 | 1.1 |
| 5. Petroleum and petroleum products (absolute quota) | 2,552.0 | 2,766.0 |
| 6. Steel (voluntary restraints) (absolute quota) | 1,742.3 | 1,967.0 |
| 7. Watches and watch movements (from U.S. insular possessions) (duty-free quota) | [1] (25.5) | [1] (25.6) |
| 8. Cattle, weighing less than 200 pounds, or 700 pounds or more each (tariff quota) | 19.6 | 20.4 |
| 9. Coffee, green and soluble (International coffee agreement) (absolute quota) | 935.6 | 1,206.9 |
| 10. Coconut oil (from Philippines) (tariff quota) | [1] (21.7) | [1] (21.7) |
| 11. Cotton, raw and wastes: (absolute quota) | 9.0 | 7.8 |
| 12. Dairy products (both tariff and absolute quotas) | 34.7 | 49.5 |
| 13. Fish (certain cod, haddock, hake, pollack, cusk, rosefish and tuna) (tariff quota) | 84.7 | 108.8 |
| 14. Meat (voluntary restraints) (absolute quota) | 496.0 | 581.4 |
| 15. Peanuts (abolute quota) | .1 | .1 |
| 16. Potatoes, white or Irish (tariff quota) | 6.9 | 5.3 |
| 17. Sugar and sugar products (absolute quota) | 630.0 | 720.0 |
| 18. Tobacco and tobacco products (from Philippines) (tariff quota) | [1] (1.1) | [1] (1.0) |
| 19. Wheat and milled products (absolute quota) | 1.4 | .8 |
| Total U.S. imports under quota | 6,927.5 | 7,837.4 |
| Total U.S. imports | 35,870.4 | 39,767.7 |
| Imports under quota as a percentage of total imports | 19.3 | 19.7 |

[1] Not included in totals because these duty-free quotas constitute trade concessions rather than trade restrictions.

Source: Data derived from official statistics of the U.S. Departments of Commerce and Agriculture.

Senator RIBICOFF. As Secretary of Commerce, do you see a way of controlling or using constructively that $50 billion Eurodollar market? What do we do? Of course, it is not all our own now. It is owned by nationals of other countries; how do we use it for the benefit of the world economy as well as the United States?

Secretary STANS. Well, Mr. Chairman, the simplest answer I could give to that is that we have to conduct our affairs in such a way as to earn them back. If we can build our trade balance and improve our balance of payments we can earn those dollars back. If we can induce other countries to invest in businesses and plants in the United States we will get some of those dollars back. But we cannot just command them back, and I think what has happened in the accumulation of that large sum of money over a considerable number of years just cannot be reversed in a very short period of time.

Senator RIBICOFF. Well, now, where do we start? I mean, the figures given yesterday indicating the fantastically tragic figure of $5 billion deficit in the first quarter—where do we work this out? You have got the import purchases—you are not going to cut off imports—and we know no matter what we say if you cut off imports you are going to have a trade war and you are going to sell less. When we get less in we are going to sell less; they are going to retaliate if we do not work this out mutually.

Secretary STANS. I would hope, Mr. Chairman, that none of us would consider that first quarter figure representative of a trend for the rest of the year. I think it had abnormal circumstances in it. I am not in position to detail all of them. I do not think we know yet, but the short-term movements of money affected that very considerably, and I would hope that our basic balance-of-payments position will slowly and gradually improve this year as compared with last year.

Senator RIBICOFF. Well, so you have got the problem of exports-imports; you have the military expenditures of $4.8 billion. Senator Mansfield is trying to save something; the administration is dead set against it. So unless there are some hard negotiations there is not much to work out there. You wind down the Vietnam war; you have the NATO countries making larger contributions; you have got a $4.8 billion drain on military account. Dividends and interest on foreign investments by citizens of the United States—you cannot do much about that because we have the advantage there, we have got more coming in there. That is probably one of the saving graces in our balance of payments—our investments abroad.

Now, the United States tourism abroad, I see that tourists coming to the United States spent $2.3 billion last year against our $3.9 billion and it seems that could be an improvement. We have more foreigners traveling here and spending money here than we have had in the past. So, you have a small item there. Foreign economic aid—they say that is mostly tied to U.S. products. I do not know where you are going to get the miracle to get some of that $50 billion back.

Secretary STANS. Mr. Chairman, I am convinced that outside of what may be done by reducing our military expenditures, by ending the Vietnam war and so on, that the real answer is in our trade position, and we have got to remove our own barriers.

Senator RIBICOFF. Now you see this is—you are now coming to the great dilemma. The great dilemma you have got here, and this is one of the reasons for these hearings, for education for the committee, education for Congress, education for the country. You were here when President Meany of the AFL–CIO testified. He received almost unanimous plaudits from the members of this committee that he was hitting the nail right on the head. This is the answer; you cannot move jobs. But it becomes very obvious the more restrictive you become of imports the more restrictive other countries will be against you. They are not just going to sit back and let you export to them any more if you do not import from them. I mean, trade is a two-way street.

Now, how do you get more trade? Mr. Meany was inconsistent. Now, he is against expanding business with those Communists; he did not say it that way. But you have got this $16.6 billion of two-way trade with Eastern Europe. I think they would be very anxious—my understanding is—to get the high-quality American technical facilities that you point out is the one source of comfort to us. While Europe needs our technology intensive products, I think the whole world does and there is a great opportunity. But if we keep spending money for NATO to protect the Europeans against the Eastern Europeans, and we do not do business with them, and Western Europe, whom we protect, does do business with them, we are really proverbially cutting off our nose to spite our face. So, I am trying to find out where do we have an overall economic policy that takes all these factors into account to start reversing the 20-year drain that has happened that puts us in sort of a $48 to $49 billion negative balance of payments over this period of 20 years.

Secretary STANS. Well, Mr. Chairman, I am sure you would agree that this is not something that has happened in 1 year or 2 years. This is something that has been building up, over a period of time.

Senator RIBICOFF. That is right.

Secretary STANS. We are trying to now recognize more seriously than ever before the fact that the situation has attained dimensions which could be classified as almost critical. We have got to do more to improve our balance of payments, and to improve our balance of trade. This is why the President appointed the Williams Commission. They have been at it for over a year to analyze all aspects of this. And there are representatives of labor, business, and the public and Government on that Commission. I am hoping that their report will be very effective and valuable.

Second, as you know, the President a few months ago appointed, created, the Council on Economic International Policy, and a considerable number of studies have been put underway there to analyze various aspects of this.

The Department of Commerce, before I got there and since I got there, has made a large number of studies of this type and has had input into Government councils and consideration.

I think the answer is the very simple one in Government as well as in our private lives—that we frequently fail to deal with problems until they become very serious. Now this one is very serious, and as evidenced by the fact that your subcommittee has been created and all these other things have been happening. We are now in a position where we can organize national policies better than they have been before in the executive branch and in the legislative branch and deal with them.

Senator RIBICOFF. Do you think there is a definite role for Congress in this whole economic international field?

Secretary STANS. Oh, of course. I am sure the administration would welcome the advice and counsel of the Congress on any of these matters and in many cases we are going to need legislation, for certainly it is imperative that the Congress understands the situation and have the same data that we have.

Senator RIBICOFF. I mean, just this one comment because I want to pass this on to the other members. I think what has bothered so many of us in the past—not so much in this administration, but I imagine, so far we are going down the same road—is that administration after administration have taken actions in the trade field which have basically usurped the role of Congress, and have been very cavalier in recognizing the basic constitutional role that Congress has to play. The formulation of executive agreements that have avoided coming to the Congress for confirmation, the failure to take into account congressional restrictions, and asking to be bailed out in many situations where the executive got himself involved without coming to Congress, looking for legislation or consultation.

Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

Secretary Stans, I want to compliment you on your impression. I have not yet had an opportunity to read your prepared statement. I certainly will do that. I would like to ask: Is not agriculture a protected industry in the United States as well as abroad, yet is it not true that American agriculture is highly efficient?

Secretary STANS. Well, without doubt American agriculture is the most efficient in the world.

Senator HANSEN. Would it be fair to imply, or would it be fair then to infer that protectionism per se does not always lead to inefficiency?

Secretary STANS. I would agree with you on that, certainly.

Senator HANSEN. There appear to be too many agencies responsible for foreign trade matters. Treasury deals with export tax incentives and with laws governing unfair foreign trade practices like antidumping. The Commerce Department handles export promotion. The State Department seems to be concentrating in such areas as tariff preferences for less developed countries and east-west trade. The special trade representative was set up to negotiate with foreign governments but since the Kennedy Round this function seems to have all but come to an end or to be handled directly out of the White House. Now, we have the President's International Economic Council, which is supposed to coordinate our overall foreign policies. But it appears to be heavily staffed by the State Department. How does the President's reorganization plan streamline this crazy quilt government organization dealing with foreign trade matters, and how should it, in your opinion?

Secretary STANS. Well, I think your remarks are a pretty good endorsement of the reasons for the President's reorganization plan. It would create a Department of Economic Affairs and one of the fundamental responsibilities of that Department would be policy and action in the field of international trade.

The fact that these responsibilities now are in different departments does not mean that the Government does not function but it does mean that it does function in a more clumsy way and it takes a longer time to get things done. It means that work has to be done with coordinating committees of the various departments in order to get consideration and develop policies, and many times decisions have to go to the President on matters which the President should not have to deal with.

Under the Department of Economic Affairs, I think we can simplify very considerably the problem, although we will not eliminate it entirely because Treasury still will have responsibilities in international finance, and State certainly is going to have responsibilities in international diplomacy. And all this has a bearing, but the reorganization will help a great deal.

Senator HANSEN. I agree with that.

Is there a limit to the amount of U.S. productive capacity that we can export, in your judgment?

Secretary STANS. Well, I really would not know quite how to answer that. I certainly think there is such a limit, but it is a long way from where we are. We could export a very large part of our goods. There is a risk in so doing as some of the smaller countries find when they have 50 percent of their economy depending on exports. But certainly, we could double, triple, or increase our exports in multiples like that without any difficulty.

Senator HANSEN. I probably did not state my question very well, Mr. Secretary. I did not mean to speak of export production but rather of export of U.S. productive capacity, I am saying, I think earlier today there were references made to different factories that had been purchased in this country, and I think one shoe manufacturer closed a plant down immediately. He took all of the machinery including everything, including the technology and know-how that went with it and moved it abroad to take advantage, in his words, of lower wage scales that existed in the country to which he moved his plant. That is the sort of productive capacity of which I speak.

My question is, in your judgment, with reference to the activities of some multinational corporations, I would say again is there a limit to the amount of U.S. productive capacity that we can export without endangering our own economy here and our standards of living and our ability to continue as an industrial nation?

Secretary STANS. I would expect that there is such a limit. I do not know where it is and I am not sure whether we are close to it. We will know a lot more about it when we get the results of this study of multinational corporations that we now have underway in Commerce and we should know considerably more about how they react on the American economy by the end of the year.

Senator HANSEN. Well, I was interested in and impressed, I might add, by your response to a question asked by the chairman of this subcommittee. He, I think, said essentially how should we use these 50 billion Eurodollars, and I think someone observed, perhaps it was you, that in the first place, they are not ours and I think it needs underscoring. We can talk about what we are going to do with them but unless they are in our pockets and not in foreign countries' pockets, I do not think we are going to have very much to say about what we are going to do with them and you responded as I recall, that you thought we should find ways of trying to earn them back.

Secretary STANS. Well, I did not mean to imply we should try to earn the entire $50 billion back. We can and should earn some of it back but the dollars overseas are part of the official reserves in foreign countries. They are part of the monetary system of the world. They are at work and in that sense there is nothing wrong with their existing in Europe. The real problem that does exist, I think, is in our balance of payments, and the question of whether we are going to increase that overseas supply of dollars at the rate of four or $5 billion a year.

Senator HANSEN. Do you mean to imply by your response that their presence over there really does not pose a problem for us or for our European friends either?

Secretary STANS. Well, they can at times.

Senator HANSEN. Have they in the last week or so?

Secretary STANS. I do not think we know enough about the circumstances of the last week or two to be sure, but I would like to add one item of information on that. There have been some inferences that American companies, multinational corporations, have been shifting money into Germany and causing some of the problems that arose the last few weeks. We have made a partial study of that with approximately 20 American corporations and find that there is no evidence of that type of circumstance. I think the answer is to be found elsewhere.

Senator HANSEN. An instance where multinational corporations have exacerbated the problem, you mean.

Secretary STANS. Yes, sir, I think we have to find the answer elsewhere. I think it is in the payments, the large payments, that were made to the oil producing countries in the first quarter, perhaps it is in other circumstances, but we do not find any evidence that the multinational corporation shifted money and contributed to that problem.

Senator HANSEN. When you spoke earlier I thought you were inferring it was not as much of a problem as some people may think. You think it has been a problem in the mind of the Germans, the French and the Netherlanders?

Secretary STANS. Yes, sir, it has been, and the problem is not the existence of the dollars but the movement of them for speculative purposes primarily.

Senator HANSEN. And their numerical presence, might I add, would that be a meaningful thing? Maybe a few dollars would be all right but 50 billion seems to have been of some concern at least, if I read the papers correctly, to our European friends.

Secretary STANS. I am going to defer to George Shultz and some of the economists on that point. It is getting a little bit out of my field.

Senator HANSEN. During the late 1960's an interagency committee made a new survey on job production of firms with foreign investments. Do you happen to know what happened to that study?

Secretary STANS. No, I do not.

Senator HANSEN. I assume that there may be some valuable information in it. I would like to believe that there is. May I ask if you have the opportunity, would you try to accelerate the release of the report in order that we could have the findings and conclusions if it can be reached by the study committee with regard to these issues?

Secretary STANS. We will try to find it. Can you identify it more than that?

Senator HANSEN. Let me respond to you in writing, Mr. Secretary, and I will try to be more specific in the study as to which I have referred.

Secretary STANS. Fine.

Senator HANSEN. I want to say that I was pleased to have the privilege of hearing your testimony. I think you have been very much a realist, and I compliment you on your testimony.

Secretary STANS. Thank you.

Senator HANSEN. Thank you, Mr. Chairman.

(Pursuant to the above discussion the following exchange of letters took place:)

MAY 25, 1971.

Hon. MAURICE H. STANS,
*Secretary, Department of Commerce,*
*Washington, D.C.*

DEAR MR. SECRETARY: Pursuing the question I asked you during the hearing before the Subcommitee on International Trade on Tuesday, May 18, let me more fully describe the report about which I inquired.

I am advised that in 1967, a new census of U.S. firms with foreign affiliates was taken. Information on 1966 was provided for employment, earnings and sales of those, separated by company and country; and such information has never been released.

I am further advised that the Office of Business Economics has such information in addition to information on financial flows. While I am told the survey is not complete, it would be better than nothing. And nothing is available at this stage for employment, at least, in other countries.

The public is not allowed to get information of this sort by company name, because it would obviously interfere with the company's private competitive interests. But surveys of this sort are the basis of public reporting by industry; and government, business and labor need the results of such surveys.

Finally, it is reported to me that the Departments of Labor and Commerce, and the Bureau of Budget, were involved in this study.

I hope this will help you identify the study we discussed.

Sincerely,

CLIFFORD P. HANSEN.

THE SECRETARY OF COMMERCE,
*Washington, D.C., June 8, 1971.*

Hon. CLIFFORD P. HANSEN,
*U. S. Senate, Washington, D.C.*

DEAR CLIFF: In response to your question raised in the May 18 hearings and in your letter of May 25, the survey you have in mind is the 1966 Survey of American Business Investments in Foreign Countries, which was conducted by the Office of Business Economics in the Department of Commerce. The first phase of this study, on the balance of payments transactions of U.S. firms with foreign affiliates, has been completed and is now being printed. We expect to have the report available in a matter of days and will send you one as soon as we receive our copies.

Information on employment, sales, and on the financial statements of the foreign enterprises is included in phase two of the study. These data have required extensive review to make sure that each report is consistent, both internally and with the requirements of the survey. The necessity to review over 25,000 complicated forms has, unfortunately, resulted in long delays in publication of the survey reports. However, preparation of phase two data for petroleum companies is in the final stages, and we expect to send the report to the printer by October 1971. Publications on manufacturing and other industries will follow. All the results should be published by mid-year 1972. We will send you a copy of each report as soon as it is available.

Sincerely,

(S) MAURY,
*Secretary of Commerce.*

Senator RIBICOFF. Senator Long.

Senator LONG. Mr. Secretary, I would like to ask you first, if you agree with the conclusion of our staff in this little document—and I would like to ask that we place it in the record at the end of the day's hearings—that the GATT is outmoded as a basis for fair trade today.* Do you concur with that judgment?

Secretary STANS. I am not sure I would go quite that far. I think we need to review the entire GATT relationships to see whether the GATT agreement is up to date.

Senator LONG. The GATT has never been approved by Congress. It was an executive agreement that was made at a time when the other nations were war-torn and not competitive with us. We at that time were initiating a major foreign aid program to help those people because of their disastrous economic situations. Since that time they have grown to be very strong trading partners and in many instances they can produce and sell cheaper than we can. We have very drastically changed circumstances.

Secretary STANS. I would agree with that; yes.

Senator LONG. So, it would be appropriate for us to at least renegotiate at least some provisions in the GATT considering the way they are being construed today?

Secretary STANS. Well, I think that is right. I am not quite sure that we are wholly ready for that negotiation until we have a plan, a plan to determine just what it is we wish to accomplish in that negotiation. I have expressed concern before in public about the manner in which border tax adjustments are permitted under the GATT. I think we are being disadvantaged considerably by that provision and it is quite evident that the other countries in the GATT are not willing

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*The document, "Staff Analysis of Issues Raised by the General Agreement on Tariffs and Trades," appears as appendix C, p. 917.

to allow us to modify our treatment of taxes under the GATT agreement.

Now, I think that is one example of the kind of thing that we need to determine a position on, and see whether we should initiate negotiations for a revision of the GATT.

Senator LONG. Well, just to give you one example—we tax on one basis and they tax on another. So we have an agreement here which has been construed to mean they can rebate their taxes as a subsidy to their exports and we cannot rebate our income taxes, which are the principal tax that we are paying. They can impose border taxes, but we cannot. Now if you wanted to have a fair agreement it could say, for example, that we could break down our income tax into components. If a company pays a million dollars in income taxes and produced a million items and exported 100,000 items that he could receive $1 in subsidy for every unit that was exported. Just as in their case they have an excise tax on their products and they rebate the excise tax they make on the product. That would be a fair method for negotiating at the beginning, would it not?

Secretary STANS. Certainly, it would be a proper subject of analysis.

Senator LONG. It seems to me to be fair when they tax on one basis and we tax on another. We will rebate our taxes on an equitable basis on exports. If you want to rebate your taxes, that is fair, is it not?

Secretary STANS. In principle, certainly.

Senator LONG. That is right, it is just, and frankly, my guess is that this is something you can get in a tariff negotiation if you want to make an effort but that is something you would know more about than I do. You certainly have better credentials than I do on this subject.

Secretary STANS. Well, we have had some discussions on rebating of taxes on the border tax system and they have not been very fruitful. But I want to add this point, that I am not here condemning the GATT agreement as such. I think the biggest problem is not the agreement itself as much as the way the various countries interpret it and operate under it. I think some of the other countries, the Common Market and others, interpret it much more liberally in their favor than we do.

Senator LONG. Right.

Mr. Secretary, I suppose we ought to get to this thing which does upset me. I would like to insert, in addition to the staff analysis on GATT, the Special Trade Representative's opening statement on border taxes before an OECD group on April 30, 1968.*

Senator RIBICOFF. Without objection.

Mr. Secretary, what I have been hearing for years is that since we have a favorable balance of trade, our policy is good and we must do more of what we are doing in the trade area—expand this operation because it is only by doing this that we can afford to defend countries all around the world. We have a foreign aid program to give away wheat and do various and sundry things to help those who are less fortunate than we are and less able to defend themselves. That sounded all right to me until we had a hearing one day on a resolution by Senator Everett Dirksen, who was the Republican leader of the Senate. He insisted there be a change in the way these figures were

*Appendix G, p. 1003.

kept. I came there under the impression we had a favorable balance of trade and after I heard the witnesses for both sides I was convinced we did not have a favorable balance of trade and that I had been misled.

Just looking over the last 11 years from 1960 through 1970, according to our official figures we had a profit of $45 billion. Now, if we had that much profit we could have afforded to give away $45 billion because we really were not in bad shape in 1960 when these figures commenced.

But now, I discover that those figures leave out things that ought to be in there and put in things that do not belong in there. For example, to cite an example I gave you, you buy an automobile from Japan—that goes down based on what that automobile is worth at the Japanese factory when it comes off the assembly line or at the port of exportation. But that is not what we paid for this automobile. We pay, in addition to that the cost of hauling that over to the United States and putting it on our docks. We paid for the Japanese ship, plus the Japanese labor, so you can add roughly about 17 percent in the case of Japan to whatever that f.o.b. import figure was and when you add that in your big profit reduces itself to practically nothing.

For example, here is an article that was printed in one of our newspapers on April 25.* It said that if you take this matter into account this big trade surplus that we boast of would just about disappear. It would just barely miss a deficit last year when we had these good news announcements, saying we had a profit of $2,700 million. Then furthermore, that figure includes all that wheat we gave away to India that year. We do not expect to get anything back for that. I look down this column of foreign aid, and we—let me just see what it adds up to. That column totals up over the same period 1960 to 1970, $24.8 billion. There were roughly $25 billion of good news as though we were being paid for things we gave away.

Now, I was informed in the course of these hearings it looks like we actually did get $1.5 billion out of that. If that is what we got I would be perfectly content to put the $1.5 billion in. But not the $24.8 billion, because that was not going to be paid for.

You are a good businessman, and you have the credentials of a very good banker. I do not think that you as a banker, would put down there that you made money when you made a contribution to charity.

Secretary STANS. Well, Senator, I think we understand each other fairly well on this. I would like to make some comments about it.

I do not really believe that this is a question of right or wrong. I think there are different ways of showing the figures, and obviously, there are people who will argue the point of view that you have expressed. The Congressional Record on May 11 contains information as to just how we are arguing this, and the issue is not closed. I am still discussing it with George Shultz, with the objective of trying to find a way to accommodate your purposes as well as to carry on the traditional way of reporting.

There is no fraud in the method that is now used because the figures that do not appear in the computation appears somewhere else in the balance of payments figures. We do show a figure for the cost of ocean freight and insurance and so forth when we pay it to other countries in the balance-of-payments, and the so-called Government-

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*P. 36 of this hearing.

financed exports appear in the capital account in the balance of payments.

Now, my feeling is that the method of approach that you use is a useful one, and if it results in focusing attention on the fact that we have got to do more to build our balance of trade, then I think it is a very desirable result.

As to the objections of the Government's Committee on Foreign Trade Statistics, I think George Shultz intends to give those reasons when he appears before this committee, and hopefully out of all of this discussion we can find a course of action that will satisfy everybody.

Senator HANSEN. Would the Senator yield at that point?

Senator LONG. Yes, I yield.

Senator HANSEN. I would just like to point out that on December 17 there was a memorandum sent to the Honorable George P. Shultz, Director, Office of Management and Budget, by the Secretary of Commerce, the subject of which was reporting merchandise exporting and importing data, and I would like to read, if I may, from that memorandum:

> In response to a request from the Senate Finance Committee, I am hereby proposing that the Department of Commerce report monthly on annual merchandise export and import totals on a new basis as well as continuing the present basis of reporting. The new series to be reported are total commercial exports and total c.i.f. imports.*

And I want to say that I compliment the Secretary, and I deplore the fact, along with you, Mr. Chairman, that it seems impossible as yet to get these facts brought out in a manner that will be more realistic and more truthful, more honest.

Thank you for yielding.

Senator LONG. I thank the Senator.

Mr. Secretary, it just makes a great deal of difference. I have been reading all these good news statements, and all these proposals that we must expand our trade because we are making a big profit in this field, and that is the only way we can afford this military and foreign aid program that we are carrying on around the world.

Now, when I look at the last 12 years to which I referred Mr. Meany a few minutes ago, I find that where we officially reported that we made more than $12 billion; as a practical matter we lost about $14 billion. In fact, it comes nearer $15 billion. We did not make money, we lost money. Frankly, it sort of reminds me of that story about the fellow who is walking down the street—if I might just depart for a second—his friend said, "Congratulations. I heard that your daughter made a $100,000 on the stock market." He said, "Well, that is substantially correct." "What do you mean?" he said. "Well," replied the friend, "it was not a $100,000, it was a $100. It was not my daughter, it was my son. It was not the stock market, it was a crap game. He did not make the money, he lost the money."

[Laughter.]

Senator LONG. Now, that is about the picture of our trade situation. It is not just your administration that has published these misleading statistics but its predecessors as well. I thought that your administration was committed to correct this mess.

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*The entire memorandum referred to appears on pp. 34–35 of this hearing.

Here is a quote from the Republican party platform the statement:

**The basis for determining the value of imports and exports must be modified to reflect the true dollar volume.**

That sounded to me like Everett Dirksen participating in that Republican Platform Committee and it sounds like Richard Nixon running on my trade platform rather than Hubert Humphrey.

Then I discussed it with you and my impression was that you agreed with this. Then I read this article by a rather sophisticated writer obviously, from the way he wrote this story, Mr. Richard Lawrence, and he said that you wanted to correct this misleading presentation, but that you were being urged not to do so because to do so might be helpful to the protectionists. I would like to ask you, is that correct or not?

Secretary STANS. I do not think that is part of the reasoning. If it is it has not been expressed to me, Senator.

Senator LONG. It would seem to me if we have a bad situation and we want to get it straightened out the first think we had better do is get our facts straight. If we do not know what we are trying to do, and we achieve it, it will be a complete accident, not likely to happen. So, the first think I think we should do is get our figures straight.

According to the law, the way these figures are to be published is to be determined by you, the Secretary of the Treasury, and the Chairman of the Tariff Commission. Now, is there anyone of you three that thinks we ought to continue to mislead the American public into thinking we are making a $2.7 billion profit when we are sustaining a $3.2 billion loss?

Secretary STANS. Senator, as I said earlier, the record is clear on the position I have taken, and you may be arguing with the wrong man. But the point I want to make is that there is a difference of opinion in the administration and we are trying to work this out and hopefully, after you will hear from Mr. Shultz, either you will convert him or he will convert you.

[Laughter.]

Senator LONG. Well now, Mr. Secretary, my impression is that everybody in government shares this view: "They do not have enough influence." That is my complaint and I think it is the complaint of the President himself and the complaint of the last buck private in the Army—that he does not have enough influence. Because most of us think if we had more influence, he would straighten out what is wrong.

The second thing is that people who agree with him do not have enough influence. My impression about this matter was that you have been trying to straighten this out and according to this you explained it to the President, and he agreed with you that what I am saying here is correct. After you got through doing that, they got together an interagency group of bureaucrats, the identity of whom I do not know, and they proceeded to agree among themselves that this would be a bad thing, and stopped you from doing that. I see you nodding, is that correct or not?

Secretary STANS. Well, they have suggested a modified way of proceeding, as is indicated in that letter and, incidentally, I compliment somebody on being able to get these letters [laughter] because they are internal documents which normally would not be published, so there is no point in my trying to kid you as to what I said or what

George Shultz said. We are still trying to find a solution, Senator, and I think this discussion is all very helpful. In one way or another, the figures are, and can be made available and I hope that you will discuss it with Mr. Shultz when he is here.

Senator LONG. Well, now, I would like to prolong this just a little bit longer to get this matter straightened out and to be sure I understand it. The Secretary of the Treasury said to the Committee on Finance that he did not know how to go about straightening out this very bad situation involving $50 billion of American dollars around Europe which were giving us all sorts of problems in our international finance, and our unfavorable situation generally, in world finance.

My statement to him was that the starting point ought to be to get your figures straight. Let me show you how important I think that is. An outstanding man from Japan, came by to visit me a few months ago when the Senate was talking about restriction on textile imports. Now that is something that you were trying to do, because you thought that the welfare of this country required it. So did the President and so did I. He said:

> Senator, I hope that you people are not going to be so provincial and unstatesmanlike as to insist on cutting back on our exports to the United States. World trade is a good thing for both of us. Here is an article right here, on the front page of the New York Times which just appeared the last day or so, and it shows that you people have a big surplus in trade. When you have that big surplus you ought to continue what you are doing and do more of it rather than less, otherwise you cannot continue these defense type or aid things you are doing around the world.

I said, "My friend, that is the great big problem. It is not a profit, it is a loss," and he said, "Senator, if that is what it is, why do you not tell people that is what it is and negotiate with us and try to straighten it out?"

This article by Mr. Lawrence * is substantially correct, when he said it has finally been agreed to make these figures available somewhere. But the problem is that the officially misleading figures are put on the front page of the New York Times, which is the only American newspaper read in these foreign countries, and then you proceed to publish and I quote, "Meanwhile, the Commerce Department has been publishing the c.i.f. estimates and foreign aid exports in an obscure quarterly statistical publication as a gesture to Senators."

So what you ought to be doing with all these foreign countries is to tell them the truth about miserable foreign trade position. What you should not be telling them, because it is not correct, is that we have a big rosy trade surplus. That nonsense appears all around the world, when what you should be telling them is in some little obscure publication that can be found by the U.S. Senators only.

Now, unless we can start agreeing on what our problem is, I do not see how we will ever arrive at the answer. Until that time we are going to be saying, "Well, everything is great in the trade picture. All we have to do is expand it." But that means that you increase your losses when you should be saying, "Here, we cannot keep doing business this way."

If you had the kind of figures I am talking about in our official publication, you could say to Japan, just as this witness testified yesterday representing the Zenith Corp., "You ought to be buying our color television sets. We are willing to buy your radios but we can

*The article appears on page 30.

put color television sets in there cheaper than you can. Let us export the color television sets," and you would have a lot better leverage than you would have doing it the other way around. It would seem to me until we start telling the entire world, including our own people, what the real picture is and in a realistic sense that they can understand, we will never get around to correcting our situation because we are arming our adversaries with the same misinformation that we are giving our own people.

I will not belabor you any more about that, Mr. Secretary, unless you want to volunteer some statement on it but I do think——

Secretary STANS. We read you loud and clear, Senator.

Senator LONG (continuing). That we ought to tell the whole world what our problem is and then try to do something about it. It need not be necessarily in the protectionist vein either. I see you are nodding, which for the record means yes.

[Laughter.]

Secretary STANS. That was a Japanese nod, which means I understand.

[Laughter.]

Senator LONG. In other words, the answer does not necessarily mean that we have to have quotas on everything. The answer could mean that the other fellow ought to be buying more from us. The Germans, for example, have arranged to buy a lot of things from us which might be produced more cheaply somewhere else. They are certainly buying arms from us. Our trading partners around the world, our allies who are counting on us to defend them, can help us with this burden if they agree—that is what the problem is. Does that make sense to you or not?

Secretary STANS. I think that does make sense.

Senator LONG. Well, thank you very much, Mr. Secretary. I will not belabor you any more about this matter. I think, I probably have been beating the wrong horse. I will renew this with Mr. Shultz.

Senator RIBICOFF. Thank you very much, Mr. Secretary. We do appreciate your coming here and we appreciate your continued cooperation with the committee.

Thank you very much.

Secretary STANS. Thank you very much.

(Secretary Stans' prepared statement follows. Hearing continues on page 253.)

PREPARED STATEMENT OF MAURICE H. STANS, SECRETARY OF COMMERCE

I very much appreciate your invitation to appear here today to share my thoughts with you on some of the key questions which the Congress and the Executive Branch now face in trying to shape U.S. trade policy in the months and years immediately ahead.

In the past two years, I have visited some 28 countries in Europe, Latin America, Asia and Africa. I have exchanged views with knowledgeable officials in these countries, both in and outside of government, on the major issues of trade policy that are increasingly affecting the world's trading nations. Just two weeks ago. I returned from a trip to six countries in Europe, undertaken to examine some of those issues in greater depth.

What I have found through those discussions parallels closely the views expressed by the Chairman of this Committee in his recent report on Trade Policy in the 1970's. Economic considerations are moving more and more into the foreground of international affairs, and in many cases have become paramount in the interlocking structure of relationships among the nations of today's world. The subject of trade merits particular attention. My experiences here and abroad point clearly to the fact that there is real concern about the direction in which national trade policies are moving. This concern is evident on both sides of both oceans.

For my part, I am persuaded that a forward-looking trade policy is essential to the economic health of the world we live in, and moreover that adherence to such a policy is in the interest of our own domestic economic health. Any threat to the continued flow of trade among nations is a threat to economic growth and stability everywhere. The United States, with nearly $85 billion moving annually in its merchandise trade account, certainly has a prime interest in working toward a world in which the trade channels are kept as open as possible among all its member countries. We cannot turn back to the arid philosophies embodied in trade isolation and high tariff walls.

Given those facts as a basic point of departure, I have to go on to say that this country must insure that its trade policy is realistic, that it keeps pace with the times and is in conformity with the changed economic power relationships in the world as it now exists. I fully support the view stated in the Chairman's report, to which I previously referred, that "today, the traditional methods and old slogans of international trade and investment are simply not relevant when dealing with the increased economic power of the EEC and Japan." Such slogans, typified in the catchwords of "free trade" and "protectionism", are out of date in a world market where combined export and import flows currently exceed half a trillion dollars, and where some $120 billion of direct investment capital has now moved across national boundaries.

International trade must be based on international cooperation, mutual respect and an earnest regard for the rules of non-discrimination and fair treatment. As the President said in his State of the World message: "Ours is the freest and most open market in the world." But we cannot maintain the support in this country to keep our market open to the goods of other nations unless those nations follow a policy of true reciprocity with regard to United States exports.

Since other Administration witnesses will be discussing varous issues of interest to this Committee in the wide-ranging field of international trade and investment policy, I would like to focus my remarks on some of the problems which are of particular concern to the Department of Commerce.

### U.S. TRADE AND THE EXPORT ENVIRONMENT

As you know, the United States trade surplus has shrunk considerably in recent years. In 1968 and 1969, it averaged only about $1.0 billion. Last year's surplus of $2.7 billion was a substantial improvement. However, we expect a less favorable result this year, with a surplus on the order of $2.0 billion, or even less. Such balances represent a sharp deterioration from the $4 to $7 billion surpluses of the first half of the 1960's.

Certainly, inflation has been a factor in our lower trade surpluses. However, a more significant factor, in my opinion, has been the adverse structural shifts that have taken place in this country's trade patterns. Looking back at the composition of our exports and imports, we find that in goods and products that do not involve high technology, our trade balances have deteriorated sharply as other countries have increased the pace of their industrialization and taken quick advantage of developments in technology.

I want to show you some statistics, prepared in the Commerce Department, that indicate significant trends in our exports and imports. For this purpose, we have deviated from the normal classifications of trade commodities and have classified exports and imports into four categories:

1. Agricultural products.—Both food and nonfood items.
2. Raw materials.—Minerals, crude oil and unprocessed fuels, and other non-agricultural raw materials such as iron and steel scrap.
3. Manufactured products not technology intensive.—Steel and other metals, textiles and textile products, shoes, paper, and a wide variety of other industrial and consumer goods.
4. Technology-intensive manufactured products.—Machinery (including computers), transportation equipment (including jet planes and automobiles), instruments, and chemicals.

The agricultural and raw material categories are self-explanatory and need no further elaboration. The distinction in manufacturing between products that are or are not technology intensive is based on two specific measures—employment of scientific and engineering manpower and expenditures for research and development. The technology-intensive industries account for over 80 percent of all U.S. nondefense industrial R & D and about 60 percent of all U.S. scientific and engineering manpower employed in manufacturing outside the ordnance industry.

Table 1 and Figure 1* show the trends in our foreign trade from the 1950's to 1970. Agricultural exports have generally been higher than imports during the past decade or so, with no tendency for the modest favorable balance to change very much.

TABLE 1.—TRENDS IN U.S. FOREIGN TRADE

[In billions of dollars]

| | 1957 | 1964 | 1969 | 1970 |
|---|---|---|---|---|
| Agricultural products: [1] | | | | |
| Exports | 4.7 | 6.3 | 6.0 | 7.3 |
| Imports | 3.9 | 4.1 | 5.0 | 5.7 |
| Trade balance | +.8 | +2.2 | +1.0 | +1.6 |
| Raw materials: | | | | |
| Exports | 3.3 | 3.4 | 4.8 | 6.1 |
| Imports | 5.0 | 5.5 | 8.1 | 8.4 |
| Trade balance | −1.7 | −2.1 | −3.3 | −2.3 |
| Manufactured products: | | | | |
| Not technology intensive: | | | | |
| Exports | 4.0 | 4.4 | 6.2 | 6.8 |
| Imports | 2.9 | 6.0 | 11.7 | 12.9 |
| Trade balance | +1.1 | −1.6 | −5.5 | −6.1 |
| Technology intensive: | | | | |
| Exports | 8.8 | 12.1 | 20.6 | 22.6 |
| Imports | 1.6 | 3.1 | 11.3 | 13.0 |
| Trade balance | +7.2 | +9.0 | +9.3 | +9.6 |

[1] Includes exports of agricultural products under Public Law 480 and similar programs. If these are excluded, the trade surpluses on agricultural products are largely eliminated.

In raw materials, there has been a persistent trade deficit which, over the years, has widened. In 1970, however, the trade deficit in this category improved by a billion dollars. This improvement is in all probability only temporary, related as it was to capacity shortages abroad and the economic slowdown in the United States. The outlook is for increasing deficits.

In manufacturing products that are not technology intensive, the trade balance has moved unfavorably for two decades. The gap was widened at an accelerating pace since the mid-1960's.

In technology-intensive manufactured products, the trade balance improved until the mid-1960's, when it levelled off at about $9 billion. It has not increased out of the $9–$10 billion range because imports of these products have been keeping pace with exports.

This sector-by-sector approach does not reflect all factors determining our trade performance. Business cycle developments, at home and abroad, are obviously relevant. I believe, however, that this approach gives proper emphasis to the important structural changes in our trade position that are often overlooked.

Another major measurement of our trade deterioration is the overall erosion of the U.S. export position in world markets. Our latest report shows that the U.S. share of world exports of manufactured goods slipped again in 1970 to about 21 percent. That figure compares with about 25 percent ten years ago.

The Commerce Department is particularly cognizant of the need to boost the outflow of sales of American goods to other countries. Although U.S. exports in recent years have grown at a rate approaching 10 percent per year, our export growth lags behind that of other major countries. Competition from other nations, which accord exports a high national priority, is severe and gives every indication of sharpening in the years ahead.

The strong emphasis put on exports by other nations reflects the greater eco-

*Fig. 1 appears on p. 251.

nomic importance to them of their export sectors. The average proportion of gross national product exported by other nations is 15 percent—nearly four times as high as for the United States. For some major nations, this ratio is over 30 percent. Although our exports represent a little over 4 percent overall of our gross national product, that percentage is much higher in some categories. For example, exports represent about 20 percent of the output of commercial transport aircraft; 28 percent of construction and mining machinery and equipment; and 32 percent of agricultural chemicals.

Because strong export growth, and more importantly a sustained share of world markets, is vital to the United States, the Commerce Department last year spent some $16 million to promote sales of manufactured goods with high export potential. The Department maintains permanent trade centers in major world capitals. It sponsors numerous trade exhibits in international trade fairs every year and takes active part in trade missions to promote sales abroad of United States products. It provides specific marketing assistance to American exporters who seek distribution outlets overseas or who desire major construction or procurement contracts. It furnishes a variety of informational and other services in support of American business and investment in overseas markets.

However, with all those activities, the amount we spend on export promotional efforts is small relative to the programs of many other major countries. For example, we estimate that Japan and the United Kingdom each spend about twice as much as we do on export promotion. In terms of what is spent per thousand dollars of exports of manufacturers, Japan, Italy and the United Kingdom budget three times what we do.

Valuable as our promotional programs are, their beneficial results are primarily longer term. Moreover, they can do only part of the job. Major export increases require improved incentives for the large companies which account for the bulk of exports. These incentives can come only from improving the export environment in a manner that will increase the attractiveness of export opportunities available to American firms.

The United States has never seriously considered an export environment distinct from the domestic environment. Domestic needs and other foreign policy considerations have always outweighed export considerations. American financial, tax, labor, transportation, anti-trust, and other policies were framed to meet the needs of a domestic and relatively isolated economy with little cognizance of their effect on exporting. The United States can no longer afford to ignore the fact that the equations of international economics have changed, and that this change has vitally affected its own economy.

Not only do our major competitor nations maintain more extensive export promotion programs than the U.S.: more importantly, they have concentrated on improving the export environment for their companies. They have geared their national policies and institutions to the needs of exporting. Their exporters receive preferred access to financing at competitive rates, direct government assistance, tax incentives, and relief from anti-trust regulations. Japan, for example, permits accelerated depreciation on capital equipment used to produce exports and provides a tax exemption to firms exporting technology through licensing and technical assistance contracts. In France, special deductions from taxable income may be allowed for the expense of establishing foreign sales offices; and firms may exclude from taxable income sums allocated to a reserve to take account of special risks involved in medium-term export credits. Many countries also provide automatic central bank discounting of export paper at preferential rates to encourage export financing by their commercial banks.

Last year's Administration proposal for establishing Domestic International Sales Corporations (DISCs) in the United States would permit tax deferral on the income of corporations formed to handle export sales of U.S. manufacturers, and would be a major step in improving the exporting environment for U.S. firms. Similarly, the proposal now before the Congress to exempt the Export-Import Bank from the restrictions of budget totals and net lending ceilings must, in my opinion, be adopted if we are to meet our exporters' most basic requirement to compete effectively.

Greater export promotion efforts, coupled with a more aggressive and expanded program for improving the export environment, would help put American businessmen on a more equal footing with their competitiors in world export trade.

TRADE WITH EASTERN EUROPE

Eastern Europe represents a market for trade which is growing fast. In 1970, according to our estimates, the countries of Eastern Europe (excluding Yugoslavia) imported $6.3 billion of goods from the industrial countries of the West, an 18 percent increase over 1969, and a 128 percent increase over the last decade. Our exports to the countries of Eastern Europe last year grew by $100 million over the previous year and totaled about $350 million. That total was only some 5.5 percent of their imports of goods from the industrial West and represented a decline of our market share over the last decade.

There are impediments in selling to Eastern Europe, some of which may be difficult to overcome. There is the factor that Eastern Europe's heavy trade with Western Europe results from geographic proximity. Also, the shortage of convertible currencies in Eastern European countries operates to limit trade with the United States. In part this shortage is due to their difficulty in selling in the United States at the statutory tariff rates of duty in unequal competition with our foreign suppliers whose products enjoy most-favored-nation treatment.

One important sector where progress has been made is in export controls. It is our policy, in accordance with the intent of Congress as expressed in the Export Administration Act of 1969, ". . . to encourage trade in all countries with which we have diplomatic or trading relations", and this includes Eastern Europe. Our Office of Export Control reduced export restrictions on more than 1,550 commodities from January 1970 through April 1971. Just last month, we announced a further relaxation of controls over the export of commodities to Romania. Nearly 100 entries previously on the Commodity Control List can now be shipped to that country without a validated export license. The review and updating of our controls is continuing.

There are obviously many pros and cons involved in changing our current policies on trade with Eastern Europe, particularly in the areas of export financing, investment guarantees, and most-favored-nation treatment. An interagency group has recently been formed to study the subject in some depths. When the study is completed, the Administration will have a better understanding of the economic factors involved in the varous approaches that mght be taken.

ADJUSTMENT ASSISTANCE

The surge in imports into this country in the past few years has had an impact upon a whole range of domestic industries. In some situations, American industry and labor cannot through their own efforts satisfactorily meet the burdens of competition by foreign producers. There are cases where a rapid increase of imports may disrupt ordinary marketing channels and destroy the competitive ability of firms in a given industry. The resulting losses are felt by firms, workers, and communities. Eventually they are felt by the whole nation.

We cannot afford to ignore this aspect of our changing foreign trade position. If we do, we are bound to lose domestic support for an ourward-looking trade policy and endanger the gains we have made over the past thirty-five years. By the same token, the government should not pursue a policy of accepting responsibility for the continuation of firms which are faltering because of poor management, or which have been overtaken by changed domestic demand for their products, or which would be in the same precarious position even if there were no import injury. But we do have a strong interest in helping those firms which are basically sound and can, with assistance, adjust to the competition from imports, especially when those imports come into the country in sudden surges and in a short time period.

Last year, the Administration recommended changes in the law relating to adjustment assistance to make it more workable. These changes have not yet been enacted. American firms and workers have traditionally been assured by the government through the legislative and executive processes that their interests would be reasonably protected in the negotiation of trade agreements and in the implementation of legislation in the trade field. We have recognized and we continue to recognize that in some cases the virtues of unrestricted market access must be tempered by the need to prevent serious damage and dislocation in that market. Our concerns in this regard have, of course, been shared by other countries which have similarly provided protection for their own firms and workers.

The basic point here is that the government does have a responsibility to domestic firms and workers for actions taken in its conduct of international trade policy for the United States. We are obliged to provide a means whereby the results of our trade policies can be closely observed and relief provided where that is deemed wise.

Under current legislation we have some authority to assist firms injured by imports. Although present authority is limited, it should be noted that the Government is taking a vigorous approach to current adjustment assistance cases. Prior to 1969 no firm or group of workers was found eligible for relief against injurious imports, but since that time 11 firms and 31 worker groups have been certified as eligible for such assistance.

The present law permits only certain forms of technical, financial and tax assistance and even here there are fairly strong limitations on the lending and tax assistance programs. We should explore ways to increase new investment by import-impacted firms and the possibilities of providing tax incentives for new investment. For example, these might take the form of a special tax credit or a special rapid depreciation allowance.

We also need a better approach to the problem of raising the productivity of U.S. industries even before they are damaged by imports. As matters now stand, higher levels of technology and related investment in the application of that technology are the offsets to rising domestic costs. Some kind of tax relief on expenditures for research and development would encourage increased R&D and result in a greater use of technology and consequent higher productivity, particularly in those sectors where we are losing our export advantage.

In view of the clear requirement for a more effective approach to the problem of adjustment assistance, we have set up a Task Force within the Commerce Department to study a broad range of adjustment assistance issues, including examination of innovative ways to improve industrial adjustment assistance, the possibilities and limitations of Government's role in helping injured industries and firms adjust to import competition and a review of existing criteria for certification of eligibility and procedures for handling subsequently approved assistance proposals.

The President's budget request for FY 1972 provides for $100 mililon for direct adjustment assistance funds and another $10 million in guaranty authority which could permit up to $100 million in actual guarantees. Foreign governments take a much more vigorous and comprehensive approach than we do in financing and facilitating adaptations and structural adjustments in their industries in the face of dynamic changes in world trade. We must find a way to do more than we do now.

NONTARIFF BARRIERS TO TRADE

I am vitally concerned about the fact that United States goods do not have the same degree of opportunity to compete in foreign markets, as do foreign products in the United States, because of existing nontariff barriers. A nontariff measure that may have only marginally affected trade when it was coupled with high tariff protection can become a more visible and effective barrier as a result of reductions in the tariff, such as occurred in the Kennedy Round. Furthermore, countries may attempt to quiet the voices of injured domestic elements, appealing for compensation for loss of tariff protection, by more assiduous application of existing NTBs, or even the creation of new ones.

With this in mind, two years ago during my visit to Western Europe on trade matters, I proposed that our trading partners approach the issue of nontariff barriers to trade on the basis of an "open table" principle. By this I meant an honest and forthright discussion of nontariff problems that countries believe are significant trade deterrents, including non-published administrative practices.

Since then, the GATT Committee on Trade in Industrial Products has factually examined an inventory of over 800 notifications submitted by individual GATT member countries concerning one another's industrial NTBs. The Committee has also considered various proposals for possible solutions to the major barriers. The GATT work program for 1971 is proceeding in three areas selected as the most promising for meaningful progress. They are: standards, import licensing and customs valuation procedures. We hope that if it proves possible to deal successfully with a limited number of NTBs, such success will generate increased willingness among governments to make the hard decisions necessary for cutting down a broader range of NTBs.

There is also underway an effort in the OECD aimed at developing government purchasing guidelines in the form of a code of behavior to help assure fair access to the public sector in the OECD countries.

In negotiations with the Japanese, we have made some gains in obtaining removal of their illegal quantitative restrictions, but we are still far short of what should be achieved.

As you may know, the President's Commission on International Trade and Investment Policy is considering the subject of nontariff barriers in its report, and we hope to take advantage of its findings in resolving some of the existing obstacles in the way of negotiations. One forward step to this end might be for the Congress to provide the President with authority to conclude specific agreements on an ad referendum basis. Alternatively, a general expression of Congressional interest in speeding negotiations in this field might also be helpful.

### THE MULTINATIONAL CORPORATIONS

The emergence of the multinational corporation has been one of the most significant developments on the economic scene since World War II.

In 1946, the book value of U.S. direct investments abroad stood at $7 billion, with about half in Latin America. By 1970, our direct investments had risen to $77 billion, with Western Europe and Canada each having about 30 percent of that total. While U.S. firms dominate worldwide foreign direct investment, foreign companies have been increasing their direct investments substantially, including investment in the United States. From a level of $3 billion in 1950, foreign direct investment in the U.S. rose to roughly $13 billion last year. A rough estimate of the book value of direct investment by the industrial countries in all areas of the world would be in the range of $120 billion. Book value, of course, understates the current market value of investments.

There are some who perceive rapid growth in foreign direct investment as a threat on the ground that it disturbs existing relationships both within and between countries. There are others who view the operations of the multinational company as a healthy development attuned to the changing structure of today's increasingly interdependent national economies.

There is no doubt that we need to know much more than we do now about the operations and ramifications of the multinational firm and its subsidiaries. In the meantime, we should recognize that the development of the multinational corporation has been a beneficial force for promoting international economic growth, supporting U.S. exports and expanding the availability of capital around the world for productive investments.

To shed more light on the subject, the Commerce Department is now engaged in an effort to compile a comprehensive financial profile of multinational enterprises. This will be done by means of a computerized data bank which would permit retrieval of the kind of information we need to study specific questions on their operations and impact. We hope to have the data bank in operation before the end of the year.

This concludes my prepared remarks. I would be pleased to answer any questions that the Committee may wish to ask.

Senator RIBICOFF. The committee will stand in recess until 2 o'clock. We have two more important witnesses, Mr. Houthakker and Mr. Callaway.

(Whereupon, at 12:55 p.m., the hearing was recessed, to reconvene at 2 p.m., this day.)

### AFTERNOON SESSION

Senator RIBICOFF. The committee will be in order.

Our first witness this afternoon is Mr. Houthakker, we welcome you here, sir.

Mr. HOUTHAKKER. Thank you, sir.

Senator RIBICOFF. And you may proceed as you will.

## STATEMENT OF HENDRIK S. HOUTHAKKER, MEMBER, COUNCIL OF ECONOMIC ADVISERS

Mr. HOUTHAKKER. Thank you, Mr. Chairman.

Perhaps I may start out by commending the Subcommittee on International Trade of the Senate Finance Committee for organizing these hearings, and by expressing my appreciation for the privilege of testifying on this important and difficult subject. There is perhaps no area of economics where it is harder to disentangle the national interest from the claims made by interested parties, each of whom is generally concerned only with a small part of a large picture. You have had and will have other administration witnesses before you, and I would like to confine my prepared remarks to one particular aspect of our international economic relations, namely, the problem of the competitiveness of the United States in the world economy.

The notion of competitiveness is a somewhat elusive one and the question whether we are competitive does not admit of a precise answer, although some indications can be given. As a first approximation we may say that a nation is competitive if it is able, through its exports and other activities, to earn the foreign exchange it needs for imports and other purposes. In fact, if we can abstract from capital movements for the moment, a nation may be called competitive if its current account balance—covering goods, services, transportation, and unilateral transfers—is zero at full employment and in the absence of quantitative restrictions. Thus, if this abstraction from capital movements were legitimate, the United States would be competitive at the present time, for our current account balance has generally had a small surplus. We do not yet have any figures for the first quarter of 1971, but for 1970 as a whole the current account surplus was $638 million. It is true that there are restrictions on imports from the United States in certain foreign countries, and that we also have restrictions on certain classes of imports. The severity of these restrictions is hard to measure, but in the aggregate they probably come close to canceling each other out as far as the current account balance is concerned. Consequently, if we could consider only the current account, our export prices would not be too high, despite the fact that wages in the United States are much higher than wages elsewhere. These higher wages are generally offset by our much higher productivity, which is itself the main cause of the much higher wages prevailing in the United States.

This preliminary assessment of our overall position does not mean that we are competitive in all industries. If we were, we would not need any imports, and foreigners would not have the dollars with which to buy our exports. A country that engages in foreign trade usually has a cost advantage in those commodities that it exports and a disadvantage in those that it imports, though sometimes these advantages are distored by tariffs, subsidies, and other interferences with trade. We have a cost advantage in agricultural staples such as grains and cotton, where our costs are kept low by our relatively abundant supply of land and by the skill of our farmers, but if we tried to grow all of the coffee or bananas consumed here we would find that our costs would be far higher than those in certain tropical countries.

While in the case of agricultural and other primary products the relative cost advantages are strongly influenced by geographical and climatic factors, this is less true for manufactured products, where technology and the availability of capital, skilled labor, and management are likely to be more important. This implies that in manufactured products the pattern of relative advantages is more likely to change over time under the influence of trends in technology, transport costs, consumer demand, and other factors. For many years, for instance, the United States had a cost advantage in steel production, which made us net exporters. We apparently lost this advantage sometime in the late 1950's, when our trade balance in steel turned negative. On the other hand, our aircraft industry appears to have increased its cost advantage over the years.

These changes in the relative position of different industries sometimes cause difficult problems of adjustment. In the case of an industry that is losing its international competitiveness an increase in imports will be the first manifestation of what may be a much more deep-seated problem. Our steel industry, for instance, appears to be handicapped, among other things, by a lack of price competition among domestic producers. Since the demand for steel is subject to changeover time, output has to vary excessively if prices are not allowed to help maintain equilibrium. This means that the industry must have excess capacity to be able to cope with demand at its peak. Most of the time, consequently, the industry is unable to use its capacity to full advantage and this keeps down its productivity and raises its costs. There are no doubt other important factors involved in the relative decline of our steel industry, and I mention this particular factor only as an example. The point I want to make is that imports not infrequently are blamed for developments of purely domestic origin.

In fact, there are relatively few important sectors of the economy where imports constitute a large enough percentage of supply to affect employment and profits to a serious extent. The notion that we are being flooded with imports will not bear examination. In 1967, the last year for which comprehensive data are available, there were only 25 four-digit manufacturing industries—out of a total of about 400—where imports accounted for 20 percent or more of total shipments; these 25 industries represented only 2.5 percent of the value of domestic shipments in all manufacturing. There is no reason to think that these figures will be very different for more recent years.

Even though the impact of imports is frequently exaggerated, it remains true that the burden of adjustment may be too heavy for any particular industry to bear. This is why adjustment assistance may be necessary. In the last 2 years several groups of firms and workers have become eligible for such assistance, but more could be done if the law were changed. The President's trade bill of 1969 carried provisions for liberalizing it further. The great advantage of adjustment assistance is that, while sometimes costly in the short run, it promotes the adaptability to changing circumstances, both domestic and worldwide, that has long been one of the main strengths of our economy.

The argument is sometimes made that we cannot expose our workers to foreign competition because wages are much higher in this country than abroad. Protection, according to this argument, would be necessary to maintain the real income of workers. Apart from the difficulties of redeployment, which can be taken care of by adjustment assistance; this argument is without merit and indeed, the reverse of the truth. Our workers get high real income not because they are protected from foreign competition, but because they are highly productive, at least in certain industries. As a nation we have a high per capita real income because our output per capita is high. And our per capita output is high, among other things, because we use our labor force to good advantage. The fact that our wages are high does not prevent us from being net exporters in a number of industries, because productivity is high there, too. If we were to keep a larger proportion of out labor force in low-productivity industries, our per capita output would be reduced, and this would have an adverse effect on the real income of workers generally and of everybody else. Imports are also a significant factor in keeping domestic prices under control by stimulating competition and cost-saving innovations, and thus benefit us as consumers.

There are, of course, cases, especially those involving national security, where we may deliberately want to preserve domestic industries in the face of a cost disadvantage. Even in those national security cases, however, it should not be taken for granted that protection through quotas or otherwise is necessarily the best solution.

So far I have abstracted from capital movements and talked only about the current account. Much of what I have said also applies to the more realistic situation where capital movements are present. The principal difference is that when there are capital movements the current account balance no longer has to be zero for a country to be competitive. Depending on whether there is an inflow or an outflow of capital, the current account balance will have to be negative or positive to achieve overall equilibrium in the balance of payments. Perhaps I should recall at this point that the subject of balance-of-payments definitions is a very complicated one, on which I do not propose to enter at this time, in the interests of brevity.

On the capital account it is useful to distinguish between short-term and long-term capital, and the latter can be further distinguished into direct investment and portfolio investment. We have had a large and growing outflow of capital on direct investment account for many years, while portfolio investment has been more erratic, with surpluses prevailing in recent years. For the sake of simplicity I shall ignore portfolio investment from here on, and leave short-term capital for later discussion. The outflow of funds for direct investment purposes would then have to be offset by a surplus on current account, but this has not happened in recent years. In fact, it is sometimes argued that the net outflow of direct investment funds by itself reflects a lack of competitiveness on our part, though it may also have something to do with the relative abundance of capital in different countries. The net outflow of direct investment means that more American businessmen find it profitable to invest abroad than foreign businessmen find it profitable to invest in the United States. However, direct investment is not always a reflection of relative cost differentials only; it may also be the result of import restrictions, differences in management skills, and technological advantages. Because of these several reasons more and more of our larger corporations have become multinational. While multinational corporations may raise certain problems for Government policy, there is no reason to believe that their existence invalidates the proposition that the best interest of all countries, including the United States, is normally served by unimpeded movement of goods and capital. What these corporations do, in fact, is to make within one firm the same cost comparisons that are also made by the free market, and in so doing they promote greater efficiency in the use of labor and capital everywhere.

I shall only say a few words about short-term capital, which is primarily a monetary phenomenon. The willingness of individuals and firms in different countries to give each other credit depends primarily on relative interest rates and expectations of future changes in exchange rates. Since the United States has a strong economy and a well-organized capital market, the dollar has become the principal reserve currency in the world. Many foreigners, both private and official, have been willing to hold substantial amounts of dollars at prevailing rates of interest in recent years, although occasionally this willingness is impaired by changes in international interest rate patterns or by fears of changes in parities.

Taking all these things—the current account, the long-term capital account, and the normal increase in short-term liabilities to be expected in a growing world economy—together it appears that the United States has often had some difficulty in attaining balance, though the shortfall has generally not been large. The large official settlements deficits that we have had in 1970 and so far in 1971 are attributable almost entirely to short-term capital movements of a transitory nature, but underlying this there may be a more fundamental problem of limited magnitude. Our imports increased more than our exports from 1964 to 1969, but the adverse effect on the current account was offset to some extent by an improvement in earnings on U.S. investment abroad, and more recently the growth in our exports has overtaken the growth in our imports. Once the expected revival of the domestic economy is realized, the current account may again become less favorable, but the long-term capital account may improve. I cannot definitely say, therefore, that at prevailing prices and exchange rates the United States is not competitive, but I would go so far as to say that it is more likely that we are less than competitive than that we are more than competitive.

In order to maintain and strengthen our competitive position in the future it is of the highest importance that we keep our domestic price level under control by appropriate fiscal and monetary policy. A continuation of present trends in prices and wages would almost certainly aggravate our international problems, even though our rates of increase do not necessarily compare unfavorably with those in other major countries. In addition, maintenance of a normal rate of productivity increase will obviously help our competitive position.

Finally, exchange rates are a significant determinant of competitiveness. Under the international monetary system as it has been operated until now there appears to be a bias toward devaluation of other currencies; moreover there is some evidence that foreign demand for our exports does not rise as rapidly as our own demand for imports, other factors remaining the same. Even though there is no firm evidence of an overall disequilibrium at the moment, it is, therefore necessary that the exchange rate mechanism possess sufficient flexibility to cope with whatever trends may emerge in the future. Greater U.S. competitiveness leading to a stronger export performance by our industries is probably the best defense against the understandable but shortsighted preoccupation with the transitory effects of imports that is now so widespread.

Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you very much, Dr. Houthakker.

Senator Talmadge?

Senator TALMADGE. Doctor, you say on page 3 of your statement that this country has a cost advantage in agricultural staples such as grain and cotton. Do you know what the world price of cotton is at the present time?

Mr. HOUTHAKKER. I believe it is about 25 cents but I may be wrong.

Senator TALMADGE. The last time I checked it it was much lower than that. Do you know what the cost production is of cotton in the United States?

Mr. HOUTHAKKER. That varies greatly by the area we are talking about. It is lower in some parts of the country than in others.

Senator TALMADGE. The Department of Agriculture estimates that the minimum cost of production in our country is about 25 cents a pound. We could not export a bale of cotton if we did not have the subsidy. We could not produce any without a subsidy, so I disagree with your statistics that we have a cost advantage on the production of cotton, say, India where the wage differential is maybe 10 to 1. Cotton is a high-labor product.

Now, on page 9 of your statement, you say that the large official settlements deficits in 1970 and so far in 1971 are attributable almost entirely to short-term capital movements of a transitory nature. Do you know what the deficit has been on our balance of payments in the past 20 years, Doctor?

Mr. HOUTHAKKER. It depends on what definition you use.

Senator TALMADGE. A liquidity basis.

Mr. HOUTHAKKER. On a liquidity basis, I cannot give you an accurate figure but it must be quite large.

Senator TALMADGE. $48 billion. That does not look like it is of a transitory nature if it has been in existence for 20 consecutive years.

Mr. HOUTHAKKER. Yes, sir; but I do not think the liquidity deficit is an appropriate measure of our overall financial position.

Senator TALMADGE. We would not have $40 billion floating around that the Europeans do not have any use for if there was not something wrong.

Mr. HOUTHAKKER. I believe the number of $50 billion mentioned a number of times this morning is not altogether correctly interpreted. These are not debts which we have accumulated. The Eurodollar market, as is true of most other financial markets, creates its own credit. The debt of our banks to their overseas subsidiaries, which is a more relevant reflection of our liabilities with the Eurodollar market, is not $50 billion but less than $5 billion.

Senator TALMADGE. Let us get to another item. I believe our gold reserves have decreased $20 billion in the last 20 years. To what do you attribute that?

Mr. HOUTHAKKER. They are attributable to a change in the composition of our total assets. Our net claims on the rest of the world have increased very substantially in this period. We have less gold but we have more productive investments abroad.

Senator TALMADGE. You do not think the faster we lose dollars and the faster we lose gold the richer we get, do you, doctor?

Mr. HOUTHAKKER. It depends on whether we obtain assets in return for the dollars and gold that go out.

Senator TALMADGE. You are talking in some terms that I do not understand.

Mr. HOUTHAKKER. Well, maybe I can explain it.

Senator TALMADGE. I understand when foreigners have more money than they have any need for. When we cannot balance our payments and we are retaining less gold all the time, that is meaningful to me. But when I get some economic theory that the more we spend the richer we get, I do not understand it.

Mr. HOUTHAKKER. I am afraid I must disagree with you there, Senator. There are statistics published every year on the total economic position of the United States, all our assets abroad and all our liabilities to foreigners. Those have shown a continuous and fairly steady expansion of our net worth in international terms. And I do not think it is correct look only at the liabilities. These liabilities are covered and more than covered by our assets abroad.

Senator TALMADGE. Can you quickly swap a factory for dollars?

Mr. HOUTHAKKER. Not at short notice, but generally, the return on a productive asset like a factory is much higher than on gold because gold will not yield anything at all.

Senator TALMADGE. One is a frozen asset and the other is liquid, is that not correct?

Mr. HOUTHAKKER. One is an earning asset and the other is a nonearning asset.

Senator TALMADGE. When the bank examiners go around looking for assets in banks, they look for immediately recoverable assets, do they not?

Mr. HOUTHAKKER. Under our banking system banks are not allowed to own factories.

Senator TALMADGE. I agree with you. I do not think you can consider a factory as a liquid asset any more than I can liquidate my farm today for my creditors. I might find a distress sale for it, but I could not get fair market value if I had to put it on the market immediately.

Mr. HOUTHAKKER. I do not think we are faced with the necessity for liquidating our assets.

Senator TALMADGE. I hope not, but I am concerned about it when our currency overseas is for practical purposes benig devalued by our trading competitors.

You say our current account was in surplus by $638 million in 1970. How much of that was repatriated income of U.S. corporations?

Mr. HOUTHAKKER. I would have to look up the figures, sir.

Senator TALMADGE. About $11 billion, is that approximately correct?

Mr. HOUTHAKKER. I think that would be about total earnings in foreign investment, yes. How much of that was repatriated I cannot tell you for sure.

Senator BENNETT. May I?

Senator TALMADGE. I yield to the distinguished Senator from Utah.

Senator BENNETT. We put into the record 1969 figures repatriated figures of $8.8 billion so going up to 1970 might reflect about this figure that he suggests.

Senator TALMADGE. The staff informs me it is $9.6 billion for 1970, so my estimate was a little high.

On page 5 of your statement, Doctor, you talk about import penetration using 1967 data. Mr. Shultz, when he was with the Department of Labor, estimated that between 1967 and 1969 we lost 700,000 jobs because of imports. I think your 1967 figures are somewhat irrelevant in the context of what is happened in 1971.

Mr. HOUTHAKKER. On this comparison, Senator, if I may make a point, the fact is that unemployment was much lower in 1969 than in 1966. I believe that the 2 years would be 1966 and 1969 rather than 1967 and 1969. Our unemployment in 1966 rate was 3.8 percent, our unemployment rate in 1969 was 3.5 percent so there were no net jobs lost. On the contrary, there were jobs gained.

Senator TALMADGE. Doctor, suppose imports of steel, textiles, and shoes continue to grow to the point that they would take over 50 percent of our market. Do you think those industries should be allowed to die or do you feel it is important that we have domestic steel, textile, or shoe industries?

Mr. HOUTHAKKER. I think that this is a question of national security. It is obviously important to our national security that we have a domestic steel industry of some size, a textile industry of some size, and a shoe industry of some size. How exactly this size is to be determined is something that requires a lot more discussion but I would certainly not be in favor of allowing these industries to be liquidated.

Senator TALMADGE. I believe Secretary Stans has testified that we are losing 100,000 textile jobs a year. At what point do you think we ought to put a stop to forcing these 100,000 textile employees onto relief?

Mr. HOUTHAKKER. I do not think I can agree with the implication that all would go on relief, but there certainly would be a point at which we have to worry about it and this point may well be now. The President has often expressed his concern over the growth of imports in the textile industry.

Senator TALMADGE. Would you favor doing something about textile imports?

Mr. HOUTHAKKER. I favor coming to some agreement with exporting countries, and I favor adjustment assistance in those cases where such agreements would not be sufficient.

Senator TALMADGE. How long do you think adjustment assistance would last? Is that not some form of burial insurance in the final analysis?

Mr. HOUTHAKKER. No, sir; the term burial insurance is sometimes used but I do not think it is appropriate.

Senator TALMADGE. We have had many textile mills liquidated in Georgia, and as a result several thousand jobs were lost last year. What are you going to do now by way of adjustment assistance for a man who may have been working in the textile industry for 40 years and may be 60 years old?

Mr. HOUTHAKKER. We have had a similar problem with the textile industry in New England. As you are aware, the textile industry moved from New England to the Southeast around the period of World War II or extending over a period of several years. This temporarily created very severe distress in parts of Massachusetts and New Hampshire and Maine. The strength of the economy made it possible for other industries to establish themselves in those States. I know that New Hampshire, which was very severely hit by the disappearance of its major industry, now has one of the lowest unemployment rates in the country.

Senator TALMADGE. We would like very much for them to have a job, too, rather than being on welfare, but how do you create a job out of thin air?

Mr. HOUTHAKKER. Other industries will take over if the economy as a whole is strong enough.

Senator TALMADGE. Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

Dr. Houthakker, we hear a lot about the discipline of imports in moderating prices to consumers. On the one hand, in times of domestic sluggishness, low-cost imports are said to be healthy and they help to make the unemployment compensation check go further, so imports rise. On the other hand, when the economy is booming imports are said to be healthy in that they offer consumers a wider choice of products to select from. So again, imports rise. Thus, imports go up in good times and they go up in bad. It is all done in the name of the consumer but the net effect inevitably is a loss of U.S. jobs. In large measure the American consumer and the American worker are the same person, and I cannot imagine any of them preferring to pay for their needs with a welfare check rather than a paycheck. How long can we afford to ignore this basic fact and treat the consumer as more sacrosanct than the worker?

Mr. HOUTHAKKER. Well, Senator, as you have said, consumers and workers are generally the same people, although there are some consumers who are not workers in a technical sense of the word.

Over the years, we have, of course, had expanding imports. They generally rise every year. Our exports have also expanded. In other words, there has been a steady shift from some industries, namely, those which are subject to import competition, to other industries, whose exports have expanded, and unemployment as a whole has not had a rising trend even though at the moment as we all know, we have a considerable unemployment for temporary reasons, which have nothing to do with imports.

Senator HANSEN. Well, say we have had a considerable unemployment for temporary reasons. Maybe we have, but this committee, or rather the full committee, sat last year for a considerable length of time listening to testimony on a welfare reform bill, and when we talked about proposals that would make welfare aid available to one out of every eight persons in this country, at a cost within a year or two that would exceed $28 billion, does this seem to you to be a rather insignificant situation in this country, one that we can brush off lightly and say, "It is just a temporary thing"? Is that your feeling?

Mr. HOUTHAKKER. No, sir; I am sure that we have a permanent problem in the area of poverty, part of which we may be able to overcome in the long term. It will take a long time. I do not think this problem is significantly related to the increased penetration of imports.

Senator HANSEN. Well now, Henry Ford testified—or I should not say testified but was quoted—in the Washington Post* as saying that each 1-percent rise in automobile imports into this counrty can be translated into a loss of 20,000 jobs. On that basis, with imports in the range of 20 percent of all the cars we bought last year, I figure that would mean about 400,000 jobs. Using another set of figures, this morning Mr. Meany said that there were, related to imports, some 700,000 jobs lost last year because of increasing imports. Our increase in exports accounted for about 300,000 jobs, so he came up with a net figure of 400,000. We have unemployment running at over 6 percent. Is this the sort of a situation that inclines you to view with complacency our rising tide of imports in this country?

Mr. HOUTHAKKER. Senator, I can assure you I do not view the situation with complacency. Concerning the figures you just quoted, they were discussed a few minutes ago; they refer to 1966 and 1969, if I am not mistaken. They do not refer to 1970 and 1971.

Actually, in 1970 our exports grew more than our imports so it would have been a positive employment effect. Between 1966 and 1969, as I said before, our total unemployment went down, not up. So, there was no net job loss.

Senator HANSEN. When you were testifying, or rather—I have a release before me that you made before the National Soybean Processors Association in San Francisco. I believe this address was delivered August 24, 1970. You said on page 10 of that release:

> On the other hand, our textile and shoe industries may well be at a disadvantage because of the wages they have to pay in order to retain workers. But this merely indicates that American workers can be more productively employed in other industries, which gets us back to the adjustment problem mentioned earlier. In countries such as South Korea, on the other hand, the textile industry provides the most productive employment that is available there. It is, therefore, to the advantage of both countries if more American workers get out of the textiles and more Korean workers get into them. This shift also benefits American consumers who can buy textiles more cheaply.

Now, we have heard in the last year considerable testimony, including some from Patrick Nylan, to the effect that the textile and shoe industries present two of the best opportunities that he knows of for people with low skills to get a job. He said that with the closing down of the textile mills it is fair to assume that a major number of those unemployed workers are going to go on relief.

Can you tell me what sort of business you think they are going to go into when they lose their jobs in the textiles and shoe business?

Mr. HOUTHAKKER. I mentioned earlier the case of Northern New England where we have seen this phenomenon taking place, and other industries did fill the gap.

Senator HANSEN. What is the percentage of minority groups employed there in New England?

Mr. HOUTHAKKER. There are very few, at least in New Hampshire or northern Massachusetts; there are very few minority groups.

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*The article referred to appears on p. 208.

Senator HANSEN. Then this really does not address itself to the problem about which I asked you; does it?

Mr. HOUTHAKKER. I am not familiar with the situation in the Southeast, but I believe that if one went there one would find other industries are also taking the place of those that have gone out of business.

Senator HANSEN. What are those other industries?

Mr. HOUTHAKKER. As I said, I am not familiar with it but I will be glad to look into it.

Senator HANSEN. Well, according to Secretary Richardson, I do not know of any significant area—any significant industry—that has started to close its gap at all. As a matter of fact, he tells us that it is the other way around. It has just been suggested that according to some of the ideas that some free traders have, the electronics industries might be one in which we have excelled in the past and which would offer employment.

Senator LONG. If I might interrupt, Senator, my understanding is that when New England phased out of textiles, they moved into electronics but the Japanese are putting them out of that now. We had a witness yesterday who explained the way it is going. They are going to lose all those electronics jobs because of the wage differential. Even those that are left, such as Zenith, are moving its plant over to Taiwan. After the electronics, what are they going to go into?

Mr. HOUTHAKKER. Senator, I will be glad to see what information there is on regional development by industry, which I think is essentially the question you are asking here. You are asking what industries are taking the place of textiles in the Southeast or electronics in the Northeast. I am not sure whether electronics in the Northeast is really in that much of a problem area. You are talking primarily of things like radios whereas the electronics industry in New England is of a somewhat different nature and, I believe, much less vulnerable to competition, but I will be very happy to see what data there are on that and present it.

(Additional information supplied by Mr. Houthakker follows:)

Detailed data on employment by industry for States and smaller areas are regularly published by the Bureau of Labor Statistics, most conveniently in *Employment & Earnings, States and Areas, 1939–69* (Bulletin 1370–7); such data are not yet available for 1970. It would not be practicable to reproduce the mass of information contained in this volume, but the following observations are drawn from it and from the BLS *Handbook of Labor Statistics, 1970*.

Between 1964 and 1969 total nonagricultural employment in *Georgia* grew by about 335,000, or at an annual rate of 5.1 percent. Employment in the textile and apparel industries grew at a somewhat lower rate, yet the overall unemployment rate in Georgia declined throughout the period and remained well below the national average. This would suggest that new industries are taking the place of older industries which have been experiencing a relative decline. For example, employment in both the electrical machinery and transportation equipment industries rose by more than 10 percent annually, with the number of jobs increasing during the period by 4,500 and 22,400 respectively.

In *Louisiana*, nonagricultural employment increased by some 188,000 between 1964 and 1969, but the unemployment rate exceeded the national average, and rose somewhat from 1966 to 1969 while the national unemployment rate edged downward. As in the case of Georgia the machinery and transportation equipment industries are prominent for their high growth rates, with employment increasing at 18 percent and 11 percent annually. Since these growth rates considerably exceeded the annual rates of increase for the United States as a whole (4.5 and 5.7 percent respectively) it appears that certain high-growth industries may be shifting to areas where labor markets or other local conditions are more favorable, thus helping to fill the gap in job opportunities left by some older industries. None of the major nonagricultural industries in Louisiana showed a significant decline in employment between 1964 and 1969; presumably the unsatisfactory unemployment picture is related to an outflow of labor from agriculture.

To analyze the consequences of the exodus of the textile industries from Massachusetts and New Hampshire it is necessary to consider a longer time interval, namely from 1947 to 1969 (earlier data are not available). In Massachusetts employment in textile mills fell from 122,100 to 33,400 (most sharply in the early years), but total nonagricultural employment rose from 1,731,100 to 2,239,400, with many industries accounting for the increase in jobs. In New Hampshire textile employment, which had originally accounted for nearly 14 percent of total nonagricultural employment fell from 23,200 to 8,700, yet total nonfarm jobs rose from 168,000 to 258,000. The electrical industry alone, which rose from only 800 jobs in 1947 to 18,900 in 1969, more than made up for the reduction in textile jobs.

Many other examples could be cited to illustrate the point that our labor force is sufficiently mobile and adaptable to cope with adverse trends in particular local industries, whether caused by domestic changes or by imports, and usually with a gain in real income.

Senator HANSEN. Doctor, when you get that information, not only would this committee appreciate it, but Chairman Wilbur Mills would like to know about it as well as Secretary Richardson, because they have been trying to draft a welfare reform bill which contemplates no net reduction in people out of jobs in this country. As a matter of fact, I think it contemplates a doubling of those who are going to be eligible for welfare and, I would say, if you can think of some place where they are going to find jobs there will be great interest throughout this entire Congress and the country as well. Because so far I have not heard of anybody with new ideas. It seems as though on the basis of recent developments, despite our once superior technology, that also is now being exported. And concerning these multinational corporations—and I am not one here trying to condemn them unilaterally—but I do think that I would like to learn more about their activities. On the basis of what I have read and the testimony we have heard sitting as members of this subcommittee, it seems as though more and more companies that have excelled technologically in this country are bowing to the inevitable. They are moving their plants abroad. They are taking their technology abroad to take advantage of labor that earns from a fourth to a tenth as much as American workers are paid, and I do not know what your feelings are but, as far as I am concerned, I am not one bit interested in seeing if we can grind our American workers down to wages like those paid in Taiwan, I would hope you might share my feeling.

Mr. HOUTHAKKER. Indeed I do, Senator. I certainly would not want to see the real income of American workers reduced. I do not think that is going to be the result of present developments either. I think real incomes will be increased rather than reduced.

Senator HANSEN. I probably have taken more than my time, Mr. Chairman.

Senator RIBICOFF. Senator Long.

Senator LONG. As I understand it, you generally like the free-trade concept. I suppose it would be fine with me if I could see where we wind up being better off than we were before. But here is the kind of thing that some of us are confronted with. It is my impression, at least the last time I looked at it, is the shipyard workers that we have in Louisiana are just as productive as those in Japan. In other words, per hour, with a welding torch one of our fellows will weld together just as much steel as a Japanese worker but, of course, ours are paid $3.50 an hour and up and theirs are paid a lot less than that, only a fraction of that wage and, therefore, on a cost basis we are not competitive.

Now, I suppose we could lay those people off and put them back to work producing rice and if we did then, of course, they would be lucky to get $2 an hour.

Now, I guess the same general trend would apply to automobile manufacture. I think it applies to electronics certainly, just talking about television sets or household applicances, and it would apply to steel manufacturing in this Nation. All of these are high-wage industries. If we followed just the ordinary free-trade philosophy and let the other fellow with the low-manufacturing costs—because of his low-wage scale—have our advanced and sophisticated industries, what would we be shipping the Japanese and the others who would be providing us with our sophisticated manufactured consumer products?

Mr. HOUTHAKKER. Well, Senator, you mentioned the example of shipbuilding and it may well be that in the case of shipbuilding our productivity is not sufficiently high to overcome the advantage of the Japanese. But in your own State of Louisiana, there is also a very large chemical industry, especially petrochemicals, which is a very large exporter and pays high wages. In other industries our productivity is so much higher that we can compete in the world market, without any subsidy, I might add.

Senator LONG. Well, that chemical industry to which you make reference would not be there if we were not producing a lot of oil in this country. In other words, if the base product that is going into those plants were being produced, refined, and broken elsewhere, it would no longer be economical to produce those chemicals. I assume you know that, do you not? The reason it is logical to produce chemicals there is because the oil is being produced there.

Mr. HOUTHAKKER. Yes, sir. Actually, much of the petrochemical industry relies on natural gas but I suppose——

Senator LONG. They can produce the oil a lot cheaper over in Libya and Saudi Arabia and Venezuela, they can produce it cheaper and bring it in here, so we had better add those people to the ranks of unemployed too. Let's get down to the kind of jobs we could hope to generate. I take it that that would be producing soybeans and rice. Those are two that logically occur to me in which I think we are competitive.

Mr. HOUTHAKKER. Senator, if I may interrupt you, we are competitive in petrochemicals and would be more competitive if the petrochemical industry were allowed to import more oil. They are perfectly capable of selling on the world market even with our present oil prices.

Senator LONG. Hold on just a moment. You say we would be more competitive if we were allowed, the petrochemical industry were allowed, to import more oil?

Mr. HOUTHAKKER. But even at the moment the petrochemical industry is a net exporter of a very large amount.

Senator LONG. Well, now, let us just back that off for a second and run it through.

If you are speaking to a Senator from Louisiana there are no economics to justify refining it and cracking it in Louisiana if you have got to haul it down to Louisiana and haul it back up to the eastern seaboard. This logical place to refine it is either at your point prior to shipment or to the point where you are landing it so it would not mean any advantage to us. And if you are thinking of the plant, the cost of constructing it is the next big item. If that is what you are thinking about, the steel is much cheaper over there in Europe and it is much cheaper in Japan than it is here. Logically it would be cheaper to build the plants over there or some interim point than it would in the United States. For the life of me I do not see how you would find the economics to justify putting a petrochemical plant in Louisiana. Our wage scale would be every bit as high as the other fellow's wage scale and the cost of the plant would be higher. There is no logic in those plants being in Louisiana under those circumstances and I do not understand what would put the plant, say, even in New England when the cost of constructing them is cheaper in Europe or in Japan or at some interim point.

Mr. HOUTHAKKER. Senator, the fact remains that despite all the disadvantages which you mention and which are very real ones, our petrochemical industry is a very considerable exporter, which indicates that productivity is sufficiently high to overcome all the problems you mention.

Senator LONG. Well, I just await with interest your analysis showing that if you go entirely to free trade that you are going to expand by that many jobs. You might find a few but you are not going to find any great number. If you are talking about petrochemical plants, I can recall the day when we used to have a refinery at Baton Rouge with 9,000 workers. You can build a refinery nowadays to run as much oil and produce as many products as we were getting out of that one, but now we do it with a thousand workers or maybe even less than that, 300 in some cases. You will find great difficulty finding the numbers of jobs that you are talking about. Those jobs will have to be absorbed, I take it, in agriculture and other places.

Now, you think you could manufacture some petrochemicals which we are manufacturing now. What else would we produce that would help these displaced workers?

Mr. HOUTHAKKER. We have made considerable gains in a number of export industries apart from chemicals. Agriculture is still a large part of our total trade but I do not think we can emphasize that too much because it is only—it is less than a quarter of total exports. But we have very considerable exports in machinery, in computers in forest products, in quite a large range of other things. We even export some textiles and steel. We are by no means noncompetitive in everything. We do have considerable advantages in a number of industries, despite our high costs.

Senator LONG. My understanding about the theory of free trade is that from a point of view of an economic purist who believes in all-out free trade, the answer to the $64 question is that as you go out of these industries you have a first-class depression and your wage scales come on down to where your workers are working at the same wages as the other fellow and then you become competitive. These people working for $3.50 wind up in jobs paying 75 cents an hour, and hopefully, the 75 cents will buy you more than the $3.50 that you are getting now. That is what I thought the theory of free trade is. But is that right or wrong?

Mr. HOUTHAKKER. You are correct to the extent of the real income is what matters. Whether workers earn $3.50 or 75 cents only makes a difference if we know what prices they have to pay. What matters is their real income, not their money income. I believe that misunderstanding also ran through Mr. Meany's testimony this morning. Mr. Meany apparently thinks only of the number of dollars which workers take in. It is much more important what they can buy for those dollars, and there it really does not matter what the money wage is.

Senator LONG. Thank you.

Senator RIBICOFF. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

I have had a chance only to hear your statement read, Doctor Houthakker, and it is deep enough and to me theoretical enough so that it is going to take me quite a while to absorb it. But, as you read it, it seems to me you are talking about totals and averages and desirable situations, and we on this committee have to face the specific problems of specific industries under specific circumstances.

In my State of Utah we have one steel mill. It is now 25 years old. and it is barely alive for two reasons. The Japs can undersell and underprice us and, second, the Japs do not quite play fair under their voluntary agreement which they were going to spread their exports to the United States over a broad area. They have discovered this is a high-cost producer so they are concentrating their Japanese steel in this area, and we are having a terrible time to keep it alive.

Now, it is in a small town and it is the only substantial industry in the town, and it would be pretty hard for me to persuade the people of my State or of that town that there really was no threat from the Japanese steel industry.

On page 2 you say, referring to, we have discussed a lot the question of restrictions on American exports, and you say it is true that there are restrictions on imports from the United States in certain foreign countries. and that we also have restrictions on certain classes of imports. The severity of these restrictions is hard to measure but in the aggregate, you say, they probably come close to canceling each other out as far as the current account balance is concerned.

This is a surprising statement to me because our evidence in the discussions we have had before this committee, would indicate that our market is much more open than, to our competitors, and particularly our principal trading partners than their markets are open to us.

Mr. HOUTHAKKER. Yes, Senator; I am aware of the widespread feeling, and my statement to the contrary is based on an analysis which I believe will be very useful to the committee which was made by Mr. John Renner of the State Department in a speech he made on January 30, 1971. Perhaps when Mr. Samuels testifies before you he will refer to it. Mr. Renner's analysis gives the percentage of trade, both industrial and agricultural that is covered by quantitative restrictions, and my statement is based on his figures. For instance——

Senator RIBICOFF. Without objection, would you like that statement you are referring to go in the record at this point?

Mr. HOUTHAKKER (continuing). Senator, my only problem is that this is not my statement.

Senator RIBICOFF. Well, does it contain information that would be helpful?

Mr. HOUTHAKKER. It does indeed, Mr. Chairman.

Senator RIBICOFF. Without objection, the statement that you referred to, the statistics will go into the record so we will have it.

Mr. HOUTHAKKER. Certainly.

Senator BENNETT. Mr. Chairman, do you want the entire statement?

Senator RIBICOFF. I think it ought to be.

Senator BENNETT. If it is a public speech made in the public it is in the public domain.

Senator RIBICOFF. Print the entire speech so we can see it in perspective.

(The speech referred to follows. Hearing continues on p. 274.)

SPEECH BY JOHN C. RENNER, DIRECTOR, OFFICE OF INTERNATIONAL TRADE, DEPARTMENT OF STATE—NATIONAL RESTRICTIONS ON INTERNATIONAL TRADE

This is a speech about facts. I propose to look briefly at the restrictions imposed on international trade by the major industrialized countries. My purpose is not to prove a preconceived case by the selective arrangement of data but to lay bare the facts and examine their meaning. Objectivity will be limited not by design but only by the scope and nature of the available figures.

Governments use many mechanisms to control imports. International trade in industrial products is restricted by tariffs, quantitative restrictions, including "voluntary" restraints on exports, and a wide variety of other non-tariff barriers. Even greater ingenuity is demonstrated by governments in regulating the international flow of agricultural products.

The quality of the debate on trade policy will depend in part on our understanding of the extent and significance of these restraints on imports.

TARIFFS ON INDUSTRIAL TRADE

It took five years to complete the Kennedy Round negotiations. This was due in large measure to the difficulty of striking an equitable deal. The aggregate figures suggest that the negotiators were generally successful. As a result of the Kennedy Round, the United States and the European Community will have reduced their tariffs on manufactured and semi-manufactured products by 36 percent. The United Kingdom and Japan will have reduced their tariffs by 39 percent. Wits claim that this picture of rough equity was highlighted by the uniformity of the complaints from industries in all of the major countries.

When the Kennedy Round reductions are completed the end of this year, the average tariff rates maintained by the major industrialized countries on manufactured and semi-manufactured products (weighted by OECD trade) will be as shown in the following table.

| Country: | *Average tariff rates (percent)* |
|---|---|
| United States | 8.3 |
| European Community | 8.4 |
| United Kindom | 10.2 |
| Japan | 10.9 |
| Canada | 11.0 |

You will note that these countries fall into two groups. The average tariff rates of the United States and the European Community will be between 8 and 9 percent. The tariffs of Japan, Canada, and the United Kingdom will be about two points higher, between 10 and 11 percent.

Thus, we see that the average tariff rates of the major industrialized countries will be quite comparable, with less than three points separating the lowest and the highest rates.

However, like all averages, these figures mask significant differences. If the averages are broken down by industrial sectors, one gets a different perspective on the problem. The next table indicates the number of the industrial sectors where each of the major industrialized countries will have the highest and lowest average tariff.

| Country | 23 industrial sectors with— Highest tariff | Lowest tariff | Relationship |
|---|---|---|---|
| European Community | 0 | 11 | +11 |
| United States | 4 | 6 | +2 |
| United Kingdom | 3 | 2 | −1 |
| Japan | 6 | 4 | −2 |
| Canada | 10 | 1 | −9 |

This sectoral analysis reveals a greater difference in the relative position of these countries than the overall averages. When the Kennedy Round tariff cuts are completed, the European Community will have the highest average tariff rate in none of the industrial sectors and the lowest in eleven sectors. The Canadian position is just the reverse, with the highest average in ten sectors and the lowest in one. The United Kingdom is in the middle, flanked on the low tariff side by the United States and on the high tariff side by Japan.

Focusing on the most detailed common tariff breakdown, the 919 categories of the four digit Brussels Tariff Nomenclature in the industrial sector, we get another view of the spread of the tariff rates of the major industrialized countries.

TARIFF DISTRIBUTION: PERCENTAGE OF PRODUCT CATEGORIES

| Country | Less than 5 | 5 to 10 | 10 to 15 | 15 to 20 | More than 20 |
|---|---|---|---|---|---|
| European Community | 21.3 | 62.0 | 13.3 | 3.2 | 0.2 |
| United Kingdom | 14.7 | 48.4 | 21.6 | 13.2 | 2.1 |
| Japan | 9.1 | 57.0 | 22.8 | 8.3 | 2.8 |
| United States | 25.0 | 43.0 | 17.2 | 8.3 | 6.5 |

From this picture of tariff dispersions, we see that the United States has considerably more high tariffs and somewhat more low tariffs than any of the other countries. The tariffs of the European Community group more closely around the general average than the other countries. Japan and the United Kingdom have roughly comparable tariff spreads.

To round out this brief review of industrial tariffs, we ought to look at the highest and lowest tariff rates in the 12 industrial sectors accounting for 85 percent of OECD non-agricultural imports.

| Sector | Highest average rate (percent) | Lowest average rate (percent) | Point spread |
|---|---|---|---|
| Pulp and paper | [1] 7.8 | [2] 2.5 | 5.3 |
| Textiles | [2] 17.7 | [3] 8.3 | 9.4 |
| Mineral products | [2] 7.6 | [3] 3.8 | 3.8 |
| Ores and metals | [1] 6.5 | [5] 4.1 | 2.4 |
| Coal, petroleum, gas | [3] 10.8 | [1] .9 | 9.9 |
| Chemicals | [3] 10.0 | [5] 7.4 | 2.6 |
| Nonelectrical machinery | [3] 10.9 | [2] 5.6 | 5.3 |
| Electrical machinery | [1] 11.5 | [2] 7.8 | 3.7 |
| Transport equipment | [3] 14.0 | [2] 5.0 | 9.0 |
| Scientific instruments | [2] 16.1 | [4] 8.0 | 8.1 |
| Footwear | [4] 22.6 | [1] 10.4 | 12.2 |
| Furniture | [4] 17.3 | [5] 8.3 | 9.0 |

[1] United Kingdom.
[2] United States.
[3] Japan.
[4] Canada.
[5] European Economic Community.

Two interesting facts emerge from this table. First, the average sectoral tariffs of the countries with the highest rates are usually higher than 10% and frequently higher than 15%. Second, the discrepancy between the highest and the lowest rates is considerable in some sectors.

We have now looked at industrial tariffs from four different angles. What conclusions can be drawn from this brief analysis? Although we do not have the price data that would enable us to make a reasonably accurate estimate of the trade impact of the tariffs remaining after the Kennedy Round cuts are completed, several rough judgments can be made.

While general averages are relatively low, tariff rates of the major industrialized countries at the most detailed common level are over 10 percent very often and over 15 percent with surprising frequency. Even higher rates are not rare. The close grouping of the general average tariff rates of the major industrialized countries disguises considerable differences in the sectoral tariff rates. The spread between the lowest and the highest average rates is over 8 points in 50 percent of the major industrial sectors.

Thus, we see that the level of tariffs is higher and the spread is greater than generally supposed. While successive rounds of multilateral negotiations have reduced the relative importance of tariffs, the frequently repeated view that tariffs are no longer significant is clearly wrong.

We have also discovered several noteworthy facts about how the tariffs of the industrialized countries compare with each other. Canada has the highest average tariff and the European Community the lowest average tariff in more industrial sectors than the other countries. The American tariff structure has more high and more low tariffs than any of the other countries. The tariffs of the European Community are grouped together around its general average.

### QUANTITATIVE RESTRICTIONS ON INDUSTRIAL TRADE

In addition to tariffs, most governments impose quantitative limitations on some imports. These usually take the form of quotas imposed by the importing country or "voluntary restraints" established by the exporting country to avoid quotas. State trading practices are also used to limit imports. The economic and commercial consequences of limiting imports by quotas, "voluntary restraints," or state trading practices are the same.

The impact of quantitative restrictions on the particular product under control is precise. But it is difficult to compare the totality of quantitative restrictions maintained by one country with the totality maintained by other countries. At any point in time, hampered as we are by insufficient data, it is virtually impossible to estimate the amount of trade that would have taken place in the absence of restrictions that have been in existence for some time. However, there are several ways of comparing quantitative restrictions that will give us a rough appreciation of their significance.

The following table lists the number of industrial categories subject in whole or part to quantitative restrictions when imported from other OECD countries.

| Country | Number of categories | | Percent of total categories (4 digit BTN) | In addition, discriminator against Japan |
|---|---|---|---|---|
| | 1963 | 1970 | | |
| Canada | 2 | 7 | 1 | 8 |
| United Kingdom | 10 | 28 | 3 | 21 |
| United States | 7 | 67 | 7 | 1 |
| European community | 73 | 65 | 7 | 73 |
| Japan | 132 | 81 | 9 | |

A number of noteworthy facts arise from this table: A small but significant proportion of the 919 industrial categories is hampered by quantitative restrictions. Japan employs quantitative restrictions more often than the other countries. Japan has also reduced its use of quantitative restrictions during the last seven years by a considerably greater extent than the other countries. Canada, the United Kingdom and the United States now maintain substantially more quantitative restrictions than they did previously. Discrimination against Japan, mainly by the European Community, is still substantial.

We can get a somewhat truer picture if we also consider the estimated value of the imports of industrial products covered by quantitative restrictions.

[Dollar amounts in billions]

| Country | Value of industrial imports subject to QR's | Percent of industrial imports subject to QR's |
|---|---|---|
| European community | $0.9 | 4.3 |
| United Kingdom | .7 | 4.7 |
| Japan | 1.4 | 11.4 |
| United States | 5.1 | 16.5 |

This table should be interpreted cautiously. Very restrictive quotas allow little trade to flow and have little impact on the table. At the other extreme, very large quotas permit substantial imports and bear heavily on the table. Nonetheless, the results have a certain impressionistic value. The quantitative restrictions of the United States and Japan bear on a considerably greater amount of trade than those of the European Community and the United Kingdom.

Putting the two tables on quantitative restrictions side by side, we observe that:

Japan's quantitative restrictions fall on the largest number of products and affect a considerable amount of trade.

The American quantitative restrictions cover a relatively large number of products and relate to the largest amount of trade.

The European Community's quantitative restrictions hit a relatively large number of products but pertain to a comparatively small amount of trade.

The United Kingdom's quantitative restrictions bear on a small number of products and bear on a relatively small amount of trade.

### OTHER NON-TARIFF BARRIERS

Non-tariff barriers, other than quantitative restrictions, have been in existence for many years. Relatively few have been introduced recently. They are now coming more into the light because of the progressive reduction of tariffs.

Some non-tariff barriers, such as regulations relating to government procurement, have been established by governments with the specific purpose of discriminating against foreign trade. Others, such as health and safety standards, are usually created by governments to promote the well-being of its residents and affect trade incidentally even if significantly.

All of the major industrialized countries have a multitude of such non-tariff barriers. We can only touch on those of most importance.

Some of the foreign non-tariff barriers in the industrial sector of concern to the United States are: Many foreign governments grant government procurement contracts by administrative decision; thus, American firms can be and have been precluded from even bidding. Japan has a multiplicity of administrative controls on imports such as restricting the establishment of sales and service branches, the requirement that payment for imports must be made according to standard terms, and a licensing system covering all imports. Most foreign governments restrict the importation of motion pictures. A number of the member states of the European Community have road taxes that fall especially heavily on large automobiles. The United Kingdom, Canada and other countries limit the number of TV programs that can be imported. Several of the member states of the European Community have increased the amount of the tax adjustment at the frontier without similarly increasing the total incidence of domestic taxes. There are many more but these will suffice to describe the nature of the problem.

Foreign governments return the compliment and complain about American non-tariff barriers. They are seriously concerned about the absence of an injury requirement in our countervailing duty law; most other governments have such an injury requirement. They regret our failure to eliminate the American Selling Price system of customs valuation and have indicated that the termination of ASP is the *sine qua non* for future negotiations on non-tariff barriers. They urge us to eliminate the various preferences given to American firms in connection with government procurement contracts. They consider that we have not adhered scrupulously to the International Anti-Dumping code. They complain about some of our valuation and classification practices. This is an indicative rather than a comprehensive list.

We have seen that all of the major industrialized countries employ non-tariff barriers to restrict trade. Quantitative restrictions can be measured but, with the data at hand, the trade impact of these restrictions cannot be determined reliably. The other non-tariff barriers cannot even be measured quantitatively.

RESTRICTIONS ON AGRICULTURAL TRADE

Almost all governments support incomes of farmers by one means or another and control imports that might undermine these programs or otherwise threaten farmers' incomes. As a consequence trade in agricultural products is subject to relatively little international discipline and import restrictions are unusually difficult to remove by international negotiation.

As a result of the Dillon and Kennedy Rounds of trade negotiations some limited progress was made in the reduction of tariffs on agricultural products. But the main obstacles to increased trade in agricultural products were not touched. Let us glance at these restrictions.

Our first task is to decide how to classify the trade-restrictive features of the common agricultural policy, the newest and most comprehensive system of farm support and protection.

The common agricultural policy of the European Community is a most effective means of protecting domestic producers from foreign competition. Under the common agricultural policy, a farmer's income depends on the prices he gets for his products. The lower limits of market prices are determined not by the play of supply and demand but by the prices at which governmental entities agree to purchase products that cannot be sold on the market. Intervention prices usually are considerably higher than the prices that would otherwise prevail. These artificially high prices cannot be undermined by lower-priced imports because of the variable levy system of protection. The amount of the variably levy for any product depends on the difference in price between the minimum import price (closely related to the intervention price) and the price at which imports are offered. If the offer price decreases, the variable levy increases. Thus, imports cannot enter the European Community at less than the minimum import price.

Under this system, foreigners become residual suppliers. The size of the residual depends on the difference between domestic production, less exports, and consumption. The amount of production, in turn, depends on prices. Increased prices normally can be expected to lead to increased production and lower imports and vice versa. Thus, the internal price levels become the main determinant of the amount of agricultural products foreigners can sell in the European Community.

Variable levies are similar to quotas in that they, like quotas, prevent exporters from increasing their sales by lowering prices. Accordingly, in our effort to get some reading on the comparative significance of quantitative restrictions on agricultural trade maintained by the major industrialized countries, one can in all fairness lump quotas and variable levies together. For the same reason, state trading practices that limit the amount of imports can also be included.

The following table lists the number of agricultural categories falling in 1970 entirely or partially under quantitative restrictions when imported from other OECD countries.

| Country | Number of categories | Percent of total categories (4 digit BTN) |
|---|---|---|
| Canada | 11 | 6 |
| United States | 13 | 7 |
| United Kingdom | 21 | 12 |
| Japan | 62 | 35 |
| European community | 105 | 59 |

The figures need no interpretation. They speak for themselves. The disparities are obvious.

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Now let us look at the estimated trade coverage of the quantitative restrictions.

[Dollar amounts in billions]

| Country | Value of agricultural imports subject to QR's | Percent of total agricultural imports covered by QR's |
|---|---|---|
| United States | $1.2 | 21.6 |
| United Kingdom | 1.1 | 21.9 |
| Japan | .8 | 27.9 |
| European community | 2.6 | 33.7 |

There are two points worth noting: The percentage of imports subject to quantitative restrictions is very much greater in agricultural trade than in industrial trade. The quantitative restrictions of he European Community affect considerably more trade than those of the United States.

Taken together these last two tables point unmistakably in the same direction.

The quantitative restrictions of the European Community fall on many more products and affect substantially more trade than those of any of the other industrialized countries.

The Japanese record, while better than the European Community, is considerably worse than the United States, the United Kingdom, or Canada.

IMPLICATIONS

Even after the last of the Kennedy Round tariff cuts has been made, the key industrialized countries will maintain substantial controls on international trade. The tariff and non-tariff obstacles to the international exchange of industrial and agricultural products will still be diverse, pervasive, and significant.

Reduction of these barriers could be expected to encourage a further expansion of trade. This can be said, I think, even though international trade has been expanding faster than production for the last 10 years and even acknowledging that significant macro-economic policy changes probably would affect international trade to a greater extent than modifications of restrictions.

Consideration of the possibility of reducing trade barriers bring us face to face with another fact—even less measurable and more political than those we have already examined, but an important fact, nonetheless. I refer to the concept of reciprocity.

Reciprocity is the basic regulating factor in the conduct of international trade relations; it is deeply embedded in internationally agreed rules and in the trade policies of governments.

We are where we are with respect to the liberalization of trade restrictions as a result of a series of multi-national trade negotiations in which the criss-cross of concessions made it possible to arrive at reciprocity for all. In none of these negotiations was it possible for any country to know precisely the extent to which reduced import estrictions would lead to increased trade. Thus, the determination of when an acceptable degree of reciprocity has been attained has been and will continue to be primarily a political act shaped in each country by the interplay of general and particular interests.

Unilteral action by any country to restrict trade changes the balance of concessions arrived at over the years and is most likely to provoke counteraction to restore equilibrium. Internationally agreed rules, embodied in the General Agreement on Tariffs and Trade, outline the procedures an aggrieved country can follow to seek remedy or redress. These rules and the legitimacy they give to authorized retaliation tend to restrain unilateral restrictive action.

The concept of reciprocity also relates to trade liberalization. Imports benefit the importing country by increasing the amount and diversity of resources. Nonetheless, futher general trade liberalization will depend on the willingness of each of the major industrialized countries to make concessions of value to the others. From our examination of existing trade restrictions we have discovered that the import restrictions of most of the countries tend to be comparatively more important in one area than in another. This suggests that reciprocity would be hard to attain in a narrowly based negotiation.

A look at the trade pattern reinforces this view. The following table shows U.S. exports and imports in billions of dollars from January through November 1970.

| | European community | United Kingdom | Japan | Canada | Total OECD | Total |
|---|---|---|---|---|---|---|
| Agricultural commodities: | | | | | | |
| U.S. exports | 1.386 | .354 | 1.070 | .744 | 4.059 | 6.435 |
| U.S. imports | .378 | .033 | .035 | .275 | 1.113 | 5.145 |
| Balance | +1.008 | +.321 | +1.035 | +.469 | +2.946 | +1.290 |
| Nonagricultural products: | | | | | | |
| U.S. exports | 6.222 | 1.920 | 3.112 | 7.374 | 21.124 | 32.491 |
| U.S. imports | 5.630 | 1.977 | 5.352 | 9.831 | 24.461 | 31.267 |
| Balance | +.592 | -.057 | -2.240 | -2.457 | -3.337 | +1.224 |
| Total trade: | | | | | | |
| U.S. exports | 7.608 | 2.274 | 4.181 | 8.118 | 25.184 | 38.926 |
| U.S. imports | 6.008 | 2.010 | 5.387 | 10.106 | 25.574 | 36.411 |
| Balance | +1.600 | +.264 | -1.206 | -1.988 | -.390 | +2.515 |

A number of points are relevant to our discussion of reciprocity. First, total U.S. trade with the other OECD countries in non-agricultural products is roughly five times greater than in agricultural products. However, the United States has a surplus in its agricultural trade with the OECD countries, and a deficit in its non-agricultural trade. Thus, for the United States, agricultural exports are more important than their comparative size would indicate. Second, trade in non-agricultural products between the U.S. and other OECD countries is just about in balance. In the first eleven months of 1970, the U.S. imported about 15 percent more from other OECD countries than it exported to them. Third, trade in agricultural products is not as well-balanced. Over the same period, the United States exported about four times as much agricultural products to other OECD countries as it imported from them.

Thus, from the standpoint of import restrictions and trade patterns, international reciprocity would be difficult to attain unless both tariff and non-tariff barriers on industrial and agricultural trade were included in any multilateral effort to reduce trade barriers.

Mr. HOUTHAKKER. If I may just give some relevant figures to Senator Bennett on industrial imports subject to quantitative restrictions, I believe this referred to 1970 but I am not entirely sure what year it is. For the European community the amount involved, subject to these quantitative restrictions was $800 million.

Senator BENNETT. Is that imports into the United States?

Mr. HOUTHAKKER. That is imports into the European community.

Senator BENNETT. European community from all sources?

Mr. HOUTHAKKER. From all sources; yes.

Senator BENNETT. From all sources?

Mr. HOUTHAKKER. And in our case it was $5.1 billion, more than five times as much. However, I should make one important qualification, and this is why I emphasized here it is hard to measure. What these figures mean only what actually came in, not what would have come in if there had been no restrictions. We do not know that but the fact is on those figures for industrial imports we had more trade subject to restrictions than the European community. On agricultural imports it is somewhat different.

Senator Bennett. But that is a statement of the existence of a restriction. That does not quantitatively measure the burden of the restriction.

Mr. Houthakker. This is correct. I believe it would be very difficult to measure in any other way, but it does indicate though that we do have very substantial quantitative restrictions, and to get the burden of these restrictions would be a more difficult calculation.

Senator Bennett. Do you have any idea of the type of or the specific products that are covered by these restrictions?

Mr. Houthakker. In the case of the United States?

Senator Bennett. Yes. Our restrictions.

Mr. Houthakker. Yes, sir. We have six major quantitative restriction schemes, three agricultural and three nonagricultural. The three agricultural ones are sugar, beef, and dairy products. The nonagricultural ones are steel, oil, and cotton textiles. There also a few smaller ones but those, sir, account for the bulk of the restrictions.

Senator Bennett. Of course, I have spent my career in the Senate working on the sugar problem. Technically, it is a restriction. Actually, it is a method of distributing our offshore needs fairly or with some degree of fairness, among the people who can supply us, and the restriction operates for that purpose rather than to—well, I will say it another way. As long as Cuba was a free country we bought our sugar from Cuba or practically all of it, and when Castro took over, and we had to distribute it around the rest of the world we set up devices by which that could be controlled.

Mr. Houthakker. Yes, Senator, I am sure you are right about that. However, it is as you say, technically a restriction. Our sugar imports are different now from what they would be if there were no sugar law.

Senator Bennett. Now, tell me again what the nonagricultural restrictions are.

Mr. Houthakker. Steel, oil, and cotton textiles. Those are the three very important ones. There are a few other minor ones like flatware and things like that, but that is relatively small.

Senator Bennett. I am reminded that we—the restrictions on steel are voluntary.

Mr. Houthakker. Yes, sir.

Senator Bennett. And they are not a matter of law.

Mr. Houthakker. Right.

Senator Bennett. And they were imposed or at least agreed to.

Mr. Houthakker. That is correct.

Senator Bennett. By our foreign trading partners.

Mr. Houthakker. That is correct.

Senator Bennett. The type of restrictions that are imposed against our products, do they not go to a much higher level, of a more sophisticated type of products?

Mr. Houthakker. In the case of Japan, Yes. In the case of the European community we do not have any major complaint that I am aware of.

Senator Bennett. Do you have any figures on Japan? You gave us the comparison with the European community.

Mr. Houthakker. Yes, sir; the figure here for Japan is $1.4 billion of 11.4 percent of industrial imports.

Senator BENNETT. What are the comparative columns of the restrictions imposed against us and imposed by us against Japan?

Mr. HOUTHAKKER. It does not specify here against which country these restrictions are addressed. It is done on a commodity basis so I cannot say.

Senator BENNETT. Then, I misunderstood you; I thought the figures you gave me earlier referred only to the European economic community.

Mr. HOUTHAKKER. No; I am sorry if I left that misunderstanding there. These are the total imports into four areas that are subject to quantitative restrictions, no matter where the quantity comes from.

Senator BENNETT. I am sorry, I had misunderstood you.

I listen to what you had to say with a great deal of interest, what you had to say about adjustment, and I think that has been pretty well covered and by referring back to the problem that we would face in the city of Provo, Utah, if we had to close out the Geneva Steel, which is the second largest employer, private employer, in the State of Utah, as well as the largest single employer in that small community of maybe 20,000 people. I do not know what we would do if we had to handle this adjustment problem. I do not know where these people would go, and it is fine theoretically to say they would be trained for something else, and then they can go where the jobs are. But people with homes and families and ties, and particularly those who, like myself, are getting along in years, would find it, do find it, very difficult to pick up and try to learn a new trade and go to a new community to practice it.

Mr. HOUTHAKKER. Well, Senator, perhaps I may assure you that I do not think that anybody is contemplating a situation in which the steel industry would be left entirely without protection since we know that the cost level in the United States is so much higher than this would indeed be disastrous, and steel, of course, is an industry which is important to our national security.

Senator BENNETT. So, you make that distinction with steel on the basis of national security?

Mr. HOUTHAKKER. Yes, Senator.

Senator BENNETT. But if there were another industry with the same conditions and no national security implications you would be willing to see it closed and let these people take their chances?

Mr. HOUTHAKKER. In the case like that adjustment assistance would probably be a more appropriate way of dealing with it if it came to that point.

Senator BENNETT. But Utah is not essentially an industrial State. There is not a broad industrial market to which these people can go, as was the case in New England, which from time immemorial has been an industrialized State. That is why I said in the beginning I think these are averages and figures, ideas, theories that apply in an ideal situation but when you get them down to practice they are different.

Mr. Chairman, I think I have used my time.

Senator RIBICOFF. Mr. Houthakker, in light of what you say about the transitory character of the balance of payments crisis, would you then say that the dollar crisis over the last few weeks is a false crisis?

Mr. HOUTHAKKER. It is not entirely a false crisis. It has brought to a head certain underlying problems which have been with us for a great many years, and to that extent it is not of a transitory nature.

Senator RIBICOFF. What are those basic problems?

Mr. HOUTHAKKER. As I indicated here, there is some question of whether we are sufficiently competitive or not. I do not state as I say there is evidence, definite evidence, that we are not competitive. But that if we had to decide which is the more probable statement, the more likely to be true, then I would say that we are not fully competitive. I believe that the events of the last few weeks, together with other developments in the last 2 years or so, have improved our competitive position somewhat.

Senator RIBICOFF. Let me ask you, if the Europeans wanted to put control on the dollars or at least, let us say, on the Eurodollars, what could the European nations do?

Mr. HOUTHAKKER. The Europeans could certainly impose regulations on their banks which would make it more difficult for them to participate in the Eurodollar market. They could also impose regulations on their corporations so as to make it more difficult for these corporations to borrow in the Eurodollar market. There are a number of things which they could do but the fact is that they have not so far come to any agreement on what they might do.

Senator RIBICOFF. Well, would you think it would be better for us to make some suggestions or to work with the European countries concerning the management of the Eurodollar before they take unilateral steps on it?

Mr. HOUTHAKKER. I am sure that we would want to be cooperative in any such endeavor. One difficulty which we face though that the Europeans, especially the six members of the EEC now want to operate together and they seem to have some difficulty in arriving at a uniform position. The difficulty is that if we tried to negotiate with them individually, we might be accused of undermining the EEC. On the other hand, they have not had much luck in formulating a common position.

Senator RIBICOFF. Well, they do not have luck formulating a common position because when the chips are down every nation looks out for its basic interests.

Mr. HOUTHAKKER. That is correct, Mr. Chairman.

Senator RIBICOFF. And while they might be a common interest what might be a good policy for France would not necessarily be a good policy for Germany.

Mr. HOUTHAKKER. That is right, so we have to move very carefully.

Senator RIBICOFF. And is not that about the same position as the the members of the committee have been having their dialog with you, I mean, what may be theoretically correct from the textbook point of view, just does not work out when it impinges upon Senator Bennett's steel mill in Provo, or Senator Long's shipyard in Louisiana, or Senator Talmadge's textiles in Georgia, the ballbearings in Connecticut, so it is almost impossible to operate in a vacuum in any State or any nation in the world because when the chips are down every nation looks for its own, at its own economic and political problems that it faces.

Mr. HOUTHAKKER. Yes, sir; I am sure there are very great difficulties in arriving at solutions for these particular problems, especially when we do not have adequate means of taking care of the adjustments problem.

Senator RIBICOFF. Now, I would assume from your testimony that you would feel that an open trade war between the large trading combinations, the Japanese, the Common Market, and ourselves, would be an individual national and a collective world disaster.

Mr. HOUTHAKKER. I would certainly agree with that statement; yes.

Senator RIBICOFF. Now, if that were the case, what justification is there for these trading blocs to sit back and allow a potential trade war to develop. Should we not be getting together to try to work out a fairer trade policy for all countries as well as a reciprocity because it becomes apparent that what is concerning everybody is a lack of mutuality, a lack of reciprocity, and a feeling of great national disadvantage.

Mr. HOUTHAKKER. We have been engaged in discussions with various countries for sometime, and we have had contacts with the European Economic Community on the level of their of their Commission and our State Department and other Government agencies. We have had some discussions in GATT. We certainly would, I think, be interested in having multilateral discussions. We have, of course, had discussions with the Japanese on a number of occasions, too, but the implication of your statement, if it is we have not done enough. I would certainly subscribe to that.

Senator RIBICOFF. But the discussions you are talking about are basically on a lower level where the permanent Secretariats from all these nations get together and discuss their basic problems, but as far as I can determine no one from the higher level, whether it is President Nixon or Prime Minister Pompidou or Prime Minister Heath or Mr. Brandt, have made the suggestion that the time had come for some top level discussions. We had the Kennedy round, but we have gone so far beyond the Kennedy round, the world has changed so rapidly, America's position has changed so deeply since 1962, the position of Japan and the Common Market have changed so much since 1962, that do you not feel there has been an expectation that all the give had to come from the United States, that all the nations in the world sat back and said, "Now you, the big United States, you come up with proposals, you come up with actions, you come up with considerations." Why should not there be at this stage, with the fantastic economic growth in Japan and Germany and the Common Market, some initiatives coming from these countries. They have got the $50 billion floating around to their advantage, as indicated by my colleagues. You have a situation of an adverse liquidity balance of some $48 billion during a period of 20 years. You have a situation where now we have a great controversy domestically in this country as to whether or not we should continue our force levels in Western Europe to protect Europe when we are paying the costs, they have got the dollars and they do not even pick up the cost in the balance of payments that we are charged with.

So, do you not think the time has come for the world, and the United States to be very clear-eyed and realistic about the change of the economic relationship in this world and for the United States to say, "The time has come for you to start having some of the give and we have some of the take instead of consistently having the United States be on the giving end and never on the taking end now, because the picture has changed.

Mr. HOUTHAKKER. I think that I agree with 95 percent of what you are saying. There is a very serious danger that we are drifting into an unpleasant situation. I do not believe this is our wish and it is not our doing. The main difficulty centers around the EEC right now. The EEC is very much concerned with its own internal problems and with the problem of enlargement. Until these problems are solved, I do not think we can expect a great deal from the EEC looking at it realistically. I am sure you are right that we do very much need a multilateral high-level discussion, but I am afraid that it may take another year or so before the Europeans in particular, are ready for this.

The one statement which I am not sure I can agree to is that in past discussions we have always been giving more than we took. I do not believe this can be said about the Kennedy round. Mr. Renner's paper also, I believe, has some data on that subject. I believe that especially as far as industrial trade is concerned, the Kennedy round worked out quite well for all sides including the United States.

Senator RIBICOFF. I have one final question before we go to the next witness. Your solution to the problems of international adjustment is greater exchange rate flexibility. Would not a change in exchange rates now raise our oversea defense expenditures and reduce our foreign investment earnings?

Mr. HOUTHAKKER. It would raise our oversea defense expenditures somewhat, to the extent that they take place in countries whose currencies would appreciate. They would not be increased, for instance, in Vietnam, which is not in that category. Our earnings from oversea investment would increase, not decrease, because the foreign currency which we earned with our investment abroad would be worth more in terms of dollars so that would be an offset.

Senator RIBICOFF. What justification is that for the NATO countries who have very substantial favorable dollar balances not assuming the dollar cost of our defense activities in NATO countries.

Mr. HOUTHAKKER. Well, Senator, I think there are two answers to this question. In the first place, we do have so-called offset arrangements with a number of countries.

Senator RIBICOFF. But not enough. There still is, while they pay part of it, there still is a differential, I believe Secretary Connally testified, it was about $800 million. I have seen a figure $800 million, but somewhere between $800 and $900 million differential, and if Senator Mansfield's proposal would be adopted it would save this country some $400 or $500 million. Why should not the European countries, with all the dollars that they have, $50 billion floating around, why should they not pick up another $500 million of costs in dollars to the United States for keeping American troops and dependents in Europe?

Mr. HOUTHAKKER. I believe the answer to this question, Mr. Chairman, is essentially in the area of foreign policy. But let me just try to make one statement that could properly come from an economist; namely, who pays the piper calls the tune.

Senator RIBICOFF. Well, but that is very interesting. Are we calling the tune when all is said and done? While we may be paying the piper, or paying the fiddler, they are doing the dancing and we are doing all the perspiring, as far as I can see.

[Laughter.]

Senator RIBICOFF. We thank you very much, Dr. Houthakker. We would like to question you some more but we have another important witness, and we do appreciate your coming and we hope to have you again.

Mr. HOUTHAKKER. Thank you very much.

Senator RIBICOFF. Mr. Callaway, please.

Senator Talmadge?

Senator TALMADGE. Mr. Chairman, it is a pleasure indeed to welcome a former citizen of my State to the committee. Ely R. Callaway, president of Burlington Industries.

Senator RIBICOFF. We welcome you here, Mr. Callaway. Our apologies for keeping you so late. As you can see, these discussions have been very lively and provocative, and the committee will be with you and I am sorry you had to wait so late in the afternoon. Will you proceed, sir? We are very pleased to have you.

## STATEMENT OF ELY R. CALLAWAY, JR., PRESIDENT, BURLINGTON INDUSTRIES, INC.; ACCOMPANIED BY DR. BUFORD BRANDIS, CHIEF ECONOMIST, AMERICAN TEXTILE MANUFACTURERS INSTITUTE; AND ROBERT P. LYNN, VICE PRESIDENT AND GENERAL COUNSEL, BURLINGTON INDUSTRIES, INC.

Mr. CALLAWAY. Thank you, Senator Ribicoff and may I introduce my two colleagues here. On my right is Mr. Robert Lynn, who is the general counsel for Burlington, and on my left Dr. Buford Brandis, who is the chief economist of the American Textile Manufacturers Institute.

Dr. Brandis is here to give a short presentation toward the end of my statement, specifically on the textile problem, and Mr. Lynn is here to correct me when I say the wrong thing.

I am delighted to be here, Senator, and as each of you are, I am sure you are tired and I am very tired. I spent all weekend at my home in Connecticut writing this statement.

Senator RIBICOFF. In other words, Senator Talmadge's loss is my gain.

Mr. CALLAWAY. Well, sir; I happen to be the most multinational man here probably, because I was born in Georgia, I live in Connecticut, and my office is in New York and most of my plants are in North Carolina.

Senator HANSEN. Would it be fair to say that you hope to go to Wyoming?

[Laughter.]

Mr. CALLAWAY. Senator, we do a tremendous amount of business in Wyoming in buying our wool there.

Senator HANSEN. I am aware of that. I am very deeply aware of it.

Mr. CALLAWAY. Thank you, and I look forward to being there.

I have been through a series of different emotions today, you are not going to see this in my statement. I am going to just speak extemporaneously just a minute, I have been through a series of feelings, first of great encouragement because I have recognized one thing that I did not realize and that is that you Senators are more aware of the problem that we have in American industry, and competing internationally than most businessman are, and I am very serious. This is very encouraging to me, because the solution to the problem that we have in American industry must start to be solved in the Congress.

Second, I have been very depressed, and with all due respect to the gentleman who, I am sure, is just as interested in the United States as I am, and who is an extremely intelligent man and dedicated, the previous speaker, has depressed me terribly, and I do not mean anything personal by that. All I would like to say to you is that to me this is the proof that the time is here when the United States must stop listening to theoretical abstractions as a solution to its business problems.

I will try to forget what I heard.

I prepared a statement and you have it. A portion of that statement includes a summary of one clear and very meaningful example of the problem that American industry has long had and still has in competing in international trade. This one example of the Nation is the Nation's textile and apparel industry, an employer of not 2.4 million, I am sorry, and for the record, I would like it corrected, it is 2.3 million. One hundred thousand people have lost their jobs since this statistic was given to me and it should not have been given to me. It was the figure at the end of 1969, today's figure is 2.3 million employed in the American textile and apparel industry.

Senator BENNETT. May I interrupt you at this point?

Mr. CALLAWAY. Pardon?

Senator BENNETT. Can you supply us with a chart that goes back maybe 10 years and show the progressive changes in employment in your industry?

Mr. CALLAWAY. Of course, we can and we will do that. Dr. Brandis will provide that to the committee.

(The following was subsequently received for the record:)

*U.S. employment in textiles and apparel* [*In thousands*]

| Year: | *Employees* |
|---|---|
| 1960 | 2,158 |
| 1961 | 2,108 |
| 1962 | 2,166 |
| 1963 | 2,168 |
| 1964 | 2,195 |
| 1965 | 2,280 |
| 1966 | 2,365 |
| 1967 | 2,357 |
| 1968 | 2,400 |
| 1969 | 2,411 |
| 1970 | 2,350 |
| 1971 (April) | 2,325 |

Source: U.S. Department of Labor.

Mr. CALLOWAY. Now, the U.S. economy really is as a whole now threatened. What has happened to us in textiles and apparel is spreading rapidly to other industries, many industries that are basic to the welfare of this country, just as our textile and apparel business. Our textile apparel problem is no longer only ours. We have got company, unfortunately.

Many industries, particularly those that we have always considered to be invulnerable to excessive imports since they are characterized as being of high technology, are now losing their business in America, to excessive imports. There is solid evidence, if one will only look and listen that within the 1970's, the U.S. economy as a whole faces a major threat to its well-being.

This threat is from excessive imports which are disrupting our markets. These are excesses which result not from free trade among most nations but from unfair trade practices.

You all know that free trade simply does not exist. It is true, so let us remember it and let us not pretend that it does in making up our minds about what to do.

Now, a lot of people, including some in this room, are talking about a trade war that is coming, and I say a trade war is here. We are in it, and we are losing it. Many predict if we try to protect ourselves in this trade war our competitor nations will retaliate against us. They do not need to retaliate because continuing in their current trade practices is all they need for victory now and in the future.

Because of the unfair trade practices of some of our strongest foreign competitors, many leading American businessmen are now saying openly that they cannot compete. Now, a lot of them have failed to do that in the past because they were scared to admit to their stockholders that they had a problem.

Of our foreign competitors the Japanese are singled out most often. Evidence of this is found in the *Time* magazine May 10 issue, the cover story. If you have not done so, I hope you will read the article and the summary of an all day symposium that *Time* had in which it describes the experiences of 11 businessmen in their dealings with Japan. *Time* entitled its cover story, "Japan Incorporated—Winning the Most Important Battle." *Time* and most of the business leaders in that symposium did accurately describe the symptoms of the illness. I was in that symposium. But *Time* prescribed a medicine which, if administered, I am afraid will kill the patient, which is the whole economy.

In effect, *Time* advocated additional Japans and *Time* advocated that America abandon an industry employing 2.3 million Americans.

*Forbes* ran a feature story depicting the difficulties of American businesses in competing with Japan here and abroad, and again, the picture comes through clearly. Yes; we do have a problem. Some of the big international bankers are beginning to be worried about the welfare of their own U.S. customers, and those I am speaking of are speaking out clearly against the unfair trade practices of the EEC and of Japan. The current *Business Week*, if you have read that, the *Business Week* magazine highlights the steel story. So, the subject we are discussing is very timely, it is very real and it is very vital. Those of us who have struggled with the import problem for years are now encouraged that more and more of the leaders in American industry recognize that the U.S. economy is in trouble, that something is wrong with out trade problem, policy, and that we really do have a problem.

American industry and American agriculture still produce the world's best products; we are still the most productive Nation on earth; we spend tons of money on new plants and equipment: we are still the world's best managers of business and we are good salesmen; but we are losing ground fast in our own U.S. markets and in the markets of the world. Why? Well, I am going to try to answer at least a part of this question. If we find out why we are losing, will we be intelligent enough and courageous enough and sufficiently free of guilt to find the solution to the problem soon enough? I think you gentlemen are going to find in the months ahead that there is not going to be hardly any argument in America as to whether or not we do have a problem. There is going to be no doubt about that, unfortunately, as we go along. The problem is going to be what is the solution.

Now, it is astounding though, that a year ago, a few businessmen like myself, a few of us were voices in the wilderness and we could not convince a fraction of the businessmen that they really did have a problem. They now know it, and they will know it.

The problem is the solution, and we all disagree on that. This is going to be your job, it is going to require the wisdom of Job to come up with a solution. We think we have it, and I am going to give you what we think is the solution before I finish today.

Now, before I go any further, I think that it would be helpful for you distinguished Senators to have some knowledge about me, my selfish interest and my company's interest, and this will at least give you some chance to know what degree you should discount what I have to say.

At that *Time* symposium a few weeks ago I suggested that this be done among all of the 11 participants. Nobody listened to me and it was not done. But I am saying to you with all due respect, when you have, at least from the business community when you have people come to make statements to you, it would be helpful if you knew their own selfish interests. I sit on councils and committees that are supposed to advise the Government and the business community as to what the problem is, and what the solution to the problem is, and I will tell you that with all due respect to these gentlemen, my associates on these councils, they all have an axe to grind, as I do. But very few of them explain it. Now, I am going to try to give you an idea of what my axe is.

As president of Burlington Industries, I am interested in the jobs of our 86,000 employees and my own job. Now, within the textile and apparel industry our problem with imports, if we can contain it reasonably well, the problem of imports, Burlington has an especially bright future. If we cannot contain it, Burlington will not go broke, although many will lose their jobs and the future of our company will be far more difficult than it reasonably need be.

We in Burlington are manufacturers and merchants of nearly all types of textiles and of furniture. Except for hosiery, we do not make apparel. The apparel manufacturer buys our fabrics, and so he is our customer. We are interested in his welfare.

In Burlington we are probably as complex, as modern, and as efficient as is any manufacturer of any product of any type anywhere in the world.

I say that with all due modesty.

We have 120 manufacturing plants in the United States and 35 abroad—in Canada, Mexico, and South America and with heaviest concentration in seven countries in Europe. We very recently have entered into a joint venture in Japan—for tufted carpets—with Mitsubishi Rayon Co. We admire and respect our Japanese partners, so we are not traders operating in an atmosphere of isolation, we are not a one-product company, which is sliding backward into inefficiency and failure to keep up with the competitive world. Almost none of the textiles we produce in our plants abroad are shipped back into the United States, and so we do not export jobs from America. We export fabrics to the rest of the world from America, but despite our best efforts our export business is small, only about $30 million out of our own total sales of $1.8 billion in 1970.

Well, that is because our foreign competitors are pretty darned effective about keeping us out of their market. It has nothing to do with costs.

My personal interests are, and these are not necessarily in this order, I want to see my company grow and prosper here and abroad.

I want to see my industry grow and prosper.

I want peace to come to the world—today.

I believe that one of the best and most realistic ways to achieve peace and to keep peace in the world is through trade—among all the nations, but trade must be carried on with fairness and equity among all trading partners.

And I am in favor of protection—to a reasonable degree for all nations. I favor protection to the extent it is needed to prevent excessive penetration of any market of any country, by an exporting nation whose political and/or economic arrangements enable that export nation to engage in unfair trade practices. I favor protection for any nation to the extent that it is needed to keep any market in any country from being the victim of undue selfishness of business and/or governments wherever they may be located.

It has been my experience that many of our trading competitors around the world have gone much too far in continuing to insist on holding on to the trading advantages we gave them at the end of World War II, and in now developing even new and greater advantages for themselves. It has been my experience that most of the men whom I know in business and government among our major foreign competitor nations do feel that they have a right to continue to have and to hold their trading advantages, and they say something like this to themselves over a drink to you or when they are at home alone at night. "America is rich, its natural resources are boundless, its towns and its cities have never been destroyed by war—we deserve to have whatever advantages we have in our trade practices."

And like it or not, this is the way our foreign competitor's thinking goes and here is the root cause of the gross inequities that we know exist when we compare our trade practices with those of major competitors in world trade communities.

To retaliate, again I say, they do not need to retaliate, they only need to keep on doing what they are already doing in their trade practices—and to scare us to death by saying, in effect, "We will retaliate if you do not allow us to continue to take advantage of you."

Now, is the United States really a pitiful, helpless giant? Of course not. But, in international trade we have acted like one up to now. So let us change. I believe that our competitors, our foreign competitors, will not change soon enough. They like it as it is.

Now, you gentlemen know about these inequities in trade practices. I have read about them in your own staff work, the talk that Senator Ribicoff gave on March 4, 1971, and the report to the Committee on Finance was an excellent picture of some of the major problems the United States faces in carrying on international trade and in summary—it is just so easy to summarize—Europe has found very effective ways, Europe has by hook or by crook, to keep our products from excessive penetration of their markets. They have found ways to effectively limit the Japanese-penetration of their markets. They—and I mean particularly the EEC—have thus forced the Japanese to try even harder to capture the U.S. market, and all the while they have threatened us if we do to them what they are doing to us; they are going to retaliate.

Most of the people in the world, whether they be nations or individual consumers, buy from another person what it is in their interest to buy, and nothing else. I believe all the business we do abroad is done because it is in the interests of the buyer to buy it.

I do not know of any examples; maybe somebody can give them to me, where people buy from America because they love us period. I just do not think it happens. I do not think that will change a bit, and I do not think it should change.

Now, what have the Japanese been doing? We have been talking about Europe. What have the Japanese been doing? Well, they have been doing everything right for themselves. The Japanese are extremely able people. They have developed a system of domestic and international trade which, in my opinion, is simply unbeatable. The heart of the system—and its main strength—is that the entire Japanese nation is the equivalent of one company: Bigger and stronger and more aggressive than any one company the world has ever known or even thought of. This is the ultimate of all of the monopolies ever dreamed of. Every segment of the Japanese nation, from the workers through the businessmen, through the banker and through the trading company, they are all in partnership with their government, working diligently for one common purpose, to become the world's No. 1 economic power. Believe that. Don't forget it.

The American people and the American businesses are protected by our laws from being harmed by American monopolies. For this reason, our antitrust laws are good, although I think in practice most businessmen would agree that the antitrust laws are very often enforced or interpreted by our Government to a silly and very harmful extreme. Even so, the fundamental purpose of these antitrust laws is to protect Americans from the ravages of monopolies.

Where are the laws which protect Americans from the ravages of the Japanese monopoly, the most powerful and most aggressive monopoly ever developed? Do we really believe that the location of this monopoly, 10,000 miles away, makes it any less harmful to America than if it were located in Georgia or Connecticut? Do we really believe that the Japanese monopoly was developed for any purpose except to capture any portion of any market that we might believe desirable for them in America or elsewhere? Of course, it was developed for that purpose, and it is working beautifully for the Japanese.

Do I resent the Japanese for having devised this brilliant monopoly? No, I do not, although I feel that they are short-sighted to have pushed their advantage in America as far as they have. I have absolutely no animosity toward the Japanese but I do deplore the fact that our Government has come under these particular circumstances; failed to give adequate protection to American business and to the American people who have to date been a victim of this monopoly: Japan, Inc. What is this monopoly? How can I describe it? If I stayed here all day I could not really do it justice. I am going to give you a picture, though, and try to give you just an idea of how it operates and why you cannot compete with it.

I will use an event of only a few days ago, May 13 in Detroit. I am going to take the liberty of using Mr. Henry Ford II to show you how powerful the Japan, Inc., is, and show you many, too many very smart and very able business leaders, and Mr. Ford surely is one of those, did not really know what they were up against when Japan Inc., decided to compete with them in a major way, and this is beginning to change.

Now, on Friday, May 14, the New York Times reported on the annual meeting of the Ford Motor Co. last week, and the Times said in part: *

> Henry Ford II warned today that the assault on the American market by imported cars was just beginning and said, "I frankly don't see how we're going to meet the foreign competition—we've only seen the beginning. Wait till those Japanese get a hold of the central part of the United States. We may be a service Nation someday because American manufacturers could not compete with foreigners."

Now, knowing how difficult it is to be quoted accurately under such circumstances, I suspect Mr. Ford really meant that American automobile manufacturers cannot compete with the Japanese. For instance, the Germans, when Mr. Ford figures stand the best foreign competitor in the U.S. market today, are a bit easier to compete against than are the Japanese since the German manufacturers, No. 1: have a profit motive that is more nearly like ours and the Japanese do not; the German workers earn much more than do the Japanese, and the German system, as it affects their exports, while much more effective than ours in America, is not nearly so complete and effective a monopoly as the Japanese.

I will try to give you one illustration as to why the Ford Motor Co., which has long been recognized as the world's greatest in mass production or certainly one of them; they originated it, of the highest technology products, cannot compete profitably, profitably against the Japanese if the Japanese make up their minds to capture a big portion of Ford's or General Motors', or anybody else's business.

I think most knowledgeable men in this American business will agree that if Ford cannot compete with Japan, nobody can, and I am saying profitably. I am not saying the Japanese are going to bust the the Ford Motor Co.

I will illustrate by taking a purely hypothetical case. Now, suppose that the antitrust laws of the United States were suddenly suspended for 1 day, and for 1 day only, and that a merger of a number of our biggest and best companies which were allowed for that day, everybody who could get together and agree to merge with each other that day would be OK, and that the antitrust laws after that day would go back to where they were normally. Let us assume that the only people who were able, smart enough, to get together into a

*Article appears at p. 208.

merger that day were the ones you see here: General Motors, Chrysler, Standard Oil of New Jersey, Atlantic-Richfield, the Chase Bank, Bank of America, U.S. Steel, Kennecott Copper and Peabody Coal, IBM, RCA, Sears Roebuck, J. C. Penney, and Burlington.

Now, let us assume that this new giant corporation, which is legal because the law said in that one day they could do it, this giant goes to its government and says:

> Look, Uncle Sam, we would like to capture a big part of Ford Motor Co.'s business. Will you help us? Will you let us fix prices? Will you give us total protection against imports into our own markets while we are doing whatever we need to do to put the Fort Motor Co. out of business?

And let us assume Uncle Sam says to this company which I have named American Monopoly, Inc., the Government says to American Monopoly:

> Okay, we will cooperate; we will help you; in fact we will be your financial partner if you have any trouble doing what you are trying to do. Go ahead.

Now, under all of these assumptions how long would the Ford Motor Co. last? As long as 10 years? Well, let us ask Mr. Ford. How long will any company last? And what I am trying to say is that the U.S. economy is the equivalent of the Ford Motor Co. in this particular hypothetical case. It is comparable to what we are facing in competing with Japan because they are a master monopoly.

Now, we do have laws in this country that prohibit an American Monopoly, Inc., from existing, and that is good. American business could not compete with it, and the American people would lose much in the process.

But, we do have such a monopoly—in fact, an even stronger one than my hypothetical one—competing against American industry right here in our own market, and that monopoly, Japan, Inc., has as the number one purpose the desire to capture a very substantial portion of the richest market in the world: the U.S. market. Our laws and our trade policies are not adequate to counter the obvious competitive advantages in Japan, Inc., and you know I haven't mentioned one word about cost. Yet. Up to now it has nothing to do with cost.

The Japanese have developed for themselves laws and rules and regulations, which, when combined with their political, economic and social structures and their domestic and international trade practices, enables them to accomplish their purpose.

On the other hand, our laws and rules and regulations, our domestic and international trade policies and practices, and our political, economic and social structure, and our stanard of living, all of these factors combined and separate tend to make this United States unable to compete with Japan, Inc., or with any other nation which might develop an equally effective system.

So here is the problem. How do we solve it?

We develop a total system of monopoly the same as Japan's? Of course not. America is too far down the road—taking a completely different route.

But, do we abandon our antitrust laws so our companies can band together and withstand the power and trading tactics of Japan, Inc.? No, for the antitrust basic philosophy is good for American business in solving its own domestic problems, and it is good for the American people.

Can we persuade the Japanese to change they system to any substantial degree? I feel sure that we absolutely cannot. There is not a realistic chance in the world, in my opinion, of doing that in the next 10 years.

Should we let Japan, and other nations which adopt a similar system, take the best part of our United States markets for industrial products? Should America become a nation of farmers, retailers, and services? Of course not. And to whom would we sell our services? Who would pay the bills and how would they do it? Mass consumption depends on jobs, millions of them, and this means mass production. If we want to drop to the bottom of the ladder economically in the world, if we really want to do that, then let us let other nations take away our industrial business, and nobody in his right mind wants to do that.

Should we, as a general practice, embargo or very severely limit imports from Japan or other nations? No, not in my opinion. Japan and all nations should have a fair chance to obtain and to hold a reasonable share of the American market based upon the merit of the product and its fair price, not subsidized. A reasonable flow of imports into the United States is healthy for business. I believe that, and it certainly is good for our consumers, a reasonable flow.

So, having rejected all of these alternatives, I suggest we do the following things:

Number one: Let us tell the American people the facts about what is happening, along the lines of Senator Fong this morning. Let us tell them what the facts are, no matter what the facts are. Let's don't mislead them and the American businessmen are very guilty of this. We have top businessmen in this country who are misleading the American people into letting them think we do not have a problem with imports, and very often it is because they, the individual businessman, does not have the problem in his own company.

Now, let us tell our people these things, that serious trade problems have been caused by the development and expansion of the Common Market.

That there are gross inequities in the GATT rules.

That Western Europe systematically excludes imports from Japan and from the less developed countries.

That Japan is the most highly protected market in the world; that Japan often sells its products to its own people at considerably higher prices than they sell the same or similar products in this America, and a lot of people in this country think this is good for them, but it is very short-sighted. It is just as short-sighted as it can be, because it costs Americans jobs. That is all.

Let us tell our people that U.S. companies cannot own more than 50 percent of a company in Japan.

We spent 18 months negotiating our deal in Japan, and we finally get 50 percent. And the strongest industrial corporation in the world, General Motors, spent a helluva long time—excuse me—trying to make a deal in Japan, and they got a joint deal with 35 percent.

Let us tell our people that the great disparity between wage rates and working conditions throughout the world tends to make the United States the dumping ground for goods which are produced abroad under conditions that are illegal in the United States.

Let us tell them that the remedies that are available to United States industries which are injured by excessive imports resulting from unfair trade practices, are not adequate to compensate for our competitive disadvantages. And I am sure a lot of you will disagree with me on that, but I will try to tell you what I think on it.

Last week the Bureau of Customs announced its beginning of an investigation of a complaint filed by Burlington charging that certain Japanese worsted fabrics are being dumped in the United States. We have got a good case. We gathered our own evidence over a period of months, and I am confident that the proceeding will end in an assessment of additional duties as provided by U.S. law.

Now, most companies in this country cannot do that. It cost us an awful lot of money. We have got staffs that are great, that a lot of people cannot afford, and we dug up the information over there in Japan, and the U.S. Government hasn't got the people over there to do it. We had to do it.

So, first of all, you have got to get the evidence, and I am saying it takes a big giant company like us even to find the evidence. What are the little companies going to do? They haven't got a chance to even get the evidence to prove they have been injured.

In any case, let me make it clear a positive finding of dumping and injury in the Burlington case will apply only to a very limited and specific worsted fabric involved. It won't affect any other types of fabrics or textile products that we make and, of course, it will not affect the import of apparel made from the same type of fabric, so it is very limited.

Let us inform our people that the major economic threat to the United States is from the Far East, because that is what we thing it is.

Although I share the frustration and concern now broadly developing over the extension of Common Market membership which tends to make the Common Market even more protectionist, and although the Common Market represents a fundamental contradiction of the free trade doctrine and GATT principle, I do not share the view that the next major trade effort of the United States should be another round with the Common Market. I assume that the proponents of such a round would plan to persuade the Common Market to dismantle or restructure its organization and/or its plans.

Let us tell the Americans that the United States no longer has a monopoly on scientific development ability, on productivity, on management skills, and on salesmanship. It has been at least 20 years since we did have such a monopoly, if we ever did. Unfortunately, our trade, current trade policy, however, assumes that we still do have such a monopoly on brainpower in this area. Well, this is very unreal and as a matter of fact, it is the height of egotism.

Let us advise our people that the most-favored-nation principle has been a great handicap, and that the principle is obsolete and probably already dead. There is no incentive for developed nations to trade tariff reductions if Japan, with its low costs and its brilliant monopolistic system reaps the benefit of the deal through the application of the most-favored-nation principle.

Let us tell our people that there are serious limitations in adjustment assistance. I heard here today that the Adjustment Assistance program of this country run anywhere from $100 to $200 million; is that right? That is what we have got to put in it; that is what we put in.

Burlington's payroll alone last year was $540 million, one company out of one industry.

We should fairly and honestly view adjustment assistance for what it is and not claim for it values that it cannot produce. As a solution to American industry and workers which may be seriously affected by low cost, monopolistic import competition, as a solution to those people, it is useless on any large scale.

Now, if you do not believe, just let's suggest that we make some trial determinations as to how adjustment assistance could operate as an effective instrument to restore large-scale business enterprises and their workers to industrial viability.

Well, you have got 5 million people unemployed in this country anyway. Somebody said that an industry like textiles can do what it did back at the turn of the century and through to the forties, you know; they moved south, and then somehow or other industries come into New England, fill them up, and everybody is happy.

Well, I think the only thing wrong with that argument is that times are different. It is possible, and it did happen during those days when America was in the clear lead that it was as a seller of products to the world, and the other industrial nations were not developed, that we could have that; we could let industries go offshore, down south, anywhere and we could fill up the gap.

Well, the next move for the textile business, gentlemen, is not to some other part of the United States. The next move of the textile and apparel business can only be offshore.

The trouble is that the rest of the world today is smart enough to make products for themselves and sell them here in this market sufficiently so we do not have the markets to produce the goods, to hire the people, to fill up the gaps.

Finally, let us talk to them realistically about the chances for removal of nontariff barriers which are so prevalent in other nations. We have got to recognize it will take years and years to remove some of these. To go back to my point where I said what the foreigners really honestly feel in their hearts is they have got the right to these advantages that they have—now we are talking about men's motives, and what you are dealing with is a problem to convince people to be unselfish, and I would hate to have that job, to convince people to be sufficiently unselfish to get on even an equal trading basis with us. I could not do it, and we tried.

These feelings are so deeply rooted in the self-interest and social and legislative life of the nations involved, that is why you have a difficult time and Secretary Stans said it this morning: "You know we are working on this, but progress is slow." Of course it is.

In the meantime, so far as I know, nothing is proposed to be done to deal soon enough with the worsening impact of excessive imports upon our domestic industries and workers. Some people are talking about, you know, blandly, it will take 25 years. If this is the solution to the American economic problem in international trade, few of us will agree that we have the resources to wait that long. We just are not that rich as a Nation, gentlemen, and in the imperfect world of nations, peoples and ideals, the perfect world of attitude and practice requisite to the smooth functioning of the doctrinaire free trade will continue to be elusive, and in the process of waiting for that day the United States must have the courage and the resolution to solve its own problems.

Now, having told our people in this country about these 12 points—and I would like to correct the record, because, unfortunately I referred to 10 points there, because I had not thought of the extra two when I wrote that down, so it is now 12 points that I have given you—having done that, informed our people about these things, we should ask the Congress to enact new trade legislation which will recognize the trade advantages which we have either given to our foreign competitors or have allowed them to gain. This new trade legislation should establish procedures under which the United States will be able to solve its own economic problems if our foreign competitors do not give us reasonable and meaningful cooperation.

This legislation should permit the United States to deal with excessive levels of imports through the establishment of quotas, tariffs, or any other such devices appropriate to meet the particular threat. The legislation proposed would not be materially different from the trade bill which passed the House last year.

When such legislation is enacted the United States should undertake to convene the GATT nations for the purpose of modernizing and updating GATT's rules so that the inequities and the unfairness of the present arrangement will be removed.

Secretary Stans said this morning when he was trying to do these things, it would be great if this Congress expresses its feeling to help resolve the problems. We suggest this is the way for the Congress to give strength to the economy of this country and strength to the people who are negotiating for us throughout the world. Maybe someday we can call the GATT agreement, General Agreement on Fair Trade, and we can call it the GAFT.

Now, at the point and up to this point I have talked about international problems and the U.S. import situation in terms of the whole U.S. economy. I did so because I thought it was important that the broad view of potential damage to all American industry and its workers should first be portrayed.

Coming, as I do, from the textile industry which has been particularly affected by excessive imports primarily from the Far East, I would now like to make a brief presentation of the specifics of the import situation.

Now, gentlemen, Dr. Brandis will take not more than 10 minutes to go through these charts and after that, right after that I will then close up very promptly.

Dr. Brandis. Mr. Chairman, I am going to move this easel because I think it will be a little easier for the committee. I am sorry about the audience, but we just cannot get the whole thing visible everywhere.

Senator Hanson. If it would be helpful—off the record, Mr. Chairman.

(Discussion off the record.)

Senator LONG. If I were the Japanese I would be laughing all the way to the bank about this situation. I would try to keep a straight face when I talked to the American people. But after this Nation went over there and blasted down their factories and burned their cities, distorted their economy, then did 10 times as much to help France, England, and others as we did for Japan, they now emerge and by dint of hard work, build themselves up to where there is a prospect of Japan becoming the number one economic power on earth. I would try to keep a straight face in talking to these fool Americans. But while I was at it I would just be going on right ahead looking after the self-interest of my Nation just as fast as I could.

Senator RIBICOFF. I am just curious. I wanted to comment. It is very apparent to me that you are a man of perception and brilliance, and you have had interest and dealings throughout the world, and in the process you probably met the leading businessmen and negotiators of all nations of the world.

How do you appraise the comparative caliber of American Government negotiators with Japanese, German, French, and British negotiators when it comes to all these trade and economic matters internationally?

Mr. CALLAWAY. Well, it is a very penetrating question, Senator. I hate to admit it, but I think they outtrade us at every turn and they make us look pretty bad, but it is no different from the businessmen trading against the Japanese. They outtrade us at every turn, and this is very hard to figure out. I think perhaps it has something to do with the sense of guilt that I was talking about.

Our people in our Government, in our State Department particularly, you know, you have got to be—you have got to have a lot of guts in this country to admit to the State Department that you are for protection; you have to hang your head. They think you are unpatriotic.

We have a feeling that we do not deserve to be equal, and so when you negotiate against someone who really agrees with you that you do not deserve to be equal, he does not let you be equal, and that is what is happening.

Our negotiators are outtraded, our Government negotiators, without any question, are outtraded.

Senator TALMADGE. Will the chairman yield at that point, because he knows that he and I and other members of this committee were appointed as observers to the Kennedy Round in Geneva. Our Congressional duties required our presence here in Washington. I think I made two trips to Geneva very hurriedly. I believe the chairman made two trips; I believe other members of this committee made approximately the same number.

One thing I observed was that the foreign negotiators were in constant contact with the ablest brains from their country available.

Mr. CALLOWAY. Yes.

Senator TALMADGE. However, our businessmen were not even permitted to go to Geneva. They were unwelcome. Their advice was unsought. Our country did not want them in the way. We went to get an agreement at any cost. We did not want expert advice when we sought the agreement.

Mr. CALLAWAY. They shut us out.

Senator TALMADGE. It has been the policy of our Government.

Mr. CALLAWAY. Yes, sir.

Senator TALMADGE. I hate to admit it, but it is true. We wanted to deal in ignorance.

Mr. CALLAWAY. That is an accurate description, Senator.

Okay, Buford.

Dr. BRANDIS. Gentlemen, the first chart [1] simply reveals the terrible size of our deficit coming from the textile-apparel area alone. Prior to 1958 a surplus, last year $1,600,000,000 deficit. It will be substantially higher this year for our textile imports in the first quarter went up 40 percent approximately from the same period last year.

You can see how, despite the fact on this chart we have had controls under the GATT of cotton textile trade; we have administered these controls liberally, and our imports are now twice what they were when the controls were instituted.

Now, our wool problem has been constant recently after expanding during the 1960's and is a very large part of our balance of payments problem. The great growth in the imports, as in domestic production, has been in the manmade fiber area, and this is simply, as we see here, this has simple gone right off the chart, and in the most immediate statistical month, which is March of 1971, our imports of manmade fiber textile products were up 77 percent.

Senator RIBICOFF. Sir, for the purpose of the record——

Dr. BRANDIS. Yes, sir.

Senator RIBICOFF (continuing). You are in the trade. You always use the words "manmade fiber." I may know it——

Dr. BRANDIS. Yes.

Senator RIBICOFF (continuing). But the average person may not. Name for us the fabrics of manmade fiber. Is that nylon——

Dr. BRANDIS. Yes, sir; and polyester——

Senator RIBICOFF (continuing). Just for the purpose of the record.

Dr. BRANDIS. (continuing). Yes, sir. Rayons and——

Mr. CALLAWAY. It is everything except cotton and wool.

Senator RIBICOFF. Is a manmade fiber?

Mr. CALLAWAY. Yes, sir; made by the chemical industry.

Dr. BRANDIS. (continuing). The chemical industry manufactures these manmade fibers.

Senator RIBICOFF. What percentage of the fabrics today in the United States and the world are manmade fibers, as against wool and cotton, the percentage?

Dr. BRANDIS. In the United States our consumption of manmade fibers is about 60 percent of our total consumption.

Senator RIBICOFF. So that has exceeded natural fiber.

Dr. BRANDIS. Yes, sir; yes, sir, and in the world as a whole the percentage would not be that high, but it is rapidly growing in all of the developed countries.

You see the manmade fiber imports here in the last year of the 1960's passed our cotton imports, you see. Manmade fiber imports growing right through the roof here relative to cotton.

Senator RIBICOFF. Is there still even though manmade fibers continue to grow——

Dr. BRANDIS. Yes?

[1] The charts referred to during this presentation appear on pp. 322-329.

Senator RIBICOFF (continuing). Is there a basic demand from the consumer for cotton and wool?

Dr. BRANDIS. Yes, sir.

Mr. CALLAWAY. Always; yes. It is holding its own.

Senator RIBICOFF. I do not like any synthetic, whether it is a shirt or a suit; I do not like synthetics. I like wool or cotton. Are there people——

Mr. CALLAWAY. Yes, you are not alone.

Senator RIBICOFF (continuing). Who still want the natural fiber?

Mr. CALLAWAY. I think both the wool and the cotton fiber consumption is this country is static; it is holding its own; it is just not growing. The manmade fiber is growing rapidly, but there are, you know, it is just—both cotton and wool still have 40 percent of the market.

Senator RIBICOFF. Forty percent?

Mr. CALLAWAY. Forty percent.

Senator RIBICOFF. And that is about static?

Mr. CALLAWAY. Yes, and we predict it will remain static for another 4 or 5 years.

Dr. BRANDIS. Senator, we have talked about productivity here in output. We have heard a learned economist pronounce on this earlier. The fact is that in the United Kingdom, a year or so ago, an independent survey was commissioned, trying to find the relative position of the United Kingdom textile industry to the industries around the world. They found that the productivity in the United States—this is physical productivity, apart from money wages or anything, the physical productivity—was three times higher than it was in either the British industry or in the Japanese industry.

So that this is a modern industry relative to our competitors.

We are productive, we are efficient; we can be more so; we hope to be more so, but we have not gotten into this problem because of inefficiency is the message of this chart.

Here is a problem to which others have referred earlier. These are Bureau of Labor Statistics wage comparisons derived from our own labor attachés around the world and are, of course, money wages without fringe benefits. If you added fringe benefits here they would vary tremendously as percentages in all of these countries, but still the relative relationship would not be too much different, I suspect. In other words, the United States costs in hourly earnings in cents per hour, are far higher than any of our competitive countries.

Senator RIBICOFF. $2.43.

Dr. BRANDIS. It has gone up since this chart was drawn, but relative to the same periods of time last year.

Senator RIBICOFF. Japan 45, Hong Kong 31.

Dr. BRANDIS. Hong Kong 31, Japan 45, India 15, Taiwan 11, Pakistan 11.

Senator HANSEN. What is the data that you show based on?

Dr. BRANDIS. It is based on the embassy's labor attachés report, based on the 1969 figures from most of these countries.

Senator HANSEN. It might be important for the record to identify it.

Dr. BRANDIS. Yes, all of these, if we had current data from these other countries it would all be somewhat higher, as would our scale here.

Senator HANSEN. This is around 1969?

Dr. BRANDIS. Yes, sir.

Senator HANSEN. Thank you.

Senator RIBICOFF. Have you weighted by time and a half?

Dr. BRANDIS. No, sir.

Senator RIBICOFF. So the chances are that while you have time and a half or you have a 40-hour week in the United States you might have 50, 60, or 70 hour weeks at straight wages in those other countries.

Dr. BRANDIS. Yes, sir.

Senator RIBICOFF. Child labor.

Dr. BRANDIS. Precisely.

Mr. CALLAWAY. Yes, sir.

Senator TALMADGE. Other benefits? Social security benefits.

Mr. CALLAWAY. It has been very hard to obtain the statistics, including fringe benefits. We want to do it because we want to know the facts, and we are working on it, but we have not been able to do it. I told Dr. Brandis today at lunch since we operate plants in so many different nations we are going to provide at least our experience with the fringe benefits and the social security and everything else here versus there.

Dr. BRANDIS. As much help as we can.

Senator RIBICOFF. I think this committee has an obligation to ask the staff to consult immediately with the Labor Department. They have the obligation to supply us and the people of this country with the up-to-date statistics containing the factors in question that we have to have in order to make our judgment, and I trust the staff can get that together. It should be our obligation; not yours.

Mr. CALLAWAY. Thank you, sir.

Dr. BRANDIS. Thank you, sir.

(The following information was subsequently obtained by the staff from the Department of Labor:)

U.S. DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
*Washington, D.C.*

Reference No. 520.

Mr. ROBERT BEST,
*Committee on Finance, U.S. Senate,*
*Washington, D.C.*

DEAR MR. BEST: Enclosed are the data you requested on published average hourly earnings of wage workers in manufacturing in major industrial countries over the 1960 to 1970 period and our estimates of additional labor costs not covered by the regularly available earnings series. Our estimates of additional labor costs are available only for certain years. Although ratios of additional labor costs to the available earnings data normally do not change substantially from year to year, the changes are substantial, for at least some countries, over the full 1960 to 1970 period.

Sincerely yours,

GEOFFREY H. MOORE, *Commissioner.*

Enclosures.

PUBLISHED AVERAGE HOURLY EARNINGS OF WAGE WORKERS IN MANUFACTURING, 10 COUNTRIES, 1960, 1965, AND 1970; AND RATIO OF ADDITIONAL COMPENSATION OR LABOR COST PER HOUR WORKED TO PUBLISHED EARNINGS, SELECTED YEARS

| Country and year | National currency unit | Exchange rate (national currency units per U.S. dollar | Published average hourly earnings [1] | | Ratio of additional compensation [2] per hour worked to published earnings (percent) | Ratio of additional labor cost [2] per hour worked to published earnings (percent) |
|---|---|---|---|---|---|---|
| | | | National currency | U.S. dollars | | |
| United States: | | | | | | |
| 1960 | Dollar | | | 2.26 | [3] 17 | ([4]) |
| 1965 | do | | | 2.61 | [5] 21 | ([4]) |
| 1970 | do | | | 3.36 | [6] 22 | ([4]) |
| Canada: | | | | | | |
| 1960 | Canadian dollar. | .9697 | 1.79 | 1.85 | ([4]) | ([4]) |
| 1965 | do | 1.0811 | 2.12 | 1.96 | [7] 17 | ([4]) |
| 1970 | do | 1.0461 | 3.01 | 2.88 | [6] 18 | ([4]) |
| Japan: | | | | | | |
| 1960 | Yen | 360 | 93.3 | .26 | ([4]) | ([4]) |
| 1965 | do | 360 | 163.3 | .45 | 13 | 16 |
| 1970 | do | 360 | [8] 331.6 | [8] .92 | [6] 13 | [6] 16 |
| Belgium: | | | | | | |
| 1960 | Belgian franc. | 50 | 29.59 | .59 | ([4]) | ([4]) |
| 1965 | do | 50 | 43.38 | .87 | [5] 49 | [5] 51 |
| 1970 | do | 50 | [9] 63.25 | [9] 1.27 | ([4]) | ([4]) |
| France: | | | | | | |
| 1960 | French franc. | 4.937 | 2.59 | .52 | ([4]) | ([4]) |
| 1965 | do | 4.937 | 3.63 | .74 | [5] 57 | [5] 67 |
| 1970 | do | 5.554 | [9] 5.66 | [9] 1.02 | [10] 57 | [10] 62 |
| Germany: | | | | | | |
| 1960 | Deutsche mark. | 4.20 | 2.62 | .62 | ([4]) | ([4]) |
| 1965 | do | 4.00 | 4.12 | 1.03 | [5] 37 | [5] 41 |
| 1970 | do | 3.66 | [9] 5.77 | [9] 1.58 | ([4]) | ([4]) |
| Italy: | | | | | | |
| 1960 | Lira | 625 | 232 | .37 | ([4]) | ([4]) |
| 1965 | do | 225 | 386 | .62 | [5] 75 | [5] 82 |
| 1970 | do | 625 | [11] 599 | [11] .98 | ([4]) | ([4]) |
| Netherlands: | | | | | | |
| 1960 | Guilder | 3.80 | 1.77 | .47 | ([4]) | ([4]) |
| 1965 | do | 3.62 | 2.95 | .81 | [5] 46 | [5] 54 |
| 1970 | do | 3.62 | [9] 4.56 | [9] 1.26 | ([4]) | ([4]) |
| Sweden: | | | | | | |
| 1960 | Krona | 5.17 | 5.32 | 1.03 | ([4]) | ([4]) |
| 1965 | do | 5.17 | 7.87 | 1.52 | [6] [12] 22 | ([4]) |
| 1970 | do | 5.17 | 12.03 | 2.33 | [13] 26 | [13] 27 |
| United Kingdom: | | | | | | |
| 1960 | Pence | 85.7 | 65.5 | .76 | ([4]) | ([4]) |
| 1965 | do | 85.7 | 86.8 | 1.01 | [14] [15] 12 | [14] [15] 14 |
| 1970 | do | 100.0 | 132.3 | 1.32 | [6] [15] 16 | [6] [15] 16 |

[1] Published earnings do not represent the same items of labor cost in each country because of differences in the treatment of various supplementary benefits. Earnings generally refer to gross cash payments to wage earners before deductions for taxes and social security, and include overtime pay; shift differentials; regular bonuses and premiums; and cost of living allowances. Holiday, vacation, and sick leave pay, bonuses not paid regularly each pay period, and other supplementary benefits are included by some countries, excluded by others. The earnings data are per paid hour for some countries, per hour worked for other countries.

[2] Compensation refers to all payments made by employers directly to their employees, before deductions of any type, plus employer contributions to legally required insurance programs and private welfare plans for the benefit of employees. Labor cost includes, in addition to compensation, employer expenditures for such items as training; recruitment; the cost of canteens, medical services, and various other welfare facilities and services; and payroll taxes for general revenue purposes. The figures on supplementary compensation and supplementary labor costs as a percent of published hourly earnings are the best estimates currently available to the Bureau. Estimated supplements for Sweden were derived from Swedish analyses of labor costs. The estimates for all other countries are based on labor cost or labor compensation surveys.

[3] 1959.

[4] Not available.

[5] 1966.

[6] 1968.

[7] 1967.

[8] Preliminary estimate.

[9] April.

[10] Represent 1966 estimates, adjusted for termination of 5 percent payroll tax as of December 1968.

[11] Second quarter.

[12] Excludes private welfare expenditures, such as private pension plans.

[13] Other labor costs include payroll tax only. Tax introduced Jan. 1, 1969.

[14] 1964.

[15] Data relate to Great Britain.

## AVERAGE HOURLY EARNINGS OF WAGE WORKERS IN MANUFACTURING, 10 COUNTRIES, 1960–70

| Country | Currency unit | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | Dollar | 2.26 | 2.32 | 2.39 | 2.46 | 2.53 | 2.61 | 2.72 | 2.83 | 3.01 | 3.19 | 3.36 |
| Canada | do | 1.79 | 1.83 | 1.88 | 1.95 | 2.02 | 2.12 | 2.25 | 2.40 | 2.58 | 2.79 | 3.01 |
| Japan [1] | Yen | 93.3 | 103.8 | 117.7 | 131.5 | 146.1 | 163.3 | 182.8 | 205.2 | 240.4 | 286.8 | [2] 331.6 |
| Belgium [3] | Franc | 29.59 | 30.76 | 32.79 | 35.66 | 39.85 | 43.38 | 47.60 | 50.89 | 53.54 | 58.46 | [4] 63.25 |
| France [5] | do | 2.69 | 2.79 | 3.03 | 3.29 | 3.46 | 3.63 | 3.85 | 4.12 | 4.56 | 5.14 | [4] 5.66 |
| Germany | D.M. | 2.62 | 2.90 | 3.23 | 3.46 | 3.74 | 4.12 | 4.42 | 4.60 | 4.79 | 5.28 | [4] 5.77 |
| Italy [6] | Lira | 232 | 248 | 286 | 334 | 371 | 386 | 401 | 426 | 445 | 489 | [7] 599 |
| Netherlands [8] | Guilder | 1.77 | 2.02 | 2.21 | 2.37 | 2.68 | 2.95 | 3.21 | 3.47 | 3.76 | 4.18 | [4] 4.56 |
| Sweden | Krona | 5.32 | 5.78 | 6.17 | 6.69 | 7.12 | 7.87 | 8.48 | 9.30 | 9.87 | 10.79 | 12.03 |
| United Kingdom [9] | Pence | 65.5 | (69.8) | (72.8) | (75.8) | (81.5) | 86.8 | 93.6 | 97.2 | 104.4 | 114.1 | 132.3 |

[1] Including summer and end-of-year bonuses.
[2] Preliminary estimate.
[3] Average hourly earnings for October 1961 were 31.01 francs. Data for 1960 refer to October; data beginning with 1961 refer to April and October each year.
[4] April.
[5] Average hourly earnings for all industry for September 1964 were 3.49 francs. Data prior to 1964 refer to all industries and September each year; data beginning with 1964 refer to manufacturing and March and September each year.
[6] Average hourly earnings for 1965 were 399 lira according to the old earnings series. In 1965 a new series with an expanded survey sample was introduced.
[7] 2d quarter.
[8] Average hourly earnings for October 1964 were 2.72 guilder. Data prior to 1964 refer to October each year. Data beginning with 1964 refer to April and October each year.
[9] Figures in parentheses for 1961 to 1964 are estimates based on the trends in earnings of adult male workers. Average hourly earnings for October 1965 are 88.7 pence. Data for 1960 refer to October; data beginning with 1964 refer to April and October each year.

Note on earnings definition: Unless otherwise indicated below, average hourly earnings refer to gross cash payments before deductions for taxes and social security, including overtime pay and shift differentials, regular bonuses and premiums, and cost-of-living adjustments, but excluding irregular bonuses (bonuses not paid each pay period), family allowances, and the value of payments in kind.

## AVERAGE HOURLY EARNINGS OF WAGEWORKERS IN MANUFACTURING, 10 COUNTRIES, ANNUAL AVERAGES 1960–69 AND SEMIANNUAL AVERAGES 1968–70

United States:
- Earnings: Include pay for time not worked and calculated per hour paid.
- Industry: Manufacturing.
- Workers: Production related wageworkers.
- Sample: All establishments.
- Survey: Monthly.

Canada:
- Earnings: Include pay for time not worked and calculated per hour paid.
- Industry: Manufacturing.
- Workers: Wageworkers.
- Sample: Establishments employing 15 workers or more.
- Survey: Monthly.

Japan:
- Earnings: Include summer and end-of-year bonuses and family allowances paid by employer. Include pay for time not worked and calculated per hour worked.
- Industry: Manufacturing.
- Workers: Production related wageworkers. Casual and temporary workers excluded.
- Sample: Establishments employing 30 regular workers or more.
- Survey: Monthly.

Belgium:
- Earnings: Include family allowances paid by employer. Include pay for time not worked and calculated per hour paid.
- Industry: Manufacturing.
- Workers: Wageworkers.
- Sample: Establishments employing 10 workers or more.
- Survey: April and October. October only in 1960.

France:
- Earnings: Exclude pay for time not worked and calculated per hour worked.
- Industry: Manufacturing. Include mining, construction, transportation (excluding government enterprises), trade, and some services prior to 1964.
- Workers: Wageworkers.
- Sample: Establishments employing 10 workers or more.
- Survey: March and September. September only prior to 1964.

Germany:
- Earnings: Include family allowances paid by employer and value of payments in kind. Include pay for time not worked and calculated per hour paid.
- Industry: Manufacturing.
- Workers: Wageworkers. Exclude workers absent from work more than 3 days due to sickness, accident, or personal reasons.
- Sample: Establishments employing 10 workers or more.
- Survey: Quarterly.

Italy:
- Earnings: Exclude regular bonuses; include the value of payments in kind. Exclude pay for time not worked and calculated per hour worked.
- Industry: Manufacturing.
- Workers: Wageworkers.
- Sample: Establishments employing 10 workers or more.
- Survey: Quarterly.

AVERAGE HOURLY EARNINGS OF WAGEWORKERS IN MANUFACTURING, 10 COUNTRIES, ANNUAL AVERAGES 1960-69 AND SEMIANNUAL AVERAGES 1968-70—Continued

Netherlands:
Earnings: Include pay for time not worked and calculated per hour paid.
Industry: Manufacturing.
Workers: Wageworkers.
Sample: Establishments employing 10 workers or more.
Survey: April and October. October only prior to 1964.

Sweden:
Earnings: Include family allowances paid by employer. Exclude pay for time not worked and calculated per hour worked.
Industry: Manufacturing, mining and quarrying.
Workers: Wageworkers.
Sample: All establishments.
Survey: Monthly. Quarterly prior to 1968.

United Kingdom:
Earnings: Include irregular bonuses prorated. Include pay for time not worked and calculated per hour paid.
Industry: Manufacturing.
Workers: Wageworkers. Exclude part-time workers.
Sample: All establishments.
Survey: April and October. October only in 1960.

Sources: National publications; ILO Bulletin of Labour Statistics; and EEC social statistics series "Gains horaires et durée du travail."

Dr. BRANDIS. We are also told that our wage gap problem is temporary because wages are rising rapidly in, for example, in Japan, as of course they are. Using the same data source we mentioned earlier, we find that in 1960 there was a gap of $1.44 between United States and and Japanese textile wages. In 1970 both wage rates had gone up very substantially, but the gap was $1.98, so that the gap is not narrowing. On the contrary, at least vis-a-vis Japan is widening.

Senator RIBICOFF. I am just curious——

Dr. BRANDIS. Yes, sir.

Senator RIBICOFF (continuing). I cannot get quite clear——

Dr. BRANDIS. All right, sir.

Senator RIBICOFF (continuing). If the Japanese wage is 45 cents an hour, and even if they worked the 50-hour work week, it is something like $20.

Dr. BRANDIS. Yes, sir.

Senator RIBICOFF. Where do the Japanese generate the wherewithal to buy all those cars and Hondas and television sets, because the standard of living is going up in Japan, and they are buying these things; are they not?

Dr. BRANDIS. Yes, sir.

Senator RIBICOFF. Where are they getting the purchasing capacity to increase their consumption?

Mr. CALLAWAY. Well, everything—let us take housing for instance; it is so cheap. The housing for most of the industrial workers is provided, and that is one of the fringe benefits that we cannot measure on the cost that they have. And furthermore, their own people really do not consume that much. They have a tremendous export business. That is where they got their money. They do not pay their people enough like we do.

This, you know, this is one reason that the Japanese market is not all that desirable—because the purchasing power on a very large scale just is not there.

Senator RIBICOFF. Yes, but we keep talking about how the Japanese are excluding us——

Mr. CALLAWAY. Yes.

Senator RIBICOFF (continuing). From going in. If they do not have the purchasing power, what are we going in for?

Mr. CALLAWAY. I did not say it did not exist at all, and it is desirable to have a part of it, but relative to the purchasing power of this country, it is small.

Dr. BRANDIS. If I could add just one thought to that: The Japanese have a different economic and social structure substantially than we do. As Mr. Callaway was talking earlier about their, the Japan monopoly sort of arrangement, and in many instances there is almost a family connection between the work force and the employer. Many fringe benefits of the sort that were just mentioned, but beyond that the Japanese have the highest savings rate in the world. They are generating a tremendous growth rate industrially, and this, feeding on itself, starting at a very low consumption level at the end of the war, has made them, as you indicate, quite correctly, sir, increasingly affluent: Many cars, everybody has a television set. It is a different economic structure and a different social structure. They are making great progress.

We have not had in the textile mill industry a very substantial wage increase—I am sorry, price increase. Our wages, the blue line, have gone up very rapidly. The prices at wholesale have been virtually constant. In the apparel industry the picture is not quite that good. The combined textile and apparel index would be up maybe 7 or 8 percent over the period since the late 1950's.

So we have had—and the wage indexes would be about the same rate, which is about 60 percent. So we have, this reflects again, our productivity.

Trying to keep within the 10 minutes, because I know you gentlemen have many questions of Mr. Callaway, this just shows the prices relative to general prices. We have had, as I say, practically no price changes in the textile industry, while total prices in general went up 15 percent over the 1960's.

Now the profit rate has been very low—our profit rate has been very low, roughly half of that of industry generally.

Senator RIBICOFF. While he is putting that together, how would you suggest, as an international businessman, that the United States should be represented internationally on the negotiating level, on the economic attaches in the embassy. How would you propose to President Nixon or any President that he organize the economic, international economic sector of this Nation?

Mr. CALLAWAY. Senator, I would like to comment on that. I wonder if you would mind if I asked Mr. Lynn to make, to give us his opinion on that. Even more than I have he has been involved directly in these specifics and I believe he will give you something very meaningful.

Senator RIBICOFF. I think this is very important because this is where, if we are going to have new policies, either executive or legislative, organization is policy. You can pass any law or you can have any intention, but if you are not organized to put it into effect it is meaningless.

Mr. CALLAWAY. Right, sir.

Senator RIBICOFF. How should our Government organize itself to take—give us the fair shake, just that: the fair shake of economic matters internationally?

Mr. LYNN. Well, I do not know as I can really give an answer to that, but I can attempt to give some general observations.

I think in the order of things, particularly in the 20th Century, most governments have felt that they had to rely upon the intellectuals in the development of theoretical practices in the field of economics and international trade, and I think that going back, as you know, here in the Congress, back into the late 1920's, there was apprehension that the requirements of the world in which we live, the pressures put on American society, our trade policy called for the development of a progressive free trade policy which the United States would undertake to establish to lead the world into, and you know the Trade Agreements Act of 1934 was the first step in that direction.

Then in 1948 we established the GATT. It was established on U.S. initiatives, and this is part of this problem—this concern that the U.S. has to develop and plod along these intellectual concepts that it has imposed upon the world.

We are held in hostage to our own ideologies in the field of international trade. We established the GATT in 1948. We recognized we were powerful and rich and most of the rest of the world were pretty sick and poor. We permitted a number of exceptions to the GATT in that time period. We hear them today in this hearing; we hear questions.

Senator Long, for example, asks why shouldn't the other nations agree that these reasonable things be done. Why can't we convene GATT? Why can't they have an understanding of these things?

The fact of the matter is that they are not going to volunteer to do these things.

Now, in the meantime the whole execution of a trade policy continues to be put in the hands of theorists, who are, in turn, tied into the demand put upon the United States as an international power, and the execution of a trade policy is not really on the basis of an economic doctrine; it is on the basis of international power politics, and what it is felt the United States has to do from time to time to carry out its mission of world leadership.

So, in the context of a dedication to that policy, and lacking the freedom or the will to retreat from it or change it the United States will never let business people or people who take a pragmatic or practical view get involved in the execution of the policy, because the policy is something which is ideology.

So, you come to things like the Kennedy Round, and you get over there and you have the Trade Negotiator's Office, and this and that, and the business people come around with their concern, and they get chased off and the computers take over, and the people from U.S. Trade Negotiator's Office, or the State Department, people who are dedicated; they are honest people; they think they are doing the right thing, but really they do not know much about commercial transactions.

It is incredible, some of the lack of understanding that we have on the part of people who are undertaking to negotiate commercial arrangements for the United States, who do not understand the elements of commercial business transactions.

So, when you try to get in on these things, you get pushed off.

So, in answer to your question: why aren't they in on it; I think it would be great for the United States, if they did have some business people in, and even though Mr. Callaway pointed out that he had a self-interest, I still think in the business community there is just as much patriotism, just as much objectivity, and you can get business people who can make a contribution, but they have not been welcome up to this time for the reasons I have stated.

Senator RIBICOFF. I want to make this comment, and I think the one thing that got me started in my interest in this was when talking to our chairman—and I will always be grateful to him. When I said I wanted to look into the trade matters and I went to Europe I was being hit all over by the statement that the President made in his U.S. foreign policy speech in 1970, and I read it, and the staff has excerpted it in its paper:

> Our support for the strengthening and broadening of the European community has not diminished. We recognize that our interests will necessarily be affected by Europe's evolution, and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gain of the political vitality in the West as a whole.

In other words, the President—and I think I know who put this in—the man who put this into the President's speech has not the slightest understanding of economics and what is involved—and this was a charter to every country in the world that our political objectives for European unity, and whatever global strategy we had were paramount and we would be willing to sacrifice our economic interests, and we really gave them a go-ahead.

Now, my feeling is that the President, with all due respect to him, had not the slightest idea what was in that speech. But you talk to anybody in Europe, and our economic attachés, and they will tell you that when the President made that statement this was open sesame and American economic interests were fair game.

Now, I think one of the greatest problems we have in this committee is a very pragmatic one, and I think, as politicians, we are pragmatic, and you have to work in the political orbit, is how do you, in general, no matter what the theories are, no matter what my thinking is and no matter what Senator Talmadge's thinking is, on the basis of a trade, we may agree or disagree, but I think we all agree that in the economic field that the United States must have from now on the best and the toughest and the smartest men this country can have! if not, we are up the creek, no matter what laws we pass.

Mr. CALLAWAY. Yes, sir.

Senator RIBICOFF. And no matter what theories we adopt if we do not have the type of men that qualify to represent us.

Mr. CALLAWAY. May I comment on that just once more because it is so vital, the point that you brought up, and I could not agree with you more. We must have greatly skilled, able people in the positions where the negotiating is done, right. And I agree with Mr. Lynn that at least a part of those people should be businessmen. That does not mean that all businessmen are that smart but there are some smart ones and there are some what are realistic enough and sufficiently good negotiators to be effective.

However, it is like everything else. The tone is set by the boss, and the attitudes, as you so aptly described, as a result of the President's talk, the attitudes were pretty much along the line he set.

Now, the boss in U.S. trade, as far as I am concerned, is the Congress, and the boss, the Congress must set the tone. It must study——

Senator RIBICOFF. We have not.

Mr. CALLAWAY. Pardon?

Senator RIBICOFF. The Congress has not.

Mr. CALLAWAY. All right, sir.

Senator RIBICOFF. The Congress has not assumed its responsibility. I mean——

Senator TALMADGE. If the Chairman will yield at that point. The Constitution gives us that power, but we have delegated it to the President of the United States.

Senator RIBICOFF. That is right.

Senator TALMADGE. In turn the President of the United States delegates that power through a Special Trade Representative that he appoints.

Mr. CALLAWAY. Yes, sir. All right, sir, but is it not the obligation of the Congress to enact trade legislation, new trade legislation?

Senator TALMADGE. I agree.

Mr. CALLAWAY. All right. Then this new trade legislation which you can enact, Congress can set the tone for the country. What are the interests of the United States economically in international trade, and we ask that that be done, and the message will get across pretty well, because no matter how able and effective and articulate the negotiator may be, unless his boss has given him the message he is going to be in a vacuum. Really we will get nowhere in my opinion, in changing anything in the GATT, no matter how great the inequities are, unless the Congress expresses its will.

Senator TALMADGE. As a matter of fact, the rules of the GATT are honored in its breaches more than in its observance; are they not?

Mr. CALLAWAY. Yes, sir.

Senator TALMADGE. The GATT rules themselves, authorize a country running a deficit on its trade and its balance of payments to take action to correct them by quotas or otherwise; is that not correct?

Mr. CALLAWAY. Yes, sir.

Senator TALMADGE. So we are not even complying with the GATT rules to protect ourselves; are we?

Mr. CALLAWAY. No, and England is the best, a good example in 1965. They did not care anything about the GATT rules. They put on some temporary and very special duties and it helped solve their problem.

Senator RIBICOFF. You see, we never, Congress has never approved GATT. It has never been presented to us, and while Congress is not vested with authority to negotiate, under the Constitution we do have the plenary authority to regulate commerce with foreign nations. The constitution gives that to Congress.

As Senator Talmadge has indicated, we have abdicated. Now, this is the problem that I think we have as U.S. Senators. We have an obligation. We have abdicated our responsibility. We have delegated our authority, and have never supervised or done anything with the authority we have delegated.

Now, it's always when I see Congressmen and Senators standing up and hollering and shouting and squawking, this is a problem for the last 40 years—since 1933, I think, Congress has failed to recognize that the Government of this country is a two-way street as far as Pennsylvania Avenue is concerned. One end is the President and the other end is Congress. But we come outside of the negative. We have very seldom been willing to undertake the initiatives that have to be taken, and unless we are willing to take the initiatives, it comes with very poor grace for us to kick the Executives around if we are unwilling to do our part that the constitution has delegated to us.

Senator TALMADGE. Mr. Chairman, if I may interrupt at this point, we ought to insert in the record article XIX of GATT, which permits a country to impose import restrictions on products of industries seriously injured by increased imports and article XII of GATT which permits the use of quotas to protect the country's balance of payments position.

I ask unanimous consent that this article XIX and article XII to GATT be inserted at this point in the record.

Senator RIBICOFF. Without objection it is so ordered.

(The articles referred to follow:)

ARTICLE XII

RESTRICTIONS TO SAFEGUARD THE BALANCE OF PAYMENTS

1. Notwithstanding the provisions of paragraph 1 of Article XI, any contracting party, in order to safeguard its external financial position and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported, subject to the provisions of the following paragraphs of this Article.

2. (a) Import restrictions instituted, maintained or intensified by a contracting party under this Article shall not exceed those necessary:

(i) to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or

(ii) in the case of a contracting party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the reserves of such contracting party or its need for reserves, including where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

(b) Contracting parties applying restrictions under sub-paragraph (a) of this paragraph shall progressively relax them as such conditions improve, maintaining them only to the extent that the conditions specified in that sub-paragraph still justify their application. They shall eliminate the restrictions when conditions would no longer justify their institution or maintenance under that sub-paragraph.

3. (a) Contracting parties undertake, in carrying out their domestic policies, to pay due regard to the need for maintaining or restoring equilibrium in their balance of payments on a sound and lasting basis and to the desirability of avoiding an uneconomic employment of productive resources. They recognize that in order to achieve these ends, it is desirable so far as possible to adopt measures which expand rather than contract international trade.

(b) Contracting parties applying restrictions under this Article may determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential.

(c) Contracting parties applying restrictions under this Article undertake:

(i) to avoid unnecessary damage to the commercial or economic interests of any other contracting party;

(ii) not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade; and

(iii) not to apply restrictions which would prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

(d) The contracting parties recognize that, as a result of domestic policies directed towards the achievement and maintenance of full and productive employment or towards the development of economic resources, a contracting party may experience a high level of demand for imports involving a threat to its monetary reserves of the sort referred to in paragraph 2(a) of this Article. Accordingly, a contracting party otherwise complying with the provisions of this Article shall not be required to withdraw or modify restrictions on the ground that a change in those policies would render unnecessary restrictions which it is applying under this Article.

4. (a) Any contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification of the measures applied under this Article shall immediately after instituting or intensifying such restrctions (or, in circumstances in which prior consultation is practicable, before doing so) consult with the Contracting Parties as to the nature of its balance of payments difficulties, alternative corrective measures which may be available, and the possible effect of the restrictions on the economies of other contracting parties.

(b) On a date to be determined by them, the Contracting Parties shall review all restrictions still applied under this Article on that date. Beginning one year after that date, contracting parties applying import restrictions under this Article shall enter into consultations of the type provided for in sub-paragraph (a) of this paragraph with the Contracting Parties annually.

(c) (i) If, in the course of consultations with a contracting party under sub-paragraph (a) or (b) above, the Contracting Parties find that the restrictions are not consistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV), they shall indicate the nature of the inconsistency and may advise that the restrictions be suitably modified.

(ii) If, however, as a result of the consultations, the Contracting Parties determine that the restrictions are being applied in a manner involving an inconsistency of a serious nature with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that damage to the trade of any contracting party is caused or threatened thereby, they shall so inform the contracting party applying the restrictions and shall make appropriate recommendations for securing conformity with such provisions within a specified period of time. If such contracting party does not comply with these recommendations within the specified period, the Contracting Parties may release any contracting party the trade of which is adversely affected by the restrictions from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances .

(d) The Contracting Parties shall invite any contracting party which is applying restrictions under this Article to enter into consultations with them at the request of any contracting party which can establish a *prima facie* case that the restrictions are inconsistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that its trade is adversely affected thereby. However, no such invitation shall be issued unless the Contracting Parties have ascertained that direct discussions between the contracting parties concerned have not been successful. If, as a result of the consultations with the Contracting Parties, no agreement is reached and they determine that the restrictions are being applied inconsistently with such provisions, and that damage to the trade of the contracting party initiating the procedure is caused or threatened thereby, they shall recommend the withdrawal or modification of the restrictions. If the restrictions are not withdrawn or modified within such time as the Contracting Parties may prescribe, they may release the contracting party initiating the procedure from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(e) In proceeding under this paragraph, the Contracting Parties shall have due regard to any special external factors adversely affecting the export trade of the contracting party applying restrictions.

(f) Determinations under this paragraph shall be rendered expeditiously and, if possible, within sixty days of the initiation of the consultations.

5. If there is a persistent and widespread application of import restrictions under this Article, indicating the existence of a general disequilibrium which is restricting international trade, the Contracting Parties shall initiate dscussions to consider whether other measures might be taken, either by those contracting parties the balances of payments of which are under pressure or by those the balances of payments of which are tending to be exceptionally favourable, or by any appropriate intergovernmental organization, to remove the underlying causes of the disequilibrium. On the invitation of the Contracting Parties, contracting parties shall participate in such discussions.

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## ARTICLE XIX

### EMERGENCY ACTION ON IMPORTS OF PARTICULAR PRODUCTS

1. (a) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(b) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in sub-paragraph (a) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

2. Before any contracting party shall take action pursuant to the provisions of paragraph 1 of this Article, it shall give notice in writing to the CONTRACTING PARTIES as far in advance as may be practicable and shall afford the CONTRACTING PARTIES and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph 1 of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

3. (a) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the CONTRACTING PARTIES, the application to the trade of the contracting party taking such action, or, in the case envisaged in paragraph 1 (b) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by the action, that contracting party shall, where delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

Mr. CALLAWAY. Should we go ahead now for a couple of minutes?
Senator RIBICOFF. Yes.

Dr. BRANDIS. I only have two more charts I want to show you, please, Senators. First is the fact that in the textile industry we had at the end of last year 14.3 percent black employees. This was a growth from 3.3 percent in 1960. Comparably there were 10.1 percent last year in manufacturing industry as a whole who are black.

The last chart: this is an industry scattered around the country in the 50 States, mostly located in smaller towns. Sixty-one percent of all the textile jobs are in nonmetropolitan areas. This is the reverse of the situation with manufacturing generally, and this underlines the difficulty of applying the theory of adjustment assistance on any large scale to this type of an industry.

That is the conclusion of the chart presentation and I am glad that we did not do any more injury to the Senate with the collapse of this easel than we did. I hope that we did not break anything.

Thank you.

Mr. CALLAWAY. Gentlemen, we have just a little bit more, and I would like to depart from my text just a second to disabuse you of some of the cliches that can be so damaging. Like, for instance, the point that you have been trying to make all day, Senator and I am sure for a long time, that we really do have a favorable balance of trade. You are going to hear as you go along that Japan is really not going to be a real problem on textiles and apparel in the future; that Japan's wage rates are going up so high that it will no longer be able to have a textile industry. That sounds like what is happening in this country, some people say.

But what is happening is this: Japan will probably begin to import substantial amounts of textiles in the next 3, 4, or 5 years, and on that surface that—well, then, they are not going to be a threat any more. Well, that is not true. They are going to import textiles from Korea and Taiwan, and all over the Far East and the Pacific area in plants that they own.

In other words, they are making the investments themselves, and I do not care where the Japanese plants are located, they have the advantage of the Japanese system, and the only thing they are going to do is to get stronger. They are going to put up more and more garment and textile plants all over the Pacific Far East and ship them back here into their own country, into America, and so forth.

Now, to conclude here, I am sure that some of you, in your minds, have wondered why we did not accept the Japanese voluntary proposal as a pretty good solution to the textile problem. Well, in essence, I will tell you we did not do it because it was not any good, because it would have made us worse off than we were without it.

Early in March the Japanese Textile Federation announced that the Japanese textile industry was undertaking a unilateral program to limit future exports of certain textile and apparel products to the United States. The details of that arrangement are set forth in the attached text, and I would like to make that a part of my statement, the text of the Japanese Federation's declaration.

As the announced plan fell far short of the requirements of a workable arrangement to deal with the problem, the import problem of the American textile and apparel industries, it was promptly rejected by the industry leadership. It just would not do any good. It was also rejected by President Nixon. In his statement on March 11, 1971, the President rejected this unilateral program of the Japanese Textile Federation as falling short of the terms essential to the United States in the following significant respects—I will not read that. It is on my list here, and it will be part of the record.

I think the President's reasons why the Japanese textile industry arrangements are inadequate and unacceptable, are clear and correct, and I could not improve upon the President's judgment as to the unacceptability of the voluntary Japanese industry proposal.

In closing I would like to join with others in this industry in an appeal to the President and to the Congress for the development of enforceable government-to-government arrangements keyed to global coverage with suitable category delineation of specific textile and apparel goods. All of this should be done in the context of a fair and reasonable base. And an equitable sharing in the increased demand in the domestic market between domestic production and imports. Anything short of this will not work.

And so, distinguished Senators, we throw the ball into your lap to enact new trade legislation that will protect the interests of the American people and the American economy in a fair and reasonable way, and I am now feeling a whole lot better than I did when I started my talk, and I want to thank you very much on behalf of the whole textile business, the apparel business, and all American industry for what you have done today in having these hearings and in the next few days.

Thank you very much.

I will be glad to answer any other questions.

Senator RIBICOFF. Mr. Callaway you are a very impressive man. I yield to the distinguished Senator from Georgia, the Home State Senator, even though I am your Senator, for questions.

Senator TALMADGE. I have no questions. I want to thank Mr. Callaway for making one of the most brilliant statements that I have ever heard. It is comprehensive and thorough. I am convinced that if the American people get this information they will respond.

Unfortunately, we have had problems in trying to protect American jobs since I have been in the U.S. Senate. We have had to fight the State Department; we have had to fight other Senators; we have had to fight foreign countries and thus far we have not been able to get an effective piece of legislation through both bodies of the Congress.

We passed a bill in the Senate twice. The House conferees were completely intransigent when we met with them. Last year the House sent us a bill too late for the Congress to get effective action in the Senate against the threat of a filibuster.

Now, the people who passed the bill through Ways and Means last year have taken the position they do not want a bill this year so we are on the horns of a dilemma. I think what we must do is to present to the American people the facts and if the American people respond through their elected representatives in the House and Senate, I believe we can get effective action.

Thank you very much.

Mr. CALLAWAY. Thank you, Senator.

Senator RIBICOFF. Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman. I, too, want to add my expression of great admiration to you, Mr. Callaway, and to your associates for having presented a very comprehensive and incisive statement as regards the present sad state of American foreign economic policy. I think you put your finger right on the trouble and the dilemma when you called attention to this inherited sense of guilt that we seem to have following the throes of World War II. We seem to search diligently for ways to give away our wealth.

Despite the fact that we contributed some $150 billion to a rebuilding of the world after World War II, to friend and foe alike, there still seem to be a number of apologists in this country who agree with the State Department, and this is true whether it is under a Republican or a Democrat in the White House. They seem to proceed on the premise that no cost is too great in order to achieve a political objective; that if we have unemployment in this country we will simply make provisions to increase benefits and to give help to distressed industries and to workingmen, not thinking about how to reemploy them but simply to give them enough to keep them quiet.

I think it high time that we take a look forward instead of reflecting always backward as we seem so often to have done. And to take a firm sight on our situation now and to determine if we do intend to keep this country in a position that I think reflects great encouragement to the rest of the world as we maintain a standard of living here in this Nation characterized by freedom and opportunity, as we have it. It seems to me we can make a very significant contribution to the less-fortunate people by showing how well this kind of system can work.

If we are going to demonstrate that in a believable fashion for the rest of the world, most certainly we have got to make it work here. I compliment you again.

Mr. CALLAWAY. Thank you.

Senator RIBICOFF. Senator Long.

Senator LONG. First, let me congratulate and thank the chairman of this Trade Subcommittee for the generosity that he has demonstrated toward his members by placing himself last on the list of those who interrogate the witnesses. That is most gracious of the chairman, and I want to thank him for that courtesy. I will try to abide by it more often myself when I preside over the full committee.

I think the chairman has done a fine job, too, in arranging a balanced slate of witnesses so that we have a chance to hear both sides of an argument. I want to ask the witness just about one or two things.

I think you have made a fine statement here, sir, and I admire several things about what you have said. In the first place you started out by admitting frankly what your position is and what your interest it. I think we would be a lot better off if everybody would do that—tell us just what they have in mind. You were in the audience when I asked witnesses earlier today about what I regard as the deliberately fraudulent trade statistics that are proclaimed every quarter. Just pick up the New York Times, and every 3 months there is the new fraudulent "good news" announcement that once again we have achieved a great gain in our foreign trade, and are now showing another surplus that looks as though we will make, let us say, $2,700 million this year.

Now, by putting in things that do not belong there and leaving out things that do, that is what they proclaim.

You are a trading man; you do both importing and exporting. Let me just ask you what it is costing us in trade and in balance of payments. Which is a proper figure to put down for a Toyota: (1) what it costs when you have paid the Japanese for the automobile, and the Japanese ship and Japanese labor to lay it down in San Francisco, or (2) what it costs at the end of the Japanese assembly line in Tokyo or somewhere in Japan? What do you think would be the proper figure?

Mr. CALLAWAY. As you said this morning, it should be a couple of hundred dollars more.

Senator LONG. In other words, what you are paying includes the freight.

Mr. CALLAWAY. Yes, sir.

Senator LONG. But now only 4 percent of this cargo is going in our own flag vessels. If we take the freight into calculation that makes a great difference and furthermore, what does it do for our trade when we give away $400 million of wheat to India. Can you explain to me how that benefits the Treasury of the United States?

Mr. CALLAWAY. No; no.

Senator LONG. Someone attempted to confuse this matter by making reference to some loans that was repaid to us. Well, it is true there have been some loans that were made in some parts of the foreign-aid program, especially some on the earlier parts where it was clearly intended that the loan was to be repaid, and the people didn't repay it.

Mr. CALLAWAY. Yes.

Senator LONG. Now, when we make a loan we expect to have repaid perhaps we should put that down as a loan that is to be repaid. But all these loans, at least Public Law 480 loans, for example, those that we provide as gifts when we give them, and do not expect to be repaid, should not be put down as part of a favorable balance of trade, should they?

Mr. CALLAWAY. No, sir; of course not.

Senator LONG. To me it is utterly ridiculous and calls for the people who are doing that to explain their motives.

Now, let me just read the first two paragraphs from this article from this fellow, Mr. Lawrence, who seems to be a pretty sophisticated writer:

> Richard Nixon reportedly has approved a new way of reporting U.S. balance of payments, payments that would show the country a score of deficits, rather than surpluses, but the top aides are balking. They are said to fear the new procedure would only serve the protectionist cause.[1]

It always seemed to me that truth is truth, and it ought to be available no matter who it helps or who it hurts.

Can you explain to me the purpose of these people in wanting to deny us a fair statement of whether we are making or losing money?

Mr. CALLAWAY. Well, I think the best answer that I can give is what I think, and I think it is because they would love to set back just exactly what they said: the protectionist movement. They would like to set it back.

Senator LONG. Well, of course, it would occur to me that while it is true that this information might help some protectionists, it is also true that they can serve as leverage to demand that the Japanese open up their markets for the sale of American goods. That does not conflict with the idea of a free trade; does it?

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[1] The complete article appears on page 36.

Mr. CALLAWAY. No.

Senator LONG. Conceivably the use of the truth might advance free trade.

Mr. CALLAWAY. Of course.

Senator LONG. Now, furthermore, nobody argued about the fact that we have a balance-of-payments problem, and most people agree that the liquidity method is a more realistic basis of measuring that. This Nation is in terrible shape in its balance of payments. Nobody has argued about that. That is how it is, and everybody has recognized that, and it continues to be so, so much so that you and I don't know whether next month or even next week when you go to Europe you can pay for your hotel bill in dollars; that is correct, is it not?

Mr. CALLAWAY. Yes, sir.

Senator LONG. All right.

Now, here we are, the greatest free power and the leader of the capitalistic world, and now we have a currency that a man cannot even use to buy a hotel room for the night. That is about the way we stand with these sorts of profligate policies we have been following.

I do not mind being generous if we can afford to be generous. But I do not like to be playing Santa Claus when we ought to take off our Santa Claus costume and put on a set of overalls and go to work to try to earn something.

Do you think it would help us in negotiating with our trade partners around the world if, instead of publishing some fraudulent statistics to mislead the American people and to mislead our friends and allies and make them think we are a lot richer than we are, and we are making a big profit when instead we are losing money; if we would publish the honest facts to show that we did not gain $45 billion during the last 11 years in foreign trade. We lost $6 billion. Do you think that would help us to solve our problem?

Mr. CALLAWAY. Senator Long, I think it would help. That is not the main reason I would do it. I would do it because it is the truth, number one. I happen to think that it coincides in such a way that it can be used as a bargaining tool, and I think we are digging our own graves by telling something that is not true to make something look better than it is, and you are insulting your competitors, actually, because if you tell the truth you probably are going to get further as a team than if you tell them something that is not true.

I think it is a great disservice to the American people and to the American economy as a whole, and it is an insult to our competitors, our foreign competitors, to put out any information that is not true.

Senator LONG. Well, I quite agree with you. I think of just two situations that occur to me. One of the outstanding members of the Japanese Government called on me for a social visit to express a view and a hope that I would be a statesman, rather than a provincial, unpatriotic, inconsiderate citizen of the world by trying to cut down on Japanese imports. He presented me with the quarterly "good news" announcement on the front page of the New York Times, that we had a good trade surplus.

When I explained to this outstanding Japanese citizen that we did not have a surplus; we were running in the red, he said:

> Well, if that is the case, why don't you explain that to our government and to people around the world and then, perhaps, we can work something out to help accommodate you with your problem.

Well, if you proclaim to the whole wide world that you made a $40 billion profit when you have a $6 billion loss you cannot expect much cooperation from them I would think.

Then I can recall a President of the United States met with the President of Mexico. He was on our soil and we honored him by asking him to be the concluding speaker, and I sat there and listened to him lecture us for a solid hour about how we should take the overall view, and that we should not be provincial, should not think about sectional interests, but about the overall good of our country and the overall good of the world. I am sure nobody ever informed that poor, sweet man that we were not getting rich; that we were going broke. We could not keep up and that if we tried to continue to trade that way he would not want our American dollars because they would not be any good. But, as long as we insist on making available to him—and the only American paper he reads now down there in Mexico is the New York Times—a bunch of fraudulent figures and statistics, these fraudulent "good news" announcements, can you blame him for thinking that the Senator from Louisiana is being provincial if he were trying to save your industry?

Mr. CALLAWAY. No, sir.

Senator LONG. He would think I was placing the selfish interests of the textile people ahead of the overall good of the country.

I know some people who hope to build a textile mill in Louisiana and hire some people. Up until this day, at least, we do not have enough jobs to worry about the textile industry, but I can see that you people have a problem and it is part of the overall national problem. That is why I feel I should vote to try to save some of your industry for you, and I have done that.

Mr. CALLAWAY. Right.

Senator LONG. But I would certainly urge you to try to do what you can and to continue to see that people become aware of some of this. If I make my speech about these fraudulent trade statistics often enough, after a while it will become common knowledge.

I used to hear from some Senators and former Senators that you had to make a speech not one time, but four or five times to expect Senators to even become aware of it. You catch one little group on the floor one time and another little group somewhere else. I am pleased to say that the information is gradually getting around, and Senator Ribicoff, with thanks and blessings, is getting enough Cabinet Members up here so that we will get a chance to bring this matter to their attention. By gradually hammering away at this issue we will begin to gain some understanding of this problem.

I thank you for your very fine statement. I want to thank you, Mr. Chairman, Senator Ribicoff, for the fine job you are doing here and above all for the very extreme courtesy that you have extended to all of your committee members.

Senator RIBICOFF. Thank you very much, Mr. Chairman. Mr. Callaway, I am just curious. Isn't there some reasonable compromise possible with Japan? You have got the Mills proposal; you have the Japanese proposal; you have got the President. Isn't there some plan that could be worked out that could make this thing work?

Mr. CALLAWAY. I think it is possible, Senator, and we are certainly—have been and are—now open to a fair and reasonable workable arrangement.

Our suggestions to you in our text here is that we, in effect, have laws that say get together on a voluntary basis, but if you do not, you have to. So we are not against a voluntary one. What we must have, though, is something that is really meaningful, that binds the Government of Japan and binds the governments of the other nations involved.

Senator RIBICOFF. Shouldn't we bring—I think, after all, the United States was sucked in pretty good in GATT. The Europeans restricted themselves to about 5 percent of Japanese production and put the pressure on the United States to take about 50 percent, and the Europeans can point their finger at the United States.

Again, as I indicated, I asked questions of some of the other witnesses. Don't you think the time has come for a new realistic face-to-face round of discussions and agreements between the large trading nations in the world?

Mr. CALLAWAY. We think only if the Congress expresses its will.

Senator RIBICOFF. In other words, you think that Congress should take the initiative in expressing its will of what should take place?

Mr. Callaway. Yes, sir. I think the Congress represents the people of America and it passes laws in the interest of the American people and the economy, and the Congress must study this problem sufficiently to become knowledgable and aware of what the solution is of any questions.

Senator RIBICOFF. In such discussions, do you feel that Members of Congress or the Senate should be involved in these negotiations?

Mr. CALLAWAY. I do not think so; no.

Senator RIBICOFF. Not the day-to-day negotiations, but to understand what is going on. I would rather have Herman Talmadge and Russell Long be there when this thing is cut up than anybody in the executive branch I know.

Mr. CALLAWAY. Well, I can see no reason in the world why the Members of the House and Senate should not be observers to become informed on the problem and the solutions to it. Of course not. To that extent, fine, in helping the Congress to make up its mind as to what to do.

But, in speaking as one man and one company I see certainly nothing wrong in the Congressmen and Senators being involved in the proceedings of the situation enough to become aware of what the problems are and what to do.

Senator RIBICOFF. I did not quite understand what you said, but I get the impression that the rise of Taiwan, Hong Kong, South Korea as textile manufacturers are basically Japanese operations, not indigenous.

Mr. CALLAWAY. They are Japanese owned. I am not sure of the exact facts, but the Japanese own a substantial part of the companies, the textile mills, and the garment manufacturing plants in those countries.

Senator RIBICOFF. I see.

Now, the thing that concerns me is something about style, you know, and the thoughts and ideas. I commend Burlington Mills. I have gone by your installation on Sixth Avenue where you set up sort of a sample mill.

Mr. CALLAWAY. The Mill.

Senator RIBICOFF. And I see the the kids coming out—school children—with these shopping bags full of samples. I have not gone in myself, but I have watched on the sidewalk. The next time I am in New York I will go in.

Mr. CALLAWAY. I hope you will.

Senator RIBICOFF. Go down that treadmill and see how it works.

Mr. CALLAWAY. Wonderful.

Senator RIBICOFF. I try to learn as much as I can about everything in this country. I will read Women's Wear and Vogue magazines, and I see your ads, and I follow what you do. But I noticed in recent years that the United States has really taken a back seat in style. I mean, you find when you go in the department stores and see the ads, and Pierre Cardin, he is designing suits for men and Pucci and Gucci, their styles for women's clothes, and they seem to be the pacesetters and you do not see American names much any more. In talking to Mr. Wright, I think back in the television industry, it seems to me they went through what the automobile industry went through.

I remember talking as much as 10 years ago to the automobile manufacturers about why weren't they introducing a small car into the American scene and they were saying:

> Oh, the Americans want a big showy automobile and we are selling all these cars and we are making much more profit on selling the car for $8,000 and $4,000 instead of selling for $1,600 or $1,800. Why should we?

They were not concerned about it until they woke up to the fact that they were losing a very substantial part of the market.

Mr. CALLAWAY. Yes, sir.

Senator RIBICOFF. When you explained to them why that may be true, but America is becoming a two-car family and the missus just wants to go down to the shopping center or just buy groceries or take the kids down to the school, she wants cheap transportation and maintenance and overall costs. Well, they were doing so well they did not bother until they woke up to this problem.

Now, the television industry ran into this—the radio industry first. The Japanese made these small transistors, and people or kids were carrying them around in their coat pockets and they were taking them out to picnics and to ball games, and people had them in their bedrooms and in their offices, and the United States was making big radio sets and woke up and found out that the Japanese had taken the transistors and then probably all the table-model radios.

The television people came out and it was a great industry, and everybody wanted a television set, and they were selling for $400, $500, $600, and they did not want to bother with that small set because they could make all the big ones they wanted.

Well, I want a small set in my bedroom, on my little table. The only one I could find of that size would be a Sony. I could not find an American set. So I know I have got a Sony in my bedroom and there is another small Sony in the library.

So the United States, they were still selling those big sets, and then they started to sell color television. Everybody wanted color television, selling for $600. Why should they worry about a $225 or a $280 set. And Sony comes up with its small color television set and the American public goes and buys them.

Now, the thing that bothers me is where is this foresight and initiative in American design, American styling, that allows them to be euchred out of a market because of this failure to understand the obligation to have a full line up and down? You do not have to make a profit on everything in your line as long as you have the line, and your wholesalers and your retailers could have a Burlington line or a Zenith line or an RCA line or a Ford line that went all the way from the bottom all the way to the top of the line.

Now, here again, haven't we manufacturers—we have brilliant businessmen but haven't we been backward and haven't we failed to see the market and sense the market? I am just curious about this.

Mr. CALLAWAY. Well, let me talk about the area I know most about and that is your comments on the textile-apparel fashions. It is true that you see a lot of publicity on the Pierre Cardins and the designers of that type, and they are valuable and they are good. It represents a very tiny fraction of a fraction of a fraction of 1 percent of the business that is done in this country and it is healthy. We are not complaining about that. We do not worry. Actually it helps us. It helps us sell our products.

The real point is that on textile and apparel imports the great, great majority are staple items rather than the high-fashion items. The high-fashion items represent "Bubkes." We are complaining about the subsidized giant quantities of staples, shirts, pants, fabrics, and so forth, that come in from abroad. I think that—as you note in my statement, I say that imports can be healthy for American business and good for the American people.

In the sense that you are saying that it will sometimes stimulate the American manufacturers who don't ever claim to do a perfect job, but it will stimulate them to do a better job, both in style and quality and every other way, and it is a matter of degree. We are arguing about degrees of imports that are subsidized. I happen to think that by and large the American businessman is really very smart, and while he may be a little behind some of his fine competitors in style and design at times. I think that over the long run he will catch up.

I think the automobile industry, for instance, now is really going to find a way to make a better small minicar and produce it over here, I hope, in this country, for the American people.

I would not say that we have anything except things to gain from imports if they are contained to a reasonable degree, and if they are not subsidized. But in our own industry, the answer is that the great, great bulk of all the textile imports are staple items.

Senator RIBICOFF. Well, we thank you very much. My apologies for keeping you so long and so late.

Mr. CALLAWAY. It was a privilege, Senator.

(Mr. Callaway's prepared statement with attachments follow:)

STATEMENT OF ELY R. CALLAWAY, JR., PRESIDENT, BURLINGTON INDUSTRIES, INC.

Mr. Chairman Ribicoff, distinguished Senators, I am honored to be here today. Thank you for inviting me. May I commend this Committee for this attempt to have a meaningful and objective dialogue on this immensely important subject—International Trade and the problems the United States is having, and is likely to have, in its dealings in this area.

I have prepared a statement, and you have it. A portion of that statement includes a summary of one clear and very meaningful example of the problem American industry has long had, and still has, in competing in international trade.

This one example is the nation's Textile and Apparel Industry—an employer of 2,400,000 Americans. Later in my presentation, I will cite some of the specifics of the textile-apparel import problem. I will refer to our proposed remedy for this problem.

The U.S. economy as a whole is now threatened. What has happened in textiles and apparel is spreading rapidly to other industries—many industries which are basic to the welfare of America, just as is the textile and apparel business. Our textile-apparel problem is no longer ours alone. We have "company"—unfortunately.

Many industries—particularly those which we have always considered to be invulnerable to excessive imports because they are characterized as being of "high technology"—are now losing their business in America to excessive imports. There is solid evidence—if one will only look—that within the 1970's the U.S. economy as a whole faces a major threat to its well being.

This threat is from excessive imports disrupting our markets. These are excesses which result *not* from free trade among nations, but from unfair trade practices. Free trade simply does not exist.

Many predict that a trade war is coming. I say that a trade war is here—we are in it, and we are losing it.

Many predict that if we try to protect ourselves in this trade war our competitor nations will retaliate against us. I say that they don't need to retaliate—the current attack in their current trade practices is all they need for victory now and in the future.

Because of the unfair trade practices of some of our strongest foreign competitors, many leading American businessmen are now saying openly that they cannot compete. Of our foreign competitors the Japanese are singled out most often. Evidence of this is found in *Time* magazine, May 10 issue—the cover story. If you have not done so, please read this article—and the summary of the all-day symposium in which they describe the experiences of eleven businessmen in their dealings with Japan. *Time* entitled its cover story "Japan, Inc.—Winning the Most Important Battle".

*Time* Magazine, and most of the business leaders participating in the symposium, did accurately describe the symptons of the illness. I participated in that symposium. But, *Time* prescribed a medicine which, if administered, will kill the patient—in my opinion. In effect they advocated additional "Japans".

*Forbes* Magazine, on May 1, ran a feature story depicting the difficulties American business is having in competing with Japanese firms—here and abroad. Again the picture came through clearly—"yes" we *do* have a problem. Some parts of the problem were described by the heads of two of the best managed companies in the world—the DuPont Co. and Zenith Radio Corp.

Some of the big international bankers in the United States are now beginning to be worried about some of their U.S. customers and are speaking out clearly against the unfair trade practices of the EEC and of Japan.

The current *Business Week* Magazine highlights the problems the steel industry is having in competing in international trade.

And so, the subject we are discussing here is very timely and very vital. Those of us who have struggled with the import problem for years are now encouraged that more and more of the leaders in American industry recognize that the U.S. economy is in trouble, and that something is wrong with our trade policy. American industry and American agriculture still produce the world's best products; we are still the most productive Nation on earth; we spend tons of money on new plant and equipment; we are still the world's best managers of business; and we are good salesmen. But we are losing ground—fast—in our own U.S. markets and in the markets of the world. Why? I'll attempt at least a part of this question. If we find out why we are losing, will we be intelligent enough and courageous enough to find the solution to the problem—soon enough? As we go along in the months ahead, I think you'll find that an agreement—even among business leaders—as to proper solution to the problem is the biggest bone of contention.

Before going further, I think that you should have some knowledge about me, my selfish interest, and my company's interest. This will at least give you some chance to know the degree to which you should discount the points I'll try to make. A few weeks ago at the all-day symposium on problems in international trade sponsored by *Time* magazine, I proposed that we 11 participants first identify our own self interests. I must not have spoken loud enough in making that suggestion—in any event what I suggested wasn't done. But I do feel that some meaningful identity of the speakers is essential to the kind of constructive dialogue which you obviously are attempting here.

So—if I may take a moment—I'll describe my own interests.

1. As president of Burlington Industries, I am interested in the jobs of our 86,000 employees—and my own job.

If we can reasonably contain our own problem with imports in our field, Burlington has an especially bright future. If we cannot contain it, Burlington will not go "broke", although many may lose their jobs and the future of our company will be more difficult than it reasonably need be.

We in Burlington are manufacturers and merchants of nearly all types of textiles and of furniture. Except for hosiery, we do not make apparel. The apparel manufacturer buys our fabrics, and so he is our customer. We are interested in his welfare.

In Burlington, we are probably as complex, as modern, and as efficient as is any manufacturer of any product of any type anywhere in the world. We have 120 manufacturing plants in the United States and 35 abroad—in Canada, Mexico, and South American and with heaviest concentration in seven countries in Europe. We very recently have entered into a joint venture in Japan—for tufted carpets—with Mitsubishi Rayon Co. We admire and respect our Japanese partners.

And so, we are not traders operating in an atmosphere of isolation. We are not a one-product company which is sliding backward due to inefficiency and failure to keep up with the competitive world. Almost none of the textiles we produce in our plants abroad are shipped back into the United States, and so we do not export jobs from America. We export fabrics to the rest of the world, but despite our best efforts our export business is small—only about $30 million out of our own total sales of $1.8 billion in 1970.

2. My personal interests are (not necessarily in this order):

(*a*) I want to see my company grow and prosper—here and abroad.

(*b*) I want to see my industry grow and prosper.

(*c*) I want peace to come to the world—today.

(*d*) I believe that one of the best and most realistic ways to achieve peace and to keep peace in the world is through trade—among all nations. But trade must be carried on with fairness and equity among all trading partners.

(*e*) I am in favor of protection—to a reasonable degree for all nations. I favor protection to the extent that it is needed to prevent excessive penetration (of any market of any country) by an exporting nation whose political and/or economic arrangements enable that exporting nation to engage in unfair trade practices. I favor protection for any nation to the extent that it is needed to keep any market in any country from being the victim of undue selfishness of businesses and/or governments—wherever they may be located.

It has been my experience that many of our trading competitors around the world have gone much too far in continuing to insist on holding on to the trading advantages we gave them at the end of World War II, and in now developing even new and greater advantages for themselves. It has been my experience that most of the men whom I know in business and government among the major foreign competitor nations do feel that they have a right to continue to have and to hold their trading advantages. "America is rich, its natural resources are boundless, its towns and its cities have never been destroyed by war—we deserve to have whatever advantages we have in our trade practices."

Like it or not—believe it or not—this is the way our foreign competitors' thinking goes and here is the root cause of the gross inequities we know exist when we compare our trade practices with those of our major competitors in world trade today.

Retaliate? They don't need to retaliate. They only need to keep on doing what they're already doing in their trade practices—and to scare us to death by saying in effect, "We'll retaliate—if you don't allow us to continue to take advantage of you." Is the United States a "pitiful, helpless giant"? No—but in international trade we've acted like one—up to now. Let's change. For I believe that they—our competitors—will not change—soon enough. They like it as it is.

You gentlemen know about these inequities in trade practices. I don't need to give you the details. Some of them were described accurately and fully by your own staff in its analysis of "certain issued" raised by the GATT—report dated December 19, 1970. Further, Senator Ribicoff's March 4, 1971 report to the Committee on Finance entitled, "Trade Policies in the 1970's" gives an excellent picture of some of the major problems the United States faces in carrying on international trade.

In summary, Europe has found very effective ways, by "hook or by crook," to keep our products from excessive penetration of their markets; they have found ways to effectively limit the Japanese penetration of their markets; they (particularly the EEC) have thus forced the Japanese to try even harder to capture the U.S. market; and all the while they have threatened us if we do to them what they are doing to us. They have bought from us only those things that are in their self-interest to buy, and this will continue, I predict.

And what have the Japanese been doing? They have been doing everything right—for themselves! The Japanese are extremely able people and they have developed a system of domestic and international trade which, in my opinion is unbeatable. The heart of the system—and its main strength—is that the entire Japanese nation is the equivalent of one company—bigger and stronger and more aggressive than any one company the world has ever known (or even thought of). This is the ultimate of all the monopolies ever dreamed of. Every segment of the Japanese nation—from the workers, through the business executive, the banker, the trading company—all are in partnership with their government—working diligently for one common purpose—to become the world's No. 1 economic power.

The American people and American businesses are protected by our laws from being harmed by American monopolies. For this reason, our antitrust laws are good (although, in practice, I think most businessmen in the United States feel strongly that our antitrust laws are often enforced and/or interpreted by our Government to a silly and very harmful extreme). Even so, the fundamental purpose of these laws is to protect Americans from the ravages of monopolies.

Where are the laws which protect Americans from the ravages of the most powerful—and the most aggressive—monopoly ever devised? Do we really believe that the location of this monopoly—10,000 miles away—makes it any less harmful to America than if it were located in Georgia or Connecticut? Do we really believe that the Japanese monopoly was developed for any purpose except to capture any portion of any major market that might be desirable for them in America or elsewhere? Of course it was developed for that purpose—and it's working! Beautifully! For the Japanese.

Do I resent the Japanese for having devised this brilliant monopoly? No, I do not. Although I feel that they are short-sighted to have pushed their advantage in America as far as they have, I hold absolutely no animosity toward them. But I do deplore the fact that our own Government has—under these particular circumstances—failed to give adequate protection to American businesses and to the American people who have to date been a victim of this monopoly, Japan, Inc.

What is this monopoly—how can I describe it? I cannot do it justice, even if I took my entire allotted time to do so. Therefore, as a picture for those who may not be aware, I'll use an event of only a few days ago—May 13, in Detroit. I'm going to take the liberty of using Mr. Henry Ford 2d to show you how powerful the Japan, Inc., monopoly is, and to show you that many—too many—very smart and very able business leaders (and Mr. Ford surely is one of those) do not really know what they are up against when Japan, Inc., decides to compete with them in a major way. But this is beginning to change—additional business leaders nearly every week are beginning to see that Japan, Inc. really is, or soon can be, a real problem for them.

On Friday, May 14, The New York Times report on the annual meeting of the Ford Motor Co. stated in part:

"Henry Ford II warned today that the assault on the American market by imported cars was just beginning and said, I frankly don't see how we're going to meet the foreign competition * * *. We've only seen the beginning. Wait till those Japanese get a hold of the central part of the United States * * *. We may be a service nation some day! * * * because American manufacturers could not compete with foreigners."

Knowing how difficult it is to be quoted accurately under such circumstances, I suspect that Mr. Ford really meant that American automobile manufacturers cannot compete with the Japanese. For instance, the Germans, Mr. Ford's biggest and best foreign competitor in the U.S. market to date, are a bit easier to compete against than are the Japanese since German manufacturers have a profit motive more nearly like ours, their workers earn much more than do the Japanese, and the German "system" as it affects their exports—while far more effective than America's system—is not nearly so complete and effective a monopoly as is the Japanese monopoly.

Let me give you one illustration as to why Ford Motor Co. (long recognized as one of the world's greatest in mass production of the highest technology products) cannot compete profitably against the Japanese if the Japanese make up their minds to capture a big portion of Ford's business. I think most knowledgeable men in industry will agree that if Ford cannot compete with Japan—no one can.

I'll illustrate by taking a purely hypothetical case. Suppose that the antitrust laws of the United States were suddenly suspended for only 1 day, and that a merger of a number of our biggest and best companies were allowed. Assume that only this one giant merger were permissable and that the next day all other companies in the United States would again be subject to our normal antitrust laws. Assume now that a new corporation is formed—let's call it "American Monopoly, Inc."—and that it is a result of a merger of the following companies which had banded together during that 1-day moratorium I mentioned—

General Motors, Chrysler Corporation, Standard Oil of New Jersey, Atlantic-Richfield, The Chase Bank, Bank of America, U.S. Steel, Kennecott Copper (and Peabody Coal), IBM, RCA, Sears Roebuck, J. C. Penney, and Burlington Industries!

And—let's assume that this new giant goes to the U.S. Government and says "We would like to capture a big part of Ford Motor Co.'s business. Will you help us? Will you let us "fix" prices—will you give us total protection against imports into our own markets while we are doing whatever we need to do in capturing Ford's business?"

Assume Uncle Sam says to American Monopoly, Inc.—"Yes, we will help you, we will cooperate, in fact we'll be your financial partner in case you run into difficulty in the process—go ahead!"

Now—under all of these assumptions—how long would the Ford Motor Co. last? As long as 10 years? Let's ask Mr. Ford.

Of course we are fortunate that in America our antitrust laws won't allow an "American Monopoly, Inc." to exist. American business could not compete with such a monopoly, and the American people would lose much in the process.

But—we do have such a monopoly—in fact an even stronger one than my hypothetical one—competing against American industry right here in our own market! And that monopoly—Japan, Inc.—has as its number one purpose the desire to capture a very substantial portion of the richest market in the World—the U.S. market. Our laws and our trade policies are not adequate to counter the obvious competitive advantages in "Japan, Inc."

The Japanese have developed for themselves laws and rules and regulations, which when combined with their political economic and social structure, and their domestic and international trade practices, enables them to accomplish their purpose.

On the other hand, our laws and rules and regulations, our domestic and international trade policy and practices, and our political, economic and social structure and our standard of living—all of these factors combined and separately tend to make the U.S. unable to compete with "Japan, Inc.," or with any other nation which might develop as an equally effective system.

So—here's the problem. How do we solve it?

Do we develop a total system of monopoly the same as Japan's? Of course not. America is too far down the road—taking a completely different route.

Do we abandon our antitrust laws so that our companies can band together and withstand the power and trading tactics of Japan, Inc.? No—for the antitrust basic philosophy is good for American business in solving its own domestic economic problems and it is good for the American people.

Can we persuade the Japanese to change their system to any substantial degree? I feel sure we cannot—there's not a realistic chance of doing this—within the next 10 years.

Should we then let Japan—and other nations which adopt a similar system—take the best part of our U.S. markets for industrial products? Should America become a nation of farmers, retailers, and services? Certainly not. To whom would we sell our services—how would anyone pay the bills? Mass consumption depends on jobs—millions of them. And this means mass production. If we do want to drop to the bottom of the ladder economically, then we should let some other nation(s) take away our industrial business. Let's not do that.

Should we, as a general practice, embargo or very severely limit imports from Japan or other nations? No. Japan and all nations should have a fair chance to obtain and to hold a reasonable share of the American market—based on the merit of the product and its fair (not subsidized) price. A reasonable flow of imports into the United States is healthy for business, and good for our consumers.

So, having rejected all of these alternatives, I suggest that we do the following things.

A. We should tell the American people the facts about the inequities we face in carrying on international trade under current trade policy.

We should inform our people:

1. That serious trade problems have been caused by the development and expansion of the Common Market.

2. That there are gross inequities in the GATT rules.

3. That Western Europe systematically excludes imports from Japan and from the less developed countries.

4. That Japan is the most highly protected market in the world. As a consequence, Japan often sells products to its own people at considerably higher prices than they sell the same or similar product to Americans. Americans lose by this practice—because we lose our jobs as a result.

5. That U.S. companies cannot own more than 50 percent of a company in Japan.

6. That the great disparity between wage rates and working conditions throughout the world tends to make the United States the "dumping ground" for goods which are produced abroad under conditions that are illegal in the United States.

7. That the remedies that are available to U.S. industries injured by excessive imports resulting from unfair trade practices are not adequate to compensate for our competitive disadvantages.

Just last week the Bureau of Customs announced that it is beginning an investigation of a complaint filed by my company charging that certain Japanese worsted fabrics are being "dumped" in the United States. We have an excellent case, we gathered our own evidence over a period of many months, and I'm confident the proceeding will end in an assessment of additional duties as provided by U.S. law. Most companies in America do not have the resources to gather the necessary evidence for such a proceeding—and neither is the U.S. Government in a position to do the preliminary fact finding in this type of case.

In any case, let me make it clear that a positive finding of dumping and injury in the Burlington case will apply only to the limited and specific worsted fabrics involved. It will not affect imports of apparel made of the same type of fabric.

8. Let us inform our people that the major economic threat to the United States is from the Far East.

Although I share the concern and frustration now broadly developing over the extension of Common Market membership which tends to make the Common Market even more protectionist and although the Common Market represents a fundamental contradiction of the free trade doctrine and GATT principle, I do not share the view that the next major trade effort of the United States should be another "round" with the Common Market. I assume that the proponents of such a round would plan to persuade the Common Market to dismantle or restructure its organizations and/or its plans.

9. We should tell Americans that the U.S. no longer has a monopoly on scientific development ability, on productivity, on management skills, and on salesmanship. It has been at least 20 years since we did have such a monopoly—if, indeed, we ever did have. Unfortunately, our current trade policy assumes we still have such a great advantage in these areas. This is unreal and the height of egotism.

10. We should advise our people that the most favored nation principle has been a great handicap—that the principle is obsolete, and is probably already dead. There is no incentive for developed nations to trade tariff reductions if Japan, with its low costs and its brilliant monopolistic system, reaps the benefit of the deal through the application of the MFN principle.

11. And let's tell our people that there are serious limitations in adjustment assistance. We should fairly and honestly view Adjustment Assistance for what it is and not claim for values that it cannot produce. Adjustment Assistance, as a solution to American industry and workers which may be seriously affected by low-cost monopolistic import competition, is useless on any large scale. I would suggest some trial determinations be made as to how adjustment assistance could operate as an effective instrument to restore large scale business enterprises and their workers to industrial viability. Many of us strongly feel that adjustment assistance, claimed by some to be an effective method of dealing with excessive import competition should now be shown for what it is—a temporary expedient, useful only in isolated, short term cases. It is merely another

form of temporary public welfare—and only an effective form of "burial insurance" for individual companies.

12. And finally, let us talk to them realistically about the chances for removal of nontariff barriers which are so prevalent in other nations. We must recognize that it will take years and years to remove some of these and that others will never disappear, because they are so deeply rooted in the self interest and in the social and legislative life of the nations involved. Many propose that the United States, as its next major trade effort, should undertake the initiative to discuss the removal of nontariff barriers. Meanwhile, so far as I know, nothing is proposed to be done to deal soon enough with the worsening impact of excessive imports upon our domestic industries and workers. Even then some blandly admit that it might, perhaps, take as long as 25 years before any substantial progress would be made towards removal of nontariff barriers.

If this be the solution to the American problem in international trade, few of us would agree that we have the resources to wait that long. In any imperfect world of nations, peoples and ideals, the perfect world of attitude and practice requisite to the smooth functioning of doctrinaire free trade will continue to be illusive. In the process of waiting for that day, the United States must have the courage and resolution to solve its own problems.

B. Having informed our people on these 12 points, we should ask the Congress to enact new trade legislation which will recognize the trade advantages which we have either given to our foreign competitors or have allowed them to gain. This new trade legislation should establish procedures under which the United States will be able to solve its own economic problems if our foreign competitors do not give us reasonable and meaningful cooperation. This legislation should permit the United States to deal with excessive levels of imports through the establishment of quotas, tariffs, or any such other devices appropriate to meet the particular threat. The legislation proposed would not be materially different from the Trade Bill which passed the House last year.

When such legislation is enacted, the United States should undertake to convene the GATT nations for the purpose of modernizing and updating its rules so that the inequities and unfairness of the present arrangement will be removed. (Let us then call that agreement, the general agreement on fair trade—the GATT.)

To this point I have talked about the international trade problem and the U.S. import situation in terms of the U.S. economy, the U.S. industry at large. I did so because I thought it was important that the broad view of potential damage to all American industry and its workers should first be portrayed. Coming as I do from the textile industry which has been particularly affected by excessive imports from the Far East, I would now like to make a brief presentation of the specifics of the import situation applicable to the textile and apparel industries of the United States. In so doing, I will make reference to some large charts here. I have also distributed some smaller black and white versions of these charts to each member of the committee which I hope will assist in following my chart presentation.

Starting in 1958, U.S. textile imports have steadily increased with a particularly strong surge developing since 1967. As U.S. textile exports remain relatively stable during that period the textile import/export trade of the U.S. as of the end of 1970 (chart 1) was in deficit by $1.6 billion.

These imports, yarn through apparel, are shown by fiber delineation on chart 2. Cotton textile imports (which have been under international control since 1961 pursuant to the Short Term Cotton Textile Agreement and its successor, the Long Term Cotton Textile Arrangement, LTA) have approximately doubled since 1961. In recent years the rate of increase of U.S. wool textile imports has slowed although imports of wool textiles continue at an extremely high level, 26 percent of domestic consumption of wool fiber. Manmade fibers textiles and apparel, which entered the United States in relatively small quantities in 1961 have mounted steadily, particularly so during the past 3 years. As the chart entitled "Imports of Manmades Exceed Cotton" shows, imports are now substantially larger both in volume and dollar value than the quota-controlled cotton textile imports. Considering market acceptance, based on superior performance of certain fabrics made either of 100 percent manmade fibers or of blends of manmade and natural fibers, imports of those fabrics are certain to continue to increase dramatically unless regulated.

As against the claim that the American textile industry is inefficient, the chart "Labor Productivity in 1967" shows that productivity in the American textile industry is far superior to that of any other textile producing nation. This is particularly so in the case of Japan and Hong Kong.

The chart entitled "World Textile Wages" shows how the productivity edge of the American industry is overcome by the wage advantages of our major foreign competitors. For example, U.S. textile industry average hourly wages are more than five times higher than those of Japan, eight times higher than those of Hong Kong and 22 times more than paid in Korea.

The chart "U.S.-Japan Wage Gap Widening" unhappily shows the gap between United States and Japan wages is widening to the disadvantage of the American producers. Whereas this gap gave an advantage to Japan in 1962 of $1.44 per hour, in 1970 that advantage had now increased to $1.98 per hour.

The chart "Textile Wage and Price Index" shows that despite substantial wage increases in the domestic textile industry the wholesale price index of the industry's products has remained at the 1957–59 level. This very convincingly refutes the argument that textile import controls are or will be inflationary to the disadvantage of the American consumer. The record is just the opposite; dramatically so in the case of cotton textiles products which have not increased since 1961 despite the LTA controls. The chart "1970 Wholesale Prices" describes the performance of domestic textile prices as against those for all United States manufactured commodities during the same period. Textile prices have been less inflationary than those of any other industry; in an industry (textiles and apparel) with a combined GNP in excess of $86 billion. The chart "Industry Profit Rate" shows the meager return on sales and equity of textile mill establishments as against those of all United States manufacturing.

The next chart shows the overall importance of the textile/apparel industry to the national economy. These industries account for 2.4 million American jobs, have an annual payroll of $10.8 billion and pay Federal, State and local taxes of $2.5 billion. One in eight of all United States manufacturing jobs is in textiles and apparel.

The performance of the textile industry as a minority employer as shown by the next chart is also outstanding, both in trend and when compared with all manufacturing industry. The textile industry is also an important employer of female labor.

The textile industry with approximately 60 percent of its manufacturing establishments located in small towns and rural areas relieves the large urban areas from the heavy burden of social and welfare costs which are compounded when unemployed workers and families move from rural areas and small towns to big urban areas. On the other hand, approximately 80 percent of all manufacturing jobs in industries (other than textiles) are located in urban metropolitan areas where the problems of rising costs for education, welfare and governmental services pose almost insoluble problems.

The textile and apparel industry is a large purchaser and user of goods and services supplied by other American industries. It annually purchases fibers having a value of $4 billion, invests in plants and equipment at a cost of $570 million, purchases packaging materials at a cost of $240 million, chemicals and dye stuffs at a cost of $600 million, power and fuel at a cost of $420 million and trucking services at a cost of approximately $100 million. So it cannot be denied that the textile industry is an important, we believe, essential segment of our national economy. If the Nation were to lose these industries or if they were to be seriously crippled the national cost would be extremely high and the dislocations of people and the resulting social and political problems would be immense. Curiously, advocates of adjustment assistance as a panacea which will heal the wounds of injured industries would logically regard the textile and apparel industries as precisely the type of industries into which capital and labor troubled by import competition might move after collapse of their initial business enterprises. If we did not have a domestic textile and apparel industry it would be smart to invent one.

Early in March the Japan Textile Federation announced that the Japanese textile industry was undertaking a unilateral program to limit future exports of certain textile and apparel products to the United States. The details of that arrangement are set forth in the attached text of the Japanese Federation's declaration. As the announced plan fell far short of the requirements of a workable arrangement to deal with the import problem of the American textile and apparel industries it was promptly rejected by the industry leadership. It was also rejected by President Nixon in his statement of March 11, 1971. The President rejected this unilateral program of the Japan Textile Federation as falling "short of the terms essential to the United States in the following significant respects:

"Only one overall ceiling for all cotton, wool and manmade fiber fabric and apparel textiles is provided, with only a general undertaking by the Japanese industry 'to prevent undue distortions of the present pattern of trade.' This allows concentration on specific categories which could result in these categories growing many times faster than the overall limits.

"The overall ceiling would be based on imports from Japan in the year ending March 31, 1971, plus a growth factor. During the 2 years that we have been negotiating with the government of Japan, imports of manmade fiber textile products have greatly increased, and in January 1971 they entered this country at a recordbreaking level. Moreover, the program magnifies the potential growth of the sensitive categories by including in the base, exports of cotton products which are already limited by agreement and which have been declining."

I think the President's reasons why the Japanese textile industry arrangement is inadequate and unacceptable are clear and correct. I could not improve upon the President's judgment as to the unacceptability of the voluntary Japanese industry proposals.

In closing I join with others in this industry in an appeal to the President and the Congress for the development of enforceable government-to-government arrangements keyed to global coverage with suitable category delineation of specific textile and apparel products. All of this should be done in the context of a fair and reasonable base period and an equitable sharing in the increased demand in the domestic market between domestic production and imports. Anything short of that will not work.

I thank you for your courtesy and attention. I will be pleased to answer any questions you may have.

ELY R. CALLAWAY, Jr.

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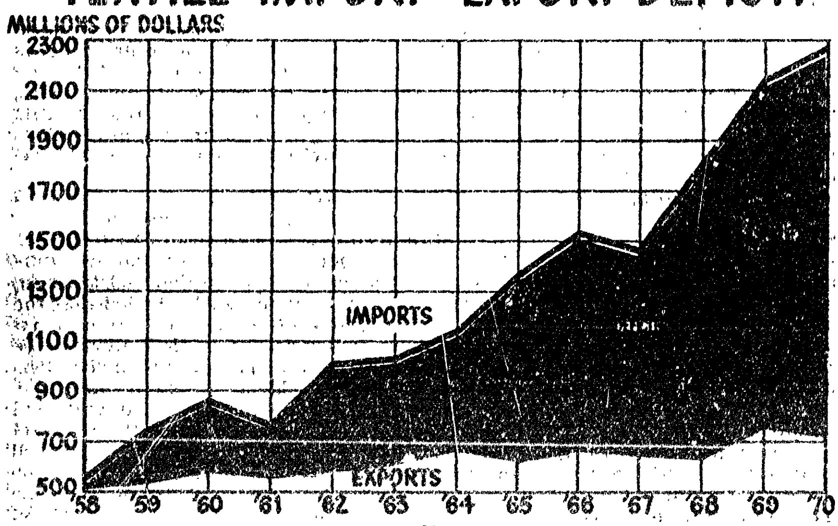
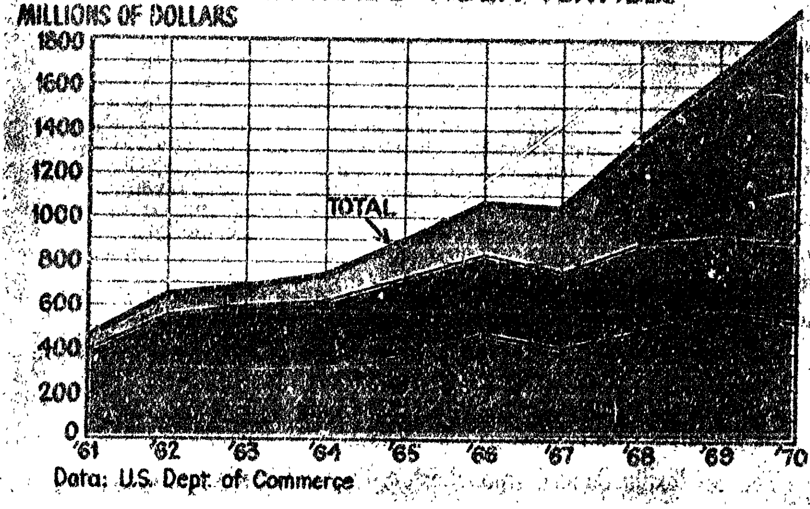
TEXTILE IMPORT-EXPORT DEFICIT



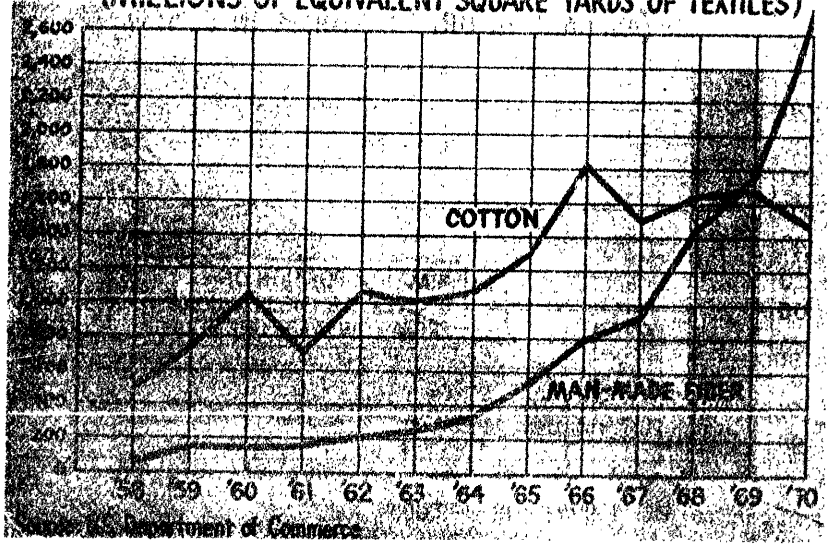

Source: U.S. Department of Commerce

## UNITED STATES IMPORTS OF COTTON, WOOL AND MAN-MADE FIBER TEXTILES



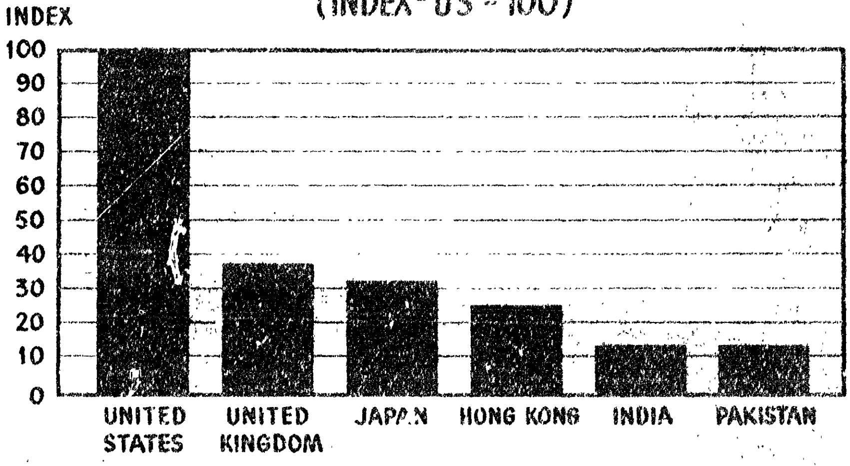

## IMPORTS OF MAN-MADES EXCEED COTTON

(MILLIONS OF EQUIVALENT SQUARE YARDS OF TEXTILES)



# LABOR PRODUCTIVITY IN TEXTILES 1967

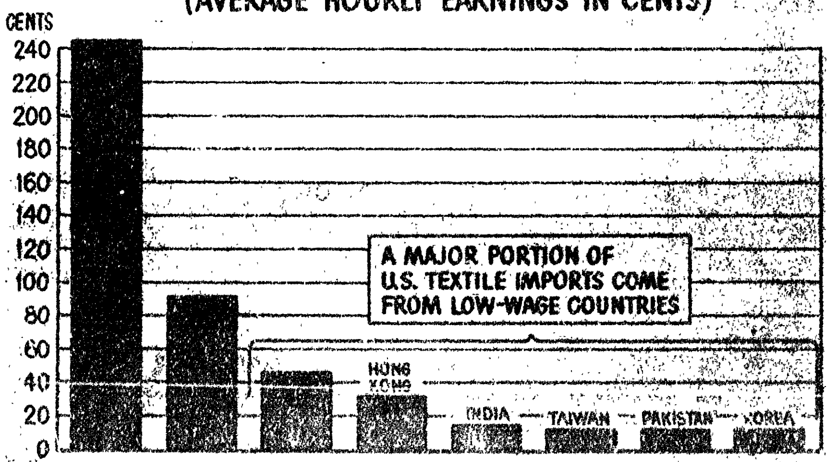
(INDEX-US = 100)




Source: Textile Council (Manchester, England 1969)

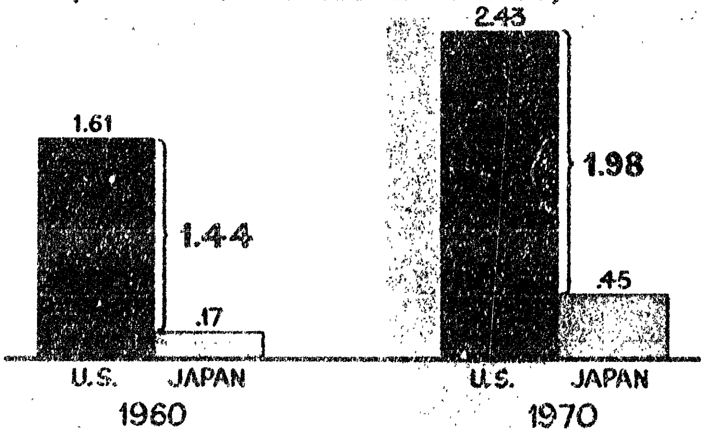
# WORLD TEXTILE WAGES

(AVERAGE HOURLY EARNINGS IN CENTS)



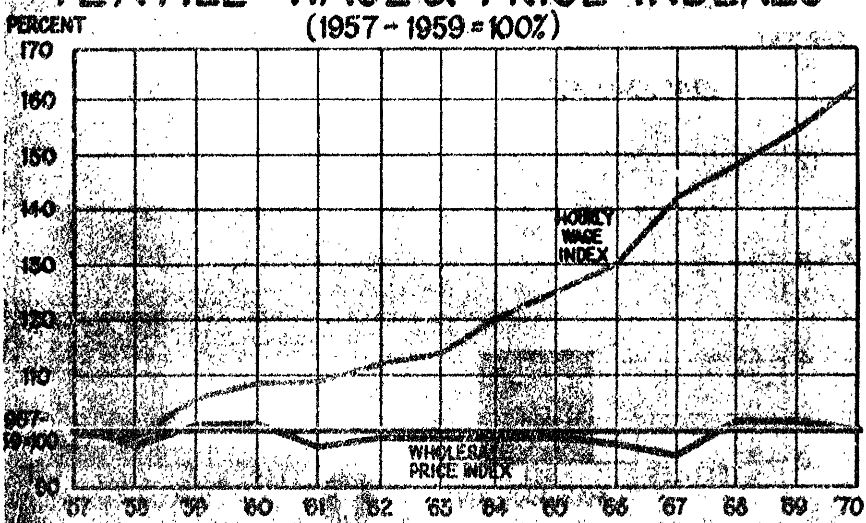

Source: U.S. Department of Labor

## U.S.-JAPAN WAGE GAP WIDENING
(HOURLY $ TEXTILE EARNINGS)




Source: U.S. Department of Labor

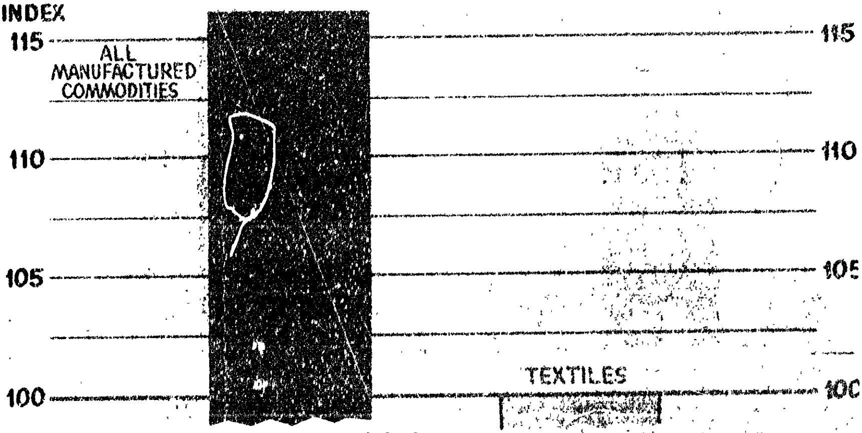
## TEXTILE WAGE & PRICE INDEXES
(1957 - 1959 = 100%)




Source: U.S. Department of Labor

# 1970 WHOLESALE PRICES

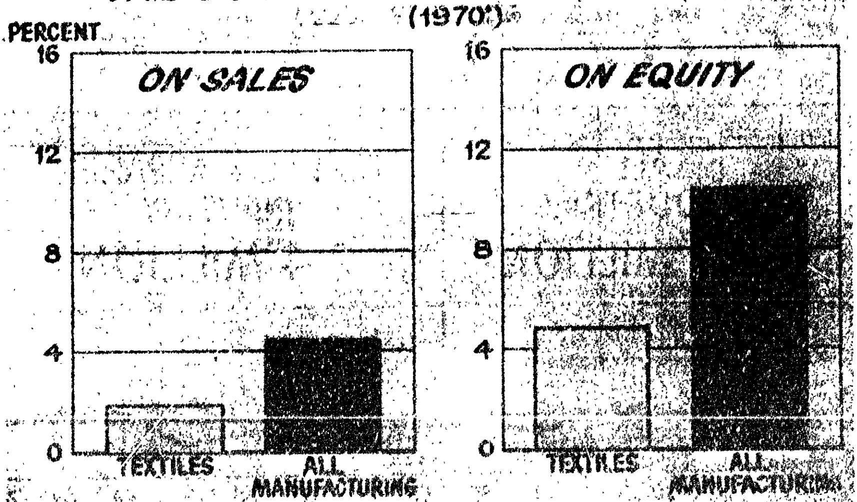
(1957-59 = 100)




Source: U.S. Department of Labor

# INDUSTRY PROFIT RATE

(1970*)




SOURCE: FTC-SEC

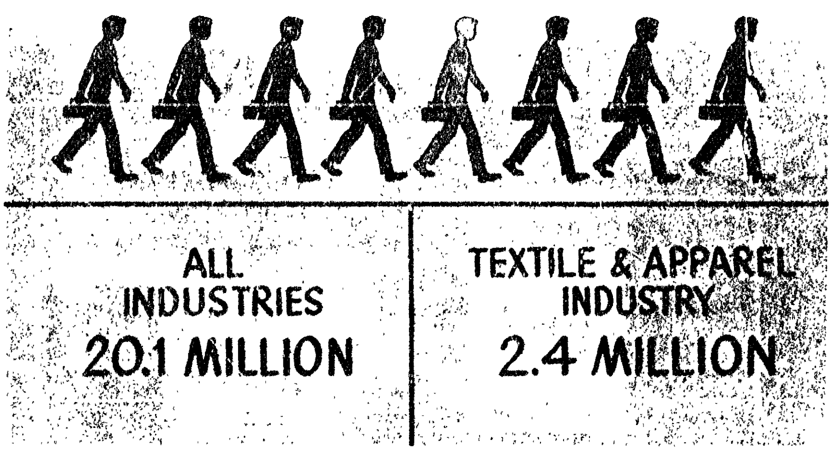
*SECOND QUARTER FIGURE

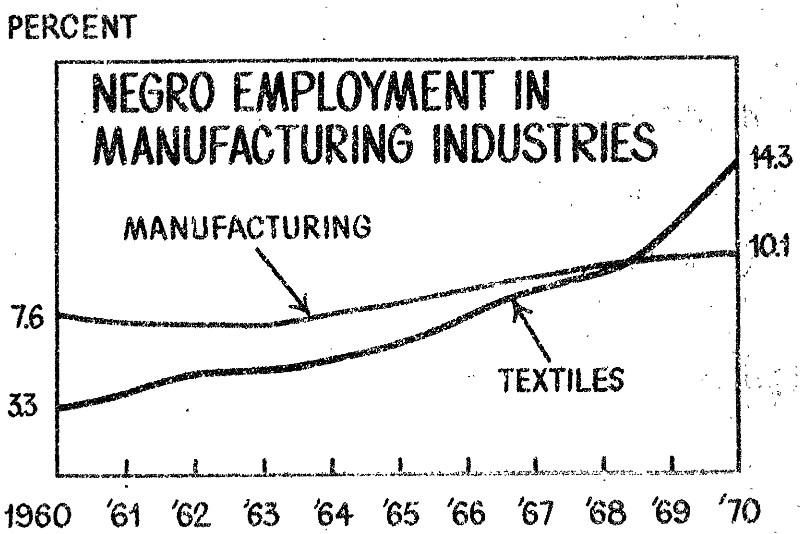
# TEXTILE-APPAREL INDUSTRY

## *A MAJOR FACTOR IN U.S. ECONOMY*

- JOBS-2.4 MILLION
- PAYROLL-$10.8 BILLION
- FEDERAL, STATE AND LOCAL TAXES - $2,500,000,000

## ONE IN EIGHT OF ALL U.S. MANUFACTURING JOBS IS IN TEXTILES & APPAREL

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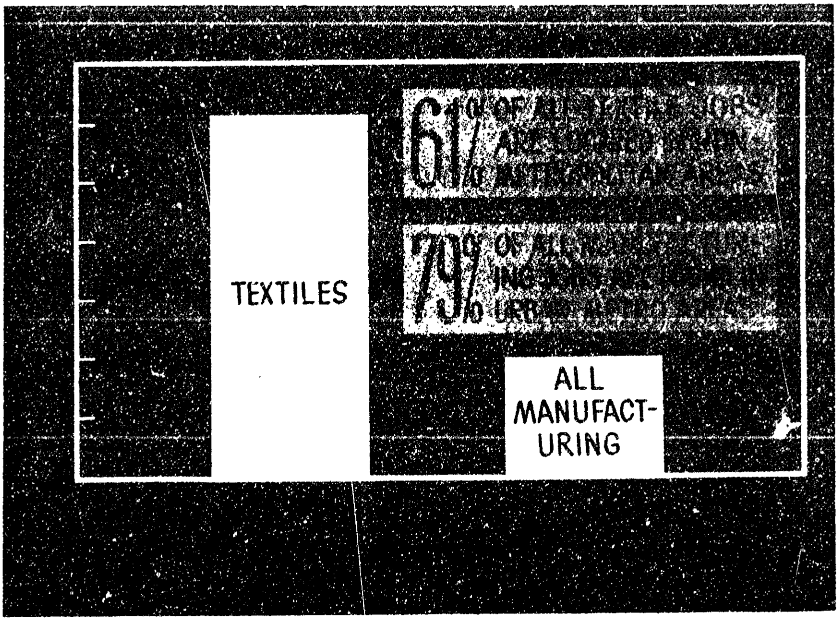
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# TEXTILE-APPAREL INDUSTRY

## *A MAJOR FACTOR IN U.S. ECONOMY*

## PURCHASES ANNUALLY

- FIBERS - $4.0 BILLION
- PLANT AND EQUIPMENT - $570 MILLION
- PACKAGING PRODUCTS - $240 MILLION
- CHEMICALS & DYESTUFFS - $600 MILLION
- POWER AND FUEL - $420 MILLION
- TRUCKING SERVICES - $100 MILLION

TEXT OF JAPANESE FEDERATION DECLARATION

The Japan Textile Federation will follow legal procedures required by Japanese law to control exports to the United States of all textile produces. In making this declaration, the Textile Federation emphasizes that these restraints are not to be construed as an admission that its exports of textile produces to the United States are causing serious injury or market disruption.

If the pending textile issue between the United States and Japan is left unsolved, trade protectionism in the United States will be encouraged which will cause a worldwide chain reaction resulting in an unfortunate situation for both countries. This will pose a serious threat to free trade throughout the world.

In order to prevent this situation and to solve the textile issue which has become a political problem and also to maintain and promote the political and economic relationship between the United States and Japan, the textile industry of Japan has decided to take this action from an overall viewpoint. The textile issue has been negotiated between the Governments of the United States and Japan for a prolonged period but the Textile Federation trusts that by this declaration such negotiations need not be continued. The Textile Federation further wishes to make it clear that this restraint is not be construed as a precedent for similar action with regard to any other market for Japanese textile product exports, and trusts that these actions will not be understood as a precedent for other products being exported from Japan.

The restrictions will be applied as follows:

1. Coverage. Restrictions will be applied to the aggregate total, excluding raw materials, of the cotton textile products restrained pursuant to the present bilateral agreement between the United States and Japan, as amended, man-made fiber textile products and wool textile products. The restrictions shall not at this time include any yarns. This exclusion of yarn may be reconsidered if there is a change in circumstances.

2. Base. The base for calculating restraints shall be the aggregate total of ports from Japan for the first 12-month period in the 15-month period immediately preceding the commencement of the restraints, as set forth in paragraph 3 below, the cotton textile products, man-made fiber textile products and wool textile products to be at this time covered in paragraph 1.

3. Duration. Restrictions will be enforced from the first calendar month following a three month preparation period after the date of this declaration and will continue for 36 months. In the event that other nations, accounting for a substantial proportion of exports of textile products to the United States, do not enforce similar restrictions (taking into account differing circumstances in such nations). Enforcement by Japan will be from the first calendar month after the date such countries put in force such restrictions.

4. Quota quantities (Measured on a physical basis).

(A) The quota for the first 12 month period of restraint will be the base as set forth above in paragraph 2, increased by 5 percent.

(B) The quota for the second 12-month period shall be the quota for the first 12-month period increased by 6 percent.

(C) The quota for the third 12-month period shall be the quota for the second 12-month period increased by 6 percent.

5. Surveillance. In order to prevent undue distortions of the present pattern of trade, the federation will exercise strict surveillance and take remedial action if necessary.

6. Reservations. The federation reserves the right to modify or terminate the above voluntary restrictions in the following circumstances:

(A) In the event that the United States imposes any general quota on textile product imports by legislation or administrative action or imposes new or higher duties on textile product imports generally or takes any other action generally restricting the import of textile products into the United States, except that in the event the United States imposes higher rates of duty or other import restrictions on particular textile products by legislation or administrative action subject to Article XIX, or other appropriate provisions of the General Agreement on Tariffs and Trade, the federation reserves the right only to modify (but not to terminate) the above voluntary restrictions;

(B) In the event that there is a major change of circumstances affecting international economic conditions and foreign trade generally or textile trade in particular; and

(C) In the event that Japan finds itself in an extremely disadvantageous position if nations not enforcing similar export controls substantially increase textile exports to the United States and do not adopt similar export restrictions.

7. This declaration will be enforced in such a way as not to infringe the domestic laws of the United States and Japan.

8. Nothing in this declaration shall affect the operation of the present bilateral agreement on cotton between the United States and Japan, as amended.

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THE WHITE HOUSE STATEMENT BY THE PRESIDENT

For 2 years, this administration has attempted to negotiate a voluntary agreement with the Government of Japan curtailing the excessive wool and manmade fiber textile imports from Japan. The United States has sought to be as flexible as possible concerning the details of an agreement while consistently adhering to certain basic principles which we consider essential to any agreement designed to curb these excessive imports. These principles are reflected in the following terms which have been presented to the Japanese Ambassador by the U.S. negotiator in meetings through January of this year:

A limited number of categories of particularly sensitive products, covering about one-half of those imports, would be assigned specific import ceilings. The ceilings would be based upon imports from Japan in 1969 plus a reasonable growth factor. Shifting of imports among these categories would be permitted so as to reflect changing conditions in the U.S. market, subject to limitations to avoid excessive concentration in any of these sensitive categories.

If imports from Japan of any other category exceed the 1970 import level plus a more liberal growth factor, the United States could request consultation with Japan, and impose specific limitations if a mutually satisfactory solution was not reached.

On Monday, following discussions between its Washington representative and the Chairman of the House Ways and Means Committee, the Japan Textile Federation announced that the Japanese textile industry is undertaking a unilateral program to limit future exports of textile products to the United States. At the same time, the Government of Japan issued a public statement endorsing this unorthodox action by a private Japanese group and terminating its negotiations with the United States Government. On its face, this unilateral program falls short of the terms essential to the United States in the following significant respects:

Only one overall ceiling for all cotton, wool and manmade fiber fabric and apparel textiles is provided, with only a general undertaking by the Japanese industry "to prevent undue distortions of the present pattern of trade." This allows concentration on specific categories, which could result in these categories growing many times faster than the overall limits.

The overall ceiling would be based on imports from Japan in the year ending March 31, 1971, plus a growth factor. During the two years that we have been negotiating with the Government of Japan, imports of manmade fiber textile products have greatly increased, and in January 1971 they entered this country at a record-breaking level. Moreover, the program magnifies the potential growth of the sensitive categories by including in the base exports of cotton products which are already limited by agreement and which have been declining.

The deficiencies in the Japanese industry program make it clear that it will not result in an acceptable solution. It is well known that I would prefer a negotiated agreement to solve this problem. The maneuver of the Japanese industry, now apparently ratified by the Government of Japan, has effectively precluded further meaningful government to government negotiations, the resumption of which this country would welcome.

Consequently, I will strongly support the textile quota provisions of the legislation now pending before the Congress, H.R. 20, a bill passed by the House Representatives last year and reintroduced this year by Chairman Mills and Congressman Byrnes of the Ways and Means Committee.

At the same time I am directing the Secretary of Commerce to monitor imports of wool and manmade fiber textile products from Japan on a monthly basis. I am instructing that this monitoring begin immediately, with the results, including an analysis of any differences from what would have been the results under the terms we presented, to be made available to the entire Congress.

Under the circumstances and in order to provide the relief necessary for U.S. textile workers and businesses this Government must now give the fullest consideration to the other alternative solutions to the textile problem.

Senator RIBICOFF. The committee will stand adjourned until tomorrow morning at 9:30. Thank you.

(Whereupon, at 4:55 p.m., the hearing was adjourned, to resume at 9:30 a.m. on Wednesday, May 19, 1971.)

# FOREIGN TRADE

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**WEDNESDAY, MAY 19, 1971**

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 9.30 a.m., in room 2221, New Senate Office Building, Senator Abraham Ribicoff presiding.

Present: Senators Ribicoff, Anderson, Fulbright, Bennett, Fannin, and Hansen.

Senator RIBICOFF. The committee will be in order.

Our first witness today is the Honorable George Ball. I am always glad to see Mr. Ball, who has a distinguished record in the service of this country. It has been my privilege over the years to work with Mr. Ball in various capacities, and while the record of men working in foreign affairs is always a contingent and uncertain one, I think history will show that George Ball is probably more right than wrong and has a very good batting average when you look at the past and its relationship to the future.

We welcome you here, Mr. Ball, and I do appreciate your starting earlier than 10 o'clock.

Will you proceed?

## STATEMENT OF GEORGE W. BALL, SENIOR MANAGING DIRECTOR, LEHMAN BROTHERS, INC., NEW YORK, N.Y.

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

My name is George W. Ball. Although I am a senior managing director of Lehman Bros., Inc., an investment banking firm, I am appearing before the committee this morning in my individual capacity.

To comment intelligently on the questions that I have been asked to address, I would like to refer briefly to the period of the second World War and the years immediately thereafter. One consequence of a great war is that it disrupts not only the social and political life of nations, but also their financial and commercial institutions and relations. Thus, when the war was finally ended, the currencies of the major trading nations were entangled in an iron web of controls, while the movement of goods across national boundaries was hobbled by quantitative restrictions and trade barriers of every kind.

As the Nation least disrupted by war, America took the lead in working with the other major nations to bring about a set of ground rules and institutions that, over the years, has resulted in largely freeing both currencies and trade. The International Monetary Fund, which has made it possible to induce most major nations this side of the Iron

Curtain to abolish currency controls, was established during the last months of the war in 1944, following the famous conference at Bretton Woods. However, we were slower in creating the institutions for the liberalization of trade.

There was first a conference at Havana in 1947 which proved abortive but later we were able to develop the General Agreement on Tariffs and Trade, or the GATT. Through a series of reciprocal trade agreements conducted under GATT auspices, we now have a world in which trade, if not free, is subject to a progressively diminishing set of obstructions.

I have mentioned the IMF and the GATT together, since it is, I think, important that the committee bear in mind the close relationship, the intimate interaction between international monetary policy and trade policy.

Since the creation of the IMF and GATT, the world has, of course, undergone radical changes. Nations devastated by war have recovered and—particularly in the case of West Germany and Japan—have attained heights of production and prosperity never dreamed of in prewar days. Meanwhile, our own endless involvement in Southeast Asia has tended to discourage the American people and to cause many to question the whole set of assumptions on which we have been operating for the past quarter century—assumptions with regard not only to military and political power, but also to financial and commercial policy.

Of all the changes that have taken place in the structure of our world system of trade and production, two deserve special notice.

The first is the evolution of the European Economic Community.

The second is the fantastic and, I think for most of us, quite unexpected, progress of Japan.

Central to the conception of the European Economic Community is a customs union—or, as it is called, a common market—that has been progressively created during a period of transition. Today goods move freely across national boundaries within the area occupied by six countries: West Germany, France, Italy and the Benelux countries: Belgium, the Netherlands and Luxembourg. In addition, the Treaty of Rome—the organic document of the community—provided for a set of institutions—an executive, a court and a kind of rudimentary parliament—with the hope that they might ultimately evolve into the institutions of a full fledged political confederation or federation.

As the first step in that evolution the founding fathers of the community envisaged the achievement of full economic integration and, therefore, provided in the treaty for the harmonization of tax and social legislation, for mutual help in case of financial difficulties and a whole series of other measures essential to the merging of the economies of the member states.

The principal economic and financial effects of the community on the United States have related primarily to trade and investment. As one might expect, the creation of the Common Market has had both trade-deflecting and trade-creating consequences. Its trade-deflecting effects have been limited to the products of rather narrow economic sectors; its trade-creating effects have involved a wide spectrum.

That the creation of the Common Market has greatly contributed to the rapidly growing prosperity of the member nations is no longer open to challenge, and the United States has clearly shared in that prosperity by the expansion of its own trade and investment. During that 12 year period from 1958, when the Treaty of Rome became effective, until 1970, our exports to the Community increased by 193.5 percent, or nearly threefold, from $2.9 billion to $8.4 billion. This substantially exceeded the rate of increase of our trade with nations outside the Community, as is shown by the fact that, during that period, our exports to the Community increased from 16 percent to 19.5 percent of our total world exports.

In other words they became a larger part of the pie. Moreover during the entire decade from 1960 through 1970, our trade with the Community has netted an average surplus of $2 billion annually. In fact, in 1970 that surplus amounted to $2.4 billion.

Our trade with the Community has been in many ways the single most important item in our balance of payments and, for commercial reasons alone, we should be happy that this major European initiative has worked out so well. Yet the Common Market has created considerable apprehension, particularly in American agricultural circles.

In view of the fact that almost all nations have national agricultural programs calling for government interference through price supports, or subsidies, or some other device, agriculture has always proved a particularly troublesome problem in international trade. Nevertheless, the Community could not move toward anything approaching economic integration without developing a common policy for agriculture. The complexity of this task was enormous, involving as it did the agreement of six nations.

I remember on several occasions, for example, Chancellor Erhard saying to me that in agriculture we are all sinners as far as the purity of orthodox international trade policy was concerned.

Nevertheless, without a common agricultural policy, the Community could not move toward anything approaching economic integration, which was one of its main objectives. And in attempting to reach a compromise the technicians were under enormous pressure to devise a system that protected the least efficient producers, which necessarily involved limiting access to the market for the lower cost production of efficient producing areas, such as the United States.

The so-called common agricultural policy that has resulted is, thus, something of a monstrosity. It has been widely criticized not only outside but also inside the Community, while American agricultural interests, particularly feed grain producers, have been deeply concerned that the common agricultural policy might result in the drying up of a legitimate part of their exports.

So far the results, at least in statistical terms, have been far from catastrophic.

During the 12 years from 1958 to 1970 our total agricultural exports to the Common Market countries rose from $821 million to $1,558 million. This increase, by slightly less than double, while less than the increase in our total trade to the Community, which has tripled, is still consistent with the growth in our worldwide agricultural exports. Nevertheless, our agricultural exports to the Common Market have decreased by about 15 percent since the peak year of 1966 when they amounted to $1.9 billion. Yet to attribute this entirely to the Common Market's agricultural policy would, I think, be an error, since during the same period our farm exports to the rest of the world also fell off by roughly the same percentage. It would appear that the principal reason for this quite unhappy development is that, while food consumption has not risen in economically advanced countries, new methods of farming, the so-called Green Revolution, have led to a major jump in world agricultural production, not only in the less developed countries, but also in Western Europe and Japan.

Thus we find worldwide agricultural productivity increasing by about 7 percent per year in recent years, at a time when consumption has been increasing by less than 3 percent.

Thus, though I do not wish to be in a position of trying to defend the Community's common agricultural policy as anything other than the unattractive result of a complex exercise in compromise—and something which I think is bound to change as time goes on for the better—I do not believe that it is likely to prove quite as catastrophic as is sometimes suggested. Certainly time should tend to mitigate the problem, at least in part, since European consumers do not like high food prices and the expenditures the governments have to make to maintain the program are extremely onerous.

Meanwhile, the least efficient producers, whose lack of productivity has inflated the level of protection, are rapidly being forced out of the market. This is particularly true in Germany which has the most inefficient agriculture, where, in many cases, the farms are very small indeed and where agriculture has been largely manual. Industrial overemployment in Germany, which has been a feature of the economy in the last few years, has brought about a rapid shift of workers away from the farms to the factory, thus forcing the mechanization of agriculture.

And we have the interesting phenomenon—which we are so familiar with in the United States—of the percentage of the labor force in agriculture throughout the whole Common Market being diminished every year very rapidly.

Meanwhile there has been a good deal of concern in farm circles in the United States as to the possible adverse effects on our agricultural exports that may result if the United Kingdom joins the Common Market, since Britain is the largest single food-importing nation in the world.

Yet fed grains are the only farm product that is more highly protected in the European Community than in Britain, while for other products we are now sending to Britain, the level of Common Market protection is either lower or about the same.

So again I would suspect some of these apprehensions have been somewhat overstated.

Let me say one other thing while I am on this point and that is that, since Britain is an importing nation as far as agriculture is concerned, I think its influence once it gains membership in the Community will very definitely be on the side of moving away from the present cumbersome and protectionist agricultural policy toward a more liberal policy, which would in the long run be of considerable help to our own agricultural producers.

Besides its effect on our trade, of course, the development of the European Community has had a major effect on our overseas investments. Direct investment by United States firms in the Community from 1958, when the Treaty of Rome went into effect, to 1969 increased more than five times, while United States investments elsewhere have only doubled in the same period.

So many American firms have found it profitable to produce in the Community in order to exploit the potential of a great mass market that it is hardly surprising that this has produced a certain amount of grumbling on the European side. Since today American firms in the Community account for about one-seventh of all new industrial investments, fears have been expressed that American firms would tend to dominate key sectors of European industrial life, turning Europe into a kind of American economic colony.

At the same time, I think in all fairness it must be said that Europe has profited greatly from American investment not only in the economic activity it has created, but also in the know-how and management skills that Americans have taken to Europe. Thus, more and more Europeans are coming to understand that the intelligent way for Europeans to prevent an excessive American interest is not by interposing obstacles to investments, but rather by rationalizing and modernizing and restructuring their own industry so that it can hold its own against American competition.

By and large, our own country has profited immensely from the investment of our companies in sources of production in the European Community and elsewhere. In 1969, for example, the net flow of funds improved our balance of payments by $5.6 billion and, since most investments in Europe are made either out of retained earnings or overseas borrowings in Eurodollars or other Eurocurrencies, the benefit to the U.S. balance of payments is net. The total overseas investment of American companies around the world amounts to over $70 billion, and I can't overestimate the value of this as a source of continuing revenue.

To give a rather fanciful illustration of what this may mean, I recall a passage in a book by John Maynard Keynes, in which he recalled the booty taken from Spanish galleons on one voyage of Sir Francis Drake's vessel, the *Golden Hind*, in 1580. Keynes notes that with this booty Queen Elizabeth paid off the entire British national debt, then invested the remaining £42,000 in what later became the East India Co. He calculates that had she invested that 42,000 pounds in a security bearing compound interest at 3.5 percent, it would in 1930 have amounted to over £4 billion—or almost the exact amount of the total British overseas assets at that time.

Though I am not taking nearly such a long view today as the four centuries to which John Maynard Keynes was referring, there is no doubt that our investments overseas will, over the years ahead, prove a great continuing benefit to our balance of payments.

Senator FULBRIGHT. Did you say how much of that is from Japan, how much of that investment of $70 billion is in Japan?

Mr. BALL. Only a very small amount because we have not been permitted to invest in Japan in any free manner at all. There were some early yen-based investments where some American companies were able to acquire up to 100-percent ownership in companies but this hasn't been true now for a long time, and investments at the present time are subject to enormous restrictions, so that while the Japanese are liberalizing they certainly are not liberalizing rapidly enough.

I am not talking this morning about taking quite as long a view as the four centuries that John Maynard Keynes was talking about but I do want to suggest to the committee that these investments we are building up are important assets of the United States, and that over time they are going to make a very real contribution to our own economic well-being.

Nevertheless, in spite of the economic consequences of this it would, I think, be a serious mistake for us to approach the development of the European Community primarily in terms of its economic, its financial consequences for the United States. Far more important to us, it seems to me, is the political promise it holds, since in solving common economic and financial problems, the member nations would be compelled, almost of necessity, to forge the political links that could in time bring about some form of confederation or federation.

Unhappily, that process was largely suspended during the years from 1963 down to perhaps last year, to the time at least when General De Gaulle retired as President of France. During that period France pursued what I regard as a very narrow nationalistic role and imposed impediments toward any serious progress toward political unity.

Recently, however, Britain has again applied for entry into Europe and the next few weeks—I think sometime this summer—we should be able to tell whether an arrangement can be worked out to make it possible to bring her exceptional political and financial talents to bear on the building of Europe.

So I regard the present time as a major turning point. In fact, in my view, the decision that is going to be made this summer could prove to be the most important political decision of the century.

If Britain does join Europe, we are likely to witness a resurgence of the drive toward the creation of a modern European entity that will increasingly develop political as well as economic capabilities. I can think of nothing that would contribute more to a stable and secure world than the evolution of a strong Western Europe that could act with a common will and speak with a common voice.

If, on the other hand, the current negotiations should fail, then my prognosis is by no means so bright. So long as a great illusionist, General De Gaulle, occupied the Elysee Palace as the President of France, he was able to obscure the realities of relative power by the evocation of French grandeur. But it has long been clear that, once the general disappeared from the scene, the French people would awaken to the harsh fact that West Germany not only had a larger population than France but a greater industrial capacity. And, as a new generation of Germans came to power, they would necessarily be inclined to pursue far more assertive policies than has been the case with German leaders for the past quarter century. Already, of course, this is happening with Chancellor Brandt's probing of the East through his Ostpolitik and already there are signs of apprehension in France at being left alone in Europe to face an increasingly more confident Germany, which is the reason, I am convinced, why French policy within the past few days has shown a far greater hospitality toward British entry than had been the case up to now. Only Britain has the political and economic weight to serve as a counterbalance to burgeoning German strength and thus make possible stable and effective European structure.

Thus, I cannot overemphasize the importance of the decision in London and the capitals of Europe that is likely to be made in the next few weeks, for if Britain does not enter Europe, then not only are we likely to witness an insecure and progressively more introspective

France, but forces of fragmentation may well be set loose with dangerous implications for the long pull.

I go very often to Italy, and I shall be there again on Monday. Already I see signs that the Italians are beginning to feel the doubts and fears of a Mediterranean nation whose shores are no longer washed by an exclusively Western sea; while, without the consolidating effect of British participation in Europe, Germany's Western ties may grow progressively weaker as a new generation is increasingly attracted by the illusory promise of an Eastern linkage.

The attraction of the East is a phenomenon that has been familiar in German history since the beginning. There have always been two schools of thought in Germany: Those who held to an Eastern policy and those who held to a Western policy, and the advocates of the Eastern policy historically have almost always won this intramural debate. Thus it is very important for the security of the Western world and, I would suggest, for the security of the whole world, that German links with the West be reinforced as much as possible, and I know of no way to do this more effectively than through the development of political unity in Europe.

That we as Americans should fear a Europe expanded to include Britain and perhaps certain other of the EFTA countries seems to me quite foolish for not only politically but economically nothing could be more healthy than the emergence of a new great power in the world—a power committed to the same general philosophy of individual liberty and freedom of trade and business that is our common heritage.

Recently I have heard a great deal of alarmist talk of the dangers of monetary unity in Europe, and particularly in a Europe that might include Britain, but we should not fear but rather applaud the greater strength and stability which this would create. I do not at all understand, for example, the concern that the dollar would be in jeopardy if the Europeans were to achieve a common currency or even to move toward a greater concerting of policy in monetary matters. Certainly the dollar would benefit by the greater stability that this would bring about, just as America would benefit by the greater prosperity of a larger Europe.

Let me say, Mr. Chairman, that I have been astonished within the last few days at the interpretation that many Americans and, I must say, much of the American press have put on the actions taken during the monetary crisis within the past fortnight. Certainly the decisions made by the German, Austrian, Swiss, Dutch, and Belgian Governments to float or revalue their currencies were anything but an attack on the dollar. They were politically courageous decisions taken at some political risk to the governments involved. They were the responsible actions that surplus countries should take under the circumstances. Far from being aimed at undercutting the dollar, they provided effective support for the dollar, while at the same time improving the competitive position of our exports and thus contributing to the mitigation of the continuing deficits in our payments balance.

Let me turn briefly now to the second problem I mentioned at the outset of this statement—the problem of fitting Japan, a nation with habits and practices, history and traditions, institutions and attitudes far different from those of the West into a world trading system and a world monetary structure, that has been shaped in response to Western needs, by Western nations and in accord with Western practices. That this is an important problem I need hardly tell this committee. Japan is now the third industrial power in the world, with a GNP greater than that of West Germany and a growth rate unparalleled in industrial history.

As a major trading nation, Japan is an effective competitor in many areas of production, and her impact on world markets is growing.

It is as a potential importer and consumer, however, that Japan poses the most important problems. For Japan, far more than a great trading nation, is an enormous potential market.

This again is a matter of wide misunderstanding. There is a common assumption that Japan, like Great Britain in the 19th century, is an island nation that lives by importing raw materials, transforming them and selling them on the markets of the world. In fact, Japan's imports and exports each average only about 10 percent of its gross national product, while comparative figures for Western Germany are 23 percent in the case of exports and 20 percent in the case of imports. If the common assumption were indeed true, if Japan were, for example, a nation like Holland where imports and exports each exceed 45 percent of the gross national product, the situation would be quits different. Japan would still be a force in world trade, but, without the solid base of a great national market reserved largely for her own industry, she would not pose anything like the same problem for the world trading system that she does today.

To be sure, Japan has achieved less self-sufficiency than we have in this country since our exports and imports are each only 5 to 6 percent of our gross national product, but her prosperity still rests fundamentally on the rapid development and expansion of her domestic market—a market of 100 million people.

Unhappily however, she has not yet gained the requisite self-confidence to open that market to the goods and capital of other nations to anything like the degree that the requirements of an expanding trading world require, or, for that matter, the degree to which other great nations permit. No doubt there are several reasons for this. Presumably one element is a very considerable residue of the experience of isolation that Japan pursued as a national policy during the Tokugawa period, which lasted until the 1870's, a period lasting several hundred years when Japan completely shut herself off from the world. That experience also goes far to explain the nation-centered attitude which is the mainspring of her economic system.

Thus major Japanese corporations do not regard themselves as private enterprises seeking profit half so much as they regard themselves as instruments of a national purpose, so they sometimes invade markets with very small margins of profit, primarily to achieve a purpose which the Japanese Government has set for itself.

Here I think, again, we tend to be confused by our own terminology. Though both the United States and Japan are widely regarded as having capitalist economies, neither economic system resembles the classical model. If Adam Smith were to come back to earth today, he would be quite as amazed by Detroit as by Tokyo; and Karl Marx would find that each nation had, in its own way, made nonsense of his dark prophecies. In each case a peculiar economic system has evolved from the special circumstances of a peculiar national experience. In each case it has gained its distinguishing shape from disparate intellectual and moral forces. Because of the breakneck speed of Japan's industrial growth, it is easy to overlook the fact that she has moved from essentially a feudal system hermetically sealed off from the rest of the world to the third most powerful industrial country in only 100 years. What this reflects is a massive collective drive by the Japanese people to move Japan into the modern world—a team effort incomprehensible in terms of our own individualistic experience. Except for the Soviet Union, no other huge nation has ever transformed its society and structure more quickly or more drastically; yet the Soviet achievement is in many ways much less impressive not only because of the vastly greater national resources at its command, but because it achieved its objectives only by the brutal use of force.

Yet, impressive as may be the Japanese evolution from feudalism to industrial preeminence, it is, in social terms, as yet an incomplete process. It is not easy to identify in our industrial life the exploitative drive of 19th century America, but Japanese industry is today still heavily marked by traces of its feudalism origin.

The problem that Japan poses for us today is preeminently a practical one—how to persuade the Japanese to speed the pace of liberalization both with respect to trade and investment, since her present trading practices are definitely out of step with those of other great trading nations.

As a nation desperately lacking in indigenous raw material resources, Japan is quite naturally making almost frenetic efforts to gain control of such resources around the world, energetically exploring for oils, prospecting for minerals, and tying up ore and energy supplies with long-term contracts. Yet this drive puts in even sharper relief the inadequate pace of Japan's progress toward the liberalization of trade and investment, for unless the Japanese market is open to the manufacturers of the world at a time when Japan is herself acquiring control over raw material sources, the necessary inference is a move toward autarky.

Consider, for example, the composition of Japanese imports, so heavily weighted with raw materials. Thus, highly industrialized as we are, the United States sends two-thirds of its exports to Japan in the form of raw materials, while accepting in return imports that consist two-thirds of manufactured goods. That, after all, is the pattern for an underdeveloped country, not for the world's most powerful economy.

The measures and tactics necessary to persuade Japan to alter her trading and investment practices require the most skillful and consistent diplomacy—and, over the years unhappily, the United States in its dealings with Japan has been anything but consistent. We have pushed Japan simultaneously to accept our goods and, by means of what we euphemistically call voluntary agreements, we have pushed her to reduce the volume of goods she sends to us. At the moment Japanese industry has agreed to limit exports of 15 to 20 widely differing products to the U.S. market. In fact, the pressures that our own Government have recently brought on the Japanese Government and Japanese industry have been directed with far more vigor toward trying to persuade the Japanese to limit certain of their exports to us than to open their market to our goods and investment.

Sooner or later, if we are ever to succeed in persuading our Japanese friends to achieve that degree of liberalization required by an expanding trading world, we must cure ourselves of such schizophrenia because our efforts tend to reenforce the protectionist elements in Japan rather than those who are advocating liberalization and, I think it goes without saying we should concentrate on achieving liberalization.

In addition, we should seek to deal with Japan on trade matters more through multilateral than bilateral negotiations. The problems presented by the very special situation of Japan are problems not merely for the United States but for the whole trading world, and I think we would do well to bear this in mind at all times.

For if we undertake by ourselves to work out special arrangements with Japan on a bilateral basis, as we have been doing, not only will we bear the full onus of the bruised feelings that will result, but we are likely to distort and complicate trade patterns in a manner that will not be healthy for anyone.

Mr. Chairman, these are only two of the major problems that seem to me to confront the world of trade and finance today—the transformation of world commerce which has resulted from the creation of the European Economic Community and the dramatic economic advancement of Japan. I hope these observations have been of some use to the committee and I would be happy to develop in colloquy any further points that you may have.

Senator RIBICOFF. Thank you very much, Mr. Ball.

Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

Mr. Ball, as you doubtless are aware, I was denied the privilege of hearing all of your statement. I certainly will read all of it. I know how highly recommended you come before this committee, and we appreciate your appearance here.

Do you believe this motivation of the multinational firms going abroad is different for Europe than it would be, say, for the Far East where the wage differential is really tremendous. In other words, do you think they go into Europe because of the growth and dynamism of the Common Market with its common external tariff, whereas they go into Taiwan and South Korea mainly to take advantage of cheap labor?

Mr. BALL. I think they go into Europe because it is a new, rapidly growing mass market. It is the only new mass market that has come on the world scene since the development of the American market in the latter 19th century and early 20th century. They go there primarily because the customers are there, because there is skilled labor available, because there is a sophisticated economic structure which permits them to operate in a manner that they are generally familiar with.

I think it is a perfectly normal and natural thing that they should do this.

When multinational companies go to Taiwan, when they go to South Korea, when they go to Singapore, for example, they go not so much for the market, which up to this time is still an underdeveloped market, they go because they can find, particularly in labor-intensive operations, a labor force which is educable, and which is certainly far cheaper than they pay for elsewhere.

This is a perfectly normal operation of economic laws. Businessmen go to places where the factors of production are most advantageous to them, whether it be labor in the Far East or whether it be facilities of other kinds, or availability of capital or whatever in other markets.

Senator HANSEN. Is it fair to infer from what you have just said that their motivation results from what appear to be the most obvious opportunities for making a profit?

Mr. BALL. That is right.

Senator HANSEN. The British lived for years off of their overseas investment earnings, but those earnings were viewed as the most obnoxious aspects of colonialism by many, ridding the colonies of their resources and income.

The Europeans tend to view investment as a challenge to their independence. Do you think that with all the excess dollars in Europe there is danger of nationalism and, if so, what will happen to our balance of payments if that should reassert itself?

Mr. BALL. There have been some evidences of national concern. The government has been more vocal in France than elsewhere as to where certain investments should be permitted.

On the other hand, the Europeans recognize the value of the Americans coming to Europe and establishing sources of production. There was one classical case a few years ago where the French Government was grumbling about the degree of involvement of the American automobile firms and was discouraging American investment, but when one of the major American companies proposed to invest in Germany the Government was unhappy that they didn't invest in France. And we had a recent situation in France where there was a question as to whether there should be an investment in eastern France or an investment near Bordeaux and the problem got involved in a French political argument because the gentleman who was running from Bordeaux was very proud of the fact that he had induced the American company to come there.

So I think that there is much more sound and fury than anything very realistic, and I don't foresee the development of the kind of nationalism that would seriously interfere with the backflow of money to the United States or would seriously interfere with further American investments in Europe.

As an investment banker, I spend a good deal of time working on investments by Americans in Europe or by Europeans in the United States. There is a considerable reverse flow taking place right now, as you have probably noticed, and I think this is likely to develop. It is perfectly normal and indeed a very healthy aspect of the world scene.

Senator HANSEN. I appreciate the fact that the statement you have just made represents your thoughts and not necessarily that of the company with which you are associated, but I would like to ask, if I may, just a question about Lehman Bros., Inc. I assume from what little I know that a major share of their business does concern itself with investments and ofttimes investments that span the boundaries of different countries; is this right?

Mr. BALL. No. Fundamentally we are an underwriting house, one of the two or three most important underwriting houses in the country.

Senator HANSEN. I see.

Mr. BALL. And the great bulk of our business is the underwriting of securities by American firms on the American capital market. We have a wide range of other activities as well. But our activities in the international area, as is the case with most major American firms, are marginal to our total business.

Of course, we like to do it when we can.

Senator HANSEN. One final question, Mr. Chairman. Rightly or wrongly, a lot of Americans are concerned, as you know perhaps better than I, with recent events in Europe, and they are likewise concerned with the trend of economic affairs in the Far East, and I think this interest has manifested itself in different ways. I happen to attribute some of the support that I find extant in the country today for the Mansfield resolution to reflect this concern and anxiety and frustration that Americans are experiencing as they see their country and their dollars the subject of intense interest and some reaction in European capitals as well as in other parts of the world.

Let me ask you, would it be in the interest of our Government today to adopt the Mansfield resolution?

Mr. BALL. No, in my view it definitely would not. I have been writing rather extensively on this subject lately.

From the point of view which you mentioned, which is of course only one of the considerations involved the budgetary costs of the maintenance of our forces in Europe are not a substantial item. In fact, a case could be made that we can maintain forces more cheaply in Europe than we can maintain them at home. So unless the proposal is to reduce the total American force level all over the world—in which case you are not talking about bringing the men home and stationing them here but bringing the men home and demobilizing them—there is no budgetary advantage at all. In fact there is a budgetary disadvantage because, as a strategic reserve to be used anywhere in the world, the forces can be maintained in Europe, as I say, at probably a lower cost than here, and some of the budgetary costs as well as the balance-of-payments effects are compensated for by the Germans.

The cost, to the extent that there is one in financial or economic terms, is the burden that is imposed on the balance of payments, which has tended to be rather exaggerated. Given the offset arrangements that now exist, it amounts, net, to somewhere between $500 and $900 million a year.

Now our total balance-of-payments deficit on the official settlements basis for 1970 was something over $10 billion. For the first quarter of this year it was something over $5 billion.

Of course, these figures are more alarmist than they should be because a great part of the deficit simply reflects a disparity of interest rates on the two sides of the Atlantic.

Nevertheless, the way to solve our balance-of-payments problem is not to run the major political risk, or pay the political costs, that would be involved in bringing our troops home—particularly not through the method in which Senator Mansfield would propose to do it—but by solving the problem of Vietnam, getting out of there, which is imposing a fantastic drain on our balance of payments, and by stopping inflation.

What creates our major problems as far as the balance of payments are concerned is simply the fact that we have an inflation rate that is higher than that which exists in most other countries and this is causing us the trouble.

Senator HANSEN. For those of us old enough to remember the days and years of World War II, don't you think that that particular age group would be perfectly willing to commit the necessary part of the GNP, in perpetuity, toward the paying for our military presence in Europe if we could avoid yet another world war.

Mr. BALL. Well, certainly, in those terms, I would entirely agree with you, Senator. But I don't think it needs to be done in perpetuity and there is an opportunity that is opening for us, which has not existed before, based on the indications now coming out of the Soviet Union, that Moscow is seriously interested in trying to negotiate a mutual force reduction.

Now, this is a very complicated problem. I have spent a certain amount of time looking at it in the past, but it may be useful to refer briefly to what has happened in this connection.

The first serious proposals on our side for a balanced force reduction were in 1958, made in 1958 at the Reykjavik ministerial conference of NATO. They were made as I recall, in about June of 1968 in a declaration of purpose which is very much worth referring to now. This was on behalf of NATO as a whole. Nothing happened to this declaration for the reason that in August of 1968 the Czechoslovakian crisis occurred, troops and tanks moved into Prague, and it was impossible to carry on any negotiations with the Soviet Union for a substantial period after that. Nevertheless, at each subsequent ministerial meeting of NATO there has been a restatement of a western interest in this, but it was only with the 24th Party Congress in Moscow and the March 30 speech of Chairman Brezhnev followed by the statements that have been made within the past few days, even stronger and more encouraging, that a real opportunity seemed to be opening where we could get down to a serious negotiation.

Therefore, whatever one might think about the approach that Senator Mansfield has recommended in his resolution, this certainly would be the wrong time to take it.

Senator HANSEN. Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Fulbright.

Senator FULBRIGHT. Mr. Secretary, it brings back old times to see you back up on the Hill testifying and supporting the administration. You have been consistent in that attitude for a long time.

The other day the Secretary of the Treasury said he considered our financial situation very serious. Do you consider it serious?

Mr. BALL. Well, I consider it serious because we have two major problems, Vietnam and inflation, and they are interrelated, and I think we have to solve the problem of inflation and I think we have to solve the problem of Vietnam.

Once we do that there is nothing inherently unhealthy about our situation, and we should move back toward a more stable position very quickly.

Senator FULBRIGHT. It is your position that the troops in Europe have no influence upon our inflation.

Mr. BALL. No, I don't think they contribute to inflation at all.

Senator FULBRIGHT. They don't contribute.

I think at the top of page 13 you say you were "astonished at the interpretation that many Americans put on the action during the monetary crisis within the past fortnight. Certainly the decisions," and so on, I won't read it all. I think that you interpret at least what some Americans felt. It was not by any means resentment at the Germans and Swiss and others. The way I interpreted it, and a number of others, was that this action which they took was a reflection upon our own policies. This is a symptom of the trouble that we are in as a result of a long period of excessive military expenditures all over the world, not only in Germany or Vietnam but in some 2,000 military bases in practically every section of the world. You are familiar with the number of military bases we have around the world, and there are about 375 major bases, and around 2,000 small ones, a major base being at least a hundred acres, 250 men, and $5 million investment—which is no small base.

But I think the reaction here was that this was an essentially dramatic recognition by Europe that our policies are dissastrous to the United States and, therefore, to the western community as a whole, and they are reacting to that.

They are saying, "You cannot go on carrying this enormous imbalance in your international payments." I think that is what it says. Not that they are being mean and nasty or anything else to us. They are just saying, "Look, you have to quit being so improvident and extravagant."

Mr. BALL. I don't disagree with that, Senator, and perhaps I should have been more precise in my comments.

I have detected in certain quarters a kind of resentment, a feeling on the part of some Americans that the Europeans are taking advantage of our discomfiture.

Senator FULBRIGHT. Those are the ones who think we ought to look at this as friends and not business "because we saved you from the Germans," saying, "You ought to be grateful and you should forgive us all of our financial sins because we have been your saviors."

That is not really a proper consideration.

It is a human attitude that since we have been friends they ought to forgive us our failures and our delinquencies. But it is gotten beyond that now. They really, I think, are doing us a favor in raising a sign that we ought not to pursue this improvident policy indefinitely and we ought to put our house in order, and that is what I think they are saying.

Mr. BALL. Well, the problem——

Senator FULBRIGHT. These people are concerned about stability, as is anybody. When they see their most powerful friend being a fool, that it is dangerous to them, I think.

Mr. BALL (continuing). We have created something, Senator, which nobody knows quite how to deal with. We have created a Eurocurrency market which is something almost new in the world. It is new in the world because it is something that nobody has been familiar with. It is a demand-and-supply market.

It is a free market. It is a market that is presided over by no central bank——

Senator FULBRIGHT. I am aware of that.

Mr. BALL (continuing). As the lender of last resort.

The result is that whatever occurs internally in a particular country, in its financial affairs, is reflected immediately in its impact on all other countries. We are at a crossroads where nations can go one of two ways. They can insulate themselves, by controls of one kind or another, from the effects that are felt throughout the Eurocurrency market. This the German Government steadfastly refused to do, which was very much to their credit because they were under pressures from certain elements in Germany to impose controls and try to insulate their economy.

Instead they took what I think was a very proper action for a surplus country: they floated the deutsche mark.

One of the lessons we get out of this is that the surplus countries are beginning to wake up to their responsibilities more than they have in the past. They have a responsibility to make adjustments as well as deficit countries. All of them have done so with the exception of Japan and it is sad that there hasn't been a similar action taken with respect to the yen.

But that is one of the problems we face. Now, you are absolutely right in saying that there is a considerable disquiet in Europe about the existence of this great market. What will ultimately come of it I don't know. It isn't merely a matter of the American deficit. There are various technical problems that contribute to this.

For example, whenever a European central bank intervenes by buying dollars, if there are too many dollars around, it takes those dollars into its reserves and it almost immediately puts them back in the Eurodollar market in order to get the advantage of the short-term high rates. The result is a multiplier effect. At least $6 billion of the $50 billion that are in the Eurodollar currency market are being counted twice. We have technical problems to solve which, over time, if the right policies are followed, should very much mitigate the problems currently being presented.

Now on the question of the U.S. balance of payments let me say only this, that our basic balance has been running for the last few years fairly steadily at about $2 billion.

Senator FULBRIGHT. Payments or trade?

Mr. BALL. No, our basic balance of payments, and by the basic balance of payments I mean current account transactions plus long-term capital movements, both public and private.

What swells the balance of payments is primarily the disparity in interest rates, and why we get this very big effect is that the Federal Reserve, in order to stimulate the American economy, has reduced interest rates in the United States substantially below levels where they exist elsewhere. The result is that there has been a flow of dollars away from the short-term money market in New York and toward Europe.

Senator FULBRIGHT. Are you saying that over the past several years our balance of payments have been a deficit only at the average of $1 billion a year?

Mr. BALL. The average since 1965 is probably more in the area of $2 billion.

Senator FULBRIGHT. What is the cumulative deficit over the last 20 years, leaving out these short-term moves of "hot" money from one country to another?

Mr. BALL. The average of the basic deficit since 1951 is not far different from what we are now running.

Senator FULBRIGHT. Where did this $50 billion, Eurodollars, come from if it didn't accumulate from our deficit?

Mr. BALL. Some of it has been created by financial operations of central banks, and is arbitrarily created.

Senator FULBRIGHT. I know it does to some extent. All I want is one narrow question: Are you saying in the last 20 years our balance of payments on the average has been only $1 billion a year?

Mr. BALL. I misspoke myself. I think the average is closer to $2 billion.

Senator RIBICOFF. I wonder, Mr. Secretary; we have a pamphlet you could use while you are discussing it with Senator Fulbright which indicates for the last 20 years our liquidity basis deficit is $40 billion and there is another chart indicating our official reserve transaction balance, and this might help you if you saw these two charts.

Mr. BALL. Yes, of course the difference——

Senator FULBRIGHT. I won't argue with you any further. I don't know that it proves anything rather substantial. Many people believe that the Europeans think they have financed us by accumulating and keeping these reserves, they have financed to a great extent our deficit, whether it arises from the war, military expenditures, or from investment in their countries. In other words, we bought control of the plants in Western Europe and the Europeans are financing our investments to a high degree, and I only want to make this point. Not only in Europe, but in any country, private business wants the Government not only to maintain troops to protect it as in Europe, but to give guarantees to their investments and to give large aid programs wherever they help, because this promotes stability and the health of the American investor. This is a very natural private enterprise motive. Everybody in business wants his business to be stable, protected, and profitable. I don't quarrel with the motives or the purposes of this.

But it seems to me the duty of the Congress, and its primary responsibility, is to look beyond the health of the particular private business and to look at the health of the country as a whole, and we must weigh against these considerations what is going on within the United States.

What seems to be so impossible to project in public discussions is that what we are concerned with is not just Europe by itself in a compartment alone—and would it be nice to do this or do that for any other neighbor—but the relative effect of this overworked word "priorities"—is it more important to us to keep the troops in Europe and to do all of this or is it to begin to look after the demands of our own economy?

This is true whether you are talking about Vietnam or whether you are talking about South America or you are talking about troops in Europe. If everything were fine at home, and we, like that mythical man who has everything, were just looking for something to do with our excess funds, I would have no objection to keeping the troops in Europe indefinitely.

It makes them happy, they don't have to pay much taxes, they pay about half as much of their GNP for their defenses as we do, and it makes the prospects for a profitable investment better. General Motors owns the Opel Co.; it is going to be more profitable if they don't have to pay as much taxes to Germany as they do here. Over there they are not burdened by the taxes and high wages and all the difficulties we have.

If I were a private businessman, if I were in your business, I would agree with you a hundred percent.

But as a Senator with some obligations, to the citizens of Arkansas, at least, I don't agree with you. I have to think of the interests of my constituents and the people here when I see that they cannot get money for sewer and water systems, they have educational funds which are cut, they have practically everything of a domestic nature cut back, and priority is given to the maintenance of 2,000 bases all over the world.

I don't know of a single important base that the U.S. Government has voluntarily closed in the last 20 years. Every one that we have closed has been because the host country has insisted that we close it. We will never do it. The generals and admirals or ambassadors in respective countries all think it is important. They never find it is time to get out because in effect it belittles their own position, I suppose, and it is human nature and I don't quarrel with them.

I do quarrel with the Congress ~~if~~ we let these people influence our judgment over the needs of our own constituents.

That is really what it comes down to.

I read your article, a most persuasive piece, in the morning Post about troops to Europe. They have been there 25 years. There never has been a time when it was timely. You and your colleagues have always said it is untimely. We have had this matter up before. Ten years ago Senator Mansfield proposed it. We have had two series of hearings in the Foreign Relations Committee. The arguments each time were exactly the ones you make: it is not timely. It would disturb the Europeans, it would encourage this and that. From your point of view as an international banker it makes everything nice; it doesn't complicate your investments or your clients' investments in Germany at all.

It helps them. It would be disturbing. But I just can't believe this is in the interest of my constituents.

As a matter of fact, I could go on and say that I think the Mansfield amendment has contributed to the drawing together of Eastern and Western Europeans. You don't accept it—none of the administration does—but it doesn't seem to me to be just coincidental that just as we are talking about this in the Congress that the French have had a change of heart and said maybe they had better move to let the British in the Common Market.

I am not so sure that your psychological analysis is a correct one. I don't think it is your responsibility to look at this from the point of view of my constituents in Arkansas. I am not quarreling with you at all in that sense. I am only saying that from my point of view there are other priorities.

Mr. Ball. Senator, first let me say I quite explicitly disassociated my role here this morning from that of being an investment banker.

Senator Fulbright. But you can't do that. You are an investment banker. I can't disassociate my role from being a Senator and an elected representative from Arkansas, no matter what I say.

Mr. Ball. I think you will recall, Senator, the views I expressed since I have become an investment banker were exactly the same views I expressed when I was Under Secretary of State.

Senator Fulbright. That is correct.

Mr. Ball. When I was representing your constituency.

Senator FULBRIGHT. You represented not my constituents but represented the then administration, and I have been unable to see the slightest difference between this administration's and the prior administration's attitude toward either this or Vietnam.

Mr. BALL. Let me say also if it were a question of a real tradeoff I think it would be a different problem but I don't think you will build a single sewer in Arkansas by pulling a soldier back from Europe unless you are prepared to go the whole way, and try to solve the budgetary problem by a reduction of total forces.

Senator FULBRIGHT. Indeed I am. We have looked into this whole foreign base matter. I can say the same thing about Japan. Here is Japan—you have described it better than I can—with the highest growth rate. They are the best off financially, yet we have got 50,000 troops there. We have spent nearly a billion dollars in Japan paying their defense bill. Of course they love us for it. When the Secretary of State goes to Japan they applaud him. He said the other day he cannot understand when he went abroad people applaud him and had parades and all the children come out. When he goes around here the people of America don't. Well, we are the ones who are paying the bill, and the Japanese, of course, love it.

Every one of them loves it if we pay their bills. I would love it if someone would pay my bills, all my taxes. What a nice economic situation if you would pay all my income tax every year.

Mr. BALL. Senator, I am not at all unsympathetic with your desire to reduce forces.

Senator FULBRIGHT. All over; this just happens to be the one before us.

Mr. BALL. As you very well know, I was very firmly opposed to our entry into this horrible quagmire in Southeast Asia from the beginning.

Senator FULBRIGHT. Much worse than you thought it would be.

Mr. BALL. It was, although I must say, I will tell you exactly how wrong I was.

Senator FULBRIGHT. Yes.

Mr. BALL. I predicted in 1961 that we would have 300,000 men in the rice paddies and jungles in 5 years time, and I missed it by 250,000.

Senator RIBICOFF. I think if we can have the Senator's indulgence we have given you twice the 10 and while we sat to 5 o'clock every night, I think today we will be unable to do so because there will be votes starting at about 12 m. so I am going to confine the committee to 10 minutes from now on in.

Senator FULBRIGHT. It is the chairman's duty to call me to order.

Senator RIBICOFF. I wouldn't do that. You were going too good.

Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman and Mr. Secretary, it is good to see you here this morning. I would just say one thing before getting started. If you could have been in Japan yesterday or the day before you would have heard a different story from the standpoint of the Japanese wanting our troops to stay when they were discussing Okinawa.

But, Mr. Ball, the discussions that we had with the Japanese consisted principally of trade and, of course, textiles was uppermost. The overall discussions from our standpoint were whether or not GATT as presently structured is adequate for the international trade in the coming decade or we could say even today. How do you feel about that.

Mr. BALL. Obviously all human institutions can be perfected. GATT, by and large, provides a structure which is as good as any I can think of. When people talk about GATT being inadequate, I think very often they are beginning to wonder whether the whole system of most favored nation trade which has been the one that we have been pursuing for 25 years, whether that should be reexamined.

I would be against it. What we have achieved by opening up markets and liberalizing trade and letting trade move according to economic forces has been a highly valuable thing and I don't know how you change GATT fundamentally without departing from that principle, and I think it would be quite dangerous to do it.

Senator FANNIN. Unfortunately we have not been able to have the flexibility of adjustment. Let's just take the Japanese, for instance, the way they have flooded our market with cars, with rates going down to 3 percent next year.

And then, on electronics, here we have their merchandise coming in at 6 percent, the same merchandise going to Japan is 24; in other words, they manufacture at a much lower cost than we do, and still GATT is supposed to attempt to adjust for those differences, but, in fact, it is adjusting the wrong way.

Mr. BALL. I agree with you entirely, that the Japanese are not playing by the rules while other trading countries are, including the United States. I think that this can only be cured, however, by making it necessary for the Japanese to comply with the rules rather than changing the rules.

Senator FANNIN. I would agree, but complying with the present rules would not be adequate.

Mr. BALL. If they complied with the present rules they would have to get rid of many of the restrictions which they now have.

Senator FANNIN. Then we have the free-trading area, like the European Economic Community, and I would like to go into that a little later but they do not abide by the MFN provision.

Mr. BALL. Senator, I would, with respect, challenge that. I think you will find that, so far as either the European Common Market or the EFTA countries are concerned, their record of compliance is not all that bad. We commit our sins, too, from time to time.

Senator FANNIN. Let's just take their tax base, and how they get away with the difference in direct tax or indirect tax, and we know that France, for instance, with a 23-percent tax involved, value-added tax, and with that deducted do you consider that fair?

Mr. BALL. Well, that is a technical problem which we haven't been able to solve yet, but it is fundamentally a technical problem. What happens is this. The European countries have a system of value-added taxes; thus when goods are imported from foreign countries, they make an adjustment to put them on a parity with goods internally produced. There is no discriminatory element as such.

Now, we would make that adjustment if it weren't for the fact that the bulk of our revenues are raised by income taxes and nobody knows what specific burden is borne by specific products. The problem is one that is going to have to be solved as a technical problem.

Senator FANNIN. I realize that. But I think that we have just let these problems slide by. We started out in 1947 with a $10 billion surplus in trade and we have not really attempted, which I think is necessary, to make these changes, so as a result of it we are suffering very badly. Some of our industries are going under, and we have a very serious situation. You know they say the Japanese are guilty of unfair labor practices, they like to work hard and that is something that we have to recognize, that we are just in a period, I think, of adjustment ourselves, not recognizing the tremendous competition that we have in so many of these industries. We have just taken it for granted we had that leadership, just like the automotive industry and that of course is changing with the Japanese now producing over 3 million cars a year. I am just wondering if we can sit back and allow them full access to our markets while they are closing off their markets to us and, of course, they say "we want you to have access to certain markets" but those markets are usually non-labor-oriented industries.

Mr. BALL. Senator Fannin, I agree with you entirely that Japan poses a very serious problem and I think it is a problem that has to be dealt with. I recommended in my statement that it not be dealt with on a bilateral basis between the United States and Japan because it poses the same problem for all the major industrialized nations that compose the world's trading system. However, I would make a clear distinction between Japan, which is proceeding toward liberalization far more slowly than other nations, and the European community.

If you look at the statistics of the evolution of our trade with the European community, you find that our exports to the European community have grown three times since 1958, which suggests that the accusation that there is very much inequity as far as their trade barriers are concerned really doesn't stand up.

Senator FANNIN. I can say this, I can give you illustrations. For example, the citrus problem in my own State. Tunisia and Morocco get an 80 percent relief from tariff, Israel and, let's see, Spain gets a 40-percent relief from tariff. This is all involved in the European Economic Community program.

Mr. BALL. That is a legitimate criticism of the community that they have worked out special treaties of association. Now actually, you know the U.S. Government has been toying for a long time with some kind of special concessions to Latin America. I think it would be a mistake myself to see the world get sliced up into those kinds of apple slices.

Senator FANNIN. They are just power blocs, are they not?

Mr. BALL. I beg your pardon.

Senator FANNIN. They just become power blocs. When you have a free trading area agreement and you are closing out others, don't you think that it becomes a power bloc.

Mr. BALL. Well, again——

Senator FANNIN. Any industry.

Mr. BALL. I make a distinction between the nations which are members, say, of the European Economic Community, which has aspirations toward real political unity, and those nations that make treaties of association with the economic community such as Israel or the former African possessions of France. I don't think that they have a case for such special arrangements, and if they persist in the practice we may ourselves be driven into a situation where, so far as Latin America is concerned we have to make special arrangements.

I think that would be undesirable. We tried to negotiate with the Europeans for phasing out the whole preferential system and we didn't finally succeed. But I think that there is a good deal to be said for phasing it out.

Senator FANNIN. Do you think if the British are admitted to the EEC that this will perhaps have an effect on the attitude that we have now, that they will be more forward looking and perhaps westward looking.

Mr. BALL. I am personally convinced of it, Senator. I think you will find on the British side a great desire to liberalize as much as possible because they have been historically a world trading nation. Their influence within the community will be very much in that direction. The British have a real talent for the recognition of an accomplished fact and once they become members they will begin to think in European terms. You will find British politicians seeing their future within the framework of a larger political unit in Europe and general progress in that direction.

Senator FANNIN. These countries have the protection of an umbrella so far as nuclear warfare is concerned, and I was just wondering if with the British entry, we will have some influence in regard to political and negotiating affairs.

Mr. BALL. Whether anything will come of a combined nuclear arrangement with Britain and France within the community I doubt it very much. For one thing there is the problem of the McMahon Act which prevents the British from contributing much of their know-how to such an arrangement and the political problems are of very real concern there.

But I am very much convinced that if Britain does enter there will be a much more stable situation in Europe and that over time the British can play a much larger role, carry a much larger burden.

Senator FANNIN. That was the feeling I had and I just wondered if you substantiated it. The West Europeans do a thriving business with the East. Do you believe American subsidiaries in Western Europe should be allowed to trade with Eastern Europe while their parent corporations, in the United States are forbidden in many products?

Mr. BALL. Let me say the extraterritorial application of our own laws is one of the most abrasive things that we try to do. We find ourselves in an impossible position where we say to a subsidiary of American company in Europe "you can't do what your competitors in Europe can do."

Now, my solution to the problem is a very simple one. I think we ought to go very far to liberalize our own rules with regard to trading with the east because I think they are largely self-defeating in their present form.

Senator FANNIN. Thank you very much.

Senator RIBICOFF. Mr. Secretary, from your experience in the field of diplomacy and finance and also as a banker, am I correct in assuming that the $50 billion Eurodollar fund has been used over recent years for short-term investments where people were playing the interest rates and speculation in currency values and making their money that way.

Mr. BALL. Well, it has also been used for long-term investment. I do not have exact figures, but a considerable part of that money has been put to capital investment use through long-term and medium-term bond issues.

The money has been used by American companies who wanted to make investments in Europe on a long-term basis. It has been used by European companies. Then there has been a certain part of it which has been withdrawn for use by the American banks. At a time when the Federal Reserve was still maintaining Regulation Q—which is a regulation that keeps the American commercial banks from paying more than a certain rate of interest for the money that they need—the foreign branches of the American banks were borrowing heavily in the Eurodollar market in order to bring the money back where it could be used in meeting commitments under their own lines of credit.

Senator RIBICOFF. This was basically short term.

Mr. BALL. That was basically short-term money and overnight money to a considerable extent.

Senator RIBICOFF. Isn't the bulk of the Eurodollar being used for short-term investment purposes?

Mr. BALL. Well, it changes. It is a very fluctuating market. Sometimes there is a great deal of long-term money available. Other times the holders of the dollars decide that they want to put them out on short term and it depends on the differential in the rate structure.

Senator RIBICOFF. Do you think, if the Eurodollar fund keeps building up as it has during the past 10 years, that the European nations will allow this Eurodollar fund to go unmolested or do you think they will start to try to put some regulation into it.

Mr. BALL. I think there may be a move toward regulation and I think we shouldn't be unhappy if there were a move toward regulation. What it might amount to would be a kind of an international central bank superimposed on the top of the Euro fund, because so long as it remains an unregulated supply and demand market it accentuates the effect of one country's problems for the others.

Senator RIBICOFF. Isn't this a case eventually, I can't help but feel, that the European countries will do so, shouldn't the United States start having a hand in determining how that Eurodollar fund will be used or what rules and regulations should go into effect or do you think it should just be a unilateral action by the European central banks.

Mr. BALL. No; I don't think in the nature of things it could be a unilateral action because there are too many countries involved. I think that—and the technical problems are very considerable here, but there have been a number of studies made about the possibility of some kind of international or multinational central bank which would have jurisdiction over this fund, would serve as a lender of last resort and bring some kind of regulation to it.

Senator RIBICOFF. Do you think from your experience, which goes over so many years, that the time is overdue for a high level conference of the major trading nations of the world to determine basic philosophical ends or principles in the field of international trade, in the field of investment, in the field of money. Do you think we should be looking forward toward that?

Mr. BALL. Well, actually we have this opportunity every fall. You know, as far as monetary policy and international financial policy is concerned, the meeting of the Bank and Fund brings together all of these nations at the very top level, because the representatives present are the Ministers of Finance and the Secretary of the Treasury and so on, so that there is really no need to have a special meeting. In fact, there would be real disadvantages in a special meeting because it would create kind of a crisis atmosphere. There is no real difficulty in being able to talk together and actually the Bank and Fund meetings are a perfect forum for this. I don't think anybody has any dramatic solutions because we are dealing in an area of policy where the doctors do really disagree to a very considerable extent and are only gradually sorting out new theories and new ideas about how all of this should be handled.

Senator RIBICOFF. Do you think the attitude should be let's muddle through this one too and take our chances.

Mr. BALL. I don't think it is a matter of muddling through. I think there should be a great deal of advanced thinking and I think there is a considerable amount going on. I don't think it has reached the stage however where there is sufficient agreement on these matters that a special conference would be justified or indeed that there can be definite agreements arrived at even at the Bank and Fund meetings that would be very far reaching.

We have made progress. I mean the SDR's, the special drawing rights, were a real breakthrough in my judgment. The two-tier system which the whole world depends on now, this was a very real breakthrough.

I don't think that this is a situation where there has been no progress. I think there has been substantial progress.

Senator RIBICOFF. I read some of the articles by you, and you are an advocate of the multinational corporation, you believe it has a positive role to play economically, politically and socially in the world?

Mr. BALL. That is right.

Senator RIBICOFF. But do you think that the multinational corporation should float around like the Eurodollar is floating around or do you think someone has to have some control or should have some control. Should there be some rules and regulations by somebody or some country or any group of countries concerning the multinational corporation?

Mr. BALL. About 4 years ago, Mr. Chairman, in London, at a meeting of the CBI, the Confederation of British Industries. I made a speech in which I put forth the proposition that at some point in the future, as the multinational corporations develop we should envisage the creation of a kind of multinational companies act, which would be created by treaty, which would have a supervisory board drawn from all of the signatory governments, and which would set the rules and regulations under which the multinational companies would operate.

It would impose restrictions on the operations of the multinational corporations, but it would also limit the degree to which nation states could interfere in their operations.

Let me say that the British industrialists who were there that night didn't exactly throw their black bowlers in the air at the idea, but similar ideas are floating around in the public domain right now, and I think at some point we are very likely to come to something of this sort.

Senator RIBICOFF. Would you be good enough to send us a copy of your statement 4 years ago?

Mr. BALL. Surely.

Senator RIBICOFF. If you would like to update it.

Mr. BALL. Actually I have updated it and I can send you a more modern version.

Senator RIBICOFF. More modern version; and I will put it in the record at this point because it seems to me that the multinational corporation as well as the Eurodollar are problems we all have to address ourselves to.

Material supplied by the witness follows. Hearing continues on p. 361.)

ADDRESS BY HON. GEORGE W. BALL, PARTNER, LEHMAN BROS., NEW YORK CITY, IN NEW YORK AT PACE COLLEGE—SOME IMPLICATIONS OF THE WORLD COMPANY

I propose to approach the subject of the "internationalization of business" by considering what I shall arbitrarily call the "world company." This terminology seems to me more descriptive and less awkward than such expressions as the "international" or "multinational" corporation or company.

A "world company," as I use the term, is a corporation, organized under the laws of a domiciliary country, that characteristically engages in some industrial activity or activities and that meets two standards:

First, it does business all over the world—or at least in substantially all non-Communist areas—obtaining its capital and procuring its raw materials wherever they are available under the most advantageous conditions, producing wherever its goods can be most efficiently manufactured, and selling its products in all the markets of the world; and

Second, the management of the world company shapes its policies not in terms of national economies but of the overall world economy.

As thus defined, the world company is perhaps more archetypal than real, but more and more corporations are approaching the prescribed standards and there will be even more tomorrow, since the evolution of the world company responds to needs that are every day becoming more acute.

At a time when the demand for goods of every kind is multiplying almost at a geometric rate while world resources remain finite, we must find the means to use those resources with a maximum of efficiency and a minimum of waste or face a Malthusian debacle on a global scale. It is to this end that the world company makes its unique contribution by enabling men, for the first time in history, to deploy resources freely throughout the world in accordance with principles of comparative advantage measured by the objective standard of profit.

I

The inarticulate premise of the world company is that the political boundaries of nation states are too narrow and constrictive to provide adequate scope for modern world economic activities. In a thoroughly pragmatic spirit businessmen have improvished the institution they need to shake free from strangling political impediments. To serve the global activities of modern business they have exploited and extended the fiction of the corporation—that artificial person which lawyers invented so that entrepreneurs could do business with limited liability and could thus mobilize capital from diverse financial sources.

Originally the corporation was conceived as a privilege granted by the State to serve its own political purposes, but over the years the widespread acceptance of the institution has enabled giant corporations to roam the world with substantial freedom, producing and selling their goods in a multiplicity of national markets, and begetting corporate offspring of various nationalities in unlimited numbers.

Today we are just beginning to realize the potential of this emancipated corporate person. For more than half a century a handful of great companies have bought, produced and sold goods around the world. But since the Second World War, their number has multiplied manyfold. Today a large and rapidly expanding roster of companies is engaged in transforming the raw materials produced in one group of countries with the labor and plant facilities in others to manufacture goods it can sell in third country markets—and, with the benefit of instant communications, quick transport, computers and modern managerial techniques, is reshuffling resources and altering the pattern on almost a month-to-month basis in response to shifting costs, prices and availabilities.

In these terms the world company provides mankind with an instrument of high value. Our task in these proceedings, as I see it, is to consider how and to what extent we can best preserve and advance that value within the present and prospective world political structure without excessive loss to other values in which many men place considerable store.

II

To be productive we must begin our inquiry by explicitly recognizing the lack of phasing between the development of the world company—a concept responding to modern needs—and the continued existence of an archaic political structure of nation states, mostly small or of only medium size, which is evolving only at glacier pace in response to new world requirements of scope and scale. This lack of phasing is responsible for most of the problems confronting the world company, which, in broad terms, can best be considered with respect to two sets of relationships.

The first concerns relations between the government of the country in which a world company is organized and the governments of the various host states in which it operates. For a variety of reasons—such as the desire to prevent evasion of its own laws or the wish to extend its own jurisdiction as far as possible—domiciliary governments frequently seek to control activities of world companies even though those activities take place outside their geographic boundaries.

Although the extraterritorial application of national laws—which sometimes embody unshared national prejudices—is inherently abrasive, bureaucracies are frequently obtuse about it. My own Government created a sense of outrage, particularly in Ottawa, when it tries—unwisely, I think—to restrict foreign subsidiaries of American companies in their dealings with Red China. Our Canadian friends understandably resented this—though, to be quite fair about it, they have, in their turn, not always shown maximum sensitivity in their treatment of American companies. Today the United States Government is again stretching the principle by requiring the repatriation of a substantial part of the monies that foreign subsidiaries of American companies earn in various parts of the world, thus creating anxiety among governments which permit free movement of funds that countries restricting the repatriation of earnings may benefit unjustly.

III

Much more serious problems surround the second type of relationship—that between a world corporation and the governments of the host states in which it does business. Traditional international good manners would require that the corporation be accorded "national treatment", which means that it should be permitted to enjoy the same privileges, and be required to accept the same responsibilities, as any citizen of the host state. The Government of the United States is a party to forty-four Treaties of Friendship, Commerce and Navigation or similar treaties which incorporate this principle.

Abstractly stated, this is sound doctrine, yet sometimes, because it does not fully respond to reality, it is honored more in the breach than the observance. No words in a treaty can alter the fact that the absentee management of a world company will not view its problems within the same frame of reference as a host government. The concern of a corporate management is with the total operation of a wide-ranging enterprise, only part of whose activities take place in the host state. The responsibility of a local government, on the other hand, is for the health and progress of the national economy to which the world company frequently contributes only a very small share; in addition, it is subject to emotions of national pride, to pressures from local interests claiming special advantages, and—if it is the government of a newly independent state—to an almost pathological fear of foreign economic dominance that might lead to what is mystically referred to as neo-colonialism.

Obviously the world company creates quite different problems for the new, poor nations of the Southern Hemisphere than for the industrialized countries of the North. Since a world company is more likely to be the dominant element of economic power in a small nation than a large one, the prosperity of many less-developed countries is left heavily dependent on decisions made by managements of world companies located five or six thousand miles away. When—as is so often the case—an extractive industry is involved, the problem is given an additional emotional overlay by the fact that the world company disposes of what is traditionally regarded as the national patrimony.

Problems of this kind have been brought into sharper relief as countries just emerging into industrialization have begun to make national development plans.

Often one of the principal assumptions underpinning a four- or five-year plan is an estimate that a world company will do more of its business in the host country than the distant management, in fact, intends.

Because these problems are part of the uneasy context of North-South relations, they are confused by a wide range of tangential issues. For purposes of our discussion, therefore, we would probably be well advised to put prime emphasis on the less cluttered problems encountered and created by world companies in the industrialized nations of the Northern Hemisphere.

IV

Even here, the context tends to confuse the answers. The fact that, at least for the time-being, most world companies are domiciled in America is a significant political element that infects economic arrangements with national jealousies and resentments. In a world bemused by symbols, some otherwise sophisticated Europeans have been tempted by the cliche of "American economic imperialism". If, as I believe, the world company has a great potential for good as an instrument for efficiently utilizing resources, there need certainly be no apologies for the sensible and vigorous way American industry has organized itself to serve an expanding world economy. What American entrepreneurs are doing, as I see it, is exactly what European industrialists should be doing if the conditions existed in Europe that would make this possible.

Hopefully, these conditions are in the making. Next summer, for the first time in history, goods will move with full freedom throughout six nations of Western Europe to serve the needs of 200 million people. Nor is this the end of the process since, in spite of the counter winds of nationalism blowing with gale force from one European capital, I have no doubt that within a few months or a year, the European Community will be expanded to include Great Britain and very likely several other important European trading nations.

Yes, great as is the achievement up to this point, it still falls far short of what is needed. I do not believe that European business will be able to hold its own under the conditions of the future unless an environment is created that will make Europe a seed bed for new world companies. Preoccupation with the so-called "technological gap" and concern at the so-called "American invasion" reflect little more than the fact that many American companies possess the size and resources necessary to play an efficient world role while most European enterprises do not.

Until Europe achieves greater political unity, I doubt, however, that European business will be able to make adequate progress toward a more ample structure. It is deeply disappointing, for example, that, with the Treaty of Rome already ten years old, social, fiscal and legal complications still make mergers across national lines difficult, if not impossible. Yet, until such international concentration does take place and a modern structure of enterprise is created, few European companies will achieve the scope and resources needed to serve our modern world economy with full efficiency.

I would hope therefore that the lesson in M. Servan-Schrieber's recent book "Le Defi Americain" will be taken to heart and that the so-called "American invasion" will be regarded not as a threat but as an incentive to the achievement of a modern structure of European enterprise.

Such a development would be welcomed in the United States, where nothing could be healthier than a European counter invasion. If European companies—at the same time great world companies—were presently busy buying American corporations and establishing production sources in Detroit and Pittsburgh and Kalamazoo, it would be to everyone's advantage. It would mix more eggs in the political omelette, while the counter flow of European direct investment capital would help significantly in bringing the American balance of payments into equilibrium.

I believe, therefore, that the development of a modern structure of enterprise in Europe—which is probably not possible without greater political unity—is far the best way to ease the problems of the world company in the advanced nations.

To be sure, some special difficulties would remain in certain geographic areas or industrial sectors. Resistance might still be encountered were world companies to dominate those types of industry psychologically associated with national pride—such as automobiles and computers. And in Japan, where a whole industrial economy is balanced precariously on a tiny capital base by the subtle operation of "administrative guidance," fears would probably persist that world companies under absentee management might not show full sensitivity to all the unwritten rules.

V

To realize the full promise of the world company, it is not enough for us to liberalize world trade (we have been making significant progress in that direction for the past thirty years), including the free movement of capital (here my own government has recently backslid). We will also need to find ways to assure peaceful co-existence between two overlapping circles of authority—corporate managements, and local host governments.

This problem should not, however, prove beyond the wit of man; the Roman church, as M. Jacques de Fouchier reminds us, developed a form of co-existence with nation states that lasted for centuries, and Professor Raymond Vernon has recalled also the overlapping sovereignties of the governments of Europe and the House of Rothschild.

I doubt, however, that we can gain much wisdom from those analogies. We are going to have to search for some new and different techniques to fit the world company into the existing political environment.

A limited amount can be accomplished, of course, by improved corporate diplomacy. Over the past few years many world companies have sought, by trying to establish themselves as useful citizens of host countries, to mitigate the prejudices and fears they might otherwise engender. Most of their thinking has been in terms of protective coloring. Should not the world company take local partners? Should it not list the shares of its subsidiaries on local exchanges, employ local managers, and try to behave as though its corporate children were national companies of host countries which only distantly acknowledged their absentee parents?

Ideas such as these have been adopted with varying degrees of success. Efforts to achieve a local identity should not be rejected out of hand, though clearly they are more suited to certain types of corporate activity than to others.

Yet, in many cases, the costs of seeking recognition as a local citizen can be excessive. The peculiar genius of the world company stems from its ability to view the world economy from a single point of vantage and to deploy resources without regard to national origin in response to a common set of economic standards. It is the disadvantage of local partners that they are, in a sense, enemies of such mobility, since their judgments are based on benefits to the local subsidiary rather than on the interests of the world enterprise as a whole. Put another way, the scope of their thinking is defined by the national economy rather than the world economy.

This fundamental difference in attitude is almost certain to produce conflicts over corporate policy affecting a wide spectrum of issues that can be reconciled only through an accommodation of interests at some cost to the full efficiency of the world company.

Conflicts, for example, are likely to occur with respect to dividend policy. A local partner may wish earnings distributed while the management of the world company may wish to plow them back—or vice versa. Or a local partner may wish particular facilities expanded, while the world company finds it more profitable to sell or abandon them. Finally, the management of a world company may well find itself wishing to serve the market of a neighboring country not by production in the host country but through subsidiaries located elsewhere.

VI.

Since the device of local partners is almost certain, therefore, to hobble the ability of managements to gear their decisions freely to the world economy, its indiscriminate use should not be encouraged. Instead—rather than attempting to develop a whole congeries of national personalities for subsidiaries of the world company—it might be wiser to approach the problem centrally by internationalizing or denationalizing the parent.

Such a suggestion finds re-enforcement when one considers the problem on a philosophical level as a case study in the legitimacy of power. Where does one find a legitimate base for the power of corporate managements to make decisions that can profoundly affect the economic life of nations to whose governments they have only limited responsibility?

Ever since the publication, in the early 1930's, of Berle and Means' classic study of the divorcement of control from ownership of great industrial companies, Americans have puzzled over the problem of legitimacy in the domestic context. Whence do corporate managements (which are in practice frequently self-perpetuating) derive the right to make decisions affecting not only the inarticulate mass of shareholders but the economic welfare of whole communities and the pocketbooks of consumers?

This question is far from simple even in domestic terms; when translated to the level of world operations it acquires additional layers of complexity. Within our own national boundaries, an industrial corporation is kept under substantial regulation not only by State laws and regulatory agencies but by the Federal Government. For a world company, however, there is no overriding political authority to oversee the totality of its operations nor—and this is even more important—is there any organic arrangement to prevent national governments from interfering with the fulfillment of its role in world commerce in the same way that the United States Constitution—enforced by the Federal judiciary—limits the power of the States to interfere with the fulfillment of the domestic company's role in interstate commerce.

Let me be quite clear. I am not proposing a Federal governmental structure at the world level, or anything like it; I have spent too much of my life on the exposed steppes of diplomacy and international politics to have any faith in such ethereal designs. Yet, if we begin modestly, there is no reason why world companies might not be accorded some form of denationalized status by a multilateral treaty.

## VII

The essence of the suggestion is that those artificial persons, which I have referred to as world companies, should become quite literally citizens of the world. What this implies is the establishment by treaty of something in the nature of an international companies law, administered by a body made up of representatives drawn from signatory countries, who would not only exercise normal domiciliary supervision but would also enforce the kinds of arrangements that are normally included in treaties of establishment.

Such an international companies law could set limits, for example, on the restrictions that signatory states might be permitted to impose on companies established under its sanction. The operative standard defining those limits would be the freedom needed to preserve and protect the central principle of assuring the most efficient use of world resources.

In suggesting the possibility of a multilateral treaty of this kind, I would strongly urge against enmeshing it in the machinery of the United Nations or even, in the first instance, attempting to gain signatories outside the small circle of industrialized nations. Like the GATT it would be regarded primarily as a mechanism for creating a code of rules among the major trading nations, reserving the possibility that, over the years, it might provide a world charter as more and more of the less-developed countries adhered to its provisions.

Obviously such an international company would have a central base of operations. It would not, like Mohammad's coffin, be suspended in the air, since it is clearly necessary that there be a single profit center. And its operations in its home country would, of course, be subject to local law to the extent that the organic treaty did not contain overriding regulations.

I recognize, of course, that a company will not become effectively a citizen of the world merely by a legal laying on of hands. It requires something more than an international companies law to validate its passport; the enterprise must in fact become international. This means among other things that share ownership in the parent must be widely dispersed so that the company cannot be regarded as the exclusive instrument of a particular nation which, in view of the underdeveloped state of most national capital markets, even in economically advanced countries, is not likely to occur very soon. But, over the long pull, as, in more and more countries savings are effectively mobilized for investment, companies should assume an increasingly denationalized character, while we might, at the same time, expect a gradual internationalizing of boards of directors and parent company managements.

## VIII

I offer these suggestions in tentative and speculative terms, recognizing that these are not the only means through which a solution may be sought. One can envisage an international treaty, for example, directed solely at resolving jurisdictional conflicts or limiting national restrictions on trade and investment. Yet an international companies act, as I see it, has intrinsic merits. It offers the best means I can think of to preserve for all society the great potential of the world corporation.

Nor is such a proposal, after all, far beyond the realm of present-day contemplation. It is merely an adaptation in a larger arena of what is likely to be created within the next few years in Europe: A common companies law for the European Economic Community together with a body of regulations to be administered by the European Economic Commission.

Conceived in these terms a world companies law could serve a vital economic purpose; yet, at the same time, its larger political implications should not be wholly ignored. Freeing world business from national interference through the creation of new world instrumentalities would inevitably, over time, point up the inadequacy of our political arrangements. At least in a small way it might thus serve to stimulate mankind to close the gap between the archaic political structure of the world and the visions of commerce that vault beyond confining national boundaries to exploit the full promise of the world economy.

Senator RIBICOFF. I have 2 more minutes so I am going to ask you the final question.

Since you believe that our defense posture should remain the same in Europe—you are against the so-called Mansfield amendment—and you feel that it is all right for us to continue the financial burden of these troops in the balance of payments, where do you think there should be some give by the European countries who are prosperous and who have these large dollar balances toward lessening the dollar balances.

Where should that direction come from?

Mr. BALL. You mean lessening the drain?

Senator RIBICOFF. Lessening the drain upon the American dollar.

Mr. BALL. Well, I think quite a lot of progress has been made already in this direction through the offset arrangements we have with the Germans. Germany should pay more than it is paying and I think there should be a very definite effort on our part to see that it not only contributes more, so far as the balance-of-payments problem is concerned, but makes a larger budgetary contribution than it does.

Senator RIBICOFF. In other words, the cost of supporting the 150,000 men Senator Mansfield wants to cut, from a balance of payments point of view, comes to some $400 million. That would sort of even out what the dollar drain would be. For the life of me, I can't understand why a nation as prosperous as Germany, with its large reserve balance of dollars—and the nuclear umbrella over her which it wants more than any other country—why Germany can't afford to pay that $400 million in addition, to remedy our dollar imbalance.

Mr. BALL. I agree with you, Senator. I think that the German contribution should be substantially enlarged in that respect.

Senator RIBICOFF. I want to thank you very much, Secretary Ball. I wish we could keep you later but we happen to have one of those short emergency days and I do appreciate your coming.

Mr. BALL. Thank you.

Senator RIBICOFF. Thank you.

We appreciate your coming here, Mr. Pisar. I know you personally. I have the highest respect for you. I consider you probably the outstanding expert in the problems of East-West trade.

I say it referring to your book, "Coexistence and Commerce," and I am fascinated over the fact that a book of this character and nature can become a world best seller. You write clearly, your points are crystal clear, and in behalf of the Finance Committee I want to thank you for coming all the way over from Paris here to give us the benefit of your thoughts.

My apologies, too, that we can't give you more time because the first vote will probably come at 12 o'clock today. So will you please proceed, Mr. Pisar?

## STATEMENT OF SAMUEL PISAR, ATTORNEY

Mr. PISAR. Thank you, Mr. Chairman for your kind words.

I have a short written statement for the record. With your permission, in my oral remarks I would like to stay fairly close to that statement.

Senator RIBICOFF. Certainly.

Mr. PISAR. Later, if you wish, I would be glad to enlarge any part of it that you may consider of interest.

Senator RIBICOFF. All right.

Mr. PISAR. Mr. Chairman, if I were to give a title to my statement I would call it "A World Without Blocs," without economic blocs. If I were to give it a subtitle, I would call it "The Grand Design Revisited." And as I listened to Senator Fulbright's questioning of Mr. George Ball, I was tempted to call it, in the context of our far flung and costly military establishment of today, "Our Neglected Weapons of Peace."

Permit me to start with words that are harshly critical, even though I hope to get on to portions that are constructive as well.

I am of the opinion that after years of unparalleled progress our foreign economic policy in a rapidly changing world has become stale, incoherent and counter-productive. I say this from convictions born of the rather unique perspective of an American lawyer practicing in the heart of the Common Market and an observer of trade relations between the West's private enterprise and the East's state enterprise systems.

I speak for no client, and no special interest, but in a strictly private capacity from personal belief and observation.

A decade ago, President John F. Kennedy conceived an ambitious positive policy toward the West.

Its hallmark was "the grand design." In shaping the monumental trade legislation of 1962 the United States hoped to create, in partnership with an outward looking EEC—and England on the inside—a growing Atlantic community animated by a spirit of openness toward its members and to other, less prosperous economies. That design, Mr. Chairman, has failed. It has failed because our foreign partners would not cooperate. It has failed more painfully, because we were deflected from our original aims, to stress military over economic diplomacy. In consequence we have witnessed a drift toward "blockism" and a slow degeneration of the international trade and monetary structure so laboriously constructed and enshrined in the GATT and the IMF.

Two decades ago we conceived an ambitious negative policy toward the East. Its hallmark was selective embargo. In activating extensive export controls, discriminatory import restrictions and severe trading with the enemy laws, we hoped to arrest the economic and military progress of Communist nations. That design has also failed. It has failed because long-term embargoes are a two-edged weapon. If an upstart colony like Rhodesia, with the weight of world opinion lined up against her cannot be brought to heel by means of this type, how futile is it to attempt to subdue the Soviet Union or Mainland China.

As a result, today the United States faces two huge blocs: one in Western Europe, the other in Eastern Europe—as well as a mammoth industrial power in East Asia. The first block fears our alleged economic hagemony, the second, our alleged military imperialism. Both are repeatedly overcome by bureaucratic paralysis dictated by the political interests of their most conservative states, and by diplomatic preoccupations arising from their own, complex interrelationships. Yet the leverage we have to safeguard market access to these blocs and to their pet associated areas, has dwindled from the time when we were the chief, almost solitary, architect of global designs.

Within the West, we can only welcome as a giant step toward world peace and stability the evolution of a community that is making Europe cohesive and strong. But we must also face up to the fact that the course which an enlarged Common Market may take remains uncertain. It is a delusion of power and idealism stemming from the inspirational vision of the Marshall plan to expect an evolution in accordance with our own hopes. Certainly, we cannot retreat in isolation and disappointment, for Western Europe remains central to our interests. The notion of an Atlantic partnership remains a valid notion, and the time is ripe for new, hard-nosed initiatives to influence its evolution while it is still stirring in its embryo. In particular, we must bear in mind, and remind others, that the EEC owes its present dynamism and prosperity not to inward looking narcissism, but to a buoyant continental market pragmatically created by private enterprise from the inside and the outside, and that a great deal of the stimulus came from the so-called "American challenge."

Within the East, among the Comecon group of nations which constitute Europe's "Other Common Market," the same economic buoyancy is nowhere in sight. Comparing that region with the EEC, Japan and the United States itself, we find nothing to validate Khrushchev's gloomy prediction about the superiority of his system over ours, precisely because in his system business activity has been crushed under the monolithic weight of state policies. Long seemingly impervious to change from within and without, this most parochial and dangerous bloc of all is beginning to strain under the impact of national aspirations, the lure of Western technology and the attraction of the world market.

The Soviet Union is now engaged in external commercial operations on a larger scale, in terms of volume, variety and geography, than at any time since the Bolshevik Revolution. The smaller east European countries are even more deeply involved in economic dealings with the West. As for China it is a remarkable fact its foreign trade has reversed course from 80 percent with fellow communist states in the early 1960s, to 80 percent with the capitalist world today.

In response to these developments our allies have long drifted away from the moorings of American policy. Western Europe approaches the East in terms of the economic and cultural indivisibility of the continent, rather than its ideological cleavage. Although roughly comparable to us in size, the Common Market now enjoys 10 times more trade with the East than we do, much more than can be explained on the basis of mere geographic proximity. Japan is also deeply engaged in the exchange of goods and in new forms of economic cooperation with the Soviet Union, in addition to being China's foremost trading partner. In short, our most powerful industrial competitors roam the Communist markets as a private hunting preserve, supplying goods and services which the U.S. Government cannot effectively blockade, while business transactions coveted by American firms are tortured on a rack of legislative and administrative restrictions, to the obvious prejudice of our precarious balance of payments.

Mr. Chairman, all conventional tools of national policy, it seems to me, tools which interfere with the natural flow of international business, are rapidly becoming anachronistic, both here and abroad. The State itself, even a strong one, as the recent monetary storm in Germany has shown, is no longer a defendable economic entity. Everywhere, inexorable forces push toward a single, unified world economy, in disregard of national frontiers, and even ideological boundaries.

In the West, the multinational corporation, the Eurodollar, the dissemination of technology and the growth of rapid communications are the instruments of this trend, and a foretaste of what the future will be like. In the East, capitalist private enterprises and Communist state enterprises are beginning to form joint ventures for mutual profit through a dogma-shattering development that might be called the "transideological corporation."

Inside this vast and shifting landscape our posture as a nation, as a leader of nations, has become awkward, if not embarrassing. We are reacting to international economic and financial developments in makeshift fashion, without a consensus on where we wish to go, hoping for things that have not been, and probably cannot be achieved. The current monetary crisis suggests that other countries look upon us as a creditor looks upon a debtor. For Europeans, the dollar has become the object of an erratic love and hate affair. They welcome it as the fuel of trade and investment, and they despise it as the harbinger of inflation commanded from afar.

Mr. Chairman, they are afraid of it, and afraid for it.

Unavoidably, the main focus of our economic policy will be upon action at home and interaction with the West, Japan included. But the problems of our domestic economic adjustment and the continuous squabbles with our closest allies should not obscure our long term interest in the arena of East-West relationships. For here lie not only potentially vast and hungry markets but also an unprecedented opportunity to supplement the thermonuclear standoff with a "businessman's peace"—the peace we can best afford—across the weakening ideological ramparts of Eastern Europe. More than our far-flung and costly Military Establishment—which, alas, we must not, we dare not, yet mantle—it is the tender weapon of our superior capacity for economic progress that will prevail in the historic contest with communism.

It may be a cliche, but perhaps one worth repeating, that if we are to lead again, if we are to avoid catastrophic consequences for the world economy and for western unity, we must first bring order to our own house. We must overcome the aberrations which have been forced upon us and which go against the national grain—misbegotten military involvements abroad and stifling bureaucratic inertia at home. Above all, we must return to basic American principles, reconvince ourselves and others that we are a Nation of traders and pragmatists, that we still believe in business efficiency, sound management principles, profitability, free competition and unencumbered international trade. Permit me to put it this way, Mr. Chairman: If the essential strength of this country does not lie in the fiber of its proven business traditions, where is it?

Among other things, this means controlling the impulse to subsidize with public funds uneconomic industrial ventures and spectacular prestige projects. I say this is an observer of the other economies, the Communist economies. Otherwise we will blur the crucial separation between political and economic responsibility, as has been done to their sorrow, by the socialist systems. It means curbing the temptation to restrict commerce with other nations, if we are not to drive them into militaristic diversions, or communism's eager economic embrace. It means inviting outside investments into our economy, as we have for years been solicited to invest abroad, and avoiding overregulation of our currency flows which encourage foreign investors and depositors of funds to seek safer environments elsewhere.

It means taking the initiative to open a sincere dialog with allied nations that have a common desire to shore up the postwar trade and monetary structure which has supported 25 years of reconstruction and progress. It means getting others to reopen the gates of their markets to emergent nations and to share with us in the responsibility of helping Japan find a stable and proper place in the world economy.

In an area which I have recently observed at particularly close range, it means abolishing the self-defeating prohibition on peaceful trade with China, conforming it to our policies toward the Soviet Union and Eastern Europe, and scaling down those policies, that is to say all the restrictive economic practices vis-a-vis nonbelligerent Communist countries to a level of strategic controls that our trade-conscious allies—nations for whom foreign trade means much more than for us—can be expected to observe. Specifically it means freeing our business community from excessive export limitations, restraints on the provisions of normal supplier credits—I am of course referring to the current restrictions on the Export-Import Bank—and discrimination against the entry of desired goods—I am referring to the denials of most-favored nation treatment which the President today does not have the power to extend even if he wanted to.

In an age of balanced atomic terror, it means participating in the development of constructive ground rules for coexistence, commerce and competition between the world's two contrasting, but durable economic systems: capitalism and communism.

In a larger sense, it means recapturing the lost momentum of leadership—a task which carries heavy responsibilities, risks and even sacrifices, but also untold opportunities in the context of expanding international trade and industrial cooperation.

Senator RIBICOFF. Thank you, Mr. Pisar, for a most significant statement.

Secretary Samuels, I noticed you come in. I want to thank you very much for your cooperation in allowing Mr. Pisar to go on because he has to return tonight to Paris, and I am most appreciative.

I don't want to take your time. As I see the situation we enter a series of votes beginning at 12 o'clock which means the rhythm of the committee is going to be broken. I don't want to see you spending your time here. I would like to give you some alternatives. We could start tomorrow morning at 9:30 and allow you to be the first witness if your schedule would allow, or you could come at 2 o'clock tomorrow afternoon, but the committee is more than anxious to accommodate to your schedule. Do you think it would be possible for you to come here at 9:30 so you don't have to hang around here?

Mr. SAMUELS. I would prefer the 9:30, Senator.

Senator RIBICOFF. Thank you for your cooperation. The committee is most appreciative and you will be the first witness tomorrow morning at 9:30.

Mr. SAMUELS. Thank you very much.

Senator RIBICOFF. Thank you very much.

Mr. Pisar, the multinational corporation and the transideological corporation, as you call it, are they forces for good or evil?

Mr. PISAR. Mr. Chairman, it is a mixed bag. I believe that on balance they are a force for good, but it depends on how governments, statesmen, and corporate management will act to make certain that they become forces for good.

Now allow me to be more specific. At the moment what I call the transideological corporation is certainly a force for good, for peace. It staggers the imagination, Mr. Chairman, that capitalist private enterprise would join forces with Communist state enterprise to form jointly operated businesses.

Senator RIBICOFF. Where is this? What corporations, American corporations, are in partnership with Communists?

Mr. PISAR. Unfortunately there are no American corporations that participate. There may be a number of offshore subsidiaries of American corporations that participate but there are German corporations, English, French that are joined with Yugoslavian, with Rumanian, and with Hungarian enterprises. Occasionally in the East, but more often in the West they form joint companies. The equity is equally divided and the management is equally divided and the common objective is essentially capitalist. That is a force for peace. When this sort of thing starts happening, ideology begins to crumble. The partners in the venture are interested that the venture should continue and, as a result, they are interested in maintaining the peace. This sort of relationship between East and West is still embryonic, but it is beginning to spin a web of relationships, man-to-man, firm-to-firm, industry-to-industry, that makes for stability; and in this sense for us, for the West, the transideological corporation is an excellent development.

I suppose a witness before the Soviet Parliament in Moscow might answer the question somewhat differently.

Senator RIBICOFF. I am just curious, how do the Europeans control their dealings in trade with the East? American firms are hamstrung in selling to the East. We have a big defense umbrella around the West. I think the figures show that in 1969 the total trade between the so-called free world and the East was $16 billion. We did $440 million. How do the Western European countries do business with the East?

Mr. PISAR. Well, the Western European countries have gone off in a completely separate direction from our own on this subject. They have certain laws that control the movement of goods both ways. For example, the Common Market decided some years ago that they must not make themselves dependent on the supply of Soviet oil. They, therefore, limited their imports of that commodity to a defined ceiling. They cooperate to some extent in our strategic limitations on export to the East. As you know, the Cocom Committee, which is an offshoot of NATO and which includes Japan, meets continuously to decide on a multinational basis what commodities, what goods are strategic and should not be sold to the East, and what may be sold. That list of strategic commodities, is far shorter than the commodity list maintained by the United States itself.

The result is that the Europeans are not violating any laws or any agreements in shipping more than we do, but for us the result is that certain doubtful commodities we still consider strategic, the Europeans ship anyway, and American enterprises lose out in the process.

The most dramatic example of this is the Ford example. You will recall last year Mr. Henry Ford went to Moscow and was asked whether he would not consider building the Kama River truck plant. He looked upon it as a business proposition but when he returned home Secretary Melvin Laird suggested to the press that he would not like to see any such trucks on the Ho Chi Minh Trail—an understandable reaction for a Secretary of Defense.

It so happens that not a single truck could have come off the assembly line before 1975. But what makes the episode even more significant and paradoxical is that no sooner did Mr. Ford withdraw, than our allies, Mercedes-Benz in Germany, Renault in France, Leyland Motors in England started to fall over each other to obtain the same contract.

Now, here the United States is in a position where it helps to defend Europe with six divisions—I believe, approximately 300,000 GIs—with the cost to the balance of payments that are being discussed by the Senate today, yet American business cannot participate in a transaction of this kind. But the allies whom we help to protect at our costs are free to do so. I am not saying this as a criticism—it is an implied criticism, of course—but as a paradox. It proves our policy is indeed incoherent.

Senator RIBICOFF. Let me ask you; you say Russia and other Communist countries are attracted by Western technology. But yet if the Russians can get to the moon, produce nuclear bombs and be first in flying a supersonic transport why are Russia and the East so far behind the West?

Mr. PISAR. This is again one of those strange paradoxes. They are very much behind. The trouble with their economies is that they are uneven. They have put the best scientists on a priority basis into space technology, into defense technology. They have excellent scientists, there is no doubt about it.

But where they fail is that somehow, something happens between the lab where the scientist works and the plant, which produces for the market, and the consumer. What is wrong is that their economy is very rigid. Some bureaucrats in Moscow sit down and plan out what will be produced 5 years in advance. When they do so, they do not know what the consumer will accept. Most Russians are simply sick and tired of two or three gray coats, two or three pairs of shoes that are always in the same style and in the same color. The Communists have never been able to develop a workable mechanism between the consumer in the market and production in the plant. Their production establishment is not paced by the market. There is, therefore, a contradiction and because of this the economy is not able to develop on a wide front. It shot forth in one area where the state is pushing but it falls behind in other areas.

They are very much behind in the chemical, the petrochemical, the plastics industries. One of the great Soviet nuclear scientists, the famous Mr. Andrei Sakharov—with two other scientists—wrote a letter last year to the Russian Troika, Mr. Brezhnev, Mr. Podgorny, and Mr. Kosygin and said:

> We are far behind the West. We will never catch up with the United States. We are behind 10 years in the chemical industry, in mining. And as far as the computer industry is concerned, we live in another age.

The only way, he counseled, to get momentum into the economy was to democratize their society. Somehow, economics today are tied up with personal freedom, if I may go as far as to say that. If a famous author cannot write, Solzhenitsyn, the Nobel Prize winner; if a famous musician, Rostropovich, cannot play; if the young historian, Amalrik, has to go to Siberia to serve 3 years because he dared to have written vision of Soviet society in 1984, then the scientist cannot easily experiment, the inventor cannot easily invent, and the plant manager cannot easily innovate. There is not that open, democratic fermentation of ideas that you need in this day of galloping technology that we are living in today.

Senator RIBICOFF. I think your words ought to be spread on the front page of every newspaper and every classroom in the world to see the consequences of the difference between Soviet society and American society.

I have one more question, I have 2 more minutes and my 10 minutes are up. I have been told, and this is ironic, that originally the Soviet Union was the one that started the Eurodollar market. Do you know anything about that?

Mr. PISAR. I think I know a little bit about it, and I have to take you for a brief moment into the background.

The Soviet Union has progressively returned into the world market after Stalin's death. It is not easy for them because they do not have dollars, hard currency. They have established or reactivated recently a number of banks in the West. For example, in London, the Moscow Narodny Bank, which is a chartered bank in the city of London and where most people speak with an Oxford accent, is a hundred percent owned by the Soviet Government. The Commercial Bank for Northern Europe in Paris is a similar bank fully owned by the Soviet Government, and in 1966 the Soviet Union formed a bank in Zurich, the Woschod Bank. They are at the present time negotiating with the Germans to create a bank in Frankfurt. They have a bank in Teheran and they have a branch of the Moscow Narodny Bank in Beirut.

What do these banks do? These banks are deeply involved in financing East-West trade. But they are also behaving like normal bankers. They have a balance sheet. They have a portfolio. They have short-term money from cash deposits, and they invest. I know of situations where they have recently underwritten bonds, possibly even common stocks of western capitalist institutions. As a matter of fact, I was told, but I do not have the evidence, that they were caught sitting with a lot of Penn Central paper. [Laughter.] These are Communist banks owned by the state but behaving like capitalists.

Coming back to the Eurodollar question, it is a fact, I believe that they were the first. They decided that holding gold was pointless. The Eurodollars were earning fine rates of interest, so they drew quantities from the central banks and loaned them out to earn interest. You can check this out, Mr. Chairman, I was not involved in these early transaction, but I have discussed the subject with the chairman of the Moscow Narodny Bank and he boasts about it. In the first day of operations they traded something like $80 million worth of Eurodollars. Then everybody else followed the fashion.

Senator RIBICOFF. I will have some more questions I will submit in writing. This is very fascinating but my time has run out. I mean, you are a very provocative witness.

Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Pisar, I certainly commend you for a very thought-provoking statement. You state we have witnessed a slow degeneration of the international trade structure. What would you recommend we do to improve GATT or some international trade organization and would you tie this also with the IMF?

Mr. PISAR. I cannot pretend, sir, to be an expert in all of these areas, The focus of my testimony is on the East-West relationship. But having observed developments from the inside of the Common Market I am somewhat depressed that we have in the last years allowed a degeneration of the GATT. It is not our fault alone. I believe the Common Market, for example, has been at fault, too, and I am a supporter of the Common Market. I think it is an essential counterpoise to the Communist bloc in Europe. But there has been a drift toward what I have called blocism, whereby the internal tariff is disappearing, the external tariff is not going down nearly as fast, and then all kinds of associated areas are added to this bloc on a preferred outside-tariff basis. Thus Greece has favored status for its tobacco, French north Africa has a favored situation for some of its specialty products. And further arrangements of this type have been negotiated with other areas. All of this makes for a weakening of the GATT itself, harmful in the long term, I think, to ourselves, to Japan, whom we cannot accommodate indefinitely in our market alone, and even to the Communist economies. One of the greatest opponents of the Common Market is Russia. It does not like it for political and strategic reasons and because it tends to keep out the agricultural produce of the Communist countries that were traditionally exported to that area, just as much as it tends to keep out American frozen chicken.

Now, in the monetary field again the analysis, I think, is simple. It has degenerated largely, I believe, because we do not seem to be concerned much with international monetary upheavals. I suppose we are a little, but basically they do not seem to trouble our leaders. If the German mark floats upward, and if the Swiss mark, the Austrian schilling, or the Dutch guilder are valued upward, we tend to congratulate ourselves in Washington and say, well, this will mean that American exports will increase, and that the exports of these countries to the United States will decrease, and we will thus improve our balance of payments. Now, these short-term advantages may exist, but I think they are theoretical. What we have to be concerned with is the entire structure. How many crises of this kind can we have? And as they accumulate over the years I think the structure will collapse.

Now, as to a remedy, I would not presume to offer a complete set of concrete recommendations, but if you can tolerate it, I will say this. At the moment our reciprocal trade legislation is expired. The Trade Expansion Act of 1962 ended in 1967, I believe. I think we need new legislation, global tariff negotiating legislation that would equip the executive with bargaining power, and I think we should call for a new initiative to bargain with the emergent economic blocs and with other countries, not only in a narrow sense on customs duties, but on many other restrictions that exist, that are less visible and that are becoming, as I have tried to intimate, anachronistic. The same approach is needed toward the international monetary structure, the International Monetary Fund. By not doing anything, by letting the Europeans stew among themselves, we are in a very precarious situation. They look upon us as a person holding a promissory note looks upon his debtor. He feels if he turns in his note and tries to collect he may undermine the debtor completely and collect only 50 cents on the dollar. But if he holds on further, maybe things will settle down and he will collect 100 cents on the dollar. I think this is the dilemma the foreign countries face on their side of this storm.

Senator FANNIN. Do I understand you to say we are overcontrolled perhaps in the way we handle our business community? I noticed in Japan, that they have very strict controls but they have strong trade promotional ideas.

For instance, they even determine which firms are going to export, which ones can sell in the domestic market. I noticed, one of our groups was trying to buy a new attachment to his camera, and they said, "No; that camera is made in Japan but it cannot be sold in Japan." Are we really meeting their competitive positions when we restrict our corporations to the extent that we have in the past?

Mr. PISAR. I do feel, Senator, that we are on the way to becoming what is for us overcontrolled. We all believe in private enterprise, and this does not require any reassertion. I am sure that none of us believe in wild private enterprise. Regulations are necessary. But what I was concerned with in my comment on this aspect is that we seem to increasingly be adding statutes and regulations in the international trade and investment field that make the environment very complex for our business community and for others.

Let me start with the others first. In over regulating the dollar outflows—and I suppose some regulations are needed—we are again dealing with a two-edged weapon. We are frightening many investors from abroad, many depositors of funds that have been traditionally putting their money into American banks in dollars, because this is where it was safe. We are frightening them with the specter of exchange control, which they have observed in most other economies, and particularly in postwar Europe, even today in France, and they are saying to themselves, "The United States seems to be going in the direction of over regulation, of exchange control. We must anticipate further prohibitions and restrictions. One day when we are sitting there with our money we may not be able to take it out as freely as we thought." This tends to discourage, I believe, the inflow of investment funds from abroad, and it discourages the maintenance of deposits in dollar currencies in the United States. As to other aspects of over regulation, the best example is the East-West situation. If Rumania were to approach an American company today to buy a piece of equipment, and if the Commerce Department were to say it is not at all strategic, you can go ahead and sell it, the Export-Import Bank would refuse to provide the normal 5-year credit because under the terms of the Fino amendment it cannot.

But if that American company happens to have a subsidiary in England or France that can manufacture the same goods, the English or French equivalents of the Import-Export Bank will supply the credit with great delight. The result is that by these U.S. regulations, over regulations, we are in fact discouraging export from the United States. Our balance of payments suffers a direct detriment and our credit policy stands defeated, because the stuff is getting there anyway. These are two concrete examples that perhaps helps to shed a little light.

Senator FANNIN. I have several questions but I will not have time, Mr. Pisar, but I understand we have given Poland the most-favored-nation treatment for many years and yet that country has as repressive a political structure as any country in Eastern Europe with the exception of Albania. Does this indicate that giving MFN treatment to countries in the East will not lead to any special liberalization or do you think Poland is a special case?

Mr. PISAR. No; I do not think it is a special case. But it is a complex case. Polish trade with us has increased as a result of this action we have taken. Yet there certainly has not been much political liberalization until recently. In December of last year and January of this year workers went down into the street to rebel because they were not paid sufficient wages, housewives went out into the streets to rebel because they could not get any consumer goods even if they had money to pay for them. I think we should help Poland integrate into the world market. If we are to sell them nonstrategic technology to manufacture consumer goods, we must give them a chance to pay for it, otherwise they cannot buy. By giving them a nudge in this direction we are making their situation more complex, because by responding to pressures from the consumer that are so evident, we are feeding their revolution of rising expectations. Now, of course, it is very tempting to say if the Communist countries are living on a volcano, as Polish events seem to suggest, if we keep them tight and poor, they will explode. Why should we not sit back and exploit that situation, let them stew in their own juice. Unfortunately, it is that simple. Russia has demonstrated many times when any of the satellite countries become stormy, it moves in with the Red Army and restores its version of law and order. I think what we must do is signal Poland and the other countries that those people who want to reform, who want to start producing consumer goods, are the people that we are willing to deal with. Otherwise their generals, their metal eaters will be saying to them, "You are a bunch of naive eggheads. Every time you try to deal with the West, it will kick you in the teeth."

I am expressing myself in shorthand, but I think this is my argument for encouraging extension of MFN privileges, for loosening them up so that they can gradually come back into the world market and reform their institutions and start catering to their consumers who are now really breathing down their necks.

Senator FANNIN. In Yugoslavia there was a different result, there was liberalization. I am sorry we do not have time, Mr. Chairman, I realize we do not have time.

Thank you very much.

Senator RIBICOFF. Senator Anderson.

Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

Assuming complete liberalization of trade with the East, Mr. Pisar, what sort of products might we anticipate selling to them, what might they sell to us, and what might you estimate the volume of this trade potential to be?

Mr. PISAR. I do not think we would have a huge amount of trade with them. By liberalizing, I assume you agree, we do not mean abolishing all strategic restrictions. We must maintain some. We must only make them realistic.

A liberalization of our trade will not significantly increase the movement of physical commodities from the United States to these countries. The West Europeans are closer, they have fewer political problems, fewer transportation and insurance problems. They can supply such goods much more easily and cheaply than we can. What the Communist countries want and need desperately, however, is technology, technology to start manufacturing consumer goods. In this area I know from personal experience that they want nothing but the best, and the best is in the United States. They know it and they admit it.

Even when they try to get it from Western Europe, often they find that the know-how Western European firms wish to sell them is controlled by American patent licenses, and our Department of Commerce has control over that also. I believe that they would have a strong motivation to come to our market to buy packages of technology, sophisticated equipment, patent licenses, engineering know-how. Indeed, they are buying a lot of this right now.

This is the area where I envisage the greatest potential benefit for American firms.

Now, to quantify this is difficult. If you were to take into consideration sales of this type from the U.S. companies, and if you were to take into consideration sales from American-controlled subsidiaries in Western Europe and Japan, including American know-how, and patent licenses, I would make a guess. It is nothing but a guess, but perhaps an educated one. The total could reach $2 billion in the seventies.

On the other side of the equation it is a little more complicated. They do not have unlimited hard currency to pay us. Occasionally they sell gold, but only in emergencies when they have to buy agricultural products because there has been a bad harvest. So, what they are doing now is trying to bring their technological know-how to the market, and they have some. For example, they have the world's best hydroelectric generators. You may recall they bid for such generators on the Cooley Dam in the State of Washington. They have a very advanced steel smelting process. They have advanced diamond drilling equipment for the oil industry, and then, of course, they have an entire range of traditional agricultural products which they have been selling in the past. These are indications of what they are trying to do to earn in the world market the exchange they need to buy the technology they desire. Of course, ultimately they will request credits. Some of our allies, England, for example, think nothing today of giving them 12-year credits, even longer, on a turnkey plastics or chemical plant. We do not give them any credit at all at the moment, any credit to speak of that is, because of the Export-Import Bank Act restrictions and because of the Johnson Act of 1934. But as the political situation settles down a little more, I think with the thermonuclear standoff we have, it probably will, because they are not strong enough to knock us out and we are not strong enough to knock them out, so you have a stalemate in a stabilizing situation where you hear of trans-ideological corporations, Russians trading in Eurodollars and holding western bonds, we might be disposed to give them the same type of credits that our allies are giving them. That would definitely increase our exports.

Senator HANSEN. Well, I understand that under the Berne Union Agreement the United States and other countries have generally agreed to limit their credit terms of 5 years on sales to the east. And also you have already indicated some of these other countries including Britain, having gone into credit arrangements extending 12 years, did you say?

Mr. PISAR. Yes, sir.

Senator HANSEN. It seems strange to me that these countries in Western Europe do not seem to abide by their gentleman's agreement. Could you tell us something about the Berne agreement and its actual effects?

Mr. PISAR. The Berne agreement has been in force for a long time. It was not primarily concerned with East-West relations. The basis of it was a desire by all of the industrialized western countries to standardize their export credit and export insurance procedures.

For the type of facilities that are provided by the Export-Import Bank here and by its opposite numbers. Coface in France, Hermes in Germany, ECGD in England, the theory was to standardize in some way. If one country breaks the line in giving more generous export credit or insurance, it will drive a wedge into the export business of the others. It was thus agreed in the 1950's, that credits to Communist countries should not exceed 5 years in their maturities, because giving money for longer than five-years would be like giving aid. There was no reason why the West at that stage in the cold war should give the Communist countries economic aid.

That worked well for a while, but in 1964 and 1965 the line began to crack. Germany, England and Japan almost simultaneously, after having criticized and pressured the United States to give them a little more leeway, decided to move away from the 5-year limit. They first moved to a 6- and 7-year limit. But being anxious to export and feeling that the cold war was warming up, or cooling off I should say, they decided they could afford to give longer term credits. And, of course, the Russians knew how to play on the competitive aspect, and to play up one country against another. Gradually the 5-year line disappeared to a point which it is not only inconsistent with our position, but given the current restrictions in the Export-Import Act that were introduced in 1968 we can hardly give any credit at all.

Senator HANSEN. I think my time is up, Mr. Chairman.

Senator RIBICOFF. How about China? Do they need our trade? Do they want our trade? Can it ever have any significance to us, because apparently this iceberg is cracking. Where do you see us going or where do you think we ought to go with China?

Mr. PISAR. Mr. Chairman, I would not want to answer you in the context of what has come to be known as ping-pong diplomacy. I do not understand that kind of diplomacy and I am a little afraid of it. When people play ping-pong they inevitably smile, and you never know what is behind those smiles. But looking at the more concrete evidence we have, it is a startling fact that today 80 percent of China's trade is with the capitalist West and not with the Communist East, whereas in the early 1960's, it was the reverse. Now, how did this come about? The Russians were industrializing China. China purchased from the Russians in the late fifties and the early sixties, all kinds of plants and installations and infrastructures that were designed to help them make that leap forward that Mao Tse-tung was talking about. But once they started to abuse each other over who spoke for the purity of Communist doctrine, the Russians got worried and they abruptly cut off most supplies. Many of the very expensive plants that the Russians had built in China never became operational because the Russians refused to supply the turnkey. The result is that all of that expensive material is rotting in the rain, and the Chinese will never trust the Russians again.

Being people that know how to handle dialectics, the Chinese are now entering a phase where Russia was in 1925 when they asked Henry Ford, the grandfather, to come and help them build an automobile industry. The Chinese are quite likely to come to the United States, probably operating from a Canadian base in the beginning, and invite some of our major companies to sell them American equipment and know-how.

It is interesting to note, Mr. Chairman, that the basic telecommunication equipment and transportation equipment of China is American, from before 1949, when the Communists took over. This was never replaced. It would be very easy for them to say to American companies, "We need your spare parts, we need to update the system, which is basically an American system." Now, should we or should we not respond? It is a delicate question. I believe we should. Nothing too strategic in a military sense perhaps, but anything that helps them build up their economy. The people that should be most worried about our selling this type of technology to China are not so much ourselves but Russia, because they are right there, next door.

It is a strange game of ping-pong whereby not the two players but the bystander can lose out.

Senator RIBICOFF. I am just curious. I do not think you quite answered Senator Hansen. You talked about other nations of the West extending credits to the East and China, but eventually, credit arrangements have to be liquidated too, so you have to look forward to the payment correlatively in goods or in hard currency. How would the East and China pay the West in goods or hard currency that the West would need or could use? What type of goods?

Mr. PISAR. China, strangely enough, has generally been paying for its purchases in dollars, in convertible currencies. But the Chinese have many goods that they have traditionally exported to the world market and to the United States. I do not think they have much gold. But they have some silver. They have a vast array of metals, particularly mercury. They have silk, they have a famous line of tapestries that used to bring in a considerable amount. They are an important factor in fur exports. We embargo today, by special legislation, various types of furs from Communist countries, including China. I believe, I may be off on my figures, that this item used to run $50 million in imports before the embargo. They could supply the Chinese community of the United States, including Chinese restaurants. This is also a significant factor. Now, I am not looking forward to the day when we will go to a Chinese restaurant, ask for a fortune cookie and find a slogan out of Mao Tse-tung's little red book. But all of these exports could accumulate, enable them to restore their exports to the United States and to other countries to what it used to be before 1949. They have many other things to sell which I have not enumerated.

Senator RIBICOFF. What would the United States be able to take from Eastern Europe and the Soviet Union?

Mr. PISAR. From Eastern Europe and the Soviet Union? Well, exports of Hungarian salami, Polish vodka and Russian caviar would not do it. As I have tried to indicate earlier—excuse me.

Senator HANSEN. Rhodesian cobalt.

Mr. PISAR. Rhodesian cobalt. Of course, the Russians are selling to us commodities which I am sure we would consider strategic, and which we will not buy from Rhodesia, as you say, sir, because of the United Nations embargo. But the Russians are delighted to sell it to us, and they have no strategic restrictions on it. They also have manganese and chrome. But most of all the Russians, the Czechs, the East Germans have no mean industrial establishment. They have developed a number of patents that they have registered in the United States and elsewhere in the West in the last years. These patents are often sought after by American and Western companies. And there are, of course, the standard exports. Oil is not a large export. We were afraid in the late 1950's that there would be a Russian oil offensie and that this would be disruptive for the Western oil industries, and for Western defense requirements. As it turns out, they will probably need to import oil by 1975. There is the possibility that they will learn how to sell certain types of consumer goods. There is a strong trend along these lines on the part of the Hungarians, Rumanians and even the Russians today. For example, the Soviet Union has purchased a department store in Brussel. It sells to the consumer, like Sak's Fifth Avenue, a variety of Russian goods. This is a new type of outlet into the Western consumer market.

They are organizing similar ventures via transideological corporations, if you like. In Germany the Hungarians are taking equity participation in German distribution networks and signing long-term agreements with German companies that sell to the consumer. It will take them a very long time before they can respond to the sophistication of the Western markets. They know little or nothing about colors, about designs, about packaging, but they are willing to learn. Whereas this means that in the future they may turn out to be competitors to

Western countries, we have to make a choice. If we want them to be peaceful, if we want them to be in the world market, in the family of nations, we have to give them a chance to integrate themselves. That is one of the dilemmas we are facing.

Senator RIBICOFF. Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Pisar, in your statement on page 8 you say, "It means getting others to reopen the gates of their market to emerging nations and to share in the responsibility of helping Japan find a stable place in the world economy."

Japan, as I viewed it, we happened to have been over there, a group of Members of Congress, just returned, in fact just returned today, but we observed their great desire of getting into the China market. They are there now, as you explained, I think you said about 800 million a year in the marketing area. What do you feel will take place if we do establish a relationship with China as far as the trading potentiality and our competition with the Japanese? In other words, we did not have a market there to the extent that the Japanese have, as you say, because of their proximity to them. Do you feel that that will preclude the United States having a large market in China?

Mr. PISAR. I think that inevitably Japan will be our main competitor, because it has a lot of technology that the Chinese want, and that they might otherwise buy here. What would happen, I believe, is the following, Senator: First of all, if we opened up toward China and China toward ourselves, it would enable the Japanese to sell even more than they are selling today to the Chinese market. The reasons are psychological and diplomatic. The Japanese were very uncomfortable for years. First of all, they were selling to Taiwan and to South Korea, enemy Nos. 1 and 2, respectively, about as much as they were selling to the mainland. The United States was looking over their shoulders and they felt uncomfortable thinking, "We should not go too far because Washington does not like it, and there may even be reactions among the American public, which is our main market." So they were very, very careful about the way they were addressing the Chinese market.

Now that we seem to be opening up to China and vice versa they will feel much more relaxed to make a determined drive to sell to China.

Senator FANNIN. The machinery including automotive equipment and electronics: That all will be a great factor, but I am wondering about the problem we are having now with textiles. Here we are in the textile and apparel industries taking about 50 percent of all the Japanese exports while the European countries are taking about 5. Now, this would not necessarily open a market for those products, would it, in China?

Mr. PISAR. No.

Senator FANNIN. Because it would be the other way around, would it not?

Mr. PISAR. The Chinese would not buy Japanese consumer goods. What they would want to buy is mainly Japanese know-how and equipment to manufacture such goods——

Senator FANNIN (interrupting). Yes.

Mr. PISAR (continuing). Of inferior quality, of course, and most of all for the local market. It is a theoretical proposition, but one day, possibly, for other markets. In my statement, what I had in mind was that in the Common Market today, and this is true of many European countries, they have tariff schedules divided into three parts: one for themselves, one for other countries and one for Japan. Japan is discriminated against.

Senator FANNIN. I realize that.

Mr. PISAR. And this is a problem, I think, for us, because if they would only relax a little and take in more Japanese products, we would not have to carry the tremendous Japanese burden ourselves.

Senator FANNIN. That has put great pressure on the United States, but, of course, they negotiated those arrangements to get into GATT and to make it possible for them to get into the American market to the extent they have.

Mr. PISAR. Yes.

Senator FANNIN. And I am just wondering how we are going to correct this because we cannot continue to let all of these countries, including the European countries, flood our country with machinery, equipment, and automobiles—and all with very low tariffs—and we do not have the opportunity to get into some of these markets and we must be realistic about it. Surely we can sell a certain number of cars in Japan but we cannot compete with their small car like the Toyota, Datsun, and those cars, and I think we have to recognize that. So, in looking at those markets, we must take into consideration what we have the ability to manufacture competitively, and that is why I am worried about how this overall world trade program is going to continue to operate unless we do have some drastic changes in GATT.

Mr. PISAR. The only way we can get these changes, Senator, is not by doing what we are doing today: reacting to commercial and economic events outside. We do not have a policy. I am sorry to express myself so strongly. What we need is a new initiative to get everybody behind the table, to start talking more than the mere idealism we have talked about in the past. We were well intentioned; we had the Marshall plan; we encouraged the creation of the Common Market. All of this was important and significant, and useful, and I praise it. Now we must start a dialog which is a little different, which is hard-nosed, which tries to influence the evolution of the things we have encouraged because our own situation is changing all the time. That evolution has to do with lowering the external tariff, with giving more accommodation to Japan, with eliminating the invisible discriminations and restrictions that exist. I am certain the Europeans have some legitimate complaints against us, too. But the initiative must now come from here.

Senator FANNIN. We have great problems in this country with the dollar, with our economy and all, but our greatest problem, as I see it, in the future will be furnishing jobs for our people, and so many of our programs are oriented, as I said earlier, to nonlabor products. That is what we are up against with the Japanese. Most of their purchases from us—I would say 75 percent or more—are not high labor oriented products, and we cannot be in just an agrarian economy. We are told by some of the Japanese that we could furnish food and fiber. Well, we cannot go back to just the type of an economy that would be furnishing food and fiber and exist in this overall world economy.

Mr. PISAR. Sir, if I may be permitted another footnote, I understand that the cost of labor in Japan is rising very rapidly. I do not have first-hand experience but a few weeks ago I was asked to debate in public with Herman Kahn, the futurologist on Japan. He treated me to an instant 2-hour education. The point that was made is that Japanese prices and Japanese labor costs were rising very fast, and that the Japanese were now setting up in South Korea to build television sets, because it is no longer economical to build them in Japan itself. That is a good sign, our own labor unions appear to be troubled by the multinational corporations which are internationalizing the production process, increasing by manufacturing in other markets and in this way probably exporting jobs. The approach they seem to be developing is to get the European and Japanese trade union leaders to speak up, to create pressure on their own employers to improve wages and working conditions. This trend, which in social terms is a healthy one, would help to equalize the discrepancy that still exists. It is another way of combatting our problem, not by protectionist means, but by means which are socially useful and which I think the vast masses of workers in other countries can only welcome.

Senator FANNIN. You are correct. We observed in the last week what is happening in Japan. They had a railroad strike this week. They have had other strikes, but the unions do not have the ability to regulate the economy to the extent they do here in this country, and, of course, that could be both good and bad. But their economy is more of a controlled economy than ours, as you know better than I, and this is why I am so vitally concerned over how we can work out these problems with their type of government being so vastly different from ours.

Thank you.

Senator RIBICOFF. For the members of this committee, my understanding is that the vote on the Nelson amendment has been extended to 12:30, so we have a few more minutes. Do you have any further questions, Senator Hansen?

Senator HANSEN. Yes, thank you, Senator.

First of all, let me express my appreciation to you, sir, for following up the line of questioning I had posed and which I was not able to pursue because of time limitations. You quite rightly observed, Dr. Pisar, that Japan's wages are rising over there. I, too, am aware of that. I was interested in the presentation made yesterday by Ely R. Callaway, the president of Burlington Industries. He points out that, despite the fact that wages are rising in Japan, there is today a greater dollar spread than was true just a few years ago. If I may, I will find the precise chart. In 1960 in the textile industry, for instance, the typical American worker earned $1.61 an hour. At that time his counterpart in Japan earned 17 cents, which represented a differential of $1.44 an hour. In 1970, 10 years later, American workers in this industry earned $2.43 an hour. In Japan the Japanese worker earned 45 cents an hour. So, while he had advanced proportionately more rapidly than had his American counterpart, the net spread broadened dollarwise to $1.98 an hour and, because of this fact, Mr. Callaway observed that his company was indeed moving to the East—to Taiwan, I believe—in order to take advantage of that great spread between what an American worker was earning and what they could get the same job done for over there. Just as earlier we were informed by Mr. Wright of the Zenith Corp. that they, too, were forced to reckon pragmatically with the facts of life, and start constructing radios and television sets in the Far East because of the great disparity between skilled, able, competent workmen who could be employed there for far less than they were able to employ people here.

I am very much concerned about this and while I agree with you completely that we ought to take the long view and try to see what would be in our long-range best interests in order to achieve that utopian situation in which we might have world peace, I think there is the practical consideration that we have got to face up to in this country of how long will American workers be willing to trade a job for a welfare check in order that we can let the rest of the world catch up and share in the greater benefits that we all can produce. I am not too sure that this administration or any other administration, whatever it may be in this country, will be able to survive a situation that results in a steady loss of jobs. Secretary Stans of the Commerce Department told members of this committee some several months ago that had we produced all of the items that were imported into this country last year it would have required the efforts of 2½ million full-time workers. This last year, I understand, we have had a net loss of jobs—this may have been in the textile industry—of about 300,000 or 400,000. I think the figures were that what we imported accounted for some 700,000 jobs, and what we exported accounted for 300,000, so that we had a net loss of 400,000. And one of the most serious consequences of this arises from the fact that this particular industry, the textile industry, is the business in this country that is able to take into its ranks people with practically no merchantable skills. It is the black and the other minority groups that have been able to find a job here. When we contemplate an increase in welfare payments that could double what the Federal Government pays out now, I am constrained to ask myself the questions: "How long can we tolerate this situation in order to achieve stability and a higher standard of living about the world, all of which contributes to worldwide peace? How long can we go on doing it?" I would like to ask you if you would like to ask you if you would like to comment on that?

Mr. PISAR. Senator, I share some of your concerns. Indeed, we have a problem. But I have to start with my own premises. I am, of course, in favor of unimpeded international trade. Now, while sharing your concerns, I am also encouraged, as I look at the European situation vis-a-vis the American situation. If I may make an analogy with what you have said about the United States vis-a-vis Japan, after the last world war Europe was devastated. They needed everything, and the wages paid were dismal. I believe that you would find a parallel in the comparisons you have made with Japan, if you were to compare American wages in the last 15–20 years with Western European wages. But, sir, look at what happened. The Europeans have been inching up very rapidly. In Germany there is no comparison between what a worker used to earn 15 years ago, 10 years ago, and today. The same is true, to a lesser extent in France, England, and Italy. These countries have been raising their standards. The conditions of the workers have improved, and their real wages have been going up, often very rapidly.

So, this seems to be an inexorable trend and I think it is happening with Japan also.

Now, the problem with Japan is not only to determine that they are creating dislocations in this country with their exports, perhaps dislocations where it hurts most, as you have just explained, but what to do about it.

Looking at the situation from my own area of alleged expertise, I would say this. To close our market to Japan would be inconceivable. We must rather help find outlets for Japan elsewhere. I say inconceivable, and I would like to paint a grim portrait, not because we must frighten ourselves with the Communist ghost all the time. That can be exaggerated, too. But if we were to close our market to Japan, I would envisage a situation where Japan with its know-how, with Mainland China labor, and with the natural resources of Siberia—and they are negotiating now to bring Siberian copper and nickel and other metals to the world market—could create very serious problems for the world economy, and for U.S. companies competing in the outside market. I think that would be more frightening than some of the dislocations that we are now suffering and for which we must find adjustments, both here and abroad.

Senator HANSEN. Thank you, Mr. Chairman.

Senator FANNIN. But, Mr. Pisar, that does not entitle the Japanese to continue with the inequitable arrangement we have with them now on their products coming into our country under such low tariffs and then they raise barriers to our products. Are we not entitled to have at least equal treatment on tariffs?

Mr. PISAR. With Japan?

Senator FANNIN. Yes, with Japan.

Mr. PISAR. I would certainly say so. In fact, I think Japan, without any doubt, is still one of the most protectionist western economies.

Senator FANNIN. Yes, that is correct.

Mr. PISAR. And I say this not only in terms of imports into Japan, but the way they treat American investments. An American company can invest in Western Europe, it can buy equity, it can acquire control. But in Japan this has not been possible and, even though they are liberalizing, I understand that this liberalization is a very, very slow and limited one, and I hope that it will gather a little momentum to establish the reciprocity you speak of.

Senator FANNIN. Under their present thinking it is going to be very limited.

Mr. PISAR. Yes; so it would seem.

Senator FANNIN. Unfortunately.

Senator RIBICOFF. Mr. Pisar, this committee and I are grateful to you for coming over from Paris at your own experse to give us the benefit of your views. I would like to make the observation, in a conversation with Mr. Best of our staff, that you are one of the few men who can combine deep philosophical understanding of all these problems with a pragmatic outlook, that you dovetail philosophy with practicality, and we are grateful to you.

The committee will stand adjourned until 9:30 tomorrow morning.

(Whereupon, at 12:25 p.m., the hearing was recessed, to reconvene at 9:30 a.m., Thursday, May 20, 1971.)

# FOREIGN TRADE

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THURSDAY, MAY 20, 1971

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 9:30 a.m., in room 2221, New Senate Office Building, Senator Abraham Ribicoff presiding.

Present: Senators Ribicoff, Long, Anderson, Talmadge, Fannin, Bennett, and Hansen.

Also present: Senator Chiles.

Senator RIBICOFF. The subcommittee will be in order.

Our first witness will be the Honorable Nathaniel Samuels, Deputy Under Secretary of State for Economic Affairs. Mr. Samuels, again I want to express my appreciation for your understanding of our problem yesterday, but as far as you were concerned you won such a good victory that it was probably worth it to you.

## STATEMENT OF HON. NATHANIEL SAMUELS, DEPUTY UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

Mr. SAMUELS. Well, I understood your problem, and there was no difficulty about it, and I was glad for the victory.

Senator RIBICOFF. Why don't you proceed as you will, sir.

Mr. SAMUELS. Thank you, Mr. Chairman.

Mr. Chairman, we very much appreciate and welcome the establishment of the Trade Subcommittee of the Senate Finance Committee. Its creation certainly is a reflection of the importance placed on dealing with the vital and urgent problems that we have in the foreign economic field, particularly in the trade field. I am very grateful for this opportunity to appear here today.

I would like to direct my remarks today, first, to our economic relations with the developed world and, second, to our economic relations with the developing countries. I shall then comment briefly on the outlook for trade with Communist countries and, finally, I shall say something about certain of the international economic organizations in which the United States participates and which bear on trade policies and practices.

I would like to preface my remarks, however, with the fundamental observation that the international economy has, overall, served the United States well throughout the post-World War II period, as reflected in the unprecedented growth in trade and investment. Between 1950 and 1970, our exports quadrupled from $11 billion to $43 billion while foreign direct investment abroad for purposes of manufacture in other markets increased six times. Our domestic economy has expanded steadily during this period at a rate unparalleled in this century.

Recently, though, these achievements have been obscured by the high level of our imports, particularly in a few types of products, rising from a total of $9 billion to $40 billion between 1950 and 1970, and by the adverse effects on us of certain restrictive trade policies of Japan and the European Community. These are problems which are receiving our urgent attention and the Department of State has been relentless in its efforts to convince our trading partners that their actions have profound effects on our policies.

A major development in the international economy over the past 2 decades has been the growing interdependence of the highly industrialized countries. Western Europe, North America, and Japan, together constitute 64 percent of world output. We are linked together economically by international trade, by multinational companies and by capital markets that transcend national borders. All industrialized societies are the beneficiaries of these economic linkages and at the same time all face difficult problems of controlling inflation, maintaining full employment and growth, and combating environmental hazards.

Turning first to Europe, her economic and political integration has long been a major objective of U.S. foreign policy. Recent public discussion of our relations with the European Community, however, has tended to get out of perspective by an overemphasis on the problems created rather than the benefits gained by us. The European Community is a liberal institution in two major areas and a highly protectionist one in a third. Industrial tariffs of the European Community are, on the average, relatively low, slightly lower than our own average industrial tariffs. Moreover, the Community has pursued a very open and liberal policy on the inflow of investment. Agriculture, however, is the area in which the Community follows a protectionist policy, Overall, we are running a surplus on our balance of trade with the Community which in 1970 was about $1.8 billion.

Let me try to give a picture of the agricultural problem. Europe is experiencing at the present time the severe structural adjustment of technological advance in agricultural production that began in the United States several decades earlier; farmers as a share of the labor force in the Common Market have declined from about 25 percent in 1955 to 13 percent today.

Senator RIBICOFF. I wonder if you have the figure, or Senator Talmadge knows, what the percentage of the labor force in this country is which is agricultural, as a sidelight?

Senator TALMADGE. 4.7 percent of the people in the United States farm for a living.

The community has already had this decline from about 25 percent to 13 percent today, and, the decline is intended to continue further, halving again during the coming decade. They see their problem as one of an orderly change in structure under a protective umbrella. Our aim should be to ensure that this major agricultural transformation in Europe takes place without serious disruption to our own lower cost farm exports which have traditionally found a market in Europe. The administration is determined to protect the interests of American farmers and can be counted on to seek modification of policies and practices that are disadvantageous to us while, of course, not losing sight of the need for Europe to revamp its obsolete agricultural structure.

In order to keep our agricultural trade problems in perspective, let me point out that our agricultural exports to the European community in 1970 were $1.6 billion, virtually equal in dollar amount to the highest level reached by us since the community was established, namely the level reached in 1966. From 1966 to 1969, when the present community agricultural policy became effective, our agricultural exports, particularly grains, fell about $300 million, but rose again in 1970 to the 1966 level. The composition of our agricultural exports has changed, and what we have lost in grain we have made up in soybeans. There is a tendency to forget that the hard-won struggle by the U.S. Government to obtain a zero duty on soybeans from the European community has been of great benefit to our farm community. We tend to hear what we do not accomplish, and very little about what we do.

Now, looking to future United States-European economic relations, I see a number of important issues that will demand our attention.

Tariffs are still significant in many instances even though overall they constitute only a moderate barrier to trade compared to 10 or 20 years ago. An enlarged European Community, which would include the elimination of tariffs between the present six members and the four new applicants, particularly Great Britain, would put American exporters at a new competitive disadvantage in these markets. Mutual tariff reductions phased over a reasonable period of time would be one way of reducing or eliminating this effect of the Common Market enlargement.

The accession of the new members to the European Community is likely to have a moderating effect on the protectionist levels of Community agricultural policy, and as the economic and social transformation of European agriculture takes place the problem of agricultural protection may in the years ahead recede in its importance for the Community. However, the problem of agricultural protection in many countries, including our own, and the trade effects from it, will probably have to be dealt with by greater coordination of domestic agricultural policies, including price support systems, land use, and management, and a number of other techniques.

Other issues, which will probably assume relatively greater importance as Europe takes further steps toward full economic integration include monetary union, industrial policies to develop particular industries or regions, and closer coordination of tax, transportation, and environmental policies. The precise effect of these developments on American interests is not yet clear. What is clear is the ever more pressing need to consult closely with one another and to seek joint solutions to joint problems.

Turning to Japan, we have a more complex situation. The dynamism of the Japanese economy in recent years has created serious competitive problems for us but has been a source of strength in Asia. About a third of Japan's trade is with other Asian countries, and the bulk of Japan's expanding foreign aid goes to this area.

A stable Asia will also depend on the continuing prosperous economic relationship between the United States and Japan. In 1970 the trade between Japan and the United States totaled over $10½ billion in exports and imports, second only to our trade with Canada. Japan buys from the United States about a third of its imports, including over $1 billion in farm products last year, and we buy about a third of Japan's exports. On balance, we import from Japan more in dollar amount than we export to her, with the consequence that the surplus in trade that we enjoy with the European Community is offset by our deficit in trade with Japan.

We have let no opportunity pass to press Japan to open its markets to our exporters and investors. We expect that by September of this year, the total number of items on the Japanese quota list will be down to about 80 from 165, 3 years ago. Even these are much too many, however, and constitute barriers to U.S. exports which we continue to oppose. The administration is concentrating especially on the Japanese quantitative restrictions on high technology products—such as large computers, light aircraft, and navigational equipment—where the competitive position of American industry is extraordinarily strong and on which we have increasingly to depend to balance our payments.

On the import side of the ledger we have particularly difficult problems arising out of our trading relationships with Japan. Every effort is underway to resolve the textile problem on a voluntary basis and to persuade the Japanese to apply restraints in a satisfacory manner. There are a few other specific items on which practical cooperation between us could mitigate excessively disruptive effects on our trade, but overall we must look to Japan to liberalize access to her markets for our exports and we must improve our own competitive strength if we are to reduce the imbalance in our trade account.

U.S. investments in Japan are over $1 billion, mostly in manufacturing. Although Japan has taken some steps to relax its controls on foreign investment, many obstacles still remain. The battery of restrictions on the establishment of subsidiaries remains formidable. You may be assured that the administration will continue to press the Japanese for more liberal treatment of direct foreign investment.

Japan is now entering a new stage of economic development. Labor shortages have begun to appear and industrial wages have risen sharply—recently at an annual rate of some 17 percent. This is leading to a gradual shift of Japanese production away from traditional labor-intensive industries. The familiar problems of inflation, urbanization, and pollution are confronting Japanese authorities in a similar, and in many respects, a more intensive way than in this country.

I would like now to turn to the less developed world. U.S. economic relations with developing countries are, to a large degree, an extension of our collaborative efforts among industrialized countries. In many areas of policy—trade, investment, direct foreign assistance—an effective response to the needs of the developing countries can only be achieved if the industrialized countries act in concert.

This fact underlies a basic distinction in our foreign economic policy: relations between industrialized and developing countries operate under a different set of principles than relations among the fully competitive industrialized countries. Capital exports to the developing countries, together with the technology necessary to utilize it, will be required if the development potential of these areas is to be realized.

One means to accelerate the development process is to give the developing countries greater access to the markets of the developed countries for their exports. To this end the industrialized countries are seeking to implement generalized tariff preferences for the developing countries. In simplest terms there would be two tariff levels in effect: the most favored nation system would apply for trade among industrialized countries, and either full or limited duty free status would apply for most industrial products and some agricultural products, with certain notable exceptions imported from developing countries. The European Community and Japan will be implementing their tariff preference schemes sometime between July and October of this year; we will be submitting legislation to the Congress in the near future seeking to implement our preference proposal.

With regard to the outlook for trade with the Communist countries, the President made it clear in his report to the Congress of February 25, 1971, on U.S. foreign policy for the 1970's that the United States is prepared to see the People's Republic of China play a constructive role in the family of nations. He said that he continued to believe that practical measures on our part will, over time, make evident to the leaders in Peking that we are prepared for a serious dialogue. He said that in the coming year he would examine what further steps we might take to create broader opportunities for contacts between the Chinese and American peoples.

U.S. trade with the Soviet Union and the countries of Eastern Europe has been liberalized somewhat and expanded over the past 2 years. Under the Export Administration Act of 1969 there has been gradual reduction of U.S. controls over nonstrategic exports to these areas. During 1970 U.S. exports to the Soviet Union and other Eastern European countries—except Yugoslavia—amounted to $353 million, a considerable increase over 1969.

Finally, an important factor in the international trading system is the role of international economic organizations. Over the past 25 years, there has developed a network of international organizations in the economic field that have assumed a growing responsibility for maintaining a stable and prosperous world economy. There is some misconception, however, as to what these organizations are or are not capable of achieving. They are certainly no substitute for the responsibilities and the power of sovereign nations to make policy decisions or to take necessary actions. I speak of the general agreement on trade and tariffs, the GATT, the International Monetary Fund, the World Bank, the United Nations Development Program, and the regional banks.

There are two related questions that are consistently before us in trying to improve the functioning of international organizations: are we, within the existing framework of these organizations, pursuing our interests in the most effective way; and, more basic, is there a need to modify the legal or procedural structure of these organizations, in view of changed circumstances?

On the trade side, the GATT has proven a far more durable and useful instrument than originally conceived. It is true that the formation of a huge trading entity such as the European Community, with a network of preferential agreements with other countries, was not conceived in quite the way in which it has developed when the GATT was organized in 1948. However, let us bear in mind that the GATT put order into a trading situation that was very unsatisfactory, and that its fundamental principle of most-favored-nation treatment has helped create the conditions of unparalleled growth in world trade. We should seek to improve its operations, particularly its time-consuming procedures, in order that it may conform wherever necessary to the evolving realities of the 1970's. Any effort, however, to change the basic rules would inevitably raise a demand on the part of other countries that we give up the advantages to us written into the GATT.

The final question is how to continue to derive the benefits of increasing international trade and investment in an era of rapid technological change, while minimizing disruptive effects to domestic economies. There is no simple answer to this question, but certainly the solution is not to regress toward inward looking protectionist policies that proved so disastrous in the past.

I would suggest a general approach to world economic problems consisting of three elements:

1. A sharply stepped-up international coordination of national economic policies, particularly among the industrialized countries. I take note in this regard of the next OECD ministerial meeting of June 7 and 8 over which Secretary of State Rogers will preside for the 10th annual meeting of that organization. This is the first time an American Secretary of State has acted as chairman. As you know, Mr. Chairman, discussions are under way within the OECD to determine whether it would be desirable to set up at this session a mechanism for looking ahead to the trade and related problems of the 1970's, and assisting the governments to deal in concert with some of the matters to which your committee is devoting its attention in these hearings.

2. The formulation of a comprehensive program for assisting our own industries to adjust adequately to changing international competitive conditions. Markets, production, trading patterns, technology, and investment change rapidly today. Instead of building into our economy rigid, high cost elements, we must use a variety of techniques in the way of tax incentives, investment assistance, consolidations, retraining of workers, et cetera to help industrial sectors and communities, not simply individual companies, to improve their productivity and thus their competitiveness, or to shift their capital and human resources to more sophisticated industrial activity. This will require a major governmental policy decision and would involve a cooperative effort between the Government and the private sector.

3. The last, but most important element in improving our trade position is to pursue policies that will moderate internal inflationary forces in the context of a growing economy. Inflation is a major contributing factor to the high level of imports, and is harmful to our exports by increasing the costs of our products. Inflation goes to the heart of our competitive problem.

Let me say, gentlemen, that the Department of State does not share the attitude of gloom and doom about American industry, American labor, and American agriculture that pervades so much of the talk one hears among some of our people. This is a great country, an economic giant; its exports, both industrial and agricultural, and its investments are at record levels. If the less developed countries have development problems, the industrialized countries, including our own, have redevelopment problems. This is part and parcel of the process of change. So much of the criticism we hear in some quarters reflects a lack of confidence in ourselves that is not characteristic of this country—and hopefully is a passing phenomenon in our history. We have serious and urgent problems, and insofar as their alleviation or solution depends on the policies of other countries we shall relentlessly seek changes but, I hope, we shall do so intelligently. Insofar as our problems arise out of the need for internal adjustments, we are confident that, as in the past, God will help those who help themselves.

Senator RIBICOFF. Thank you very much, Mr. Secretary.

Senator Talmadge.

Senator TALMADGE. Mr. Secretary, the lead article in the Wall Street Journal the day before yesterday dealt with some of the problems that agriculture will face when and if Britain becomes a member of the Common Market. I presume you read that article.

Mr. SAMUELS. I did not read it in detail, but I saw it.

Senator TALMADGE. I feel I was much more familiar with the situation than the man that wrote the article. I refer to this part of the article;

> The concessions would also mean gradually conforming to Common Market foreign policy. This would create a worrisome burden for many American farmers. Britain, which imported $5,700 million worth of its food last year keeps food tariffs, aims support and food prices low to support and market its powerful funds. The Common Market does just the opposite. Indeed, the American Government has long complained of Common Market farm protectionism blocking American exports. If Britain joined the Market, it would raise farm tariffs. This would affect the American farmers whose exports to Britain last year exceeded $500 million.
>
> Consider the impact on just one product, tobacco. The U.S. tobacco growers. The United Kingdom's eventual entry into the European Community would be the most significant international trade movement of the century states the U.S. Department of Agricultural report. The U.S. last year exported $670 million worth of tobacco and Britain bought nearly a quarter of that. Last year, American exports on flue cured tobacco averaged $1.00 cents a pound. While this was about 28¢ a pound more than Italian tobacco, differences in quality still made American tobacco competitive. But, the Common Market recently introduced a new protective program for tobacco. This boosts the price gap to about 52¢ a pound and makes it hard indeed for American tobacco to compete and the increased price encourages European farmers to boost tobacco production. So, to many observers, it looks as if American markets may be lost as fast as Common Market farmers can hike their tobacco production. British entry, of course, would make that problem just that much more critical.

Now, you commented on this in your statement, and I thought your comments were particularly good. Would you comment further on what we in the United States can do to protect ourselves and our dwindling agricultural exports against this?

Mr. SAMUELS. Senator, you have touched on the key and most difficult problem we have inconnection with the enlargement of the European Community. I would not want for a moment to underestimate the importance and the difficulty of this problem for us. There are one or two observations which one can make, in general, and I might say something about tobacco or these other things in particular.

The fact that Britain and the other three applicants will come within the European agricultural policy is distinctly a disadvantage for the United States, and there is no obscuring that point. However, there are two or three things that would result in the near or later future. In the first place, we have certain rights with respect to agricultural imports entering the British market, rights that we had originally under the GATT, which will be exerciseable against the European Community. After the enlargement takes place, negotiations will have to ensue between the United States and the entire European community to achieve compensation in trade matters for the losses that we will suffer according to our GATT rights. We have GATT rights against the Community which have been held in suspense arising out of its original formation as well as rights of access to the United Kingdom market.

Senator TALMADGE. Will you yield at that point? They are already violating GATT rules in many instances, and insofar as I know they have made no compensation whatever for it.

Mr. SAMUELS. Senator, whether or not they are violating GATT rules is a matter on which there are sharp difference of views.

Senator TALMADGE. Do they not give preferential treatment to some customers to the exclusion of others? Is that not the entire theory of the Common Market?

Mr. SAMUELS. In our view that is a violation of the GATT. However, there are two sides to the problem, since there are provisions in the GATT, Senator, namely article 24, which provide for free trade areas and customs unions, and for arrangements leading to these things which permit exceptions from the ordinary rules. It becomes a very complex question on which honest men can differ as to whether there is or is not a violation of the GATT. We have taken the position that a number of Community developments are a violation of GATT, especially the preferential trading areas as they exist with some of the Mediterranean and African countries. We are pressing very hard for solutions to these problems. The solutions are not simple to come by, but we are pressing very hard in this respect, and we would hope that within the next 3 or 4 years some developments will have occurred which would largely neutralize or to some extent, we hope, eliminate the effects of the preferential trading areas.

For example, the problem that bothers us the most in this preferential trading situation, and I think Senator Fannin is very familiar with this as it affects citrus, is that the countries which are beneficiaries or partners in these arrangements give reverse preferences to the European Community countries. We are trying to get them to eliminate these reverse preferences because they are adverse to our export interests. We think that by 1975 when the arrangements have to be renegotiated between the European Community and the Associated African countries which have preferential arrangements we will be able——

Senator TALMADGE. Is it not true that we suspended our rights under the Dillon Round in 1962 and more recently with Britain?

Mr. SAMUELS. We suspended certain rights, but have not lost them.

Senator TALMADGE. How can we suspend them and retain them?

Mr. SAMUELS. We suspended the application of them.

Senator TALMADGE. How are we going to preserve them if they say, OK, go ahead, we are not going to complain, and how can you come back in court and say that we are complaining?

Mr. SAMUELS. Recently, Senator, we reaffirmed with the British, or rather they reaffirmed the existence of these rights in respect to our access to their market for agricultural exports. We could use these rights to seek trade compensation from the community when the enlargement takes place.

Senator TALMADGE. Now, I judge from your statement that you favor a granting of certain preferential tariff rights to undeveloped countries?

Mr. SAMUELS. Yes, sir.

Senator TALMADGE. It is my understanding that under the scheme that has been devised by Europe and Japan, they grant certain preferential rights but also adopt a quota system which will be a limitation of benefits of those rights.

Mr. SAMUELS. Yes, Senator. They have a tariff quota system. In other words, the way it would work under their system is that the commodities subject to preferences would come in duty free up to a certain limit, and above that limit the normal MFN tariff would apply. The European Community has indicated that they will apply the MFN duty, however, only against a list of sensitive products and not against all products that come in. The main difference between their system and ours is that we would have a zero duty on all items subject to the general scheme, but with built-in exceptions, such as textiles, shoes, petroleum and petroleum products, for which no preferential entry would be given.

Senator TALMADGE. But, I get from your response that we indeed intend to follow the same plan as the Japanese and the European Community, or will ours be different?

Mr. SAMUELS. Ours will be different in the respect I just mentioned.

Senator TALMADGE. Could it not have the result, as we already have in textiles and in other areas, that it will make us the dumping grounds for the cheap imports while the Europeans and Japanese can protect and defend themselves?

Mr. SAMUELS. Sir, to the fullest extent possible, this would not be true. First, as to textiles, they are an exception under our generalized preference scheme and would not be imported duty-free rate. The Europeans and Japanese, on the other hand, have not made any exceptions on these items, although the Japanese, of course, are producers of textiles. But we have taken out such items as textiles, and shoes as far as our preference scheme is concerned.

Nobody can tell for certain whether one scheme will be more liberal than another. We are of the belief that they are about comparable in the effects they will have in the countries involved. However, since no one can truly tell the trade effect at this point, the industrialized countries have agreed to set up monitoring machinery in OECD to see what the effects are, so that each year we can examine the results and modify the systems accordingly. There is a general understanding among the industrialized countries in going ahead with these preference systems, that the burden on them should be comparable for all.

Senator TALMADGE. What I am trying to get at, Mr. Secretary, is this: As you know, the United States of America takes some 50 percent of the exports of the Japanese textiles in the world. The European economic community takes only 5 percent. They have defended and protected themselves, and we have not. Hundreds of thousands of Americans today are walking the streets unemployed, drawing welfare, and drawing unemployment compensation because of that policy. What I have been trying to find out is whether or not we are going to extend that policy even further and say, we are going to be big, we are going to be generous and glorious, and you ship it is, and we will take it, and the Japanese and Europeans can continue to protect themselves? Is that going to be a further expanded policy?

Mr. SAMUELS. Decidedly not, Senator. There is no question about it, and I think we have taken every step we can to prevent that from occurring. It is quite possible that our system will turn out to be less liberal than the Europeans, possibly not, no one can be entirely sure in advance.

Senator TALMADGE. I certainly want to take a good hard look at that legislation, because everytime I see something like that proposed we end up the loser, and not the gainer.

Senator RIBICOFF. Thank you very much.

Senator Fannin, before you ask a question I want to take this opportunity of thanking the entire subcommittee for its continued interest in these hearings. I personally have been thrilled, Chairman Long, at the deep interest of all of the members of the subcommittee who would come here day in and day out, and stayed morning and afternoon. It is an important subject, and I think all of us can make a contribution to the Senate and the country.

Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Secretary, I appreciate very much your statement and the comments you have made, and the briefings that we had. You say that the Department of State does not share the attitude of gloom and doom about American industry, American labor and American agriculture that pervades so much of the talk one hears among some of our people. Well, you do hear it a great deal because I feel it is actually existing, and I think if you would go out and talk to some of the people that are closing some of their plants, and losing their jobs that you will find that different facts. If you will drive along the streets of Washington, D.C., and count the number of foreign cars, and then drive along the streets of Tokyo and try to find an American car, I think you will understand just what is happening. Further, it is my understanding that the State Department is the only agency that held up the approval of placing the citrus issue on the agenda of GATT last month.

Mr. SAMUELS. Senator Fannin, the question of whether or how to get satisfaction on the citrus issue is to some degree a question of judgment as to what are the most effective tactics. There is absolutely no disagreement within the Government on the necessity of getting rectification of this situation, and I think we have reason to believe that some substantial progress has been made. We may have some proposal coming from the European community within the next few weeks. Whether the proposal will be satisfactory I do not know yet, because we have not heard what it is. But, in our view, to take this matter to the GATT and have a confrontation with many members of GATT on this subject right now might turn out to lose the whole matter for us, whereas by negotiation we are still confident that we can get a suitable arrangement. I think that is the only difference, one of tactics.

Senator FANNIN. Mr. Secretary, you say lose the whole arrangement? I do not know exactly what you are talking about because if we have not lost most of the arrangements we have tried to make in recent years then I am uninformed. We still continue to lower the tariffs on foreign cars. Last year it was 4½, now 3½ going down to 3 next year, and when we try to get cars into these other countries, of course, it is a different story, it is 11, or 12 percent in the European community. In Japan they have just taken complete advantage of this umbrella we have held over their head, and now they can produce a car much cheaper than we can. Also, I am just wondering what we are going to do about GATT? Regarding the question of GATT and MFN, you seem to believe MFN is the principal guide to free trade. Do you still feel that way?

Mr. SAMUELS. Yes, I think by and large it still remains.

Senator FANNIN. If the Common Market, by definition is the antithesis of this principal.

Mr. SAMUELS. Insofar as the Common Market policy has deviated from the most favored nation principle, we have opposed it, and opposed it strongly. In the case of the citrus situation this is precisely the grounds on which we have done it. We have insisted on a return to MFN in the citrus situation.

Senator FANNIN. Well, Mr. Secretary, this country has been flooded with electronic products, with a tariff of 6 percent, and we are trying to get our products in these other countries, for instance, in Japan at 24 percent to start with, and all of the nontariff barriers, and why do we continue letting them import into our country? Why is it that we are continuing at this low rate?

Mr. SAMUELS. I think we have two choices, Senator, as a general matter of policy. One is we can react to this by shutting out the imports. That is one possible policy and one has to calculate the benefits and the cost to us of doing it. The other policy is to press to get the tariffs lowered, and by and large the tariffs have been going down, throughout the world under the last round of tariff negotiations. The question is whether we should continue in the future with a policy of further multilateral reductions of tariffs. The average level in tariffs, leaving out Japan which is I think very highly restrictive and where our major problem exists, is now in the 9, 10, 11 percent range. We happen to have tariffs on a variety of products which are substantially high, and some which are low, but our overall level is about the same as the European level and, in fact, is slightly higher on the average.

Senator FANNIN. On the average, but not on the labor oriented items coming in, and that is the problem we are worried about.

Mr. SAMUELS. On the specific items, Senator, we have a certain number of things that causes a special difficulty. There is no question, and I am expressing a personal view, that we have special difficulties with, taking the case of Japan, electronics, new automobiles and textiles. In the textile case we have tried to deal wih the problem on a voluntary basis. So far we have not had anything like the success we think is necessary to deal with this problem so as to restrain imports at least for a period in which we could help our own industry adjust and become more competitive. I assume that we would all agree that the purpose of trade restriction is not to have them permanently imbedded in an economy, and thereby weaken the economy with higher costs, but to give ourselves the opportunity to make the necessary adjustments to be more competitive.

Now, there are other areas like textiles, and perhaps one or two others where certain voluntary arrangements would seem to be appropriate, if we could negotiate them. My own personal view is that there may be such possibilities to help mitigate the import problem, provided in the meantime we here in the United States are undertaking the economic transformations that will make our industry able to compete. If they are not able to do that we have a very serious internal problem.

Senator FANNIN. Mr. Secretary, I agree with you, we must take action within this country to improve our competitive strength, and this is vital. But our companies are going bankrupt. We have people out of jobs as a result of these imports, and you go into most any town in America today, and you go to the foreign car dealer, and he is highly successful; and you talk to all of the other dealers and they are getting by, and in many instances that is just about the way you see it. I was in a town in Kansas the other day and they said well, the Toyota dealer had made a million dollars in the last 18 months, and the other car dealers, the General Motors, Ford, and Chrysler, and those, they were having a hard time getting by.

Mr. SAMUELS. I suspect, Senator, one of the difficulties in the car field is that we came to the small car business late. To build a small car in this country in a way and at a price to appeal to the educated American public is not something that the automobile companies can do in 1, or 2, or 3 years. The foreigners have been doing this for some time and have had a place in this market for smaller cars, have been there for some years, and are reaping the advantages of this. I think in the automobile field we have a particular problem, but I am really not all that pessimistic that the automobile companies in this country are not going to be able to deal with this problem in due course.

Senator FANNIN. We have not been able to to date, because of the way the Japanese have handled the situation. They have practically subsidized the automobile industry. We are talking about people that are out of jobs in all industries and I am greatly concerned about that, and I just feel we must improve GATT to correct this problem. Now, what procedures do you want to follow to improve GATT?

Mr. SAMUELS. Well, sir, my own view is that the fundamental structure of GATT is still entirely applicable to a trading world that would suit American interests. I think that there are a lot of matters we ought to look at, and reexamine in the GATT. I have talked with the Secretary General of GATT from time to time about this problem, and I think he does not disagree that we have got to look at our procedures for stepping up the possibility of rectifying damages and injustices that arise from trade developments. The procedures are long and time consuming, and I think this is one of the great difficulties. What these rectifications may or may not be nobody can say without pretty profound examination of all of the elements and I think there is a feeling among many people that we ought to take a good look at this.

Senator FANNIN. Mr. Secretary, I agree, I am sure, that we would all like to have your profound judgment on the changes that should come about. We are in trouble in our economy, serious trouble as far as I can see, and I do not share your optimism because maybe I am too close to the picture.

Mr. SAMUELS. You see, if we once begin to raise more than I would say procedural problems with the GATT there would inevitably be all kinds of demands for changes on the parts of other countries. There were written into the GATT some very special privileges for the United States.

Senator FANNIN. I wish you would tell us about that.

Mr. SAMUELS. The countervailing duty provisions that we have in the United States are acceptable under the GATT because we had it prior to the formation of GATT, but if we were to open up the rules of GATT I think every other country would demand that we give that up.

Senator FANNIN. The countervailing duties have not meant very much to the United States as far as the enforcement is concerned, and we let it drag on, and on, and on, but my time is up. But, I would appreciate very much if you would give us your thinking on the changes that should be brought about to correct some of our problems, changes in GATT.

Thank you very much.

(Subsequent to the above discussion the following communication was received by the subcommittee:)

DEPUTY UNDER SECRETARY OF STATE, FOR ECONOMIC AFFAIRS,
*Washington, D.C., June 18, 1971.*

Hon. ABRAHAM A. RIBICOFF,
*U.S. Senate.*

DEAR SENATOR RIBICOFF: During my appearance before your subcommittee on trade policy on May 20, Senator Fannin asked why the Department of State was still opposing equalization of tariffs.

In response, I want to emphasize first that the Department of State is *not* now and has not been opposed in principle to equalization of tariffs. Tariffs are unequal for other reasons. In many cases, tariff structures reflect the relative efficiencies of countries' economies, with high cost industries receiving higher protection and more efficient industries relatively little protection. The Common Market tariff was in fact originally the result of averaging arithmetically the national tariffs that existed in member states prior to the formation of the Common Market.

Tariff negotiations up to the Kennedy Round were based on equivalent overall concessions, but the selection of items were chosen on a product-by-product basis and differed from one country to another. The considerations of relative efficiency mentioned above—which were in the case of the United States given legislative status in such concepts as the "peril point"—led to very uneven patterns of tariff reduction.

While the leading participants in the Kennedy Round made their tariff cuts on a "linear" or across-the-board basis, in fact each country excepted some sensitive products from tariff reduction. And, even where linear cuts were made, the previous uneven pattern of protection on the same product, as between nations, was preserved, although the absolute differences were reduced. For example, before the Kennedy Round, the Common Market tariff on autos was 22% and the U.S. tariff 6.5%, or a 15.5% difference; after the Kennedy Round cuts, the rates will become 11% and 3%, or a spread of 8%.

In sum, there remain a number of disparities in tariff levels. It is by no means true that in every case, or even in most cases, the U.S. tariff is the lower. For example, in textiles, mineral products, scientific instruments, and some sectors of the chemical industry, the average U.S. tariff is the highest among the leading industrialized countries. On the other hand, in the important machinery and transport equipment sectors, we have the lowest tariffs overall.

This is how we got where we are. Each country—including the United States—has had its good reasons for protecting certain items. But while there has been a rationale for this behavior, we agree that there is a case—particularly as one is talking about the tariffs of the highly developed industrial powers—for not only reducing tariffs but also harmonizing them. This might be to our advantage particularly if Japan and Canada were to agree to such a negotiating procedure, as their tariffs are high on certain products of export interest to the United States, and on which our own duties are quite low.

I must add, however, that while tariff harmonization has its attractions—and not only for us, but also for the European Community, which for many years has complained about disparately high American tariffs—there has not yet been sufficient analysis of the concept (to determine not only its absolute merits but its benefits relative to other negotiating procedures) nor consultation with our trading partners, both of which would be necessary before we could reach a firm judgment on the feasibility of such a proposal.

We will be exploring this subject further in coming months.

At the hearing I was also asked to comment on the adequacy of the GATT rules. The announcement to the press of the establishment of your subcommittee included a number of fundamental questions on trade policy which your subcommittee plans to look into. Among them are several related to the adequacy or inadequacy of GATT provisions. In response to your request, the Administration is preparing papers on each of these questions. Since I will wish to draw on these papers, I will need additional time before I can give you a substantive response on this matter.

With best regards,

Sincerely yours,

NATHANIEL SAMUELS.

Senator RIBICOFF. Senator Anderson?

Senator ANDERSON. No questions.

Senator RIBICOFF. Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman. I want to take note, as I suspect has already been done, Mr. Secretary, that you were here yesterday, and sat here very patiently through the hearings, and are back here again this morning. I know we all appreciate the fact that you are a busy man too.

I am very much interested in your testimony. I unfortunately was not able to be here at the beginning of the hearing, but having heard what little I have since I have been here I would like to ask you this.

Henry Ford II, the president of Ford Motor Co., was quoted here in some prominent papers just last week as saying that for each 1 percent of imports in the automobile line that come into this country there is a net loss of American jobs equalling 20,000. It has been testified to here in the last day or two that we probably will have 20 percent of domestic car sales represented by foreign manufacturers this year. That would come, according to my figures, to 400,000 unemployed workers.

Mr. Wright, the president of the Zenith Corp., testified that his company, which has long dominated in the electronics industry, particularly with television and radio, is moving one of his major plants to Taiwan. He pointed out that, I believe it was with respect to radio or the TV sets that would sell for around $80 to $110, or some place in that range, they could produce a quality product equally as good in every respect as they are able to make in this country in Taiwan, ship it back over here and get it here on the spot, in their warehouses in the United States for around $7 to $10 less than they would be able to manufacture that same piece of equipment here.

Mr. Callaway, the president of Burlington Mills spoke about the effect that his company is experiencing as this wage disparity is brought into ever sharper focus, and called attention to the fact that while at one time the United States had the technology that enabled it not only to pay substantially higher wages than were paid in any other country in the world, but to produce at the same time, because of their manufacturing techniques which we have pioneered and established, along with the technological superiority that has characterized industry, to meet that sort of competition and to still be able to sell a better product at a lower price. But, he points out that those times are past now.

Many of the multinational corporations have gone abroad. They have taken all of the skills and know-how that we have developed here and have moved their plants abroad to take advantage of the inherent advantages that arise from much lower paid labor forces. Senator Fannin has told me, perhaps he has mentioned here today about the movement just across the border from his State of Arizona into Mexico, of big companies going down there.

Now, I have read the last bit of your statement, and I must say that it seems to me that if this represents the feeling of the State Department—

> Let me say that the Department of State does not share the attitude of gloom and doom about American industry, American labor and American agriculture that pervades so much of the talk one hears among some of our people. This is a great country, an economic giant; its exports both industrial and agricultural, and its investments are at record levels.

I am sure there is a lot to be said for what you say, and it is true that we have a lot of investments. But, I suggest to you that more and more of them are going abroad, and I am not going to be one to sit here until we lose the last job to say that we are in a crisis situation. I think that anyone who is reasonably intelligent, who has some horse sense, can recognize which way the winds are blowing now, and I do not think there is any doubt at all but that there are ill winds insofar as the United States is concerned, and I would ask you if you do not think you maybe kind of overemphasized the hopefully good side that you would like to see, which I would like to see, but do you really believe that is an accurate appraisal?

Mr. SAMUELS. Senator, what you say about what is happening in some industries in this country as a consequence of imports is, of course, very serious and affects jobs, and something perhaps has to be done in different ways about this. With respect to Japanese exports, for example, to be very practical about it, there is no question that if the Japanese are to persist with the very high level of exports that they have in certain products in certain countries they are going to produce the kind of political reaction that is taking place in this country. The Japanese are going to have to understand that there are diminishing returns or will be diminishing returns to them if they press this too far. And in the textiles field I think they have already begun to realize that the political consequences are serious for everybody concerned. I think the automobile industry and the electronics industry are two others that may be very serious.

What is going to happen in the future it seems to me depends on whether we are able to convince the Japanese that it is in their own interest to moderate this enormous competitive drive that has been so successful for them but that has brought adverse economic and political effects elsewhere. Perhaps in their own interest they had better follow policies that do not disrupt trade or domestic policies of other countries unduly; otherwise other countries will, as I think has been suggested here by some of you gentlemen, do such things unilaterally.

We are in the midst now of trying to work out this very difficult problem. I think the danger is to assume that among the variety of problems for our economy imports are the dominant one, and that by doing something about imports we will resolve these problems. I think other problems are more serious in causing the difficulties in our country and in our industries, and go far deeper than imports. Imports are just one aspect that gives us a considerable amount of difficulty. I would hope that the Japanese would understand that whether it is steel exports, or automobile exports, or electronics exports, and I am talking about the sensitive ones, they had better look carefully at their own export policies. We have been trying to impress this upon them. We talk to them incessantly about this subject and about the consequences to the entire world trading system of any further disruption.

I also think, however, to put things in some perspective, we have a tendency in this country to believe now that the Japanese are suddenly 10 feet tall, and that we have diminished in size. In fact the Japanese are having or are beginning to encounter some extremely difficult problems of their own, and the difficulty for us is that the transformation that will take place in the Japanese industrial economy, and that will tend to follow what industrialized countries both here and in Europe have been experiencing, will not take place in a very short number of years. It will take a longer time span for these developments to make themselves felt, although the Japanese already have labor shortages, inflation, and the most monstrous pollution problems of any country in the world. Their costs are rising, and Japanese foreign investments are rising substantially, and I think there are many students of Japan who believe in the next decade or two there will be major Japanese foreign investment. They are moving into textiles in Taiwan and Korea where the prices are lower. As for the steel industry, one Japanese official recently mentioned to me somewhat facetiously, but nevertheless with an element of truth, that he is against any more steel capacity being built in Japan. Why? He said look, the iron ore deposits are in Australia, so why not just build our plant on top of the Australian iron ore deposits, and import the semifinished or finished products, and export the pollution. And while he said this somewhat in a facetious way, these are the problems the Japanese are beginning to encounter, and I do not think we should assume that the present trends will last forever. They just will not.

Senator HANSEN. Well, I appreciate your response, Mr. Samuels, but let me say this: I think we are only seeing the tip of the iceberg when we talk about such things as balance of payments, distressing though they are. Really I am concerned about some other things. We have sat here, those of us on this committee and examined in depth the welfare bill last year, and you may minimize if you chose to, and I do not imply that you necessarily do, this balance of payments thing. Actually I am sure it has already been pointed out, and I know it was yesterday, that if you take the good picture that is reported and subtract what we give away to foreign countries, and what we export under Public Law 480 and some other things that we wind up with a negative balance of trade of about $3.2 billion instead of a $2.7 surplus that everyone talks about.

But, the part of the iceberg that concerns me are the people out of jobs in this country, and the minority groups, and that is not an idle problem, because I stood here shocked and horrified when this city was on fire about 3 years ago, and I am not one who thinks that we are going to solve that kind of problem until we have most of our people at work. And the biggest businesses that are leaving this country right today are those kinds of businesses, the businesses that the minority groups and those with the fewest merchantable skills can find employment in now, and it is one thing to say that the Japanese are having trouble with their textiles. Sure they are.

A few years ago each high school graduate had two job offers. Now there are 7.7 job offers. What they are doing is taking capital and investing it around in other parts of the world and manufacturing under the Japanese labels and importing it here. I do not think they are 10 feet tall, but neither do I think it is necessary for us to stand in a 4-foot hole that you helped us to dig either. And that is exactly what we are in today and that is why they appear so tall, because this State Department just does not seem to realize that there are other problems other than the problems of the State Department. That is my frank opinion. I am disturbed that you dismiss all of these concerns so cavalierly, as you seem to do. We talk about these foreign cars. Maybe we were not traded up right, but the Pinto is not all made in this country either. The motor comes from Europe, the transmission comes from Europe, and it will not be long before more of it is coming from Europe because what we have become in this country today is more of an assembly line for component parts that are manufactured all over the world, and that just means one thing: That there are fewer jobs for American people simply because that is what we have been doing.

Now, I say if we are going to get a handle on our very severe problems that concern me, and I know they concern you too, we have got to do something about finding jobs for people. We just cannot go on saying we will pay for unemployment, and we will pay for welfare, and we will do these things and try to give people enough so that they will be able to be kept happy. They are not going to be happy, and I am not happy. I say that it is time that we realistically faced up to the fact of the jobs we are losing. Secretary Stans testified some few weeks ago that if we had manufactured all of the items that we imported last year it would have required a work force of 2½ million people working full time. Now, I think that is a greater strain than we can afford. It may be that we are working these things out, but I say that the President, our President, and he is everybody's President, campaigned on a platform that he was going to do something about the problem in the textile industry. We are still talking about doing something about it. I think it is time that the Congress of the United States drafted some tough laws that everybody can read and understand and know exactly what our position is, and when we do this, when we are realistic enough to say to the world that this represents what we think the United States ought to be doing. Then I say we will turn some things around. I am not concerned about what the reaction will be. The reaction could not hurt us less, because as I said before, we have a negative balance of trade of $1.2 billion right now, and how is that going to hurt anybody in the United States if we lose the whole bit and caboodle? It would not hurt us at all. We do not have a thing to lose.

All of our foreign trade represents, I mean all of our exports represent only about 4 percent of our Gross National Product. We [illegible] would not have anything to retaliate about. All they would do [illegible] in the world, and [illegible] the greatest [illegible] standard of living [illegible] they are not going to be a good market [illegible] to be a very good market here for the rest of the nations [illegible] the things we produce [illegible] that.

Senator Ribicoff. Senator Bennett.

Senator Bennett. Well, I have been sitting here [illegible] and want to express appreciation for what [illegible] more vigorously and more effectively than I could. It [illegible] of the trade [illegible].

I [illegible] your statement completely ignores the country [illegible] trading deficits and that is Canada. Do you have any comments to us about how that deficit [illegible] and what if anything we are doing to [illegible] it? Do we think [illegible] out as [illegible] on the [illegible], and they are small, and they have internal [illegible] problems that we should continue to open our market to them? Just for the record, we had a trading surplus which gradually [illegible] until 1965, and then we [illegible] the automotive trade bill and in 2 years it dropped from [illegible] billion surplus to [illegible] million, and in 3 years more it [illegible] dropped to a deficit of $2 billion. Now, do you not think we should be looking [illegible] the border to see what can be done to lessen that burden on our balance of payments?

Mr. Samuels. If I remember it is not a $2 billion deficit, although I do not have the figure.

Senator Bennett. Well, I am quoting from figures given to us by the Department of Commerce in May of this year, and they show a deficit of $2,700,000,000 which.

Mr. Samuels. The total trade is $[illegible] billion, yes.

Senator Bennett. And which $1,[illegible],000,000 is the deficit in the automotive field.

Mr. Samuels. Senator, Canada is our most important trading partner, and they were not left out deliberately. It is just that we cannot cover everything in a relatively short statement. Our trade with Canada is, of course, hugely important to us. On the automotive agreement, and I assume that is the matter you have essentially in mind, I happened not to be a particular expert, but I believe overall it has not worked out badly.

Senator BENTSEN. It has taken us down from a surplus of $600 million to a deficit of $2 billion in 3 years.

Mr. SAMUELS. Well, it is not the automotive agreement that has done all of it.

Senator BENTSEN. Well, half of it. The automotive is responsible for half of it.

Mr. SAMUELS. Our basic problem in Canada is that if one leaves aside current needs for energy and our needs for raw materials we will require more and more imports from Canada. This is our basic situation with respect to Canada. Canada has a number of things that we need in this country, and if you look at trade development between Canada and the United States this is the way it is running.

Senator BENTSEN. Are you saying that for our own self interest that we must expect in the foreseeable future to be developing a trade deficit with Canada, that this is the name of the game and there is not anything you can do about it?

Mr. SAMUELS. Well, what essentially the trading relationship will be, I do not think anyone can necessarily say, but I think it is important to bear in mind that a trading surplus or deficit with a particular country is not in itself of importance. What is important is the overall total, because in an international world where you have triangular trade, people buying and selling from each other, there is not a need to balance accounts with any one particular country, and actually it is impossible to have a surplus with every country.

Senator BENTSEN. We have been talking in this committee at great length about our relationship with Japan, which is a single country, and also our relationships with the Common Market, which for all trading purposes is a single country, and now I think we need to look, and you may be right, our relationship with Canada may be such that we must expect to always from here have a trading deficit, and I can be more sympathetic to your concept that this is based on our need to import Canadian raw materials and energy than I can the idea that we should give that part of our automotive productive capacity now representing approximately a billion dollars to our friends.

Mr. SAMUELS. My understanding is that in the automotive arrangement, there are certain transitory or intended to be transitory arrangements that have not been essentially in our interest, and that I think you would like to see changed, and which we probably will be pursuing with some vigor. But I do not believe that the basic arrangement is a faulty one.

Senator BENTSEN. Well, I was a member of the committee when it went before us and it was presented to us as a two-way street. But it looks to me now that it was a device for the American automobile companies to have their parts made cheaper, under cheaper labor in Canada, and that there has been no real two-way flow.

Senator TALMADGE. Will the Senator yield at that point?

Senator BENTSEN. Yes, I will be happy to.

Senator TALMADGE. It is my information that at the present time we import automobiles from Canada duty free. Canada has a 17½ percent duty on American-manufactured automobiles, and the United States cannot ship any used automotive equipment to Canada.

Senator BENNETT. So that is contained, and I was not aware of that specifically, it is contained in the footnote on page 10 of the study that our staff has made. Well then, it is primarily parts, and it is the question of trade across the border which is like the Japanese trade, practically no duty on our importation of their production, but very high duty on their importation of our production. So, it is the same problem.

Mr. SAMUELS. Under the automotive agreement, Senator, according to my understanding, where the American cars are imported by a qualified manufacturer or dealer they go duty free into Canada.

Senator BENNETT. I know, but where they are imported by—I think that is limited to the dealer, is it not, to the Canadian manufacturer?

Senator TALMADGE. If the Senator will yield, it is limited to the manufacturer exclusively, and that means Ford of Canada, and an individual in Canada cannot import.

Senator BENNETT. Or a dealer who is selling for the individual cannot import. So I do not want this hearing to end with focusing our attention on that problem, which at the moment in terms of volume is much more serious than our importation of Japanese or Common Market country cars.

Mr. SAMUELS. Well, you can be assured, Senator, that this matter is receiving our attention, and that any real inequities to the United States that are not just simply transitional, that are not under the agreement for a limited period of time, we will endeavor to do something about.

Senator BENNETT. I think for the record, again it is interesting to note that when we passed the interest equalization tax we exempted the two countries that are giving us the greatest problem, Canada and Japan. Now, this is another phase of the problem. I think my time is up, Mr. Chairman.

Senator RIBICOFF. Senator Long.

Senator LONG. I see where you say here, Mr. Samuels, "We have let no opportunity pass to press Japan to open its markets to our exporters and investors," and I find myself thinking now that when we have a person who is speaking for this Government, and you are speaking for the State Department here, are you?

Mr. SAMUELS. Yes.

Senator LONG. And saying that we are doing everything we can to open our markets to American exporters and investors, the thought strikes me that with Japan trading as one nation, united in a national effort and all of it under one man, where they are described by the Burlington Industries a day or so ago as operating as one big monopoly taking on American companies like Burlington with the power to absolutely destroy them unless somebody comes to their aid, and that if we are doing all we can, and our people are left in that much of an unenviable position, unable to sell to Japan while Japan sells to us, and how much would you estimate their balance-of-payments surplus is with us, about a billion and four? How much?

Mr. SAMUELS. Somewhere around a billion and four, a billion and a half.

Senator LONG. But if we are doing all we can, and getting so little results then we had better change our way of doing business.

Now, Bob Kerr used to sit on this committee and he would be the chairman if the Good Lord had let him survive a little longer, and I expected to serve under him for many more years. He would have made a great chairman, and he used to use as an illustration the story of Gulliver and the little people. He would explain how Gulliver, without suspecting what was going to happen, went to sleep, and one morning a lot of little people had tied him down and they kept him there until he agreed to do their bidding, they would then and only then let him up. And he used to describe Uncle Sam's situation. Now, here we are, here is a chart* provided to us by the Treasury, and I am sure you would agree with it because it is official Government statistics showing how since 1950 our position went from in terms of U.S. liquid liabilities to foreigners of $9 billion up to $48 billion, and our reserve assets went down from $24 billion down to about $11 billion. We have been the dominant power. There has been practically nothing that these people who have acquired all of our assets produce that we are not capable of producing. Everything they are shipping to us is stuff that we could produce.

Now, I am not talking about these little Latin countries that ship us our coffee and bananas. We have a favorable trade balance with them, and probably ought to be helping them anyway. But, our able, friendly trading partners in the free world whom we helped to rebuild a war-torn economy have gone ahead now, and where we were in a position to call the signals and say what the deal had to be with them, with them shipping us nothing we could not produce here, and us being in a position to provide them anything they required, and that most of which they were unable to provide for themselves, it would seem to me as though we could easily take care of this Nation's interests if put all of our power at one place and require that whoever is handling that look after America's interests. Now, does that make sense to you?

Mr. SAMUELS. Well, Senator, I would like to reiterate again that on the Japanese situation we just could not be more in agreement about the seriousness of the problem and how important it is to press Japan to eliminate the barriers she has set up on imports and investments on a whole variety of things. We think we have made some pretty substantial progress, but far from what is necessary. Now, it is true that the whole Japanese economic and social structure is such that they are able to operate in unison and with a unity of direction that is not possible in the kind of freer society that we run in this country and that we desire. Now, to say that the solution to our problem with Japan is to adopt the kind of system they have, is I think for America, slightly unrealistic and I am not sure necessarily a solution at all.

Senator LONG. Well now, let me just give you a simple illustration of something I understand, at least I think I understand something about it.

Mr. SAMUELS. Sure.

Senator LONG. We will be looking at the Sugar Act sometime soon. Now, when we buy that sugar we are paying those people a good price, but they are still selling it to us for a cheaper price than we could produce it here ourselves, and we are doing them a favor to buy

*Page 401 of this hearing.

it at the price we do. But, we do not do this, but if we wanted to we surely could, and they would be willing to cooperate, we could tell those people now look, if you are going to sell that sugar into this market, to the United States, we could produce it all for ourselves, but we can buy it more cheaply from you, but if you are going to sell the sugar to us, you are going to have to buy our farm machinery from the United States, and frankly, between us, those people come to my office looking me up and making the point that they could buy their farm machinery cheaper someplace else, but they are buying it from us, so that is one reason to suggest to us that we ought to buy their sugar. We do not do it, but we certainly could. What if we did? What would be the matter? We are giving them a favored price, and why should they not buy our farm machinery?

Mr. SAMUELS. Senator, I am not going to argue against you on these things. I think there are some situations, and whether it applies to this particular one or not, I would not be prepared to say, where we are going to have to be more difficult.

Senator LONG. Let me just give you a simple example. All we would have to do to put anything you want to in the Japanese market, and all you want to put in there and enter that market competitively would be just to say you cannot ship any steel into our market unless you let us sell anything we can produce and sell cheaper than you in your market, and that is all there is to it in my mind. We will go over and out. That is the end of it. We do not need the Toyota. We do not have to have them. They are nice cars, but we do not have to have them, and we do not have to have the Datsun, and we do not have to have the steel in any shape or form whatever. We do not need any of those products, but we could use them, but we can get by without any of it. How in the world would you know that it would not work if you have never even tried it? I mean, that is my reaction to it. It seems to me as though what you have done with Japan is to lay down just like Gulliver did, and the difference was that he was asleep and you had your eyes open while you laid down and they tied us down.

Mr. SAMUELS. You are suggesting that I was asleep with my eyes open?

Senator LONG. And proceed like Gulliver to plead with those people to let you up, when as a practical matter all you had to do was just assert your power to begin with, and to me that is just pretty ridiculous.

Now, before you came here you were with a large investment firm?

Mr. SAMUELS. That is right.

Senator LONG. What company was that?

Mr. SAMUELS. Kuhn, Loeb.

Senator LONG. Somebody gave me the impression that somebody must be making some money on all of this foolishness, and maybe Kuhn, Loeb knows how, and they are good citizens, and good Americans, and we need their brilliance and expertise, but I am familiar with the situation that we have in Louisiana where we have to absorb imports coming in to the extent that we are about to destroy our entire economy in Louisiana, and I tried to get a resolution to try to get this thing on some basis so that we could live and at the same time absorb a reasonable amount of all imports, and the next thing I would know I would get a resolution out of the chamber of commerce advocating that we do nothing to limit all imports. Well, frankly, that was destroying our economy, so I tried to find out who was responsible for this resolution from the chamber of commerce and I found they appointed some committee, and about the only people interested in being on the committee were a couple of fellows who were freight expediters, and those fellows were making a fortune out of Louisiana while we were going bankrupt and putting our people out of work.

That committee was not composed of the rank-and-file people within the State who have the State's interest at heart, but were people who were limited to one special deal, and this is where you would bring that one big ship in and displace about 500 American workers with a single ship, and find that the reason you are doing it is because some guy, some little fellow, is making a $5,000 fee out of that. Now, I would think that at some point we had better start looking at the overall national interest. Now, I know you are going to do what you can to help the Nixon administration to succeed, and there are many respects in which I give them good points.

Thank the Lord we did not have Fortas as Chief Justice, and Warren on there to cast a deciding vote where we would have turned loose 600 murderers to go out in this country. In that respect, they did something good. And I applaud the President for his courageous policy not to just turn tail and run but to come out of Vietnam with honor.

But, I think you people better start doing a whole lot better job about this economy of ours. You have 6 percent of the people unemployed. You have it down now where you cannot pay your hotel bill in Geneva with American dollars, and you are in a position that the foreigners for their own selfish advantage can tell us, or think they ought to be able to tell us, how much interest we ought to be able to charge. Our people are being driven out of business, out of their own market by a producer that will not let us sell in their market when we are the low-cost producer. And you people are going to have to start asserting your authority to look after this Nation's interest, unless you want somebody else to go in on Pennsylvania Avenue and doing the same thing, and, if you will do it, I will help you.

Mr. SAMUELS. I appreciate it.

Mr. Chairman, may I make a comment here? You know, the Department of State, is, of course, the butt of everybody's criticism on every problem. I come from the outside and I am not a bureaucrat here by profession, but I have observed that one reason that the Department of State is a butt of everybody's criticism is a perfectly legitimate one, and an understandable one: Anybody looks at any given problem from the standpoint of his own interest and his responsibility to his constituency, to his industry, or a farmer to his farm occupation and so on. The Department of State on the other hand must necessarily look at problems at the overall national interest, and not in any one sector.

This is the heart and difficulty of our problem. Now, take the Japanese problem. I do not want to defend the Japanese in any respect——

Senator LONG. Defend them? They do not need any defending, they are looking after Japan very well.

Mr. SAMUELS. That is right and I agree. The point I want to make, however, concerns the restrictions on our exports to their market which we are fighting very hard to eliminate, and eliminate as fast as possible. All the Japanese have to do, for any measure that we take that they regard as seriously adverse or unfair to them in their eyes, is to decide to buy some wheat from Canada or Australia as a substitute for what they buy from us. Since they are a major importer.

Senator LONG. How are they going to pay for it when we quit buying their steel and their electronics from them?

Mr. SAMUELS. They sell to many other countries.

Senator LONG. They buy all of their cotton from Mexico, do they not?

Mr. SAMUELS. I do not know. I know they buy some.

Senator LONG. I understand that they buy all of their cotton from Mexico.

Mr. SAMUELS. I wish we could sell them more American cotton.

Senator LONG. Look, they have $1,400 million annual surplus in trading with us. They are not shipping us anything that we cannot manufacture here with good wages for American workers. If we just say that we are not happy by the way things are going, we are not going to trade with you on this basis for a few years, who would get the worst of it, us or them?

We eliminate $1.4 billion minus, and they lose $1.4 billion plus. Now, that is where we stand, is it not?

Mr. SAMUELS. Well, I am not sure it is quite as simple as that, Senator. I think if we would analyze it, we would find that an awful lot of people in this country would find that they would go broke under that situation if it happened, and I do not think—I appreciate you putting this in the extreme——

Senator LONG. Well, I know there is this guy that is making a $1,000 fee off of the ship while we lose 500 jobs, and a great deal of the money from that is needed to support our schools in Louisiana.

Mr. SAMUELS. I personally feel, Senator, we will be able to protect the $4 or $5 billion of exports we have to Japan, which include some pretty important items and very important industries, and at the same time I think we will be able to achieve some success in dealing with the import problems.

Our worst import problem with Japan I am confident we will be able to work out.

Senator LONG. All I am saying is that I have yet to see where this Nation could have even mustered the courage to make the first move to insist on looking after our national interest. Now, I attended an overseas conference and observed it, and it had to do with laws of the sea, and the conference broke up in a way completely unsatisfactory to the United States because the Canadians pulled the rug out from under us. They were not happy about the situation because they thought they might lose some fish, and they could otherwise catch these fish, and among the American group, if we had said now, all right, now, so Canada is destroying our position in order to catch a few more fish, and where do you think they are going to sell all those fish?

Right here in the United States, and if we had the courage to say well, sir, if that is the way it is going to be we are not going to buy any fish from you, and that would have been the end of that foolishness. But, no, sir, we just let them do that to us, a great big kick in the pants, and you are rubbing your rear end for a week because it hurts so bad, and never once getting around to saying well, gee, if you do that to me I am not going to buy the damn fish, and pardon my language, but if you just take that attitude with them and plainly do business that way, that would solve the whole problem, at least it seems to me it would. And, I see you nodding, and if you do not agree with me, at least you understand what I am saying, and frankly I think those people would respect us. I know they admire their own people when their people stand up for their country, and I think they believe it would be quite natural, and quite healthy for Americans to stand up for America, and having looked after this Nation's interest, and cared for our people, and our industries, and our investments, then proceed to say now having provided for a full economy for America, let us see what we can do consistent with that to help this fellow with his problem.

Senator RIBICOFF. Mr. Samuels, of course you have learned today what the other 99 members of the Senate know, never start slugging toe to toe with Senator Long. You cannot win.

Mr. SAMUELS. I knew that, of course.

Senator RIBICOFF. But on the point, not as colorfully as Senator Long put it, the point you make, let us take it one point further. It is true that the State Department does have the overall responsibility for the American position internationally, and if this is the case, what have we gained internationally or politically, purposefully or incidentally from either Japan or Canada in recent years, because of our allowing them to attain such a favorable balance of trade in their favor as against us? What can you point to as a definite gain for U.S. foreign policy?

Mr. SAMUELS. Well, to go outside of the economic——

Senator RIBICOFF. Any field, because I think this is one of the great problems we are concerned with. I think throughout the committee there is a general concern that year in and year out the State Department sacrifices American economic interest for political benefits.

Now, if that is the case, what political benefits have we achieved from the two big countries that have the favorable end of the trade balances with us?

Mr. SAMUELS. I think, Mr. Chairman, that certainly on the Japanese side in this postwar period, Japan's emergence as a major power in Asia is an important element in trying to bring a stable situation in Asia, and particularly as the Vietnam war comes to an end, as the Nixon Doctrine comes into effect, having an important, strong, powerful ally in the Far East is going to be a matter of paramount importance.

Senator RIBICOFF. Well, is that just due to the trade, because in the final analysis, the Japanese have made no contribution to Vietnam, and if I were the Japanese, I do not blame them—they are the beneficiaries of our expenditures—a few years ago I was in Saigon, and if there was one thing you saw, and nothing else, it was that every street in Saigon was just jammed packed full of Japanese Hondas. One of our problems in our balance of payments results from the Vietnam war and the money we spend there, and the Japanese have been the beneficiaries, of course. We are not going to be able to stop Japan's acquiring the major position it is now. It is just a country with a lot of drive and they are a country with a lot of intelligence, and they have power and, of course, they are generating jealousies against themselves, just like we have.

Every powerful nation generates jealousies from the people it does business with. We have done that. I think part of our problem is the jealousy, and the many nations feel this jealousy towards the United States power and business, bigness. The Japanese now are reaping that from their neighbors because of their power, but I am still curious as to what we have achieved from Japan or Canada that we can point to and say because we have done this, and we have given them all of these advantages, there are pluses for the United States in the year 1971.

Mr. SAMUELS. Mr. Chairman, we do not look upon this as a tradeoff between giving them economic benefits in order to get political benefits in return. We have not followed a policy of deliberately giving Japan any economic benefits. We did do a great deal after the war to help Japan to get on its feet, true enough, and we think politically that was very important. The political benefits that have been derived from Japan's emergence as an important country in the Far East have occurred, and is beneficial to us, because Japan has rebuilt its economy and has been able to assert an important economic role in that area. Her trade with Asia, as I was saying, is about a third of her total trade and is very important for the stability of that whole region. However, the fact that this politically desirable development has occurred is no reason why we should not assert our trade interest against Japan and assert them very vigorously. There is no conflict involved here, where we have to give up one to get the other.

I might also point out that we have been pressing the Japanese to take up more of the AID burden in the Far East, which they have done. Their AID effort in the Far East is now, on a per capita percentage of gross national product, in excess of our own, and we are encouraging this and would like to see them do more. We must take into account also, that is on the defense side, it is true that there have been the substantial Japanese benefits, enormous benefits from the fact that they have not had a defense burden. Now we can take the position, as we do, that we want Japan to take up more and more of a defense burden in the Far East. But, this becomes a matter of policy, how much of the defense burden do you want them to take? Do you want to go to the point where the Japanese feel that they must become a nuclear power or not?

Now, I do not want to get into these complicated political questions, but I merely want to point out that there are a variety of considerations involved.

Senator RIBICOFF. That is right. But see, what bothers me is that almost every other nation in the world ties its diplomacy to economics, and we are tying our diplomacy to geopolitics as I listen to you, and as you indicated. In my talks to many, many of the able economic attachés that I meet around the world—they are men under your jurisdiction—I find they are disspirited, they are able but disspirited men and you sense, in talking to them, that very seldom do their reports get above an assistant secretary, and not many people pay attention to them, and because we are not interested in economics, and what happens is this gets put into a President's speech.

And the President's policy speech, the President states:

> We recognize that our interests will necessarily be affected by Europe's evolution, and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality of the West as a whole.

Now, when President Nixon made that statement I am sure he did not realize what was going on. The President gave a blank check to every Western European country to say, "Look, boys, go ahead and do anything you want to make yours   es strong, and if the United States is going to take an economic kick   the teeth, we are ready to take it."

Now, as I go back to this statement I understand that the statement was put in the presidential message by a very brilliant man, who was very important, but who has absolutely no economic sense on a worldwide basis, and he admits it. He is not an economist, and so here we are with these grave economic problems, we are being outsmarted, we are being out-traded, and the President really gives it to them on a silver platter, because when our trade representatives start negotiating with the Europeans, or with the Japanese, or anybody else, they will say "Well, look, that is American policy, and they throw it right into your teeth."

Now, this statement is used against the United States' interest time and time again. Now, that bothers me.

Now, another thing along the same line, the President, in his same message makes the statement:

> To help other Western Hemisphere Nations to increase their export earnings, and thus contribute to balanced development and economic growth, I, the President, have committed the United States to a program which would help these countries improve their access to the expanding markets of the industrial world.

Now, I know that Senator Talmadge and I, and I think most of the members of this committee have been deeply concerned with so-called executive agreements, that the executive enters into, and it comes to the Congress as a fait accompli and we take it or leave it. There is not much we can do about it. You are not going to repudiate the President and the Nation, and this is as with the Canadian auto agreement that has had this disastrous consequence, as pointed out by the other two Senators, and I know that Senator Talmadge and I have been talking about these executive agreements all along.

Now, this indicates to me that the executive has entered into some executive agreements in respect to tariff preferences for less developed countries. Have you entered into such executive agreement that we are suddenly going to have to face now?

Mr. SAMUELS. No, Mr. Chairman.

Senator RIBICOFF. What does this statement mean, of the President's, "I have committed the United States to a program which will help these countries improve their access to the expanding markets of the industrial world?"

Mr. SAMUELS. Mr. Chairman, the President has committed himself to a program which he proposes to submit to the Congress, and there has never been any question about that, and in all of the discussions with foreign countries to set up a scheme for generalized preferences, it has been made thoroughly clear to them that it is all subject to the approval of the Congress.

Senator RIBICOFF. So you see, the statement of the President says, and this is what bothers me, "I have committed the United States," not that I have committed myself. You see, I think the State Department and the President will miss something very important from that vote yesterday. It is true that the Mansfield resolution was beaten and by a large majority, but if you follow that debate you will find that there is a deep unquietness about our policy. I know many men who voted against the Mansfield resolution, yet who are deeply disturbed at our balance of payments and our carrying the entire load, and the adverse liquidity balance we are suffering, the $5 billion plus of payment differential for the first quarter, and I do believe that you are really facing very grave problems if you take that as a defeat, or as a victory instead of a warning of much more conflict to come within the country and the Congress of the United States.

Now, I know that one of the most ardent defenders of your position came to me after defending the position of the President very deeply, and he said, "I think you are on the right track, Abe, and I would like to sit down with you and work out a proposal that sort of incorporates what you are talking about."

I think, he said, that the atmosphere here is such that we cannot do it, but I just give this to you as an indication of the thinking of the U.S. Senate, and I think from long experience, the President should be aware of this attitude and the responsibilities of this branch of Government. But I think many people in the executive branch are not aware of it, of the responsibility of the legislative branch, who represent the people, who go to the people for election, and who have obligations.

Now, you listened to it, and I listened very carefully to questions, some of the sharpest questions that you were getting on economic matters which were coming from men who all voted against the Mansfield resolution, but even though they voted against the Mansfield resolution, from their questions it became very obvious to me that they are deeply disturbed with economic factors, and they are deeply disturbed over the fact that the United States is getting the worst end of the deal.

Now, I listened to the questions of Senator Fannin and Senators Bennett and Hansen, and they voted with the President yesterday, but it is obvious to me that they are disturbed at these economic factors.

Senator BENNETT. May I comment?

I hope the impression does not go out that this problem was created when Nixon was elected.

Senator RIBICOFF. Oh, no. I mean, I think if the Senator will yield, I have been on this committee with the Senator for 8 years, and I do not think during this entire 8 years I have made a statement, either in executive session or on the floor, or taken a position that was partisan in nature. I think the Senator will realize that.

After all, we are talking about a balance-of-payments deficit of $48 billion between the 1950's and the 1970's, and during that period the Democrats were in office many, many of those years.

I do not think that we are ever talking about this as Mr. Nixon's deficit.

Senator BENNETT. I did not think you were, but the impression was going out that it was this President who had committed—it was this President who was ignoring the Congress, and in the days when there were other Presidents whose party also controlled the Congress, they ignored the Congress, too, and they could do it with impunity.

Senator RIBICOFF. They were wrong. I think Senator Talmadge and I were in the forefront against President Johnson on the United States-Canadian auto agreement. We thought President Johnson was wrong, and we did not hesitate to say on the floor that we thought President Johnson was wrong.

You see, what you have is a continuity of attitudes that survives the President, and I think this is what has been bothering the Senator from Louisiana and many others, that you have a policy on an ongoing bureaucracy that is stronger than the policy of any single President of the United States, because it outlives any administration.

Senator LONG. Senator, we are talking about an idiotic fiasco that any one party is not capable of creating by itself.

Senator BENNETT. Well, Mr. Chairman, you have made the point for me. I just wanted it clear that we understand this is a problem that has taken a long time to grow, and there are times when it has been aggravated, there are times when attempts have been made to solve it without too much success.

We are just the current successors of our predecessors who were working on the same problem, and we are working under circumstances in which one party controls the White House and the other party controls the Congress.

Senator RIBICOFF. But I think what is trying to be achieved, I gather from the questions around the table, and my gratitude again to Chairman Long for constituting this subcommittee, is the realization that this is an over-all problem for the Executive and the Congress, and that Congress has been ignored over the years in trade matters, and we believe to the detriment of the entire Nation.

Now, all of these economic chickens are coming home to roost, and in delving into these problems, publicly, openly, putting it on the table, the great issues that confront this Nation at home and abroad in the economic field, what we are saying to the executive branch is we want to be helpful. Our objective is the same.

Our objective is the long-range viability of the United States as a Nation, and we look around and we see the other nations deeply concerned with economic matters. Economic matters being given primacy in every industrial country in the world, and we wake up to realize that we are lagging behind, in trade, in industry, in investment, in money, and to suffer the humiliation of the dollar, which for all of these 20-odd or 25 years has been the arbiter, has been the strong currency, steadily taking the back seat.

Now, we are trying to work this out, and may I say, and I will give this administration great credit for it, when these hearings were announced, not everybody was invited, and practically everyone in this administration that had a role in economics and trade matters called and asked for the opportunity to be heard, which indicates to me that this administration is becoming concerned with economic problems, and I just want to say that they volunteered to come, Senator Bennett, so there is this concern.

And it is our intention, frankly, that on this committee, and I hope I have the support of my colleagues on this committee, not just to have a week of hearings and then close up shop and then have the committee have a report and forget about it.

It is our intention to have this committee an ongoing committee, to consult with the executive branch, to supervise, to have the oversight function which is our responsibility in these trade matters so that we do not have these great clashes and confrontations that come up every once in a while, every 2 or 3 or 4 years, because there is a grave concern and I am sure that every witness that has been here has seen it, whether you agree with the statements made by any one member or not.

But, there is a common thread that goes throughout.

Now, just one question, because it is your responsibility, and you are the negotiator concerning offsets with Bonn, are you not?

Mr. SAMUELS. Yes, Mr. Chairman.

Senator RIBICOFF. This is your responsibility. Now, what more can the Germans do?

Now, one of the keynotes, again, of the Mansfield resolution was that extra 150,000 troops in Europe are costing the United States in the balance-of-payments terms about $400 million.

There have been a lot of big figures thrown around, but my understanding, that, is about the balance-of-payments cost—about $400 million—for 150,000 troops and not the $1 billion, or the $7 billion or the $14 billion. It comes to between 300,000 and 400,000.

Now, the Germans, of course, have the umbrella of American defense, 300,000 men, they have some $16 billion of call on our gold reserves. What are you getting out of the Germans in offsets?

Mr. SAMUELS. Mr. Chairman, we are in the midst of the offset negotiations with the Germans now on the renewal of a 2 year agreement which expires in June 1971.

So far what we have discussed with the Germans has involved a level of military purchases that they will make in the next 2-year period of fiscal years 1972 and 1973.

These military purchases by the Germans in this country as an offset to the balance of payments, the cost for us of our troops in Germany, has been also the centerpiece of offset agreements in the past, before my time.

The level of military purchases by the Germans, which the Germans propose to make in 1972–73 will be quite substantial, and will be at the same level as in the 1970-71 agreement, or perhaps even a little bit higher. And this has been a very great problem for them because they really do not need this high level of military purchases in the United States, but for one reason or another they have found, at least for the next 2 years, that they will be able to keep it up at this level.

When you ask what more could they do, the offset agreements in the past consisted primarily of two other categories: other civilian purchases and temporary financial arrangements.

Now, in the last offset agreement, and in addition to military purchases, there were some civilian purchases of a relatively small nature.

There were also some financial measures. For example, they made a deposit in this country of $250 million for 10 years, no repayment until the end of 10 years at the concessional rate of 3½ percent. That was an inflow from the balance of payments point of view of that money, which remains here for 10 years, and the Treasury gets the benefit of having it at a fairly low rate of interest, much lower than they would have had to pay for money if they went out and borrowed it.

Now, these financial measures are of relatively limited value from a true balance of payments point of view, so the thing we have stressed upon the Germans is to do something in the way of a direct contribution, a monetary contribution, or so-called budget support. This has been a very delicate problem in Germany because the Germans have tended to look upon as simply occupation costs, and this has been a very sensitive topic.

However, I think we are making some progress with the German Government on this score, and that they will do something reasonably substantial, at least as a start because of the delicate political problem in Germany, in terms of an offset contribution that will have both budget as well as balance of payments effect. And if we do accomplish that, it would be a definite breakthrough that would be helpful to us. Now, whether it would be the amount that we would like to have is another question. But we are pressing them very hard in this.

There may also be other elements, including some financial elements that would interest the Treasury under discussion. These are in an early stage of discussion, however, and we are not entirely sure whether we or they want to go through with these elements. But, the point is that we are pressing them extremely hard. I have a meeting with the chief German negotiator in Germany on Monday, more or less, a private session, and we are going to try to press them very hard to improve on what they have already agreed to do for the next offset.

This is pretty much along the lines which we are going. We are trying to impress upon the Germans that offset is really no longer an adequate concept, but that a common defense effort, to which we both have to contribute, as do all of the NATO allies is more appropriate. It is not just a German problem.

And as you know, another important step forward this year in this respect has been the agreement upon the part of all of the NATO allies to do more for their own defense, to step it up beyond what they were doing. The amount so far is about a billion dollars over the next 5 years, of which the Germans are carrying about 50 percent. This is by all of the NATO countries as a group, and I think what we are aiming for is to get a multilateral kind of assistance, financial assistance, in NATO, through which all of the allied countries will do more, but in the way that I think President Nixon set out, that is by building up their own defense, and thereby diminish the amount that we would have to provide for the common defense. This is the general line of approach that we are pursuing.

Senator TALMADGE. Would the chairman yield on that?

Senator RIBICOFF. I would be pleased to yield.

Senator TALMADGE. Mr. Secretary, I would like to get one thing clear. My recollection is that Secretary Connally, when he testified before our committee, stated that the maintenance of our troops and their dependents in Europe cost us about $1,700 million more than it would if these same troops were stationed in the United States of America.

I believe the cost of the troops in total, equipment and everything, runs to $14 billion, but we would not save all that much if we brought them back to the United States.

According to his figures, as I recall it, it was an extra cost by virtue of being quartered in Europe at $1,500 million, and of that $1,500 million about $800 million of the funds themselves would go into a deficit on our balance of payments, which is a potential gold drain; is that right?

Mr. SAMUELS. Almost right, Senator. May I correct it in just one particular?

Senator TALMADGE. Yes. That is what I want, to get it clear.

Mr. SAMUELS. Surely. The $1.7 billion is the balance of payments cost of maintaining our troops in Europe as a whole, not Germany. Europe as a whole is the $1.7 billion. Our balance of payments cost for stationing of our troops in Germany as such is about $1 billion or $1,100 million.

Senator TALMADGE. You are talking about all of Europe?

Mr. SAMUELS. Yes, one all. The balance of payments deficit for all of Europe for maintaining our troops in Europe is, after you take out the offsets but if you do not include the financial measures of the offset, about $800 million or $900 million. You include the financial measures of offsets, it is less than that, about $200 million or $300 million.

May I just say something, Senator, on the $14 billion?

I think this figure has been used a great deal, and I think it is very important that we understand the $14 billion figure.

The $14 billion figure is our budgetary cost for all of our forces committed to NATO. Now, these forces are not mainly in Europe, they are in the United States, primarily, and also in other parts of the world, but for military disposition purposes that are regarded as a part of our commitment to NATO.

The actual budgetary cost of our keeping troops in Europe is $3 billion. It is a $3 billion budgetary cost for Europe, and as you at one point, the $1 billion balance of payments cost is a net balance of payments cost for all of Europe, depending upon how you figure the offset arrangement of between $600 million and $750 million.

Senator TALMADGE. Let me get that offset figure clear. My understanding is the majority of that offset figure of which you speak is German purchase of American bonds for which we pay interest, is that right?

Mr. SAMUELS. Yes. In the last offset it amounted to $840 million.

Senator TALMADGE. How much?

Mr. SAMUELS. $840 million.

Senator TALMADGE. It is not a very great contribution when you consider that they purchase the bonds from us on which we pay them interest, is it?

Mr. SAMUELS. The financial portion of that consisted of let us say about $500 million of the $840 million.

Senator TALMADGE. Why is it that West Germany, with a $16 million or $17 million in reserves in their central bank, cannot do more when we, if you take all of our dollars floating around in Europe, are at a minus $20 billion factor?

Mr. SAMUELS. Senator, I could not agree with you more. They should do more and could do more, and I can assure you that we are pressing this point home to them as hard as we can, and endeavoring to get their contribution increased.

Senator TALMADGE. Why should the United States of America insist on going broke in primarily defending Western Europe, while the West Europeans are getting rich at our expense?

Mr. SAMUELS. Well as far as going broke, Senator, certainly they ought to do far more, and we are pressing them to do so, and they are doing it, but I do not think at a fast enough rate.

But, the cost in relation, as you know, to what our whole military expenditure is, is relatively small. For our total military establishment, we have been making very substantial troop reductions in the last 2 years, and bringing down the military costs quite substantially.

Senator TALMADGE. But the West Germans are spending less than 4 percent of their GNP on defense.

The Japanese less than 1 percent, and we are spending close to 9.

Mr. SAMUELS. I think the difference there is quite right, Senator. I think the difference is that for the Germans and the European countries generally, their whole defense expenditures relate to their European defense, where as ours is a worldwide situation.

But, if you were just to take the percentage of GNP that we allocate to the defense of Europe, we are doing substantially less than they are.

Their responsibility is essentially in Europe, where ours is worldwide.

Senator TALMADGE. But, we are limiting their contribution to themselves, whereas we have not so limited our contributions.

Mr. SAMUELS. Well, yes, I think that is one of the problems inherent in our being a great world power, that we feel we have responsibilities not in one area of the world, but in many.

Senator TALMADGE. I agree with you, but these troops in Western Europe are so primarily for the defense of Western Europe, not necessarily ourselves.

Our borders do not touch the Soviet Union or the East Europeans. Theirs do.

Mr. SAMUELS. Well, I think, Senator, basically, if I may respectfully disagree, that essentially our troops are in Europe for the defense and security interest of the United States.

Now, the Europeans are part of this common effort for defense in Europe and they, of course, reap the benefits of it as we reap the benefits of their efforts. They are spending $24 billion on their defense.

It is not as if they were doing nothing.

Senator TALMADGE. But they have more people and more gold reserves and less unemployment than we have, and relatively they are spending much less than us.

Mr. SAMUELS. I will not argue with you about that. It is a fact. It is true. I would not for a moment say they should be doing less. They should be doing much more.

Senator TALMADGE. Thank you, Mr. Chairman. I wanted to get that clear for the record.

Senator RIBICOFF. Just one final question. Some of us here will be going to the OECD Conference in Paris on June 7th and 8th and, of course, I am assuming you will accompany the Secretary?

Mr. SAMUELS. Yes.

Senator RIBICOFF. Is there any progress being made for long-range agreements at the OECD on trade and investment matters?

Mr. SAMUELS. Well, as you know, Mr. Chairman, this is the heart of their task, and they are always involved in this problem, in one form or another.

But, some thinking has been going on lately, and I do not know whether anything is as yet firm for this particular meeting, but there is a good deal of thought going on in the Secretariat of the OECD and within some of the governments about setting up a high-level group in the OECD that would begin to focus on the major trade and related problems that will be developing in the 1970's. The group would represent the major trading countries of the OECD and would identify these problems and consider how they should be approached and dealt with. It would explore possible options or solutions to some of these problems, whether industrial tariffs, nontariff barriers, agricultural policy, trade fallout on the environment, or a variety of other issues. Perhaps the group could come back with recommendations to Governments within the next year or so, whenever it would be feasible to do so. As to what we might undertake in future negotiations if the Governments were to agree to it at that time, after the Common Market enlargement has taken place, this may begin to emerge as we examine the magnitude and the nature of these problems.

Now, what may or may not be done in this particular meeting is not entirely clear yet, because the governments are still being consulted by the OECD people. But this is one of the thoughts.

I think, Senator, whether or not this takes place in the OECD now, there is certainly going to be a necessity as we look down through the years for an international effort to deal with some of these various trade and related problems. How we do it, and in what form has to be determined. But somewhere we have to begin to deal with the problems that you have been discussing here.

Senator RIBICOFF. Senator Fannin, or Senator Bennett, do you have other questions?

Senator FANNIN. Yes, if you would let me.

I realize that these problems have been created over the years and that certainly we cannot blame the incumbent as far as the State Department is concerned, for them. But, I do not understand that why over the years and now that the State Department still opposes even an equalization in tariff?

Now, we could talk about all of these problems, and I know the Mansfield amendment, for instance, started 9 or 10 years ago, and we can go back, so I am not saying it is the present administration necessarily, but the State Department has opposed this, and here we have companies that have stated in letters to the State Department, and to the Department of Commerce that they would not go overseas if changes could be made in the tariffs, and if the market could be opened up for them they would not take that move.

But, they still took the move because they could get any agreement from the State Department that they would assist in this regard.

Mr. SAMUELS. Well, I think the whole thrust of U.S. policy over the years, Senator, has been not a matter of equalizing tariffs as such, but of phasing them down and gradually getting rid of them everywhere.

I think this has been the whole postwar trend. Beyond that there is a problem of the desirability of reversing that trend and what it would really accomplish. I think it would take a long time to go into it, but, if I may say, there is the whole existing structure of agreements which would be involved in changes in these relationships, trade relationships in which rights and liabilities are concerned. Other countries would have rights to make changes also, or to retaliate in one way or another, and if we really want to start going in an upward fashion of changing arrangements, rather than just trying to reduce or eliminate tariffs and the variety of other trade barriers, it would bring us back to the chaotic kind of trade situation we had before we entered the postwar trading arrangements.

Senator FANNIN. What would be worse than what is happening today? I do not mean to push this, but you say at this point Japan, "Japan is in a strong trading position, backed up by a comfortable $6.3 billion of international reserves. We must insure that this strength does not cause serious imbalance in the world's trading system."

Well, it is causing the imbalance right now with our country, and so I will not push the point now, but I wish we could get a recommendation from the State Department on trying to straighten out these tariffs.

Now, I say equalize because the companies that approach the State Department and the Department of Commerce said 15 to 50 and against what is it now, 6 percent for them to get their products in there, and 24 percent for us to get our products in their country. I would appreciate it.

Thank you very much.

Senator RIBICOFF. Senator Bennett?

Senator BENNETT. I appreciate the fact that you have opened up the coming OECD meeting. I realize that we have other witnesses, but I wonder if it would be wise to ask the State Department to give those of us who plan to go to Paris a careful briefing on the things that are coming up at that meeting so that we can intelligently observe and participate in the discussions before we go?

Mr. SAMUELS. Senator, we would certainly be delighted to do that. Concerning a congressional delegation, we have had some discussion about getting this organized, we have talked to Secretary Rogers, and we are trying to get the thing finalized, now that the Mansfield amendment matter is over, which has taken so much time of his and others of us.

But, if there is to be a congressional delegation at the OECD meeting we would like very much to brief the delegation who would go. It would be a privilege for us, and we will certainly see that this is done in adequate time.

Senator RIBICOFF. Well, I think that I would consult with you for a date sufficiently in advance, keeping in mind there will be a recess over Memorial Day, so it probably would be necessary to have this after, either next week or after Memorial Day.


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You are probably not ready yet, yourselves.

Mr. SAMUELS. Actually, we are in the midst now of completing the agenda and getting it worked out.

Senator RIBICOFF. When you are ready, and we only have a few days, so it probably would have to be like say I think our recess is——

Senator TALMADGE. The 27th of May to June 1.

Senator RIBICOFF. I think the only opportunity would be like June 2. I personally plan to go over like to June 3 or 4, myself, and I think Senator Bennett has to go out to Utah.

Senator BENNETT. I would get there on the morning of the 7th, I guess, and get there at the last minute.

Senator RIBICOFF. So, if we have an opportunity, this would be June 2, or something.

Mr. SAMUELS. I will be in Europe then, but certainly my colleagues will see to it that you are adequately and fully briefed.

Senator RIBICOFF. We can do something over there before it starts, or something, but I will be in touch with you. My understanding, too, is that they have not come to an agenda, they are still working on it, so they have nothing to brief us on.

Senator BENNETT. As soon as there is anything, and I think we lose much of the effectiveness of our trip if we go over cold, and then file into a meeting room to hear discussion on which we have no background.

Mr. SAMUELS. We agree fully, Senators.

Senator RIBICOFF. Thank you very much.

I would like to ask, Senator Chiles, do you have a question?

## STATEMENT OF HON. LAWTON CHILES, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator CHILES. I did want to ask just one question, if I might, Mr. Chairman.

I want to say that I appreciate very much the opportunity to participate.

Senator RIBICOFF. Delighted to have you, sir.

Senator CHILES. I was happy to have had the opportunity to have breakfast with Mr. Samuels the other morning, and it was most enjoyable that I noticed in your statement you say:

> The administration is determined to protect the interests of American farmers and can be counted on to seek modification of policies and practices that are disadvantageous to us while, of course, not losing sight of the need for Europe to revamp its obsolete agricultural structure.

That is an interest that I have gotten into in connection with the Agriculture Committee, and some hearings that we have held concerning the preferential treatment that has been granted to Morocco, and Tunisia, Israel, and Spain by the Common Market countries on citrus.

I wonder if you could give me any further elucidation as to what the department has done in regard to these particular matters of preferential treatment?

Mr. SAMUELS. Well, we have opposed these vigorously, as I pointed out to the committee, at every turn.

We are urging the Community to go back to the MFN principle and not to have the preferential trade arrangements. We recognize they have political problems in terms of their relationships with the North African countries and agreements with black African countries that run to 1975, and we would like to have these agreements phased out by that time. We are bringing a great deal of pressure on the African countries, themselves, and on the Mediterranean countries, as well as on the Europeans, to insist on their being phased out by then, and substitute for the preferential trading areas the generalized preferences system whereby everybody is treated equally without reverse preferences and all of the disadvantages that flow from these preferential trading areas.

I suppose there is hardly a question on which there has been more bitterness of discussion between the European Community and ourselves than this particular one. Beyond that, you know, what shall we do, go to war with Europe or with Africa?

Senator CHILES. Well, no, sir: but even within the framework of GATT itself, as well as the other statutory authorizations that we have, there is much that can be done and that has not been done.

Mr. SAMUELS. Senator, on the GATT, as I mentioned here earlier, it is a question of judgment as to what is the most effective way of dealing with the citrus case, and of getting the satisfaction we are seeking.

Now, it may be that at some point we would have to have a complete confrontation on this subject in the GATT, but we may lose, you know, in the GATT. It is quite possible, that a majority of the countries will disagree with us, and our interpretation of the GATT rules. We have been aware of this possibility, and I would like to avoid a situation of that sort. We have felt that pressure on the European Community to negotiate a solution, even if it requires a certain amount of patience on our side, is more likely to arrive at the kind of solution you are looking for than taking the risk of a confrontation in the GATT. At times it is very hard for us to realize in the United States that on these subjects not everybody agrees with us, and that our if your have to have an interpretation of the GATT may lose. I would hope that we could avoid that risk. Now, if you want us to take that route, and if we were to lose, I hope you would not hold the State Department responsible.

Senator CHILES. Mr. Samuels, I think if you will look to the resolution that came out of this committee expressing the sense of the Senate on this question, you would see exactly what we would like you to do. What the Senate would like, the position that we would like you to take, would be to press for this.

On the way back from the breakfast Wednesday, the other morning, a number of us were talking in the car, and I was saying that it was kind of like when we have two boys who get together with their dogs, and they start extolling the virtues of their dogs, and the question that one of them always asks of the other one, will your dog fight? And I think that is the question that the Senate is asking, you know, do we have a dog that will fight.

Mr. SAMUELS. Well, Senator, to come up to date and answer your question, I think we have fought pretty hard. We understand that the

European Community has a proposal to offer us on citrus. We have no idea about the contents or whether it is at all satisfactory. There is a meeting of the European Community—U.S. Consultative Group in June, just following the OECD meeting, when presumably they will put this offer on the table, although I have been urging during the past few days that if they have a proposal they give it to us promptly, immediately, so that we could react by that time rather than wait until then to receive the proposal.

We have also heard that the European Community people feel that if we are going to discuss a proposal on citrus in order to mitigate the problem of damage to our interest from the preferential arrangement, they would like to deal with it on a package basis together with some other matters concerning restrictions by the United States, and not deal with citrus alone. I had in my office the day before yesterday representatives of one of the major European countries involved in this citrus matter, and I made the point very strongly that if they insist on doing that, they will lose, even if they have a good proposal, all of the political benefit of having come to an arrangement with us on one outstanding matter, and showing that the Community and ourselves can settle something, even though the issue, while terribly important to the citrus interests, not a matter of war and peace. Let us settle something, and not get this mixed up in over-all negotiations on what we are going to do about shoes or something else.

I hope that they take that to heart and will come up with a citrus proposal, and not try to make it a bargaining arrangement with other restrictions that they feel we are about to take against them.

This is where we stand.

Now, if the proposal is not satisfactory and we get into difficulties, I think we will have to review the question of whether we go on to the GATT. And if we lose, and I do not say we will lose although the danger exists, we will have tried very hard to avoid that danger.

Senator CHILES. We have tried so hard that we are in three seasons now, we have gone through three seasons and we are no further now, but we keep getting nothing.

Mr. SAMUELS. My suggestion, Senator, is that we take a look at what they have to propose, assuming they have something to propose, and if it is not satisfactory we will have to review then what the technique and next tactical steps should be. But there is no question in our minds about the need to get satisfaction.

Senator CHILES. Thank you.

Senator RIBICOFF. Mr. Samuels, may I say that you do the State Department and the Secretary and the President a great credit.

You had a very difficult cross-examination, and also some statements, but you acquitted yourself very well, and we are delighted to have you, and again our thanks for your understanding of our position yesterday.

Mr. SAMUELS. Thank you, Mr. Chairman, and all of the members of the committee, and may I say just one final word, Mr. Chairman?

Senator RIBICOFF. Yes.

Mr. SAMUELS. I sense very much and very well this keen desire and very understandable one on the part of the Congress and this committee in particular to have a close relationship, not simply with the Executive as a whole, but with the State Department in particular.

As far as we are concerned, and I have found this to be true on the part of all of my colleagues from the day that I came, we are very sensitive to this, and very sensitive to the importance of it. And you can be quite assured that in economic matters you will get every last ounce of cooperation fom the Department of State. We welcome the opportunity to consult with you collectively or individually.

If we do not seem in the Department to appreciate the importance of any particular problem, it is only because we are relating to the total, and as we see it, to the overall problems of the Government, and to all of the different interests in the country that are involved. But this is done with absolute good will, and we are prepared to intensify this consultation and relationship with you in every conceivable respect.

We welcome it, enjoy it, and we think we can be constructive.

Senator RIBICOFF. Well, thank you very much for your offer, and may I assure you on behalf of the committee that we accept it, and we will be more than pleased and be available to you at any time.

Thank you very much.

Mr. SAMUELS. Thank you.

(Mr. Samuel's prepared statement follows. Hearing continues on page 423.)

PREPARED STATEMENT OF HON. NATHANIEL SAMUELS, DEPUTY UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

I would like to direct my remarks today, first, to our economic relations with the developed world and, second, to our economic relations with the developing countries. I shall then comment briefly on the outlook for trade with communist countries and, finally, I shall say something about certain of the international economic organizations in which the United States participates and which bear on trade policies and practices.

I would like to preface my remarks, however, with the fundamental observation that the international economy has, overall, served the United States well throughout the post-World War II period, as reflected in the unprecedented growth in trade and investment. Between 1950 and 1970, our exports quadrupled from $11 billion to $43 billion while foreign direct investment abroad for purposes of manufacture in other markets increased six times. Our domestic economy has expanded steadily during this period at a rate unparalleled in this century.

Recently, though, these achievements have been obscured by the high level of our imports, particularly in a few types of products, rising from a total of $9 billion to $40 billion between 1950 and 1970, and by the adverse effects on us of certain restrictive trade policies of Japan and the European Community. These are problems which are receiving our urgent attention and the Department of State has been relentless in its efforts to convince our trading partners that their actions have profound effects on our policies.

A major development in the international economy over the past two decades has been the growing interdependence of the highly industrialized countries. Western Europe, North America, and Japan, together constitute 64% of world output. We are linked together economically by international trade, by multinational companies and by capital markets that transcend national borders. All industrialized societies are the beneficiaries of these economic linkages and at the same time all face difficult problems of controlling inflation, maintaining full employment and growth, and combatting environmental hazards.

Turning first to Europe, her economic and political integration has long been a major objective of United States foreign policy. Recent public discussion of our relations with the European Community, however, has tended to get out of perspective by an overemphasis on the problems created rather than the benefits gained by us. The European Community is a liberal institution in two major areas and a highly protectionist one in a third. Industrial tariffs of the European Community are, on the average, relatively low, slightly lower than our own average industrial tariffs. Moreover, the Community has pursued a very open and liberal policy on the inflow of investment. Agriculture, however, is the area in which the Community follows a protectionist policy. Overall, we are running a surplus on our balance of trade with the Community which in 1970 was about $1.8 billion.

Let me try to give a picture of the agricultural problem. Europe is experiencing at the present time the severe structural adjustment of technological advance in agricultural production that began in the United States several decades earlier: farmers as a share of the labor force in the Common Market have declined from about 25% in 1955 to 13% today, and will likely decline again by about half in the coming decade. They see their problem as one of an orderly change in structure under a protective umbrella. Our aim should be to ensure that this major agricultural transformation in Europe takes place without serious disruption to our own lower cost farm exports which have traditionally found a market in Europe. The Administration is determined to protect the interests of American farmers and can be counted on to seek modification of policies and practices that are disadvantageous to us while, of course, not losing sight of the need for Europe to revamp its obsolete agricultural structure.

In order to keep our agricultural trade problems in perspective, let me point out that our agricultural exports to the European Community in 1970 were $1.6 billion, virtually equal in dollar amount to the highest level reached by us since the Community was established, namely the level reached in 1966. From 1966 to 1969, when the present Community agricultural policy became effective, our agricultural exports, particularly grains, fell about $300 million, but rose again in 1970 to the 1966 level. The composition of our agricultural exports has changed, and what we have lost in grain we have made up in soybeans. There is a tendency to forget that the hard won struggle by the U.S. Government to obtain a zero duty on soybeans from the European Community has been of great benefit to our farm community.

Now, looking to future U.S.-European economic relations, I see a number of important issues that will demand our attention.

Tariffs are still significant in many instances even though overall they constitute only a moderate barrier to trade compared to ten or twenty years ago. An enlarged European Community, which would include the elimination of tariffs between the present six members and the four new applicants, particularly Great Britain, would put American exporters at a new competitive disadvantage in these markets. Mutual tariff reductions phased over a reasonable period of time would be one way of reducing or eliminating this effect of the Common Market enlargement.

The accession of the new members to the European Community is likely to have a moderating effect on the protectionist levels of Community agricultural policy, and as the economic and social transformation of European agriculture takes place the problem of agricultural protection may in the years ahead recede in its importance for the Community. However, the problem of agricultural protection in many countries, including our own, and the trade effects from it, will probably have to be dealt with by greater coordination of domestic agricultural policies, including price support systems, land use and management, and a number of other techniques.

Other issues, which will probably assume relatively greater importance as Europe takes further steps toward full economic integration include monetary union, industrial policies to develop particular industries or regions, and closer coordination of tax, transportation, and environmental policies. The precise effect of these developments on American interests is not yet clear. What is clear is the ever more pressing need to consult closely with one another and to seek joint solutions to joint problems.

Turning to Japan, we have a more complex situation. The dynamism of the Japanese economy in recent years has created serious competitive problems for us but has been a source of strength in Asia. About a third of Japan's trade is with other Asian countries, and the bulk of Japan's expanding foreign aid goes to this area.

A stable Asia will also depend on the continuing prosperous economic relationship between the United States and Japan. In 1970 the trade between Japan and the United States totaled over $10½ billion in exports and imports, second only to our trade with Canada. Japan buys from the United States about a third of its imports, including over $1 billion in farm products last year, and we buy about a third of Japan's exports. On balance, we import from Japan more in dollar amount than we export to her, with the consequence that the surplus in trade that we enjoy with the European Community is offset by our deficit in trade with Japan.

We have let no opportunity pass to press Japan to open its markets to our exporters and investors. We expect that by September of this year, the total number of items on the Japanese quota list will be down to about 80 from 122 two years ago. Even these are much too many, however, and constitute barriers to U.S. exports which we continue to oppose. The Administration is concentrating especially on the Japanese quantitative restrictions on high technology products—such as large computers, light aircraft, and navigational equipment—where the competitive position of American industry is extraordinarily strong and on which we have increasingly to depend to balance our payments.

On the import side of the ledger we have particularly difficult problems arising out of our trading relationships with Japan. Every effort is under way to resolve the textile problem on a voluntary basis and to persuade the Japanese to apply restraints in a satisfactory manner. There are a few other specific items on which practical cooperation between us could mitigate excessively disruptive effects on our trade, but overall we must look to Japan to liberalize access to her markets for our exports and we must improve our own competitive strength if we are to reduce the imbalance in our trade account.

U.S. investments in Japan are over $1 billion, mostly in manufacturing. Although Japan has taken some steps to relax its controls on foreign investment, many obstacles still remain. The battery of restrictions on the establishment of subsidiaries remains formidable. You may be assured that the Administration will continue to press the Japanese for more liberal treatment of direct foreign investment.

Japan is now entering a new stage of economic development. Labor shortages have begun to appear and industrial wages have risen sharply—recently at an annual rate of some 17%. This is leading to a gradual shift of Japanese production away from traditional labor-intensive industries. The familiar problems of inflation, urbanization, and pollution are confronting Japanese authorities in a similar and in many respects a more intensive way than in this country.

At this point Japan is in a strong trading position, backed up by a comfortable $6.3 billion of international reserves. We must insure that this strength does not cause serious imbalance in the world trading system.

I would like now to turn to the less developed world. U.S. economic relations with developing countries are to a large degree an extension of our collaborative efforts among industrialized countries. In many areas of policy—trade, investment, direct foreign assistance—an effective response to the needs of the developing countries can only be achieved if the industrialized countries act in concert.

This fact underlies a basic distinction in our foreign economic policy: relations between industrialized and developing countries operate under a different set of principles than relations among the fully competitive industrialized countries. Capital exports to the developing countries, together with the technology necessary to utilize it, will be required if the development potential of these areas is to be realized. The key to successful development in many cases is to accomplish this transfer of capital and technology without, on the one hand, saddling the less developed countries with overwhelming foreign debt repayment schedules or, on the other hand, creating a situation whereby foreign ownership or control in key sectors of the economy threatens their capacity to control their own economic priorities and social structure.

One means to accelerate the development process is to give the developing countries greater access to the markets of the developed countries for their exports. To this end the industrialized countries are seeking to implement generalized tariff preferences for the developing countries. In simplest terms there would be two tariff levels in effect: the most-favored-nation system would apply for trade among industrialized countries, and either full or limited duty free status would apply for most industrial products and some agricultural products, with certain notable exceptions imported from developing countries. The European Community and Japan will be implementing their tariff preference schemes sometime between July and October of this year; we will be submitting legislation to the Congress in the near future seeking to implement our preference proposal.

With regard to the outlook for trade with the Communist countries, the President made it clear in his report to the Congress of February 25, 1971 on U.S. Foreign Policy for the 1970's that the U.S. is prepared to see the People's Republic of China play a constructive role in the family of nations. He said that he continued to believe that practical measures on our part will, over time, make evident to the leaders in Peking that we are prepared for a serious dialogue. He said that in the coming year he would examine what further steps we might take to create broader opportunities for contacts between the Chinese and American peoples.

On April 14, the President announced a number of further measures to relax direct trade and travel controls toward the People's Republic of China. Detailed announcements were made on certain of these measures on May 7. In coming weeks, after completion of high level review, there will be further announcements with respect to the arrangements for permitting direct trade—exports and imports—with the People's Republic of China.

While these steps may not lead immediately to a large volume of trade, it is reasonable to expect that, given a favorable attitude on the part of Peking, there could be a gradual resumption of historic trade between the United States and the People's Republic of China.

U.S. trade with the Soviet Union and the countries of Eastern Europe has been liberalized somewhat and expanded over the past two years. Under the Export Administration Act of 1969 there has been gradual reduction of U.S. controls over non-strategic exports to these areas. During 1970 U.S. exports to the Soviet Union and the other Eastern European countries (except Yugoslavia) amounted to $353 million, a considerable increase over 1969.

During the first quarter of 1971, U.S. exports to these countries reached $115 million as compared with $92 million during the same period of 1970. There is an export surplus in this trade exchange, and there is continuing evidence that the Soviet Union and the other countries of Eastern Europe have an active trade interest in purchasing a range of normal industrial equipment and technology. The overall pattern of Soviet and East European purchases, however, continues to show the purchase of American farm products and raw materials as the largest major category.

Finally, an important factor in the international trading system is the role of international economic organizations. Over the past 25 years, there has developed a network of international organizations in the economic field that have assumed a growing responsibility for maintaining a stable and prosperous world economy. These is some misconception, however, as to what these organizations are or are not capable of achieving. They are certainly no substitute for the responsibility and the power of sovereign nations to make policy decisions or to take necessary actions. In the trade field, the GATT sets out a number of rules and procedures for the conduct of international trade. The IMF provides similar functions for the international monetary system, while the World Bank, the United Nations Development Program, and regional development banks have, in addition to technical functions, substantial funds for development which they administer directly.

There are two related questions that are consistently before us in trying to improve the functioning of international organizations: are we, within the existing framework of these organizations, pursuing our interests in the most effective way; and, more basic, is there a need to modify the legal or procedural structure of these organizations, in view of changed circumstances?

On the trade side, the GATT has proven a far more durable and useful instrument than originally conceived. It is true that the formation of a huge trading entity such as the European Community, with a network of preferential agreements with other countries, was not conceived in quite the way in which it has developed when the GATT was organized in 1948. However, let us bear in mind that the GATT put order into a trading situation that was very unsatisfactory, and that its fundamental principle of most-favored-nation treatment has helped create the conditions of unparalleled growth in world trade. We should seek to improve its operations, particularly its time-consuming procedures, in order that it may conform wherever necessary to the evolving realities of the 70s. Any effort, however, to change the basic rules would inevitably raise a demand on the part of other countries that we give up the advantages to us written into the GATT.

The final question is how to continue to derive the benefits of increasing international trade and investment in an era of rapid technological change, while minimizing disruptive effects to domestic economies. There is no simple answer to this question, but certainly the solution is not to regress toward inward-looking protectionist policies that proved so disastrous in the past.

I would suggest a general approach to world economic problems consisting of three elements:

1. A sharply stepped-up international coordination of national economic policies, particularly among the industrialized countries. I take note in this regard of the next OECD ministerial meeting of June 7 and 8 over which Secretary of State Rogers will preside for the 10th annual meeting of that organization. This is the first time an American Secretary of State has acted as Chairman. As you know, Mr. Chairman, discussions are underway within the OECD to determine whether it would be desirable to set up at this session a mechanism for looking ahead to the trade and related problems of the 70s, and assisting the governments to deal in concert with some of the matters to which your committee is devoting its attention in these hearings.

2. The formulation of a comprehensive program for assisting our own industries to adjust adequately to changing international competitive conditions. Markets, production, trading patterns, technology and investment change rapidly today. Instead of building into our economy rigid, high cost elements, we must use a variety of techniques in the way of tax incentives, investment assistance, consolidations, re-training of workers, etc. to help industrial sectors and communities, not simply individual companies, to improve their productivity and thus their competitiveness, or to shift their capital and human resources to more sophisticated industrial activity. This will require a major governmental policy decision and would involve a cooperative effort between the government and the private sector.

3. The last, but most important element in improving our trade position is to pursue policies that will moderate internal inflationary forces in the context of a growing economy. Inflation is a major contributing factor to the high level of imports, and is harmful to our exports by increasing the costs of our products. Inflation goes to the heart of our competitive problem.

Let me say, gentlemen, that the Department of State does not share the attitude of gloom and doom about American industry, American labor and American agriculture that pervades so much of the talk one hears among some of our people. This is a great country, an economic giant; its exports, both industrial and agricultural, and its investments are at record levels. If the less developed countries have development problems, the industrialized countries, including our own, have re-development problems. This is part and parcel of the process of change. So much of the criticism we hear in some quarters reflects a lack of confidence in ourselves that is not characteristic of this country—and hopefully is a passing phenomenon in our history. We have serious and urgent problems, and insofar as their alleviation or solution depends on the policies of other countries we shall relentlessly seek changes but, I hope, we shall do so intelligently. Insofar as our problems arise out of the need for internal adjustments, we are confident that, as in the past, God will help those who help themselves.

Senator RIBICOFF. Secretary Palmby.

Mr. Palmby, we welcome you here. The chairman of this subcommittee is probably the least knowledgeable man on the entire committee when it comes to agricultural problems. We have the Chairman of the Agricultural Committee, and men who are deeply familiar with and knowledgeable in this entire field.

However, I do realize the very, very important role that agriculture plays in our whole trade picture, and I also recognize that in the coming years that agriculture is going to be pretty much on the firing line in all possible negotiations and have many implications with the enlargement of the Common Market.

So, what you have to say, and your advice, will be most important in the work of this committee, so we welcome you here, Mr. Palmby, and you can continue as you will.

## STATEMENT OF HON. CLARENCE D. PALMBY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

Mr. PALMBY. Mr. Chairman and members of the committee, I am delighted to have this opportunity to testify on trade matters before this committee. And I would hasten to say we are, of course, pleased that the Chairman of the Senate Agricultural Committee is a part of this subcommittee.

An agriculture that is exporting the harvest of 70 million acres, out of a total harvested acreage of 290 million, is obviously international.

Our domestic policies—our agriculture's day-to-day production and marketing decisions—are affected by the world market. At the same time, the world market is influenced by the American farmer—the judgments he makes, his reaction to policies of his government, and the conditions of his natural environment.

World trade in farm products is affected very strongly by national farm policies everywhere, and particularly those of the developed countries.

We see that in the European community where trade policy is shaped by needs of internal programs of the common agricultural policy. We see it in the United Kingdom, in the Commonwealth countries, in Japan—all trying to deal with social and economic problems through a considerable government intervention in farm production and marketing.

In our own country, too, the impact of domestic programs on our external trade is quite apparent—and can be easily chartered over the decades.

In the period following World War II, this Nation's farm policies favored high rigid price supports—an inheritance from wartime production incentives. By the 1950's, the world was recovering from the postwar food emergency, and this country's farm production was rapidly getting out of hand.

Programs were instituted to take out of production a portion of the farmer's basic resource, the land. These took the form of long-term retirement under the Conservation Reserve in the 1950's, and annual diversion programs in the early 1960's.

But the price support system continued to inhibit exports by: (1) Pricing commodities at levels where they were more likely to move into stocks of the Commodity Credit Corporation than into world trade. (2) Encouraging other world producers with assurance that we would not compete with them below a certain price.

In the middle 1960's, there came a shift of U.S. farm policy toward a lowering of price support loan levels to permit commodities to move at prices more nearly in line with the world market. The new programs provided for direct price support payments to make up the difference in crop returns; they continued a system of payments for acreage diversion.

The new programs now going into effect for cotton and the grains, provided in the Agricultural Act of 1970, move still further toward a system of producing for the market—domestic and export.

They remove the old commodity-by-commodity planting restrictions, so that farmers will have maximum latitude in their planning of production and marketing.

The 1970 Act was developed over many months of effort by Members of Congress and the administration—perhaps the most intensive and broadly based exploration of farm policy ever undertaken. It was concluded that U.S. agriculture continues to need commodity programs because of its inherent ability to overproduce, and because of the impact on farm incomes and on related business communities that would result in the absence of programs.

At the same time, it was concluded that farmers needed more flexibility to produce for the market. It was concluded further that domestic programs should be written in ways that permit overseas market expansion—and that these programs would in fact rely on export expansion as an essential "growth factor" in the farm economy.

American agriculture's export market now accounts for the production of almost one out of every four cropland acres. Over the years, our agriculture has increased yields per acre rapidly. In fact, we have been able to supply our domestic and export markets with a slight lowering of harvested acreage.

This fiscal year, we are achieving a record high level of U.S. farm exports—whether you measure it by value, by commercial sales for dollars, or by volume. Without a continued high volume of farm exports—and assuming continued high acre yields—there would be a need for a further acreage reduction in years ahead. And however you approach an adjustment problem in the magnitude of millions of acres, the results are expensive or painful, or both.

The importance of exports relative to acreage adjustment is best understood in our experience with one crop—soybeans. Over the years, our agriculture has had to reduce its acreages of grains, particularly wheat, because of rising yields. Cotton acreage has been reduced, and to a considerable degree relocated in terms of geography. More than any other crop, soybeans have taken up the slack; farmers have turned to soybeans for income and to utilize acreages removed from grains and cotton.

This year, farmers have indicated they will plant more than 46 million acres of soybeans. This would be a doubling in 12 years. This growth in acreage is possible only because soybean exports have expanded so dramatically. This marketing year, we are exporting the harvest of 23 million acres of soybeans; before 1964, we were not harvesting that many acres altogether.

This is why we are looking to a long-term growth, not contraction, of our overseas markets for soybeans, cotton, and the other important export commodities.

This is why we are concerned when one of these markets is threatened. This is why we are on guard with respect to our trading rights around the world.

In the 1970 Agriculture Act, the Congress and the administration have committed the Nation to the necessity for continued trade growth, if the new commodity programs are to fulfill their goal. Therefore, the changed emphasis in U.S. farm policy is very much a part of our approach to trade policy as we look to the years ahead.

Now I would like to discuss trade problems just very briefly and then specifically foreign agricultural policies.

It is thus a matter of very great concern to us that the developed countries of Europe, where we would expect to find our major markets as well as Japan, are following policies which restrict trade growth.

This development is most striking in the Common Market countries and in the applicants for admission to, or association with, the European Community, although, it is by no means limited to them.

The enlargement of this trading bloc is one of the most serious problems facing American agriculture over the coming decade. Dealing with the consequences of enlargement, therefore, must be one of our highest priorities.

To put this priority in perspective, let me point out, as President Nixon has in his report to the Congress of February 25 of this year that:

> "... The United States has always supported the strengthening and enlargement of the European Community. We still do. We welcome cohesion in Europe, because it makes Europe a sturdier pillar of the structure of peace."

In a subsequent section of this same report, President Nixon said further:

> "... Our full support for the European Community continues. But its policies—including those related to the expansion of its membership, which we also support—must take full account of our legitimate economic interests."

The story of the development of the European Community's common agricultural policy and how it works has been told so often that I need not detail it here. The high rigid internal prices stimulate uneconomic production. These prices are protected by variable levies and other devices which deprive outside exporters of the competitive advantage they might have, and reduce imports. Products that cannot be disposed of on the internal protected markets are moved into export almost automatically through export subsidies. Thus, outside countries lose export markets two ways.

This system has been expanded systematically so that it now covers over 95 percent of the value of Community production. During 1970, for example, the Community implemented common agricultural policies on wines and tobacco. The tobacco policy raised support prices and provided for buyer's premiums for domestically grown leaf. Both of these provisions of the tobacco policy, we believe, will restrict imports. Tobacco is covered by EC tariff concessions negotiated with us and we are seeking to deal with this internal policy in the Community.

The impact of the CAP's can be seen most spectacularly in grain. Between 1961 and 1969, EC production of wheat and coarse grain increased from 49.6 million metric tons to 60.7 million metric tons—a gain of over 20 percent—while EC consumption grew from 61 million tons to about 77 million tons. Over this period, intra-EC trade increased sharply, imports from outside increased for a time then trended downward, exports expanded greatly and net imports from third countries dropped from 13.3 million tons to about 2.5 million—a decrease of about 80 percent.

EUROPEAN COMMUNITY GRAIN PRODUCTION, 1968-70

[Million metric tons]

| Year | Wheat | Coarse grains | Total grains |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |

EC TRADE IN ALL GRAINS, 1968-70

[Million metric tons]

| Year | Intra-EC trade | 3d country trade | | |
|---|---|---|---|---|
| | | Imports | Exports | Net imports |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] (preliminary) | [illegible] | [illegible] | [illegible] | [illegible] |

In 1970 this situation improved considerably from our point of view, but only because of a confluence of adverse weather in Europe, of depleted EC stocks, and expansion in EC pig production. This coming year, with a resumption of decent weather in Europe, the outlook is for net imports of 5 to 7 million tons.

Let me stress that the European community continues to be an important and our largest single market for agricultural products. U.S. exports to the Community for the same years I have discussed above were:

[Millions of dollars]

| Year | Variable levy | Fixed duty | Total |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |

You see they reflect the changes in EC grain imports. This year, because of Europe's adverse weather and the other factors I mentioned, our exports to the EC will be the highest ever. They should well exceed $1.6 billion. The above export figures reflect also the striking growth of our trade in oilseeds and products, which enter the EC free of duty and which have benefited to some extent, also, from the EC high price policy on grain. In fiscal year 1961-62 our exports to the EC of these products amounted to $203 million. This year they may approach $500 million.

Senator Hancock. I wonder if you could take a few moments and explain the variable levy procedure?

Mr. Palmby. I would be very pleased to. July 1 of this year the new European Community threshold price for the import of corn will be about $2.57 a bushel. Now, the threshold price is a fixed figure determined by the EC Commission and the Council of Ministers, based upon a target price.

The target price is not unlike our price support level in that it is a fixed target price, and in order to attain that price or a level near that price for the producer, the Commission determines a price at a port position slightly under that, so that no grain, corn in this case, can enter the community below $2.37 a bushel, and the difference then between this threshold price and what is recognized by the Commission as a true world offering price constitutes the variable levy. So if that offering price would be $1.60 a bushel for July delivery, then the variable levy would be the difference between $2.37 and $1.60.

Senator RIBICOFF. All right, now, so that 77 cents goes to who?

Mr. PALMBY. That is collected by the Commission.

Senator RIBICOFF. The Commission, in other words, if an American grain exporter then would sell grain to any European Common Market country he would have to pay the Commission 77 cents?

Mr. PALMBY. In that sense it is the same as an import duty.

Senator RIBICOFF. That 77 cents goes into a pool controlled by the Commission, then?

Mr. PALMBY. That is correct.

Senator RIBICOFF. What do they do with the funds they collect? Do they distribute these funds to the farmers? How do they distribute that 77 cents?

Mr. PALMBY. Well, Mr. Chairman, the fund is used for several purposes, but unfortunately the biggest single use of the fund to date has been for the purpose of subsidizing exports or, to use their terminology, to pay export restitutions.

Senator RIBICOFF. So, they take that fund, and how do they then subsidize exports, and to whom?

Mr. PALMBY. To all destinations generally. A good example is that the Community is very much in a surplus position in soft wheats, and to a degree in corn, but again it is a geographical situation.

So, they stand ready, under their system, to make a payment to their exporters of wheat to third country destinations outside of the Community, and the restitution or the subsidy is sufficient to make up the difference between the world wheat price or the price that would allow the grain to move as compared to the artificial internal price.

Senator RIBICOFF. Well, in other words, let us say the world price would be $1.60. They charge an American or Canadian or a New Zealand exporter 77 cents, and they take it into a pool, and they use this pool for the target price man in Germany, or France, or whatever country it is to sell his grain for.

He sells it to the Common Market for $2.37, and then they take 77 cents off or back and they sell that same grain for $1.60 to an outside country?

Mr. PALMBY. To an outside country, to the extent that they are in a surplus situation.

Senator RIBICOFF. What I am curious about, if there is such a market in outside countries, why did not the United States or Canada or Australia or whatever exporting countries, why do they not sell that grain to the third country for $1.60 and not pay the market 77 cents?

That may be elemental and stupid, but as I told you, I am the least knowledgeable in this field, and I want to know something about it.

Mr. PALMBY. No. Mr. Chairman, these are good questions. You understand in the world trading community that our prices, and if I may stick to corn——

Senator RIBICOFF. Stick to one thing so that we have the same figures.

Mr. PALMBY. That our corn is free to move to any market in the world except those under the Export Control Act, and so your private traders are free to sell that corn to any buyer in the world at the Chicago price. It is a free price, there is no subsidy involved, and no Government involvement. This corn can go to any place in the world, and we do not specify where it can go or cannot go.

Now, the question is why do we not restrict it from going to the Community and in turn service the third country markets. I believe that is what you said?

Senator RIBICOFF. Why? I am just curious why would a third country market buy this European corn? Is there something about European corn, that it is more consistent with their tastes or eating habits?

Mr. PALMBY. No, and this is important, through the use of export subsidies the Commission officials make European corn attractive to the importing countries, or putting it very simply——

Senator RIBICOFF. But we pay for it, basically the United States or Canada, whoever does this, they pay for this basically?

Mr. PALMBY. Yes.

Senator TALMADGE. Would the Chairman yield at this point?

Senator RIBICOFF. I would be happy to.

Senator TALMADGE. I want to see if this situation is correct and an accurate description of that variable levy policy.

Is it not true that a couple of years ago we shipped a lot of wheat to European countries, paid a high levy to get it shipped into Europe, and at the same time they took that high levy, used it as an export subsidy to ship wheat to Red China at that time at favorable prices?

Mr. PALMBY. That is correct.

Senator TALMADGE. So in effect the American taxpayers or wheat producers were paying a subsidy to the European market to sell wheat to Red China. Is that not correct?

Mr. PALMBY. Senator Talmadge, I would want you to understand that it was not the U.S. wheat that moved, it was the softer variety in the Community that moved to the third countries, mainland China and elsewhere.

Senator TALMADGE. Well, our wheat went in, and it is our money that paid the variable levy, was it not?

Mr. PALMBY. It is the European importer who pays the variable levy. He buys from us at the world price and then must pay the difference between that price and the threshold price to the EC.

Senator RIBICOFF. This is one of the things that bothers me, and I have been trying to grope for more understanding. Why? You know, forgetting this China thing, putting that aside, Canada sold wheat directly to Red China. We are not depriving Red China of wheat. As Senator Talmadge says, we are really subsidizing it, but European countries do sell that wheat to Red China, so why could we not sell wheat to China directly? We could if that were not the national policy against trading with China, which seems to be a breakdown.

Mr. PALMBY. On the China point if we did not have the problems we do and if they were willing buyers, presumably we could sell to them, yes.



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On the variable levy point. I would want to make it clear that the persons that really suffer or pay the bill are the European consumers.

You understand this 77 cents comes from the European consumers. The European importer pays the levy and the higher price of feed ingredients, in this case corn, results in higher-priced feed and higher-priced animal products.

Senator RIBICOFF. Now, to bring it home to the European consumers, this variable levy, and this subsidy, what does that add to a pound of meat or a loaf of bread the European has to pay, or if they did not have this policy of the subsidy, with a differential, what does that make a loaf of bread or a pound of meat cost on the housewife's table in Europe?

Mr. PALMBY. Mr. Chairman, we have made a good many studies, as you would expect. I would like to answer it this way: It is our judgment that the higher prices that the consumers in Europe pay because of the common agricultural policy, a main element of which is the variable levy system, that that policy adds somewhere around $6 billion to $7 billion to their food costs, and that is strictly over the counter.

Now, there are additional costs, expenditures required to pay for the common agricultural policy. That figure is not unlike the other figure I gave you; namely, around $6 billion to $7 billion.

Senator RIBICOFF. I know those figures, but you know the problem is when you try to translate billions of dollars, to dollars and cents to household, the figures just goggle the average person's mind, and he does not know how he is being hit. Did your economists in the Department of Agriculture, have they broken this down to what it costs for a loaf of bread or a pound of meat?

Mr. PALMBY. Mr. Chairman, not to my knowledge.

Senator RIBICOFF. On the housewife, to her on her table.

Mr. PALMBY. I can be quite sure that it would not take much of an effort to supply this figure to you. It is merely a matter of arithmetic.

Senator RIBICOFF. It would be easy, because I understand that this is a very grave internal economic problem to all of those countries. They are trying to satisfy some 10, or 12, or 15 percent of the population who are farmers, yet you have a continuous rising cost of living, especially in foodstuffs in all of these countries, and there is a great unhappiness and dissatisfaction with the population as whole.

And I am just curious, what is this costing the housewife for a loaf of bread or a pound of meat?

Mr. PALMBY. I would like, with your permission, to come back to you with some figures on this, and will try to make it as practical as possible.

Senator RIBICOFF. That is what I want. And with that I would be delighted to yield.

(The Department subsequently submitted the following information:)

Based on the calculations presented by Kruer and Bernston,[1] it is estimated that the Common Agricultural Policy results in an added cost to the consumer of about 8 cents a pound ($180/MT) for pork, 13 cents a pound ($292/MT) for beef, and 2 cents a pound for bread (based on $40/MT added cost for wheat flour).

[1] "Cost of the Common Agricultural Policy to the European Community" by George R. Kruer and Byron Bernston, *Foreign Agricultural Trade of the United States*, October 1969.

Basically, Bernston and Kruer computed the excess consumer costs for major agricultural commodities as the difference between the European community producer prices and the world price. It should be noted that this method of calculation compares the position of the consumer under the Common Agricultural Policy with his position in the absence of any agricultural price supports. It does not compare the Common Agricultural Policy with previously existing national support programs.

On the basis of the average retail prices in Paris and Munich in April–May 1969, these estimated added costs would account for about 6 percent of the pork price, 10 percent of the beef price, and 12.5 percent of the bread price.

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

Secretary Palmby, is there any financing involved when we are talking about the sale to the third countries? In other words, for the European economic community making the sales, are they doing any financing that we are not permitted to do under our export-import banking arrangements?

Mr. PALMBY. The wheat sales to mainland China, which was referred to, as I recall, was partially financed.

It was partially paid for through a bilateral arrangement with primarily other agricultural items from mainland China. As far as sales to other third countries are concerned, yes, quite often there is some financing involved.

But, we do have some financing to many countries.

Senator FANNIN. But in some areas we are not permitted?

Mr. PALMBY. We are restricted, of course.

Senator FANNIN. In some cases we have the right to make the sale but not finance it, as I understand it?

Mr. PALMBY. Yes.

Senator FANNIN. Thank you, Mr. Chairman.

Mr. PALMBY. If I may continue on, then:

The European Community recognizes that its policy of relying on high prices for farm support is not working. In Germany, for example, internal subsidies to farmers have been granted since 1965 as a response to income losses resulting from the reduction in German grain price and the German mark revaluation.

For some years now Mr. Mansholt, the architect of the EC's common policy, has tried to supplement price policy with policies of structural reform involving payments to farmers. He has been only partly successful.

One of his major problems is the fact that all decisions of the EC Council in Agriculture must be unanimous. Thus, one country can block action on any problem. This leads at best to inaction and at worst to logrolling on such matters as price and reform. Italy's consent to higher corn prices wanted by Germany is bought by German consent to higher rice prices wanted by Italy, for example. In both cases, outside suppliers lose. Inaction, of course, cuts both ways and is sometimes an advantage to outsiders. EC producer support prices had not been increased for 3 years, but this year internal pressures were severe and producer support prices for most products were increased.

United Kingdom entry to the EC would heighten the need for reform. Like the EC, the UK is a major market for world agriculture. Total UK imports of agricultural products amounted to $5.6 billion last year. The United States supplied $450 million of this, mostly in grains and tobacco.

The United Kingdom traditionally has had lower agricultural prices than most of the countries on the Continent, and until very recently had it had a very different kind of farm price support system. The United Kingdom uses deficiency payments. That is, the internal market price for most agricultural products is the world price. Products enter free of duty or at modest duties, and the farmer is given a payment by the government to make up the difference between what he receives from the market and a preset producer guaranteed price.

A considerable amount of work has been done both in and outside of governments to try to assess the impact on United Kingdom production, consumption, imports and exports of extending to the United Kingdom the Common Agricultural policy of the EC. The result of all of this work is disturbing. Many observers see trouble ahead for outside countries—and on a variety of products—unless the EC changes its policy. It is significant that two of the major negotiating problems for the United Kingdom are preserving for its traditional preferential suppliers at least part of the United Kingdom sugar and butter markets—both of which would otherwise be taken over by its new partners. In our case, the major adverse impact will be on grains and tobacco, although other products will be affected also. The Europeans realize this system entails heavy burdens for everyone, and we hope that United Kingdom entry would lead to its reform. We hope that the recent agreement which we entered into with the United Kingdom carrying forward our GATT rights on grain will help make possible needed reforms.

This is not to say that agricultural trade problems with the United Kingdom would disappear were the United Kingdom not to join the EC. On the contrary. Since 1964 the United Kingdom on its own has been moving away from its traditional policies. For a variety of reasons it has been shifting toward an EC type of policy and away from the deficiency payment system. With the recent coming to power of the conservative government this shift has been accelerated. Thus, we would in any event be facing unfavorable and restrictive changes in United Kingdom agricultural policy.

Agricultural policy problems are not limited to Europe. Japan's agricultural policy has led to a most troublesome rice surplus. High support prices have contributed to increased production far outrunning uses. Japan's rice support price was this year raised to over $390 per ton. By way of contrast, the U.S. rice support price is $107 per ton. Japan's stocks of rice are greater than estimated total world trade in rice in 1970.

Japan has also delayed removing its restrictive quotas on imports far too long. There is no justification at all for the continued quotas on fresh grapefruit, on citrus juices and a number of other products. Nevertheless, I will readily acknowledge that Japan is a good, large and growing market for U.S. agricultural products, and a bright spot for future growth.

## MOST-FAVORED-NATION TREATMENT

The shift from multilateralism based on most-favored-nation treatment to regionalism or bilateralism is of serious concern to us in agriculture. It is not difficult to see why this should be so. We must compete with other exporters in practically every agricultural product we sell and our competitive position is based strongly on price. Think a minute about our major crops.

Grains—We compete with Canada, Australia, the EC, the Soviet Union, South Africa, Thailand, Argentina and others.

Oils, oilseeds and meals—Our competitors are too many to name—the producers of peanuts, sunflower seed, cottonseed, fishmeal, copra, rapeseed and so on.

Citrus—Our competitors are Israel, Italy, Spain, Morocco, Tunisia, South Africa, Brazil, and others.

Tobacco—Our major competitor here—Rhodesia—has been out of the market for some years, but there is no lack of competition from Canada, India, other African producers, South Korea and Greece.

In fact, there is not a product that comes to mind in which we do not have a competitor. When our competitor is given a price advantage, he usually makes the sale. Although full MFN has never been a reality because of the Commonwealth preference system, Europe's relations with its colonies and our own preferences with Cuba and the Philippines, the GATT barred the extension of these preferences and sought to move the world toward full MFN. Exceptions were made for full customs unions and free trade areas.

The creation of the EC in 1957 significantly changed this direction, even though the EC did in fact meet the GATT test as a customs union.

As a result of the merging of the Six, the EFTA countries created their own free trade area. Subsequently, regional preferential arrangements were extended to the developing world, with U.S. support, and led to the creation of the Latin American Free Trade Area, the Central American Common Market and others.

So, during the past 10 years the EC has widened its preferential trade bloc, associating Greece and Turkey. It has replaced former French African preferences with EC preferences. It has negotiated strictly preferential arrangements with Tunisia, Morocco, Spain, Israel, and other Mediterranean and African countries. I have mentioned the enlargement negotiations. If these are successful, the problem of the remaining EFTA countries must be faced. Most have already said they want some form of preferential association. British Commonwealth developing countries want preferential access to any Common Market including the UK.

The original Common Market Six was the only regional block which met the GATT tests for customs unions and free trade areas.

As the decade has progressed, the GATT consistency of the arrangements entered into has become increasingly tenuous and threatens the remaining basis for MFN.

I would like to very quickly review our U.S. import policy for agricultural commodities because quite often we are accused of having a restrictionist policy on the importation of agricultural commodities and, of course, we are not without our restrictions, and we are not without our problems. But import of the agricultural products into the United States amounted to $5.7 billion in 1970. Of this, it is significant that $3.5 billion were directly competitive with U.S. production. And the question is: How have we handled these problems?

As a case in point, horticultural products, imports of a number of horticultural products from Mexico—fresh and frozen strawberries and fresh tomatoes, cucumbers and peppers—have increased sharply in recent years. Mexico now is the second largest exporter of agricultural commodities to this country.

Senator RIBICOFF. Who is the first, please?

Mr. PALMBY. Brazil.

In 1970, imports were at a record high level for each of these horticultural items. Mexico possesses advantages in producing these crops because of lower labor costs and generally more favorable climatic conditions. U.S. capital and know-how have aided in the expansion of Mexican industry and promise to aid further growth. It is likely that imports of these products from Mexico will continue to increase and the disruptions in the U.S. market from the standpoint of both production and price will become increasingly evident.

U.S. officials have engaged in joint meetings with Mexican officials in an effort to regulate the sharply increasing trends of horticultural imports. We believe the desirable course of action here is to continue to work with Mexican officials to avoid undue market disruption.

MEAT

Imports of certain chilled or frozen meats, primarily beef and mutton, have been subject to voluntary restraints negotiated with principal exporting countries since the last quarter of 1968. Products included within the restraints are those specified in the Meat Import Law enacted in 1964.

The restraint program has worked reasonably well. There was a major loophole in the program last year because transshipments of Australian and New Zealand meat through Canada were not subject to restraints. However, this loophole was closed by the Secretary of Agriculture in mid-1970 and remains closed.

For 1970, the estimate of imports based on the voluntary restraint program was 1,160 million pounds. Actual imports were a few million pounds below the estimate. Although the responsibility for enforcing restraint levels rests with the foreign country, agreements with those countries permit the United States to apply import controls if these are needed to enforce restraint levels. This authority has been delegated by the President to the Secretary of Agriculture. In 1970, the Secretary issued regulations to control imports from five countries when it appeared that they might exceed their individual restraint levels. It is significant to recognize that on total imports of meat last year of all types, including animals, amounted to about $1.1 billion, and that this is in true competition with our own industry.

For 1971, the Secretary has estimated imports at 1,160 million pounds—the same level as the final estimate for 1970. As was the case in 1970, this estimate is based on voluntary restraint arrangements by the principal exporting countries.

Dairy products, we again—and this is noteworthy, I think—had a sharp readjustment in world butter stocks that has removed the burdensome surpluses that demoralized the butter market over the past several years. This was the result of lower production in Western Europe and in New Zealand which suffered a severe drought. Nevertheless, it has been necessary for the United States to take additional steps under the authority of section 22 of the Agricultural Adjustment Act, as amended, to hold imports of certain dairy products to reasonable levels. The President proclaimed quotas effective January 1, 1971, on four dairy products which were circumventing our import controls and interfering with price-support programs: ice cream, animal feeds containing milk (calf replacers), low fat chocolate crumb, and low fat manufacturing cheese. All of these products were relatively new items in international trade and were used mainly by processors.

Now recently, the President directed the Tariff Commission to investigate whether controls should be imposed on imports of certain cheeses which are not now under quota if the f.o.b. price is 47 cents per pound or more in order to prevent material interference with the price support program for milk.

We maintain our agricultural import system is relatively liberal. Yet all too frequently we face the charge that the United States as much as any other country, maintains strict control over its agricultural imports under section 22, and that the United States is free to continue to do this by reason of a waiver given the United States by the Contracting Parties to the GATT in 1955. Our section 22 waiver has been raised as an excuse for continued restrictive policies of other nations.

These charges are erroneous and misleading. In most instances, the error is the result of lack of accurate information, both on the extent and nature of our import controls under section 22 and the nature of the section 22 waiver.

Import controls limiting the quantity which foreign countries can sell in the U.S. market are applied on only five commodities: Cotton, wheat and wheat flour, peanuts, certain dairy products, and sugar. Sugar is controlled under the Sugar Act, while import controls on the other four products are controlled under authority of section 22. Imports of fresh, chilled or frozen beef and veal may be subject to control under the Meat Import Act of 1964, but as I have noted have been limited by the voluntary restraint program. The domestic production of all these commodities, except dairy products and meat, is likewise controlled. Even though imports are regulated, about 40 percent of U.S. sugar is imported.

All other agricultural imports of the United States which include pork, lamb, poultry, a large variety of canned meat products, wines, vegetable oils, fruits and vegetables, tobacco, and feed grains, to mention only a few in which there is major U.S. production are permitted unrestricted entry into the country and are subject to only fixed and generally moderate tariffs.

Significant features of the section 22 law are frequently overlooked or misunderstood. In the first place, the authority is limited in scope. Import controls may not be imposed to protect domestic production, as in the case of other countries, but only to protect price support and other programs of the Department of Agriculture. Even the existence of a program does not mean the automatic application of import controls. For example, we have price-support and production restraints for feed grains, rice, and for tobacco, but there are no import controls beyond fixed import duties. There must be a showing that imports will materially interfere or render the program ineffective. Experience over the last 30 years shows this condition of the statute is not easily met.

Further, there is no "automaticity" of the application of import controls on agricultural imports under section 22. The action is taken by the President after thorough investigation, including public hearings by an independent agency—the Tariff Commission.

The act requires also that a share of the U.S. market be made available for foreign supplies. Existing quotas under section 22 well illustrate this. The much publicized controls of dairy imports still permit for certain cheeses from 200 percent to 400 percent of the quantities entered during a prior representative period.

Also, in the case of wheat, cotton, and peanuts (as well as sugar under the Sugar Act), the domestic production is likewise restrained. When domestic producers are required to cut back in their production, it is not an unfair rule for international trade likewise to impose a limit on the amount which may be marketed in the United States. This is a recognized principle in the GATT.

## DEVELOPING COUNTRIES

### THE GREEN REVOLUTION

One of the major uncertainties in the future trading world is the role to be played by the developing countries. The United States has done more than any other nation in history to assist the poorer nations—with food, with technical help, with financial aid. Yet our people have mixed feelings about our obligations to them—and their future place in the global system.

Is the developing world soon to become a major market? Is it potentially a major competitor? Or is it simply a burden—to be regarded in humanitarian terms rather than economic? None of these is an adequate hypothesis, although examples can be found to support all three.

The related problem of world hunger is also puzzling, tied up as it is with such unpredictables as population growth and such imponderables as taste and custom. In the public mind, we have gone from one extreme to another in a half dozen years—from a world of starvation to a world of plenty.

In 1965 and 1966, unusually poor grain crops were recorded back to back in some countries, notably India. We heard dire predictions of world starvation, and all-out production was being urged. This country did, in fact, move huge quantities of grain to India and Pakistan, to meet a real and serious emergency.

But in subsequent years, crop weather changed for the better again, new wheat and rice varieties were introduced, and there resulted a generally improved food situation in Asia—the Green Revolution. So the pendulum of public mood has swung the other way. The optimists have taken over. You hear the view that, not only have we won the hunger war, the developing countries may well take over most of the job of supplying food and fiber to world markets.

Today, with the benefit of perspective, we can see that the truth lies somewhere between the extremes of pessimism and optimism. There was no real basis for the extreme pessimism of a few years ago. Yet, while much progress has been made in food production, the ancient war against hunger is far from over.

In trying to evaluate the longer-term implications of the Green Revolution, you find both hopeful and not-so-hopeful indications.

On the hopeful side, it is well to remember that the Asian crop failures of 1965 and 1966 were the result of extraordinary circumstances—a drought disaster. For a dozen years preceding that time, the developing countries of the free world were increasing their agricultural production by an average of 3 percent a year. Even with rapid population growth, per capita production had in most years held its own.

Agricultural output has achieved some very real and impressive gains in South and East Asia, particularly in India, Pakistan, and the Philippines—areas containing more than 700 million people. Production indices are up sharply compared with 1957–58.

On the less hopeful side is the fact that no widescale "revolution" has occurred, in per capita terms, in other major areas of the developing world. In the last dozen years, food production measured on a per capita basis has fallen 2 percent in Latin America and West Asia, and 5 percent in Africa.

The fact is that there continues to be much hunger in the world, the Green Revolution notwithstanding. Two-thirds of the world's people live in countries where the average diet is not adequate in terms of nutrition. At best, we can expect that U.S. emergency help will be needed on occasion, for a long time to come.

TRADE AND AID

The U.S. food aid programs, carried on primarily under Public Law 480, continue to be an important tool of our international policy. But there has been a definite decline in Public Law 480 shipments, along with the increase in commercial sales. In the early years of that program—middle 1950's—over one-third of our exports consisted of food aid. This fiscal year, the proportion is down to 13 percent. The reasons are several:

There has been some lessening in requirements, due to improved crops in Asia. Outlays for Public Law 480 have been reduced, as a result of other pressures on the budget. Too, Public Law 480 terms have hardened; Congress has directed that by the end of 1971 the program be shifted entirely to a dollar basis, and we are well on the way to that objective.

It is also worth noting that other developed countries have moved increasingly into food aid. Canada, with its large wheat stocks, has broadened its concessional program. Japan has a program of food aid, largely with surplus rice. The European Community and Australia have also diverted some of their surpluses to developing countries.

As agriculture is strengthened in the developing countries, what will this mean to the United States? Will the developing countries be customers? Or will they be competitors?

It would seem that, in the long run, we will benefit from this kind of growth in the developing countries. The reason is that improved farm production will permit overall economic growth. And economic growth will give those countries the ability to increase imports of those agricultural products which they cannot produce efficiently but which we can supply with ease.

There are examples to show that rapidly developing countries tend to increase imports while slowly growing countries continue to rely on domestic production, even though it is costly and inefficient.

India is a country that has a long way to go in economic growth. In recent years of good grain production, India has cut back on imports of U.S. wheat. But as India's general economy is strengthened, helped by agricultural growth, we can expect that increased purchasing power will bring expanded imports of certain foods and improved diets.

Taiwan, for example, has improved its agriculture so rapidly that it is able to transfer capital and labor from agriculture to other sectors. Thus there is general economic growth, and an expansion of food imports. South Korea is now moving rapidly in the same direction.

There is the possibility that we will encounter increased competition from developing areas as they become more efficient in certain kinds of production. We have already seen this in corn, cotton, tobacco, pineapples, and some other crops. These can be individually painful. On the whole, however, it would seem that expanding economies will bring market growth, benefiting the United States far beyond any likely loss of markets.

I have set out the major challenges facing world agriculture and the United States and I want to turn briefly now to how we might deal with them and the adequacy of the General Agreement on Tariffs and Trade in this respect.

Two of the questions you have asked the executive branch to answer, in effect, are how useful is the GATT in international agricultural trade and do we need new agricultural trade rules.

I am sure you will get a formal answer to these in due course, but I wish to give our own opinion—particularly in view of the comments I have made earlier in this testimony respecting agricultural price and production policies, subsidies, the serious erosion of MFN, and the continued use of GATT inconsistent restrictions in agricultural trade.

Contrary to what many people seem to think, the GATT is not silent on agricultural trade in its general rules, nor is it without specific negotiated commitments on agricultural products. Practically every agricultural item in the U.S. tariff is negotiated and bound against increase in the GATT, for example, and we continue to hold some very valuable bindings abroad—such as our duty-free entry into the EC on soybeans and meal.

The GATT is, however, a charter and most of its rules are drawn broadly. They require constant interpretation, and they require enforcement. Unfortunately, in my judgment, both of these have been lacking. Much of the interpretation we have had has been faulty. There are reasons for this, of course. Take support programs. The GATT drafters were not ignorant of the fact that internal price support policies influenced trade and could lead to export subsidies and undercut commitments made at the border on tariffs. The GATT links such support policies to tariff bindings and provides for the usual GATT sanction—retaliation—if they are allowed to impair negotiated concessions. But this GATT provision was not used in its early years and not enough attention was paid to obtaining and keeping specific negotiated tariff concessions. There was not the sharp concern in these early years over agricultural self-sufficiency. We now know better.

Thus, in my judgment, we should not now reject the GATT or seek to replace it with a new institution. We should instead work within it—reform it.

We should return to the original promise of the GATT—the promise of a market-oriented agricultural trading world. Export subsidies should be eliminated. Present protective systems, such as variable levies and quotas should be replaced by fixed duties, and farm income objectives should be met through production neutral programs designed to assist farmers unable to obtain a satisfactory level of income through competitive prices.

A broad scale negotiation may be our answer to how to do this, but it should not be allowed to get in the way of specific adjustments that are urgently needed in most countries now. And if a new major negotiation is to deal with agricultural problems I have discussed, it must break with the old patterns. It must deal with the GATT's shortcomings on price and production policies, subsidies, variable levies, and MFN.

We can no longer tolerate either the practice of withholding some products—like grains—from negotiation.

In the interim, we should more vigorously shield our domestic market from unfair competition. We should more aggressively advance our interests in export markets abroad. There are statutes on the books which give us authority to do both of these and there are provisions in the GATT which allow their use. They should be used. We are confident they will be.

Thank you.

Senator Ribicoff. Thank you very much.

I have a few questions. It is apparent from your statement that you consider American agriculture probably as the most efficient agricultural production in the world, or as efficient as any other agricultural production in the world?

Mr. Palmby. Well, Mr. Chairman, we obviously have an economic comparative advantage in the production of some major bulk items, and a good many specialty items in agriculture.

Senator Ribicoff. If that is the case, why cannot we export more?

Mr. Palmby. Because we do not have good enough access to world markets.

Senator Ribicoff. Do you think that our foreign policy in trade negotiations have given as much weight to agricultural exports as should be given?

Mr. Palmby. No, I do not.

Senator Ribicoff. Now, how can that be changed? How can we bring more pressure or more importance to our agricultural exports? What should we do as a nation?

Mr. Palmby. I think as a nation the time has come, and I frankly think we are doing it, that we must be very serious in looking at our own economy, and analyzing where it is that we have some economic advantages in the production of certain items. It seems to many of us that we have some real comparative advantage in the production of agricultural items because of a lot of reasons.

It would also seem apparent that we have a real comparative advantage in many industrial items reflecting a greater degree of technology and research, and I suspect a broad area in between that is questionable whether we have much comparative advantage in production.

That being the case, then it seems to me that we must seriously look at our policies, with the goal of maximizing our exports at both ends of this, where we have the comparative advantage in these two areas.

Senator Ribicoff. But where have we fallen down over all of these years? We have had this advantage for many years, and where have we fallen down as a matter of international and trade policy in exporting more, or what could we do to export more?

Mr. PALMER. Mr. Chairman, I am sure that since World War II and prevailing perhaps up to the present time as a matter of national policy we have attached greater importance to other items than trade.

After all, as we came out of the war there was a great inclination to be of assistance to the rest of the world, and oftentimes, as I think we all realize, at great economic cost to ourselves, and necessarily at the time, but [illegible] our trading area. I would hope that the time is here when we relate our other goals to what must be done in the trade community. This must be done if we are to remain solvent.

Senator HUMPHREY. Let me ask you if there is a market for U.S. agricultural products in Eastern Europe, the Soviet Union and China?

Mr. PALMER. I would like to touch on that. It is our opinion that there is a demand there the extent of which is very difficult to gauge. What I am really saying is to sell there must be foreign exchange and foreign exchange earnings from the Western World. So, I do not know how real that demand is.

Now, specifically it seems to us that in the bloc countries there is great pressure from within to improve the diets of the people, moving more vegetable oil, more oils in their diets, and a greater increase in animal products, meaning livestock and poultry products. That being the case, it would seem that there is a feed ingredient market.

Now, specifically on mainland China, mainland China has for quite a few years now been importing wheat from Canada, and Australia in recent years. She is not going to import this year, I believe, but there has been a wheat market in mainland China for quite some time.

Senator HUMPHREY. In other words, of course, putting aside the question of exchange, which is not your problem, and has to be worked out as a general policy, but if there was a free hand and our policy was that we were going to export agricultural products to Eastern Europe, China, and the Soviet Union, you believe there would be a substantial market for American agricultural products in the East?

Mr. PALMER. I am confident the demand is there.

Senator HUMPHREY. So, but then there is a potential market, a big potential market?

Mr. PALMER. Yes.

Senator HUMPHREY. I have one more question. There is a growing opinion, and as a matter of fact, when I was in Europe in January, I do not think anybody refuted it, everybody seemed to indicate, you know, that Americans are pushing England into the Common Market, and there are going to be advantages or disadvantages and we had better have our eyes wide open. U.S. agriculture is going to suffer a major export loss when the English become a part of the Common Market. Do you agree? Am I right in that general opinion? Is that [illegible]?

Mr. PALMER. Mr. Chairman, as you know, we talk with the Community officials and United Kingdom officials regularly, and there seems to be a tendency which I find not to be true, for them to believe that we are critical of a common agricultural policy as such.

Sometimes the interpretation is such, or quite often the interpretation is given that we are critical of an enlarged Community. This is not the case.

To be critical of a policy is one thing, but to be critical of a general philosophy is another, and we are not critical of this general philosophy.

But, if the British and the other three countries go into the Community with the present framework and price levels, yes, there will be a major, a major loss of market to us, at least in the short run, unless the common agricultural policy is changed.

Senator RIBICOFF. I found Englishmen, who were for the Common Market but who were deeply concerned because they felt that going to the Common Market or Common Agricultural Policy they were going to experience a very substantial increase in the cost of living to every Englishman, because of the differential that would be paid under the Common Agricultural Policy. This is a deep concern.

Now, do we not have certain rights of compensation or retaliation under GATT if we suddenly find ourselves kicked out of the English food market, and what can we do about it? How can we minimize our damage if we are going to be damaged because in 2 or 3 years we cannot export our agricultural products which we have for many years, to England? How do we recoup legitimately?

Mr. PALMBY. Mr. Chairman, I referred earlier, and I believe Secretary Samuels mentioned the bilateral agreement that we made with the United Kingdom regarding our grain imports to that country during this negotiation period. I can best answer your question by referring to the July 1 threshold price of corn grain into the Community at $2.37 a bushel. The minimum import price under the same type of system now in the United Kingdom will be $1.50, 87 cents a bushel difference.

Senator RIBICOFF. Again, I think it is very important for the world, and very important to me to know what that means in a loaf of bread and a pound of meat.

I think one of the greatest mistakes we make is that we generalize in big figures without relating it to what is on everybody's table or what every housewife who wants to know what to do when she goes into the grocery store.

(The Department subsequently submitted the following information:)

*Question. To what extent would U.K. adoption of the CAP raise the retail price of a pound of meat and a loaf of bread in the United Kingdom?*

Answer. A study in process at Michigan State University was the basis for determining to what extent the adoption of the Common Agricultural Policy would change the price of meat or bread in the United Kingdom. If the U.K. were to join the EC, it is estimated that the following price increases would occur in the U.K. due to the impact of the CAP.

Other studies exist which use different assumptions and of course give different answers.

| Product | Increase in price (percent) | Retail cost of product (cents per pound) | |
|---|---|---|---|
| | | 1968 | After CAP |
| Bread | 9 | 11 | 12 |
| Beef and veal | 21 | 76 | 93 |
| Pork | 8 | 63 | 69 |
| Bacon and ham | 8 | 59 | 64 |
| Mutton and lamb | 38 | 48 | 66 |
| Butter | 115 | 41 | 87 |





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Mr. PALMBY. Now, we have duty-free bindings on corn and wheat going into Britain. This is what this bilateral grain agreement is all about. We agreed with the United Kingdom that they could proceed with their minimum, new minimum import price scheme come July 1, and we negotiated with them a lower level of prices than they had previously announced that they were going to proceed with.

We also got agreements from them that our duty-free bindings will be held in suspense and upon a 90-day denunciation clause provision we are free to negotiate with them, or under article 24, paragraph 6 provision of the GATT. At that point we would lump those bindings into the bindings we have with the Community that have been in suspense for a number of years—since 1961.

Senator RIBICOFF. Would you explain to me what you mean by "bindings"?

Mr. PALMBY. All right. It is nothing more or less than a contractual arrangement with Britain.

Senator RIBICOFF. I understand.

Mr. PALMBY. That our corn and our wheat enter that market free of duty.

Senator TALMADGE. Mr. Chairman, would you yield at that point?

Senator RIBICOFF. I would be pleased to.

Senator TALMADGE. Is it not true that during the Dillon round in 1962 we forfeited that right ECM, and we have recently forfeited it with the British?

Mr. PALMBY. Senator, you are wrong in your terminology. The rights were suspended.

Senator TALMADGE. What is the difference? How can I go into court and pick up something I suspended?

Mr. PALMBY. Senator, the difference is this, basically, and I hope we can sit here sometime later and prove to you, and believe me I hope we can, that suspension meant something different.

Senator RIBICOFF. I have not practiced law in a long time, but there used to be a doctrine of laches, and between 1962 and 1971, almost everyone would say the doctrine of laches applied.

Senator TALMADGE. Particularly when we are dealing with those people who are so hardboiled. They do not go there with some global idea of doing good, they go there for advantage, and they get it.

Mr. PALMBY. Senator Talmadge, this is not without worry, but I was trying to relate to you what we want the dialog to be, and that is to lump all of the bindings together, assuming an enlarged community, and to negotiate with them at that time and in a meaningful manner. The timing on it would be, I would visualize, shortly or immediately after the accession negotiations had been completed, and I hope these bindings are meaningful.

Senator RIBICOFF. I am going to let Senator Talmadge question. I am through except that the figure you are going to give me, and I would like to have another figure, if I could, the average cost per family in the Common Market countries of the Common Agricultural Policy, what the total bill is per family for food because of their program.

Mr. PALMBY. Very well, we will do the best we can.

Senator RIBICOFF. I am sure you have got a great agricultural economist who understands that.

Mr. PALMBY. We have innumerable figures, I think.



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Senator RIBICOFF. I think it is important for you, and I think it is important for us to have those figures.

(The Department subsequently submitted the following information:)

To arrive at the impact of the Common Agricultural Policy (i.e., agricultural price support system) on the average food cost per family, the total cost to the consumers ($7 billion) was divided by the number of families (60.3 million). The result is $116 family (for 1968), which is more than 10 percent of the average family food budget.

Senator TALMADGE. Mr. Secretary, I want to congratulate you on your statement. I wish I could say that the State Department had been as realistic in trying to look after our trade programs as much as the Agriculture Department, but I cannot. I wish I could be as hopeful as you are that something that we have already forfeited could be regained in trading with such hardboiled realists as the European Economic Community.

Your Department has supplied figures showing the U.S. export of agricultural products which is subject to the European variable levy has gone down from $642 million in 1966 to $454 million in 1970. Can you supply the committee, for the record, with a legal memorandum from your Department as to whether the variable levy system of the European Community is consistent with GATT?

Mr. PALMBY. Yes, sir, we would be pleased to do that.

Senator TALMADGE. Mr. Chairman, I ask that be inserted at this point.

Senator RIBICOFF. Without objection.

(The following table was supplied for the record:)

U.S. AGRICULTURAL TRADE WITH THE EEC, 1965-70

[In millions of dollars]

| Year | Exports: Variable levy [1] | Exports: Nonvariable levy | Exports: Total | Imports, total |
|---|---|---|---|---|
| 1965 | 626 | 850 | 1,476 | 270 |
| 1966 | 642 | 922 | 1,564 | 306 |
| 1967 | 529 | 931 | 1,460 | 331 |
| 1968 | 475 | 892 | 1,367 | 362 |
| 1969 | 340 | 929 | 1,269 | 363 |
| 1970 [2] | 454 | 1,105 | 1,559 | 419 |

[1] Includes feedgrains, wheat and flour, rice, beef and veal, pork, poultry and eggs, dairy products and edible lard.
[2] Preliminary.

Senator TALMADGE. What do you think is going to happen to our exports to Great Britain if and when they join the Common Market?

Mr. PALMBY. Our studies show, and we have undertaken a rather elaborate study under a contract with Michigan State University, and at the best a study of that nature is full of assumptions, it is full of assumptions as regards what happens to the inflationary spiral in the Continent and in the United Kingdom, but shoving all of this aside, it would look to us that our grain exports to the United Kingdom will suffer rather dramatically and drastically.

This has been a very fine corn market for us for a long, long time. It is our oldest corn market, in reality.

Second, for our tobacco market, it will certainly suffer if the United Kingdom is brought under the Common Market, the common agricultural policy for tobacco.

Now, there are several other items and, of course, one of them again is citrus items, and I can mention others, lard is another one. These will be subject of course, to the broader policy, and we could go on and on on these items that we think will be affected.

Now, you know, theoretically, and it is not all theory, there are some real merits in it, the theory is that with an enlarged community, with a more prosperous Europe that the buying power will be increased, and that we will see a substantial increase in demand for some of the higher priced food items as we see in this country, meaning higher quality meat, poultry, and those types of food items. If that is the case, then, of course, demand could conceivably increase, as it has on the continent, and over a period of time we could see a resumption of more normal trade patterns.

Senator TALMADGE. What, precisely, is the policy of the Department with regard to negotiating the variable levy system?

Mr. PALMBY. Senator Talmadge, regarding the variable levy system which, of course, is a bit of a monster as far as the world trading community is concerned, it has been the policy of our country, even though we have talked about it a good many times, to regard it as one of the costs inherent with uniting the continent.

Now, I can get into many debates as to whether this system is necessary to unite the continent, although I can explain to you that there have been many policy people in our Nation and in Europe who have felt that this was a necessary adjunct to harmonizing Europe.

Senator TALMADGE. Mr. Secretary, I think the chairman wants to recess for lunch now. He has informed me that he would like to reconvene at 2 o'clock, if it suits you. I think our questions will be relatively brief.

Mr. PALMBY. This is satisfactory.

Senator TALMADGE. And then we will proceed with the other two witnesses.

Senator RIBICOFF. The committee will recess until 2 o'clock.

(Thereupon, at 1:05 p.m. the hearing was recessed to reconvene at 2 p.m. this same day.)

AFTERNOON SESSION

Senator TALMADGE. The subcommittee will please come to order.

Mr. Secretary, the President has indicated that agricultural exports will be increased from the present level of approximately $7.2 billion to $10 billion annually. What steps to implement the President's announced intention do you envision?

## STATEMENT OF HON. CLARENCE D. PALMBY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE—Resumed

Mr. PALMBY. Senator Talmadge, we intend to do more of what we have been doing in recent years. We see a continued growth for our agricultural products in the Japanese market, and I will come back to that in just a minute, as well as other markets in the Far East, and whether we finally make this $10 billion—and I think it is a good goal—and the speed at which we do accomplish this goal, is going to be determined to quite an extent by how well we can in the European sector help shape that agriculture policy toward a more trade-oriented attitude.

Now, if I could go back to Japan for just a minute. We are now at a billion dollar level. We had a billion one-hundred million there last year. We like to, within the Department, make the comment that this was the first billion dollar market, and we like to make the comment that this will be our first $2 billion market. Now, we think that is not idle dreaming, because the commodities in which are are doing well in that market are soybeans, feed grains, wheat, and to a somewhat lesser extent, cotton and tobacco. And the very forces that have allowed the consumption of animal products to increase rapidly, as well as the vegetable oils, those forces are still there and that economy is booming and their per capita intake of meat and poultry and poultry products is still very low in comparison to our country. If Japan continues to be the supplier of many industrial items that she has been in the past and with her gross national product increasing at the rate that it is, we cannot see but what this ought to turn into a $2 billion market for us and we do not think it is idle dreaming, with this kind of trade pattern taking place in the world.

Senator TALMADGE. You mentioned grains and tobacco specifically in your testimony as items on which the European Economic Communities policies hurt our exports. Are there any others?

Mr. PALMBY. Yes, there are several others. We all know the poultry problem that we have had. The truth is we have about lost the poultry market in the community and we seldom refer to it any more and probably this is unfortunate, because we do remove the emphasis from the problem we have had on poultry. We are still the most efficient producers of poultry in the world, but we are locked out of the poultry market in the Community. We, of course, do not have the poultry market in the United Kingdom. They have announced their intention to commence a levy system on poultry in Great Britain, by the way.

It is a well-known fact that we have a problem with citrus and we expect that under the Common agriculture policy, we will have an increasing number of problems with many canned fruits, vegetables, this type of thing.

And I should hasten to say, also with rice. It is one that we again have not been mentioning regularly which we should. They have increased their internal prices substantially on rice, meaning that our rice is subjected to an increasingly higher levy. So our rice is having more difficulty to compete in the Community.

Senator TALMADGE. Why are tariffs levied on practically all of our agricultural items but not on those of the European Community?

Mr. PALMBY. It goes back that following World War II, as I understand what happened, we were prepared to give up more than we got from the European countries and the same can be said of elsewhere around the world. So we did agree to binding duty free or at a very low levy the imports of many of the commodities coming into this country. And because the Common agriculture policy was being developed and because the rest of the world was in a state of recovery, we simply did not make the demands on them. We did make some commitments that now appear to be hurting our old trade pattern.

Senator TALMADGE. Thank you, Mr. Secretary.

Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Secretary Palmby, I commend you for a very excellent statement and for your great help in answering some of the questions that we have before us. I was wondering, on page 25, you refer to changes that you would suggest for reform on GATT. With all of the problems we have, would it be easier to negotiatee a whole new set of rules?

Mr. PALMBY. Senator Fannin, with the attitude in the world at the moment being one fo seemingly moving toward regionalism and with the great influence of internal or related problems, it would be in my judgment that it would be very difficult to negotiate a new charter or a new code of rules internationally to trade by. That is why it seems to me that we as a nation would be well advised to use what we already have and to use it more effectively, and then if it would develop that we find that it is an outmoded agreement, then at least we would have attempted to exercise the authorities we have under GATT. And I think that before we talk about discarding this one and attempting to negotiate a new one, we would be well advised to see what more we can get from this one.

Senator FANNIN. The reason I asked that question is that I was just in Japan this last week—in fact, I came back yesterday—and when we talked to the Japanese, they were very insistent that we stay with the GATT rules. They seemed to think that they were abiding by the GATT rules and kept talking about free trade. We tried to explain to them that they did not have free trade. Senator Bellmon has been interested in getting the feeder cattle shipped by air to the Orient. Then the Japanese suddenly came up with a tariff of just about the cost of the feeder cattle in the United States. In fact, I have heard that they expressed the amount of $125 and I had a telegram that Senator Bellmon had received from them. So I talked to them about it at that time.

Later on in our sessions, they came back and said, well, they would reconsider this matter. Whether they will or not, I do not know. But although they were insisting that we abide by GATT to the extent that it gives them that protection, we were insisting that GATT was so inequitable. For instance, regarding automotive equipment—they bring it into this country for 3½ percent—it was 4½ last year, going down to 3½ next year—and they have a levy up to 17½ percent.

Mr. PALMBY. You see, Senator, there are a couple of facets to this. No. 1, the calf illustration illustrates very well what happens in the trading climate between the two countries when we have no bindings on what the levy or the tariff will be. So the pattern has developed with Japan, at least to a great degree, that is removal of a quota, which of course is the ultimate in protection: the removal of the quota, then establishment of an unrealistically high tariff level, and then, hopefully, from there on, a lowering of the levy or tariff.

Another facet that seems to have a real bearing on our relations with Japan is the citrus problem, which you understand so well, with the Community. And as of this date, which was discussed this morning with Secretary Samuels, we are still attempting to handle this bilaterally with the Community. As of this moment, we have not taken the problem to the Contracting Parties of the GATT in Geneva.

Now, I can share the observation with you and here is where, in my opinion, it has some influence on world trading patterns. That is that the Japanese are very much aware of our not exercising the full strength of GATT at this point as regards citrus in the EC. We are very anxious that the Japanese remove their quota on grapefruit, which they have promised to do. But they now have extended the date forward as to when they are going to do it. This, in our opinion, is in violation of GATT. But what I am trying to say is that it makes it difficult for them as a country, because the members of the Diet have a constituency there, too, to take action that would further improve the trading climate when it appears that we may not be as serious as we ought to be or could be under GATT in dealing with another country or group of countries. And this is a kind of rub-off effect which we are seeing.

Senator FANNIN. Mr. Secretary, they brought that on. But I still can't see how we can work under GATT if we do not have any greater enforcement measures. We say reciprocity is in order, MFM, we talk about all these different ways of handling the problem. But unless we can really bring force to bear, very little is accomplished.

Now, we, of course, can bring up our dealings with them on electronic equipment, where they bring it in for 6 percent, as I say, and we cannot even get our electronic equipment into their countries on many items, but it is 24 percent if we do. We could have trade offs in that relationship. Can we do that with all these free trading areas and all these other circumstances to contend with?

Mr. PALMBY. I wish I knew all the answers to what you are raising, because you have put your finger on the real problem. My only comment on it would be that unless there is some better document, unless there are some better rules that can be developed, I still hesitate to say that GATT is dead. We may find out sometime that it is no longer a truly effective instrument. But I still am of the opinion that we ought to try to get more out of what the present agreement provides for than we have been doing.

Senator FANNIN. Well, I wholeheartedly agree. The problem is to what extent can we depend on GATT, and then to what extent can we get support from the different departments of Government? I am just wondering whether the State Department has limited your expansion of trade under GATT?

Mr. PALMBY. Well, you know in establishing a policy in the executive branch of the Government that there are many forces that must of necessity come into play. And of course, as an avid agriculturist, you realize that I, myself, and the Department and the Secretary of Agriculture, oftentimes want to do something a bit tougher than perhaps the entire executive branch can afford to have done. So there are many forces that come into play. I guess that is the best answer I can give you.

Senator FANNIN. I remember one force that came into play when we were considering the trade bill last year. I had some of the farmers that were coming up who raise soybeans who were saying that this would cause a trade war and that they would suffer. Well, to me, they are buying soybeans from our country, I think, because they can buy them advantageously and because we have the supply. Is that not true?

Mr. PALMBY. It is true, but I am of the school of thought that it would be very easy, particularly for the Continent, the Community, to take action against our soybeans if any issue would be sufficiently strong to provoke such action. The reason is quite simple in that our soybeans do enter the Community free of duty as well as our soybean meal, and we have a very fine meal market in the Community. One reason why beans and meal enter the Community at the record level that they do at the present time is because their cereal prices are high in relation to meal and soybean prices. So in formulating feed, the computer simply reaches for more high protein feed ingredient such as soybean meal. So to that extent, the high grain prices actually do work toward increasing their import of soybeans and soybean meal.

So I say to you that there are many of the leaders in the Community that are somewhat embarrassed about this heavy importation of beans which, as I say, is brought about to a degree through their own policies. So there is an inclination to want to find something to correct what they think is an abnormality.

Senator FANNIN. We have, as you know, this very serious problem with the industrial equipment coming into this country at such a low rate and this is all a result of not taking action several years ago. So I cannot see how they could afford to make trouble over an item like soybeans when they have so much involved in other trade items.

Mr. PALMBY. Well, I guess I would comment this way, that quite often, actions that a sovereign government take quite often do not necessarily make economic sense at the time. I think we, too, can be put in that category at times.

Senator FANNIN. Yes; I realize that we have had those very serious problems, even when we are talking about certain agricultural items that are not as labor-oriented as the items that we are importing from those countries. I think that is what is giving us great trouble. This is so true in the case of Japan, where about 75 percent of our exports to them are not high cost labor-oriented, whereas their products coming into our country are just that.

Well, thank you very much.

Senator RIBICOFF (presiding). Senator Anderson?

Senator ANDERSON. No.

Senator RIBICOFF. Senator Bennett?

Senator BENNETT. I have no questions, thank you.

Senator RIBICOFF. Mr. Palmby, I want to thank you very much. I am very impressed with you and your testimony. As I listen to you, it occurs to me that in these overall trade negotiations, I would hope that whoever is in charge would not confine and break it down on a compartmental basis. While I know you have an important role to play in agriculture, it would seem to me that, throughout our Government, there is a group of men in the various departments, such as yourself, who have the perspective and the understanding that should be part of an overall negotiating team for everything, not just for your own particular field. Because they are all interrelated and I think it is very important to have a topnotch team operating in the entire spectrum of our national trade interests.

Mr. PALMBY. Mr. Chairman, if I could make just a comment on what you said, and I appreciate greatly what you said. My comment is that we must as a Nation consider agriculture with industrial items and vice versa. Because if we again, or if we continue to attempt to isolate agriculture products as being something separate, something special, to be put over to the side, I think as a Nation, we lose. Or putting it very simply, in that agriculture is truly commercial, particularly in those items in which we have an economic comparative advantage in production, we must, in future negotiations, insist that our customer countries and our competing countries, our customer and competing countries, subject their farmers to the competitive system as we subject our industry to the competitive system. If we do not, I think we are going to find ourselves in an impossible situation. And you can be sure that we are doing the best we can to assure—and I think it is being rather well received in the executive branch—that agriculture must be in the pot with the rest of them.

Senator RIBICOFF. There is no question. Frankly, I have grave doubts about our entire agriculture policy. I see my friend, Secretary Freeman in the room. I might say the only harsh words I ever had with Orville Freeman was when I voted—I think I was one of two who voted against a couple of agricultural program appropriations. I think he thought I was a pretty stupid guy and I did not know much about agriculture, coming from the State of Connecticut, you know, and how could I do such a thing.

But I have felt that agriculture is one of our great positive assets and here is where we are so effective and efficient and we can produce so well and there is so much of the world that we could feed that not only for ourselves, but for the rest of the world, both from a business standpoint and a humanitarian standpoint, there is a bigger role. But as I sit here and our own members, we make an appraisal of the witnesses, their comparative knowledge, drive, and perspective, and you impress me very greatly. In my conversations with people in charge, I would like, I would hope that they would gather together the team of the best we have and not confine them just to this man who is only going to handle agriculture and this man who will only handle fish products and this man who will only handle ball bearings or radio sets or automobiles.

We are very grateful to you, Mr. Palmby, and I hope that from time to time, this committee will have the opportunity to consult with you further.

Mr. PALMBY. You can be sure I am at your disposal and I think you are performing a great service to talk about trade problems publicly. And I thank you.

Senator RIBICOFF. Well, what we are trying to do is educate ourselves. I will be candid with you, there is so much we do not know. And I hope in the process, the public is learning a little more, too, and there is not a day that goes by, speaking for myself, that I do not learn something.

Thank you, Mr. Palmby.

Mr. PALMBY. Thank you.

Senator RIBICOFF. As I understand, Mr. Brooks and Mr. Freeman were having a conference between themselves as to who would be the next witness. Out of that conference, who emerged?

Mr. Brooks.

You are welcome here, Mr. Brooks. I understand you are another constituent of the Senator from Georgia. He brings all these Georgians here and he brings pretty effective men, I will tell you.

Senator TALMADGE. Mr. Chairman, it is a great pleasure to welcome to the committee not only my distinguished constituent, but a very warm personal friend over a long period of years, Mr. D. W. Brooks is one of the most able agricultural men in our Nation. He is thoroughly familiar with every facet of agriculture from production to marketing and I am honored to have him appear before our subcommittee today.

Senator RIBICOFF. Mr. Brooks, thank you for coming. Will you proceed at your own pace, sir?

## STATEMENT OF D. W. BROOKS, CHAIRMAN OF THE BOARD, GOLD KIST, INC.

Mr. BROOKS. Thank you. Mr. Chairman.

My name is D. W. Brooks. I am chairman of the board of Gold Kist, Inc. Gold Kist, Inc., is a farmer cooperative that markets a number of farm commodities for its members, including cotton, grain, soybeans, peanuts, pecans, poultry, catfish, and recently we have started marketing some pork and beef for our members. We have more than 150,000 farmer members. Although our largest membership is concentrated in Georgia, Alabama, and Florida, we have some members for the different commodities starting in Virginia and continuing as far west as Arizona.

Since we export a sizable quantity of several of the commodities that we handle for our members, we have for a number of years had an intense interest in international trade in farm commodities. In addition to marketing the above products for our members, we have also furnished them farm production supplies in order to increase their efficiency and lower their cost of production. We have also carried on a very intensive research program for our members.

Fortunately, our members have been able to increase their productivity per farmer at an average rate of approximately 8 percent per year during the past 25 years, which is some three times as rapid as industry in this country has been able to increase its productivity. Consequently, we have become by far the most efficient producers of many agricultural products that the world has even known. Because of this tremendous increase in efficiency, which is still continuing, we have been able to supply large quantities of agricultural products to the export market at relatively cheap prices.

In the case of some of our commodities, our efficiencies have developed at such a rapid rate that even during the terrible inflation period we have experienced for the past 25 years we have actually been able to lower prices. Although this has been extremely good for the consumers of this country and for the buyers of our products overseas, unfortunately at times our efficiency has created overproduction and the prices which we have been able to obtain for our members have not always been sufficient to maintain a fair standard of living for them. It is for this reason that we have been especially anxious to maintain export markets for our members in order that they might benefit from this tremendous increase in efficiency from year to year.

As one illustration of the above fact, the price of broilers in north Georgia some 20 years ago was as high as 35 cents per pound. Today the price is 12 cents per pound. Twelve cents is below the cost of production, even with a tremendous increase in efficiency. This means that we are only obtaining approximately one-third of what we obtained for broilers 20 years ago. If we could obtain even half of what we obtained from broilers 20 years ago, our members would be very prosperous.

This is rather remarkable in view of the fact that these growers were formerly small cotton growers who generally owned their own small farms and had very low incomes. Since the acreage allotments given to them under the cotton acreage control laws were very often 3, 5, or less than 10 acres per farm, they had no chance to produce enough cotton to have a high scale of living. Consequently, we worked with these members, switching them to broilers, and they became by far the most efficient producers of broilers the world has ever known, producing the finest poultry meat at the lowest cost that had been experienced.

Through research and education we were able to reduce the time to produce a 3-pound bird from 14 weeks to 7 weeks, and reduce the amount of feed required to produce a pound of delicious, protein rich poultry meat from 4½ pounds per pound of meat to 2 to 2¼ pounds of feed to produce 1 pound of meat. We did this without any Government subsidy or direct Government aid.

We became so efficient that we decided we could furnish broilers not only to consumers in this country but that we could also furnish them much cheaper than they could possibly be obtained elsewhere by consumers in other parts of the world. Therefore, we developed a wonderful export market for this product.

Unfortunately, we soon had great difficulty because of tariff barriers which were raised against us. For example, in the Common Market through the supplementary levy system and the variable levy system, they raised the tariff on our product between 12 and 14 cents per pound. This in effect put us out of the Common Market. We complained to President Kennedy concerning this, pointing out that we had never asked the Government for any help except to keep the markets open for us. He was very cooperative and did everything he could to help us have this policy changed in the Common Market, but unfortunately, apparently through the efforts of France under General de Gaulle, this did not work out. So we, in effect, were put out of the Common Market with this particular product.

Now I want to stop there and make one explanation. President Kennedy went all out to help us and we finally had, as you recall, the chicken war in which levies were imposed on imports from these countries—that is, on Volkswagen trucks and wine, and so forth. But unfortunately, we as poultry producers did not get any of that and did not get any benefit. It came into the Treasury of this country, but we did not get any benefit.

To make things worse, with this 12- to 14-cent protection, the Common Market developed a broiler industry that although not nearly as efficient as ours, has at times furnished broilers not only to the Common Market, but has also competed with us very severely in other countries through a system of export subsidy whereby they take the price of their broilers, which is extremely high as compared to ours in a free market, and pay enough subsidy to export these broilers to other countries.

We feel that trade policies of this kind must be strongly resisted by our Government. We feel that in any future negotiations with not only the Common Market, but with other countries, every effort should be made to prevent nations or groups of nations from raising great barriers to imports and then using these barriers to increase production, and then use subsidies to take markets away from American farmers when American farmers are far more efficient. In my opinion, American farmers will continue to be far more efficient in the foreseeable future.

This problem with the Common Market has naturally given us great concern about the entrance of Britain into this market. At present

England is a very fine market for many of our agricultural products. What it will be after its entrance into the Common Market is rather difficult to predict, but the prospects are not favorable. I might say there that reports that I have in the last few days indicate that in negotiation, Great Britain worked out an agreement—I know this is not official—whereby the agricultural common policy will gradually become effective for Britain over a period of 5 years. Now, whether that is going to be final or not, I do not know.

The only possibility for good that we can see is the fact that England is a large purchaser of agricultural products and, therefore, might have some restraining effect on some of the extreme agricultural economic policies which have been adopted by the Common Market. As an example, when the Economic Minister for Agriculture for the Common Market visited us in Atlanta last year, we tried to point out to him as frankly as possible the bad economic effects of having very high support prices in agriculture without any controls whatsoever. He seemed to be quite sympathetic to our viewpoint, but replied that they had to meet a political situation in some of the Common Market countries. This left me with the definite feeling that farmers in the Common Market apparently still have a great deal more political power than farmers now have in the United States of America. We tried to make the point with him that bad economic agricultural policies in the end were bad for farmers and therefore for the people in political parts of government. He then stated he would discuss the matter in detail with other officials upon his return to Europe. England might be able to help some here, but on balance we now feel in agriculture that we will at least have a nearby loss if England joins the Common Market.

My training early in life was as an agricultural scientist in a university and later as a professor. Because of this training, I have had the privilege of visiting most of the countries of the world many times and studying their agriculture. I am confident that the American farmer is not only now the most efficient, but will continue to be the most efficient producer of agricultural products in the world. Our great need is for our Government to represent us strongly in the markets of the world to make it possible for us to keep these markets open so that our producers will not only benefit from the efficiencies which we have been able to develop, but that the consumers of the world will also be able to benefit from these great efficiencies.

Mr. Chairman, I notice you keep pointing that out and I think it is an important point.

I fully realize that everything is not perfect in the United States and imperfect elsewhere as far as agriculture is concerned and as far as agricultural policy is concerned. But I think we must set definite goals, not only for ourselves, but hopefully goals on a worldwide basis that will be equitable to agricultural producers throughout the world. Certainly, we must have a more stable world trade policy than the variable levy system of the Common Market whereby they can change the levy within a 3-day period. This means that even when you have sold a product and have it afloat on ships, the rules of the game change before you can get the product delivered. This is particularly annoying and sometimes even disastrous to small shippers from this country.

Until recently, there was a feeling in this country that with the expanding population of the world there would be a ready market for all the agricultural commodities we could produce. With the coming of the so-called green revolution this does not seem to be true any longer. However, there are problems even with the green revolution. For example, in the case of miracle rice, the yields were greatly increased, but the quality of the product was terrible. Some of the breeders tell me now, however, that they have some crosses which still maintain the high yield and the product will be far more edible. But from time to time we have drought, floods, and disease problems which seriously affect agricultural production in the world and even in this country.

For example, the corn blight which hit us last year, and which might hit us again this year, was something that was entirely unexpected. I have seen similar things happen many times to agriculture in different parts of the world during the past 35 years when I was trying to market Gold Kist products throughout the world. So, although the green revolution is a wonderful thing for the parts of the world which were desperately in need of food, I'm not at all sure that this will cure the great problem of hunger that will continue to plague the world.

Furthermore, all of our experience has been that once a people become more prosperous, they have a tendency to consume more protein meat products. Since we are the largest and most efficient producers of grain in the world, we should be able to furnish protein meat to other countries of the world at some cheaper prices than these same products can be produced elsewhere. This being true, our main problem is going to be to keep the doors of trade open, not only for our raw products such as grain, cotton, soybeans, and so forth, but we must also make every effort to keep the markets open for our meat products.

As this committee well understands, tariff is only a very small part of the problem of world trade. There are many other ways of preventing you from having access to world markets, and in any negotiations of trade agreements these other problems should be negotiated just as diligently as tariff, because in many instances they will be far more important.

During recent times our exports of farm commodities are running approximately $7 billion, sometimes above and sometimes below. Looking down the road, there certainly should be an opportunity to export a minimum of $10 billion, and possibly considerably more if we can keep the doors of trade open.

From my personal experience, and from experience gained from serving on a number of different boards in Washington, including serving as adviser on the Kennedy Round of trade negotiations, it has been relatively easy to keep the doors open where the United States has a large percent of the production of a commodity that is badly needed by the importing country. But when there is any posibility of the importing country producing the agricultural product, regardless of the cost, then it becomes far more difficult to keep the doors of trade open.

As an example of this, when the European Economic Community closed its door on poultry imports, I immediately went to Asia to try to recoup some of the exports we were losing in Europe. Among the countries I visited was Japan. Their consumption of poultry was extremely low, as I recall 1 to 2 pounds per capita as compared to our 38 pounds per capita at that time. So with their new prosperity it looked like an ideal country to visit, because they were very strong in industry and relatively weak in agriculture. After we had some trade shows and began to make sales of broilers into that country, in a few days a rather large news item appeared on the front page of the Tokyo paper which said in effect that the European Economic Community had placed a very high levy on the importation of broilers and that the American exporters were then in Japan trying to increase exports to Japan; and it seemed to the writer that Japan should follow the same pattern as the Economic Community in Europe; namely, raising the tariff and putting in a variable levy. This, of course, was having the disease follow you.

While on the same trip, I also worked on sales of other commodities, such as cotton, grain, and peanuts. Since Japan did not produce cotton and could not produce cotton, I had no problem in selling cotton except price. They also needed some of the other commodities, and if our price was cheapest and the quality was better, then we seemed to get the business. But somehow they felt that they might be able to produce their own poultry, and although the cost would be much higher than the price at which we were offering the poultry in Japan, they seemed to think they should immediately raise a tariff barrier against us.

In talking with some of the people in government in Japan, I explained to them that of all the countries in the world that could not afford to get into a trade war, certainly Japan was No. 1, as it was in the most vulnerable position, and I hoped they would not pursue it. After returning to this country, I was at a dinner with the Japanese Ambassador. I learned he was planning to go back to Japan and discuss this matter, and I pleaded with him in the same way. Actually, the tariff was increased from 10 to 20 percent, which still permitted us to climb over the tariff barrier because our production was far more efficient, and although the tariff was doubled, at least we were not put completely out of the market.

Of course, poultry is not the only instance where we have had similar experience. For example, in the Economic Community of Europe they raised the price level of grain to the point that they had a tremendous increase in production as they had no acreage controls. Finally a surplus was built even in the Economic Community and began to spill over into the other markets of the world which had formerly bought from us. Likewise, even Japan has tried some of this same kind of agricultural protectionism that has affected our exports to them, although they continue to be by far our best importers of agricultural commodities as a single country.

The reason I am explaining this is to bring out the fact that where our product is desperately needed and there is no real hope or chance for the importing country to produce that product, even at a very high price, then somehow we are able to produce that product, even at a very high price, then somehow we are able to trade in that country. But, if there is any chance that this agricultural product can be produced internally, even at an extremely high price, then the countries of the world seem to find some way of either slowing down or preventing you from coming in with agricultural commodities. It is this economic disease that we have to be very cognizant of in this country if we are going to continue to expand our exports of agricultural commodities.

In view of the fact that the efficiency of agriculture in this country has been improving at a much faster rate than the efficiency in industry, it would seem apparent, looking down the road 5 or 10 years from now, that our best hope to meet some of our problems in balance of payments is through exportation of agricultural products. This I am confident we can do if we can keep a healthy trading situation with the other countries of the world.

One problem that I hope we are gradually curing is the fact that when World War II was over and we started the Marshall plan, which was highly desirable and very effective for Europe, and made many concessions to Japan and other countries, somehow the feeling developed that we should continue this kind of economic dealing with the other countries of the world. Consequently, when our balance of payments problem became critical, in many of the trade negotiations where I have been involved, it has been very difficult to convince these other countries that that period is ended and that we must become firm and good traders in the economic fields of the world. I have sometimes felt that our State Department has been so anxious to get along with the other countries of the world, which of course is their responsibility, that they have not fully understood or appreciated the great necessity that we had in this country to export in order to recover the funds which we are spending around the world in trying to protect the world, and also from our tourists who seem to always find plenty of money to travel to every corner of the earth. So, I feel that we must keep a very firm position in our trading, even with our best friends, and make them realize that we cannot any longer afford to be operators of a Marshall plan. I think this can be done best by a separate department of Government and not the State Department.

Now, I think our experience in the Kennedy Round gave us some indication that that was the way we needed to go.

Senator RIBICOFF. This is very intriguing. Are you suggesting that we ought to have a Department of Foreign Trade, a separate trade ministry of foreign trade, as many other countries have?

Mr. BROOKS. Yes, I think we will come out better, and I will say some more on that, if we take it out of the hands of—that is economic trading, now; I am talking about economic trading—if we will take it out of the hands of the State Department. If we get down to economic trades, I think their difficulty in dealing with the countries of the world will prevent them from being as firm in trade as we must be if we are going to survive.

Senator TALMADGE. Will the chairman yield at that point?

Senator RIBICOFF. Certainly.

Senator TALMADGE. I concur fully with what Mr. Brooks has said. For that very reason, when we passed the Trade Act in 1962, we provided for a special trade representative to handle our negotiations and he was to be appointed by the President. Unfortunately, the White House seems to be overly-influenced by the State Department in any negotiations that we have.

Mr. BROOKS. I will pursue that a little further in my statement here, Mr. Chairman.

My experience has shown me that the business people, who really operate the economics of most countries, are far more realistic on economic problems than some of our people who are engaged solely in government, and therefore, they are more reasonable in their attitude towards some of these economic problems. Consequently, we will not lose as much in taking a firm position as some of our people would make us think.

As an illustration of this, I have acted as one of the agricultural advisers to President Truman, President Eisenhower and President Johnson. I was also requested by President Kennedy to be one of his agricultural advisers, but I had to leave the country on a sales trip around the world before he could complete my appointment officially and, unfortunately, he was assassinated just at the time I was returning from this trip. Because of these appointments, at times I have had access to considerable agricultural information in this country and have had access to some of the agricultural information in other countries where we had difficulties in trade policies. This also made it necessary at times for me to meet with some of the business people of different countries who were involved in buying and processing agricultural products from this country.

As one example, we had a very serious problem with imports of cotton textiles from Japan which was creating great difficulty in this country. I had the privilege of meeting with the spinners of Japan and discussing with them fully and frankly the problems involved. After a full discussion of the problems involved, they voluntarily stated they would be perfectly willing to work out a voluntary agreement on cotton textiles coming to this country and wanted to know if I could negotiate between them and the American textile mills. I explained to them that I could not because of our anti-trust laws, but that it could be handled through the Government. Since members of our Embassy in Tokyo were present at this luncheon, and the president and officers of the textile association of Japan were present, I suggested that the negotiations start through the Government of Japan through our Embassy. This agreement was finally consummated. It was probably not as good as the Japanese textile industry wanted it, or as good as the American textile industry wanted it, but apparently it was the best that could be developed between the two countries at that time. I think the people from our State Department were quite shocked that the Japanese textile people were willing to negotiate an agreement. I doubt that this would have happened without a direct discussion with the business people involved in Japan. When they voluntarily said we are willing to go into negotiation, up to that time, nothing had been done.

I found the Japanese textile industry far more realistic of some of the problems in this country than some of the people with whom I had discussed the matter in our State Department. I am hoping that this Nation, as well as the other nations of the world, will permit the people who are actively engaged in exports and imports to be used by our Governments in an effective way to help keep the doors of trade open. Business people are accustomed to hard trading and they do not object to it. They know more about the actual economic facts than the people who are out of the actual operations. I hope that in any trade negotiations in the years ahead our Government will use the knowledge and experience of the exporters and importers of this country in developing our trade policies.

The recent development of good will between this country and Russia, and the possibility of some reopening of trade with mainland China, carries with it at least some hope for additional trade in the world. Although none of us have been allowed to go into mainland China for many years, those of us who trade in the world market have access to a great deal of information from time to time. We know, for example, that during 1959, 1960, 1961, and into the spring 1962, mainland China was in desperate need of grain and food. In talking with a number of refugees coming out of China at that time, it seemed to me they were only getting 1,200 to 1,500 calories of food a day. If the doors had been open, it no doubt would have been an excellent market for many American agricultural products.

I am confident that in the years ahead, due to many types of disasters in agriculture and low productivity in agriculture, particularly in the Communist world, with the reopening of trading doors to the Communist world there will be chances for us to export substantial agricultural products to these countries. Furthermore, I confidently believe that trade between the countries of every kind has a tendency to open doors of communication and lessen the chances of war.

I have not tried to be too specific in this statement, because I have assumed that this committee could obtain all the statistics you want with reference to agricultural exports. I have a great many statistics available showing our exports of the different crops and also exports to the different countries by years, as we have tried to keep up with these very carefully to be certain that we in Gold Kist are obtaining our full share of these markets. I have not included any of these in my statement because I felt that all these figures were available to the committee upon request to the different departments of Government. However, if there is any additional specific information this committee would like to have, I will be glad to try to obtain such information for you. Also, if you have questions, I will try to answer them to the best of my knowledge and ability.

I want to thank you for the privilege of appearing before this committee.

Senator RIBICOFF. Thank you very much, Mr. Brooks.

Senator Talmadge?

Senator TALMADGE. Thank you, Mr. Chairman. I do not have any questions. I think his statement has been very clear and very concise.

I do want to compliment Mr. Brooks on his statement, not only the brevity thereof but the thoroughness thereof. I concur fully that in any trade negotiations, we ought to have people experienced in the field doing the dealing. I was utterly appalled when I went to Geneva during the Kennedy round as an observer for this committee. Of course, my senatorial duties required most of my time here in Washington. But whenever I went there, I found that people with experience in business and industry and agriculture were not only not there, but were not welcomed there. Our negotiators were people who represented the Government and had little or no knowledge in that field and I found that the best economic brains of Europe and the rest of

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the world were there to advise their negotiators. And I thought it was going to be a disaster and it was.

Senator RIBICOFF. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Brooks, this is a very excellent statement. I am glad to know you operate in the State of Arizona.

Mr. BROOKS. Well, we are getting out there.

Senator FANNIN. Good, fine. I hope you put these fine practices in operation there. I do not want you to put them in practice, though, to such an extent that today, you say, the price of broilers is 12 cents, which is below the cost of production. What do you do, make money on volume?

Mr. BROOKS. Unfortunately, we cannot do that. All you can do is hope you get a turn in the market. It has been the worst disaster in broilers we have ever had for 12 months now. And of course, it has been aggravated by the low price of pork. As you know, we had a tremendous increase in pork production and that market has depressed other meat markets, including broilers.

Senator FANNIN. Well, very seriously, I am wondering what you think is going to happen as far as our very efficient farmers with their new techniques, new equipment, and all moving into other countries and then shipping back into the United States? Are you fearful that is going to have the effect it has had as far as manufacturing is concerned?

Mr. BROOKS. Well, we might have some of that, but I do not think will have it nearly to the extent that we have in industry. I think agriculture is so efficient in this country and our cost is so low, we have been able to lick this production cost. You see, industry in this country has only been able to increase about 2.5 percent per year per worker. But in agriculture, we have been increasing 8 percent a year. So we have offset some of this cost problem that industry has had, because our productivity in agriculture has been much faster.

Senator FANNIN. Well, I appreciate your thought. I happen to have been in business in Mexico before I went into politics and observed what has happened there with some of our very efficient farmers and citrus growers going into Mexico. They have lower cost labor, they have lower cost land, they have lower cost water. It is going to be pretty difficult for us to compete with that if they continue this. That is why I am wondering—I think you realize some of them have gone down because of the low labor cost and because of the problems we are having now in unionization of labor. Do you think that is going to be a problem for you?

Mr. BROOKS. I think that it will be to some extent, particularly in the west. Now, some of your cotton growers in California and maybe from Arizona have gone to Australia, for example. I was down in Australia not too long ago and they are moving down there.

But we have had that kind of experience in Mexico for a long time. You remember one of the largest cotton firms in this country went into Mexico.

Senator FANNIN. Addison-Clayton.

Mr. BROOKS. Yes, but still it did not pay out as well as maybe they had anticipated for the long pull. So I think we have the problem and it is going to be nagging at us all through the years.

But I do not think it is as intense as it is in industry. For example, these manufacturers—and of course, I see these plants going in in Taipei, Hong Kong, and all these countries where we are putting in plants. But they have skilled labor at low cost. But we have been able to overcome some of that through this tremendous increase in productivity here in this country.

Senator FANNIN. Well, I am certainly proud of your optimism and I would trust that the matters will work out as you project. But I know that speaking of Mexico, our cotton that is going from Mexico into Japan is quite a factor and when people start saying that we are going to start a trade war by not going ahead and letting all of these imports come in from Japan and I go into Mexico and find out that they are very restrictive on imports from these other countries and protecting their own industry but still they are selling that cotton in Japan, I do not think it holds the frightening effect that some think.

Mr. BROOKS. I fully agree that—for example, in vegetables, the tomato growers are having a terrible time in this country because of tomatoes coming out of Mexico. It is a very difficult problem. I think we are going to have plenty of that, but I still do not think it will be quite as bad in agriculture as it will in industry. I think we have a better chance to survive with our efficiencies than industry has.

Now, if industry in this country could increase their productivity per worker, we might have a chance of advising industry, but so far we have not done it.

Senator FANNIN. That is right. We have antitrust laws and have many obstacles here that do retard some of our development, whereas in Japan, they really sponsor these conglomerates or whatever we would like to call them and they are just practically nation-controlled. Do you think that we should apply antitrust laws to the companies that are shipping products into the United States? In other words, if they are selling costlier in Tokyo, for instance, than they are selling in Washington, D.C., or in your hometown, should the antitrust laws apply to them that apply to our industries?

Mr. BROOKS. That ought to come under the antidumping laws that we are supposed to have in this country, but I am not sure they are always enforced. Now, I think there is a question of antitrust developing overseas, because they are not under the strict antitrust laws that we have here. I think the Congress somewhere might want to take a look at that one in dealing overseas.

Senator FANNIN. Yes; but antidumping would not provide treble damages. Often there is a delay for a year or two before a decision is rendered on the matter of dumping, and in the meantime, they have shipped millions upon millions of dollars of equipment into this country. That is why I asked if you think it would be wise to have antitrust laws apply.

Mr. BROOKS. I do not quite see now how you are going to have an antitrust law applied to a company overseas.

Senator FANNIN. Well, if they are shipping in here, they are operating in this country, so they are subject to our laws.

Mr. BROOKS. Well, that is a field in which I have not really explored too much and I would not know.

Senator FANNIN. You have mentioned some of these other matters, so I thought——

Mr. BROOKS. I think fundamentally, our real problem in dealing over the world like we have to do regularly is that we put in the Marshall Plan, which was fine and good.

Senator FANNIN. Surely.

Mr. BROOKS. But somehow the peoples of the world still think we ought to have the Marshall Plan in and we have to somewhere say, stop, that we now must become hard traders. That is the reason why I wanted to get some of our business people into some of these negotiations.

Now, even in the Kennedy round, as Senator Talmadge knows, all of the business people in Europe knew what was going on and we did not know anything in this country. The way we found out——

Senator TALMADGE. Will you yield at that point? In fact, the only way I knew what was going on, and I was one of the representatives, was when one of my friends would get information from one of his business friends in Europe and would pass it along to me.

Mr. BROOKS. Yes. Well, I say that is a very unfair way to negotiate trade. That is the reason why I said I think we ought to have a separate trading board, No. 1. And No. 2, business people who have real technical knowledge in this field ought to be brought into these negotiations.

Senator FANNIN. Very good. I agree with you wholeheartedly.

Thank you, Mr. Chairman.

Senator RIBICOFF. I just have one question. You noted in your statement, sir, that China might be an excellent market for agricultural products. From your experience, what type of agricultural products could we send to China and what would you suggest we get back in payment?

Mr. BROOKS. Well, they have had to buy grain, or course, as you know, from the other countries of the world. We could not sell them, at least directly. It might have worked around some way. But before China became Communist, they bought even cotton, for example. We used to export considerable cotton to China. But with 700 million people and with an agriculture that is hanging by a thread productionwise, very close to the level of hunger constantly, there will be many products that will open.

Now, they are making a good many industrial products—I mean handmade articles and things like that. For example, if you go to Hong Kong and you go through the shops there and so on, it is fantastic the number of articles that are coming out of Red China today. I am sure there are many of those kinds of things that they can find a market for to get dollars or pounds sterling.

Senator RIBICOFF. You are going to run into trouble with your own Senator Talmadge if they are going to start sending in apparel. They are having enough trouble with the Japanese, the Taiwanese, the Koreans, and so on. Do not try making them ship——

Mr. BROOKS. I am talking about jewelry items, items of that kind that come out of there, that the handwork is really beautiful. It is very nice, and the price, of course, is extremely cheap. So I am sure that once the doors are open—it is hard to sit here and know, because China has been closed too long to all of us who have been in world markets. It is hard to spell out the exact thing. But a country that large, with 725 million people on the verge of starvation, there are just bound to be times when we can export lots of products to them.

Senator RIBICOFF. Well, we do appreciate your help in coming before the committee and thanks for all of us.

Mr. BROOKS. Thanks very much.

(The subcommittee subsequently received the following communication from Mr. Brooks:)

GOLD KIST INC.,
*Atlanta, Ga., June 2, 1971.*

Senator ABE RIBICOFF,
*Chairman, Subcommittee on International Trade, Senate Finance Committee, Senate Office Building, Washington, D. C.*

DEAR SENATOR RIBICOFF: Just a note to thank you for the privilege of appearing before your Committee with reference to international trade. Unfortunately, I had had to fly most of the night in order to reach Washington for the hearing. Consequently, by the time I was on the stand in the afternoon I was a little tired from too much traveling and too little sleep.

There were a few points that I wanted to make with the Committee.

First, many of the nations of the world still think in terms of the United States as the dispenser of Marshall Plan funds. As necessary as the Marshall Plan was, that day has long since passed. We must become tough and hard traders now, or we will not survive in the economic struggle that we all have to make.

Second, the State Department cannot do the tough, hard bargaining that must be done if we are to survive in the economic race. Consequently, in any negotiations, we should have a separate setup to do the negotiating.

Third, the people from business and from agriculture who have had practical experience in foreign trade should be on the negotiating team. Although I was supposed to be an adviser for agriculture on the Kennedy Round, it was so secretive about what actually was being done and what was being negotiated that the only way I could get any real information was through some of my offices overseas. Apparently the business people and people who were involved in agriculture and agribusiness seemed to be able to get full information and no doubt were being used by their governments in the negotiations. So I think we must do likewise if we are to win.

Fourth, we should look very closely at some changes in our antitrust laws in dealing with foreign trade. Our antitrust laws have been excellent in this country and have been very helpful, but when you are dealing with a country like Japan, where you have a great cohesion of business and government, you are at a real disadvantage in trying to negotiate agreements. We should, therefore, explore some way for industry and agriculture in this country to be used in negotiations of foreign situations without being subject to the present antitrust laws.

If England goes into the Common Market, as now seems probable, agriculture could have a very difficult time in this country. When I left the University as a professor, and organized Cotton Producers Association, which is now Gold Kist, the per capita income of farmers in the state of Georgia was $72 for a year's work. We immediately realized that we had to use every means to sell our products, not only in this country, but throughout the world, if we were to survive, and certainly if we were to improve our income level. We have done this as diligently as possible for 38 years. I certainly hope that our Congress will not let the markets of the world close on us without vigorous and sincere effort to keep them open.

I was very much impressed with your questions with reference to the prices that the people in the Common Market were having to pay for food. They are having to pay unbelievable prices because of their present variable levy system, and we can only hope that time will make it possible for us to compete again in that market with our agricultural products.

Although I fully realize that Senator Talmadge was kind enough to ask you to permit me to testify, I know from many years of experience in Washington that a chairman of a committee is the most powerful person in Washington. Generally, nothing happens unless the chairman is agreeable. Consequently, I was also deeply appreciative to you for the privilege of coming and testifying.

Yours sincerely,

D. W. BROOKS.

Senator RIBICOFF. Secretary Freeman. We want to thank you for your patience. These have been long, full days, as you can see, having sat here. We are delighted to have you. You were a great Governor, a great Secretary of Agriculture, and now you are President of Business International. So you go from step to step. We are delighted to have you here.

You may proceed as you will, Orville.

## STATEMENT OF ORVILLE L. FREEMAN, PRESIDENT, BUSINESS INTERNATIONAL, INC.

Mr. FREEMAN. I will paraphrase part of this as I go along, if I may, Mr. Chairman. I thank you for your courtesy. May I comment not on my patience which you are so generous to suggest but on that of the committee. I have been more than impressed with the turnout of this committee, with the intense interest it has exhibited. I cannot remember a time, and I have been before this committee once or twice before, when the committee has met this long in the afternoon and the questioning has been perceptive.

I am grateful to you, Mr. Chairman, and you and Chairman Long and all the members of the committee are to be highly commended for having established the subcommittee to direct the attention of the country to the need for a U.S. foreign economic policy.

Since before World War II the United States has not had a coherent economic foreign policy. The Secretaries of State have seldom considered the broad policy consequences of economic actions and Presidents have failed to give international economics anything like the time and attention they have devoted to military and diplomatic problems. The truth is that the machinery of the U.S. Government is so organized that the President seldom, if ever, has presented to him adequately the international economic consequences of decisions he must make. This I witnessed at first hand as a Cabinet Officer, who struggled for 8 years to get economic inputs to the decisionmaking table.

Because our economic, as distinguished from our political, objectives were not given balanced attention, opportunities were missed and mistakes were made. For example, many of the protectionist, inward-looking mercantile policies of the European Economic Community, such as the common agricultural policy, and its application, might have been moderated or even eliminated if the United States had had a consistent economic policy and the machinery to implement it. Instead, the political leaders of Europe followed what proved to be for them a correct strategy. They made the United States submit to whatever economic concessions they demanded as essential to advance the political objective of building the community.

For the last 20 years, legitimate U.S. economic interests have been unnecessarily sacrificed again and again to short-range political, military goals.

As we enter the decade of the seventies, powerful forces of economic change make it imperative that the United States have a consistent, coherent economic policy and the machinery to carry it out. For two-thirds of the world's people, the majority of them impoverished, who live in the developing world, economic growth which requires capital, technology and access to world markets is a political imperative. The United States is no longer the world's largest trading unit; the EEC, with only six of a projected 10 countries, has already passed us. New technology and capital mobility sparking rapidly expanding multinational corporations is altering the shape of national interests. On both the trade and the investment front, Japan is moving up fast. Modern communication efficiently transmits scientific and technical information around the world creating new markets, intensifying competition, and threatening established economic interests. Domestic special-interest groups react defensively and end up working against international cooperation. All over the world, business, labor and agriculture forces increasingly expect their governments to manipulate national economies to insure full employment and prosperity regardless of the effect on other countries and the world at large. Harald B. Malmgren in a recent paper published by the Overseas Development Council described this phenomenon as a resurgence of mercantilism with each country trying to reduce imports, stimulate home production, and promote exports, passing the costs of its domestic policies in every way possible onto other countries. It is a highly disruptive force in international relations.

Underlying these powerful economic forces is a cruel and dangerous paradox that economic policymakers must consider—the paradox of a world where many people are enjoying more of the good things in life than ever before, while at the same time greater numbers are living in abject misery and deprivation than at any time in history. Charles Dickens' description of the 19th century as "the best of times and the worst of times" fits what is taking place around the world today.

Since World War II, tremendous economic growth has taken place. Gross global product (the global version of GNP) has climbed steadily. The rate in recent years—some 4–5 percent yearly—is unparalleled. As a result, there are today more people who live longer, healthier lives, are better fed, clothed and housed, and work fewer hours at much less arduous labor with more leisure than ever before in history. This unparalleled standard of living has been made possible because modern management has become increasingly able, all over the world, to harness science and technology, directing it to the production and distribution of an increasing volume of goods and services. One of the new institutions which has made it possible to mobilize constructively the growing power man has at his disposal is the multinational corporation.

By definition, a multinational company is one that looks at the entire world as an area of operation, and acts that way. It searches everywhere in the world for new technology, talented people, new processes, raw materials, ideas and capital. It thinks of the entire world as its market and it strives to serve customers everywhere. It produces goods or renders services wherever they can be economically produced or rendered to serve one or more markets at a profit.

These international companies have demonstrated great dynamism and adaptive power in responding to what might be described as an emerging world economy—the product of modern communication and transportation, which has shrunk the world from the size of a balloon to the size of a grape. Figures are less than exact, but the most solid estimates indicate that the level of production of multinational corporations has reached $450 billion (more than the GNP of any country in the world other than the United States), of which the United States multinational companies deliver an estimated $213 billion a year. This level of output by American companies outside the United States is more than four times U.S. exports. It rests on an investment of $140 billion and carries a net worth of approximately $70 billion. It returned to the United States in 1970 through dividends, interest, royalties, and fees $7,640 million. Its net contribution to our balance of payments for 1970 at $3,640 million was $1,500 million more than the merchandise export surplus. It would have been double this figure if records of exports to subsidiaries had been kept after 1965, when such exports amounted to $4,420 million.

Senator RIBICOFF. I wonder where you got those figures. This is the first time I have seen them.

Mr. FREEMAN. They came from the records we have in the library of Business International. Most of them are sourced in the U.S. Department of Commerce.

Senator RIBICOFF. The Department of Commerce can affirm these figures?

Mr. FREEMAN. Yes.

Senator RIBICOFF. I think they are very significant. It is the first time I have seen them brought together.

Mr. FREEMAN. We will be happy to provide the data.

Senator RIBICOFF. Would you please, for the record?

Mr. FREEMAN. Yes, sir: I would be very happy to, Mr. Chairman.

(The information referred to follows:)

BUSINESS INTERNATIONAL,
*New York, N.Y., May 21, 1971.*

Hon. ABRAHAM RIBICOFF,
*Chairman of the Subcommittee of the Senate Finance Committee,*
*U.S. Senate, Washington, D.C.*

DEAR ABE: You run a very good committee meeting. I enjoyed the session—all day of it on the 20th—very much. I'm thoroughly impressed with the participation of the Committee members and their deep interest. I'm sure much good will come of these hearings. I do appreciate your kind comments and courtesy where I'm personally concerned. I had hoped to have a chance to present my testimony to the whole Subcommittee, but circumstances dictated otherwise. Coming on late in the day, I'm not at all sure that I did a very effective job of presenting information which I hope will be helpful to the Subcommittee. As I mentioned to you before, I'm concerned that the importance of American investment abroad will not be fully recognized in formulating the foreign-economic policy of the U.S. There is an understandable tendency to focus strongly on trade and to consider investment as only ancillary to trade. I hope that my testimony will serve in a small measure to highlight the importance of what I believe to be an emerging world economy, and the part that multinational corporations are playing and will play in it.

The source of the balance of payments figures that you asked about on page 4 of my testimony was *Survey of Current Business*, published by the Department of Commerce, issue of March 1971. We will carry forward the research project which I describe beginning on page 14 which, if preliminary indications are borne out, will show quite clearly that investment abroad, rather than costing the United States jobs and weakening our balance of payments position, does exactly the contrary. There is a very understandable tendency to focus on an industry or a particular plant where changes are taking place, to the exclusion of an overall effect on the economy, which may more than compensate for deterioration at a particular place. If research bears out what appears to be the case on inspection—that investment abroad has significantly increased employment within the United States—the focus of attention in our policy, then, should be not to inhibit investment but to try to cushion the shock of adjustment for those industries, communities, businesses and working people who are adversely affected and shouldn't have to bear the burden alone.

I would be pleased to discuss our research and its finding with you and the Committee formally or informally whenever mutually convenient. Also, Abe, if you and the Committee or any members of the Committee would find it useful to have an informal session with some of the chief executive officers of multinational corporations where the working experience of particular companies can be examined in depth, we would be delighted to make arrangements. A relaxed dinner and evening of discussion might be very helpful in backgrounding some of your Committee members.

Finally, may I say that where trade is concerned I find myself in substantial agreement with what I sense to be the consensus of the Committee as the questioning went forward: (1) That the United States has done a rather poor job in negotiations over the past 20 years, giving away a great deal more than we got so far as trade access is concerned. (2) That the United States has not enforced a fair trade policy which requires other countries to live up to GATT and other operating international trading rules, and that the time has come for us to firmly and with determination insist that other countries comply with the "rules of the game." In order to accomplish (1) and (2), I believe that the United States should take the lead in opening new negotiations, which would also include a massive effort to moderate nontariff barriers and open up investment worldwide. Nontariff barriers, as you are well aware, reach right into the national economic policies of most countries, and will be very difficult to expose and ameliorate. Nonetheless, the process should begin, and should begin with strong support and determination for improvement.

Again, Abe, thank you for your courtesy. Warmest personal regards.

Sincerely yours,

ORVILLE L. FREEMAN, *President.*

Mr. FREEMAN. Internationalization of production of this magnitude has come about because it's effective. It works. It involves a major extension of the economies of scale and management, involving high levels of capital and advanced organization skills which make possible the efficient use of science and technology. The growth rate of production by international corporations has been high and remarkably steady since 1950, at a level of 10 percent. This compares with a noninternationalized output rise in the western developed countries at a much more modest rate of 4 percent.

Ironically and paradoxically, at the same time that an emerging world economy has made it possible for more people to have it "better" than ever before in history, the number of people living in abject poverty and misery has grown even faster. It is estimated that two-thirds of the world's people go to bed hungry or undernourished. Hundreds of millions of people all over the world are crowding into urban areas. Capital cities in the developing countries are growing at 6–7 percent a year, doubling in size every 10 or 12 years. This brings in its train staggering problems of slums, health, crime and unemployment. The United States, it is projected, will need 12 million additional jobs to overcome unemployment in the next 5 years. Non-Communist poor countries in the '70s must come up with 170 million additional jobs. Seventy-five million people in the so-called third world are unemployed today, according to a recent survey.

This miserable situation is not only appallingly inhumane, it threatens the stability of the entire world.

The most explosive revolutionary force in our world today is the meteoric rise in the expectations of people everywhere. Water and mountains no longer separate mankind. The air has been conquered by aircraft, radio, television. Communication worldwide is instantaneous. Information moves around the world more quickly now than it used to move the poor side of town to the rich. Everyone hears and sees almost daily the good things that someone else is enjoying. The result has been what is sometimes called the "now" generation, with an explosive level of demand and expectation for the necessities and the "good things" of life, insisting upon immediate performance and refusing to accept failure.

Modern man today, rich and poor, has decided that, in an era of science and technology and professional organization and management, the age-old maladies of poverty, joblessness, hunger, and misery are no longer necessary. Rather than ordained as man's natural condition, they are really only engineering defects. In my judgment, much of the disillusion, negativism, and the violence of our day, all over the world—be it the hippies or the so-called flower children or the demonstrators or the bomb-throwers or the terrorists—is a reaction to the gap between the repeated promise of good things and the failure to produce them, dramatized by the growing contrast between the prosperous one-third of the world and the poverty-stricken two-thirds.

This, then, is the backdrop against which possible U.S. foreign economic policy must be measured. It is one of hope and promise in the sense that science, technology, modern organization and management in an emerging world economy make it possible to increase production and distribution sufficiently to meet the needs of the world's growing population. It's conceivable that a production explosion triggered by the multinational corporations is underway, which can more than match, if it continued at the current level, the population explosion which has brought with it human misery and political instability. Somehow, the world, not just the United States must go about the business of baking a much larger pie, so there will be enough for the growing number of people who are certain to habitate this planet. We must not break up into squabbling conclaves, fighting with increasing bitterness about a smaller piece of the same sized pie.

Whether the world can do this—can "bake a bigger pie"—will depend in large measure on the foreign economic policy of the United States. If this country turns inward as many countries around the world appear to me doing now and returns to the protectionist mercantile policies of pre-World War II, it will inhibit production, snuff out hope, and trigger violence and political revolution all over the world. Deflation and depression will follow within the United States, just as in post-World War I days. If the United States recognizes and sets the stage to take advantage of the worldwide potential to produce the goods and services people everywhere need and demand, it will give hope and courage to people all over the world to struggle for better times.

As U.S. foreign economic policy is developed, I would urge that two basic truisms be kept in mind by the policymakers at all times. The first truism is that all things are always changing; the only safe forecast about anything in the future at any time is that it will be different in the future. Man is prone to look back at the past and convince himself that things did not change over long periods of the past, but such thoughts are dreams.

Not only is everything always changing, but responses to new challenges or opportunities are also always changing. This is just as true in the physical and biological universe as in the cultural or economic universe. In other words, what always happens is adjustment.

If the temperature rises in a given part of the world, either long-haired animals lose their long hair or they die off—because they cannot adjust to change. In the economic universe, when automobiles were invented, the companies producing horse buggies either began to produce something else or they went bankrupt. An animal, a human being, an institution either adjusts to change or it dies.

The second truism is that humanity in the present century has been subjected to more change pressures than any previous period. It could be argued persuasively that the technological revolution in the past few decades—particularly in its transportation and communications aspects—has changed man's interrelationship with his physical surroundings so completely that totally new value systems and institutions are needed in order to respond to the new situation, the new challenges, and the new opportunities.

What is needed, as has always been needed in the past in similar periods of rapid change in the technological and philosophical environment, is rapid adjustment. It is clear that mankind's environment has altered drastically; it is not yet clear whether wise men can alter man's ideas and man's ways of doing things fast enough to compensate for the drastic changes.

The changed knowledge pattern in men's minds as a result of the technological developments in transport and communications are paralleled by change in the attitude of the entrepreneur and manager toward the marketplace. One of the early results of faster transport and communications was the unification of the American marketplace. Basically, only in the past half century did the American marketplace become a single totality.

American companies went nationwide. First they began to distribute their products in wider and wider areas within the United States, until they were doing so from coast to coast. Once distribution was nationwide, production followed. Instead of concentrating production wherever the original factory was, plants were built closer to the new marketplaces. And it was not long before better conditions in a location other than the original factory site led to the move of the main production centers to new facilities elsewhere. In some companies and in some industries, this even meant the total elimination of production by the company or industry from the original producing area.

No one suggested—when all this was going on—that anybody was exporting any jobs. No one seriously suggested that any State should attempt to prevent an industry from moving from one State to another. Nor were any of the other impediments on international investment that have already been put on the law books or actively suggested today given serious consideration.

No one made these suggestions even when whole industries moved from one section of the country to another. The textile industry is a case in point. Most people can still remember when the textile industry was synonymous with New England. But today mighty few textiles are produced in New England. In effect, the plants supplying the United States with textiles have moved from Great Britain to New England to the South as part of the adjustment mechanism that will occur whenever economic conditions change.

This is not to suggest that the textile industry is about to move out of the United States again. While competition from the Far East and from Europe in the textile area has been fierce in the past few years, the case that the U.S. textile industry is about to collapse is rather weak.

The movement of the centers of production of textiles in the world is paralleled by similar movements in other industries. They have moved from one place in a given country to another and from country to country. There is every likelihood that this process is not finite; industries will continue to move from place to place as long as there are people on the earth.

The issue is not whether governments can stop this response to production conditions and marketplace demand—they cannot; they can only slow down the process by making the more efficient less efficient. The central issue is whether governments will adopt policies to prevent unnecessary human suffering from resulting from changed conditions whatever their cause and nature. No government, labor union, or business is going to repeal the truism of constant change; the only real alternative is to adjust wisely.

And this is where the international (or multinational or world, etc.) corporation comes in. One of the great strengths of the corporation as an institution is that it is a mechanism par excellence for adjusting to change. Whatever its specific package of resources—people, technology, capital, production know-how, marketing capability, et cetera—it has the capability of changing itself almost totally quite rapidly. An example, to cite just one, is Minnesota Mining and Manufacturing, from my home State, which in the past two decades has grown mightily but now produces relatively little of what it produced 20 years ago.

Corporations can add new products, drop others, change from producers and marketers to just producers or just marketers, or simply become know-how developers and earn increasing amounts from licensing, and so on. They can also fairly quickly move geographically. They can diversify in function, in product line, and in location.

Internationalizing the company has been in the main a diversification of companies geographically as a response to the changes taking place in the world during the past several decades. Because of the speedup in transportation and communications and because of various other factors, including the unusual circumstances after World War II, corporations noted the beginning of the emergence of a single world market. While U.S.-based firms were hardly the first ones to internationalize, they were the ones that could most readily understand the opportunities of an emerging world market because of their experience in a market that had only recently integrated in the United States.

As within the United States, the pattern began with the spread of marketing networks and was followed by investment in production units. Aside from companies seeking raw materials that were not available or in short supply within the United States, the purpose for building plants was exactly the same as it was domestically: The need to compete in a local market. There was an additional motive: To get production from a source inside tariff and quota walls.

Based on the domestic experience, one would assume that it would only be a matter of time before companies would move from stage I—production abroad for non-U.S. markets—to stage II—production abroad for any market. But such has not been the normal case. Indeed, most U.S.-based firms import nothing or next to nothing from their own foreign operations, even when there are substantial cost advantages to doing so. The fact is that the best way for any company anywhere to protect a domestic market is to compete with foreign firms in their markets so that they do not have the capability of competing in the company's domestic market.

That is exactly what happened in many fields. But wherever an American firm faced competition in the U.S. market from non-U.S.-made goods produced by foreign competitors, they were forced to sell goods in the United States, manufactured in the least costly location—or to lose a share, and sometimes a substantial share, of the American market. This is what happened with portable typewriters. U.S.-based firms went abroad to produce because European firms were selling more and more European-made portables in the U.S. market. Costs of production were so favorable in Europe that the U.S. companies had the choice of giving up much of the U.S. market or producing in Europe and shipping portables back to the United States.

The same thing has happened in a number of other industries, most notably certain household electronic products. It has occurred to a limited extent in automobiles. But the starting point has always been competition for the U.S. market from foreign-based companies. Wherever such competition has not been quite substantial, U.S.-based companies have done no significant reimporting.

Even to the degree it is done today—with the Canadian auto agreement and the Mexican border situation—only 8 percent of all goods sold by U.S.-owned affiliates outside the United States were imported into the United States.

A great many unsubstantiated statements have been made about the effects of U.S. private foreign investment on the U.S. international accounts and on the so-called "export of jobs." Business International is now embarking on some hard-nosed research to see just what the effects of the foreign investment by U.S. firms has been.

The research has just begun, and the findings that follow are at best preliminary, but they do indicate enough to make them worthwhile inputs in present analyses of U.S. official policy.

The research involves responses of 12 widely varied U.S. companies, varied in size, in industry, in "types" of activity. The 12 companies are: Alcox, Avery, Caterpillar, Hercules, IBM, Merck, Minnesota Mining and Manufacturing, Owens-Illinois, Pfizer, Ralston-Purina, Sperry-Rand, and USM. These firms have responded in part or in full to an 8-point questionnaire, the collective responses of which are given below. BI plans to secure responses to a similar questionnaire from several hundred firms in the next several months.

Mr. Chairman, may I put those in the record?

Senator RIBICOFF. Without objection.

(The information referred to follows:)

Responses to the questionnaire are as follows:

*Question 1. What were your consolidated sales to customers inside the US? outside the US?*

Complete answers were provided by 11 companies. Collectively, the 11 companies had sales of $4.624 billion to customers in the US in 1960, sales of $11.156 billion in 1971, or up 141%.

The same 11 firms had sales to foreign customers of $1.462 billion in 1960, sales of $6.642 billion in 1971 or up 354%.

*Question 2. What were your exports from the U.S. to affiliates? to others?*

The exports of the 12 firms to affiliates in 1960 were $262.8 million, in 1970 $830.0 million.

In two cases the amount exported to foreign affiliates fell, but rose substantially in the other 10 cases. The exports of 10 firms to unrelated foreign purchasers rose from $238 million to $450 million. Exports to unrelated purchasers fell in two cases also (different firms), but in both cases the decline was tiny ($3 million and $5 million, respectively), while the exports to affiliates for these two companies rose from $27 million in 1960 to $155 million in 1970.

*Question 3. What were your imports from foreign affiliates?*

Eleven of the 12 firms provided responses, indicating that imports from foreign affiliates for these firms in 1960 was $11.1 million, and in 1970 was $27.9 million. Although the totals are not substantial in either year, the moderately significant rate of growth of imports from affiliates (151%) over the period compares to a growth of 220% in the increase of exports from the U.S. to foreign affiliates.

*Question 4. How much did you invest inside the U.S.? Outside the U.S.? (Total figures for period 1961–70).*

Seven firms replied indicating that their investments in the U.S. totaled $3.462 billion during the 1961–70 period. The same firms invested $1.324 billion outside the U.S.

Compare this investment to sales performance indicates just how much more a dollar invested abroad means in increasing sales than it does in the U.S. While the investments of the 1961–70 period do not relate in full to the sales performance during the period, it is clear that the rise in U.S. corporate sales outside the U.S. (and of the great increase in exports to affiliates) is not merely the result of massive investment abroad relative to the U.S. market. U.S. companies have not just "bought" their sales abroad, so to speak.

*Question 5. Of the total figure invested outside the U.S. during 1961–70, how much came from U.S. sources, i.e. how much was measurable as balance-of-payments outflow? (Total figures for period 1961–70.)*

Seven firms provided responses, indicating that the U.S. capital outflow involved in the increased investment abroad during the 1961–70 period totaled $405 million, 31% of the total amounts invested. The rest was financed with funds from non-U.S. sources, and had no negative U.S. balance of payments effect. (In one other company, 30% of the capital investment abroad was financed in the U.S.)

*Question 6. How much did you receive from foreign affiliates in the form of dividends, interest, royalties, fees, etc.? (Total figures for period 1961–70.)*

Ten of the 12 companies responded to this question, indicating total receipts of funds during 1961–70 were $1.252 billion. However, taking only the seven companies that answered Question 5, the figure is $873 million.

*Question 7. How many employees did you have in the US? Outside the US?*

Eleven of the firms provided fully detailed answers, and they revealed that US employees totaled 291,200 at the end of 1960 and 448,300 at the end of 1970. The employees of foreign affiliates rose in number from 122,900 at end-1960 to 268,700 at end-1970.

Perhaps this provides the most interesting figures of any of the questions asked. Despite the fact that sales growth was so much faster outside the US for these firms, more jobs were created within the US than outside over the period. The 11 companies had 157,100 more people on their US payroll at the end of 1970 than at end-1960. The same firms had only 145,800 more people on the non-US payrolls.

While the sample here is still small, the data so far accumulated suggests that US corporate foreign investors have not been exporting many jobs, at least in the terms meant by those that make the charge. Admittedly, the percentage of increased jobs is far faster growing abroad than in the US, but this indicates the growth of foreign investment itself, of establishing going operations abroad, rather than job exportation. If it were job exportation, the firms would not have as many employees in the US in 1970 as they did in 1960. And they certainly would not have created more jobs in the US than abroad over the period.

*Question 8. What percentage of your employees in the US are involved with your firm's non-US business, i.e. making and selling exports, managing foreign operations, providing technical and other assistance, etc.?*

Responses to this question were few in number, mainly because few companies have such data readily at hand. Here are the responses that were received in their raw form:

[In percent]

| | 1960 | 1970 |
|---|---|---|
| Company: | | |
| A | 3 | 3 |
| B | N.A. | (1) |
| C | 10 | 12 |
| D | N.A. | 3 |
| E | N.A. | 33 |
| F | 9 | 14 |
| G | 10 | 10 |
| H | N.A. | up 20 |

[1] Double 1960.

Obviously, the percentage of employees in the U.S. dependent for their jobs on the foreign activities of their companies has been rising. The percentage of employees so dependent are made up of supervisory and administrative staff and, more important, workers producing goods for exports to foreign affiliates. Investment in foreign affiliates not only creates jobs where the operations are established, but also creates them in the U.S.

Because of data limitations, a summary balance of payments can be totaled only for seven of the 12 companies for the 10 years 1961–70, but they indicate a very substantial contribution to the surplus side of the U.S. international accounts ledger during the 1961–70 period:

| | |
|---|---|
| Plus items: | |
| Dividends, interest, fees, etc. received | $873,000,000 |
| Exports to affiliates | c. 5,000,000,000 |
| U.S. receipts subtotal | c. 5,900,000,000 |
| Minus items: | |
| Capital outflow | 405,000,000 |
| Imports from affiliates | c. 130,000,000 |
| U.S. outflow subtotal | c. 535,000,000 |
| Accumulated net surplus | c. 5,300,000,000 |

The same seven firms had 50,400 more U.S. employees in 1970 than in 1960, and 48,300 more employees abroad.

Senator RIBICOFF. Was it your conclusion from all this research that the growth of American companies abroad increased their employment at home instead of lessening it?

Mr. FREEMAN. Yes.

Senator RIBICOFF. I think this is important, because one of the points that constantly is mentioned throughout these hearings is that these companies going abroad take American jobs abroad with them.

Mr. FREEMAN. I think just exactly the contrary is the case, Mr. Chairman. Every company that I have talked to that has invested significantly abroad, the number of their employees at home has increased and the number of their employees that are involved directly in managing or servicing their companies abroad has increased and the volume of their exports has increased very, very significantly.

Senator RIBICOFF. Are these figures of a confidential nature, or could they be made part of the record? I mean the companies and how they have grown and the number of employees they have? If it is confidential, naturally, the committee has no right to them.

Mr. FREEMAN. At this point, it is, Mr. Chairman, but these companies could be asked if this could go in the record. They do have some problems, particularly in other countries where they operate, where they are sometimes accused, you see, of not contributing to the well-being of the country where they operate and merely contributing to the well-being of the United States. So as of now, the figures are confidential.

Senator RIBICOFF. Thank you.

You may continue.

Mr. FREEMAN. In time, the social and economic needs of the world's consumer, including the American consumer, will force companies to produce goods in the cheapest possible place assuming governments continue to fight against monopolies. Sooner or later, no matter what might be the desires of American-national executives of American-based companies, they will have to take decisions that are the most efficacious for their own company's profitability if not survival.

The question then arises: If a single or near-single world market is in process of being created as a direct result of technological change and if companies will have to take investment decisions on the basis of economic rationality rather than nationalistic goals, won't people be hurt—hurt badly—as these changes in investment and production occur? Of course, the answer is yes. People are already being hurt by these changes, and it does no good to say that people have always been hurt by change in the past.

The real question is what to do about it. There are three possibilities: (1) Attempt to prevent the change creating the problem; (2) attempt to limit the choice of adjustment; and (3) create assistance programs to help those most critically hurt by the adjustment process.

Response one is both unlikely to occur and almost impossible to effect. Perhaps it could be carried out if it were possible to make research illegal, to prevent the development of new products and services, to end all international travel and communications (at least for Americans), and so on. The technological revolution probably has a long way to go. Communications improvements are nowhere near the end of the road. While faster travel is in some doubt at this point, supersonic aircraft is already in the air. And these pressures for making people think of themselves more and more as world citizens rather than a nationals of a single country may be dwarfed by the need for world regimes to meet the pollution threat, regulate the oceans and space, and meet other problems that defy strictly national solutions.

Response two has many supporters in every country of the world. They seek to keep the foreigner out of their markets. They may be willing to use only limited means to isolate their economies from the economies of others, or they may be willing to use any means. They call for increased barriers to the import of goods—tariffs, quotas, anything. They call for discrimination against the foreign firm wherever possible. While they will support elimination of nontariff barriers in general, they will oppose elimination of any barriers that might hurt anybody within their country.

Time does not permit a detailed review of the efficacy of such policies. Each one of the proposals and arguments for them under response two requires very lengthy and careful analysis. But a generalization can be made: Efforts to thwart technological development can at best only delay the results—and then at great cost. Even with no additional technological development, the changes already wrought are sufficient to alter man's thinking to a degree that makes response two highly questionable.

There is only one healthy and fair response to the situation: The development of systems to slow the most serious forms of injury resulting from the adjustment process and the establishment of liberal adjustment assistance programs to cushion changes. When imports increase with a dramatic and damaging suddenness because of the application of new science and technology, the level must be moderated. This can best be done through some kind of international mechanism, for many countries around the world are and will increasingly be subjected to sudden influxes of imports which threaten communities, industries and workers as the pace of change continues to accelerate. To my knowledge, no serious discussions have been held—let alone negotiations—to try to develop an international mechanism to meet this problem. I suggest that this committee give serious attention to the practicality of the United States taking the lead to open such discussions on an international, not just a bilateral basis.

In addition to some kind of international system to regulate an overly rapid increase of imports, there is a need in the domestic area for a workable adjustment assistance program. The current system in the United States is horribly inadequate. It needs wide liberalization to make the criteria for assistance more realistic and to make the assistance provided more meaningful and helpful in the adjustment process.

Perhaps something could be learned from the experience of American agriculture so far as a transition and adjustment program is concerned. The last 20 years have witnessed a massive adjustment in American agriculture. Today, fewer than five percent of our people feed the balance of the population more cheaply and better in relation to take-home pay than any people at any time in the history of mankind. Millions of people have moved from agriculture to work in industry, providing manpower for the high American standard of living. At the same time, American agriculture has been moving gradually to the production of the commodities and products where we are most efficient, responding to changing worldwide and domestic demand. The United States today has 90 percent of the world's soybean market. Our domination of that market grows. While we are not quite as dominant where feed grains are concerned, our exports grow steadily in both sorghum and corn. We produce these commodities at a high rate of efficiency and are able to compete worldwide without Government intervention. The same is true in the case of a number of specialty commodities—fruits and vegetables and poultry and meats—where our export markets grow steadily.

On the other hand, there are certain commodities where we are not as competitive and in which it is likely, in the future, our world market position will worsen. These include cotton, rice, and wheat. The current year is an excellent agricultural export year for almost every commodity, but in the long run it is likely that our competitive position in these commodities will continue to worsen as it has in the last decade. Yet, we have not abandoned the farmers who produce these commodties to the force of sudden change. Quite the contrary, as a matter of national policy, we have made payments to farmers to hold up their income while the adjustment process takes place. There were, of course, other reasons for commodity programs in addition to cushioning the adjustment for producers.

It has been the policy of this country to contain its enormous agriculture productive capacity rather than turn it loose throughout the world, which would have had a sharp price-depressing, deflationary effect on our domestic economy and the world in general. If other countries, particularly the European community, had been as enlightened in their approach to the problems of agriculture, many of the strains which the world is seeking to absorb and accommodate now could have been avoided. Nonetheless, the point I make is that where agriculture is concerned, a major adjustment process has been taking place for the last 20 years. Production and export of the commodities where we are most competitive is increasing. Production in other commodities where we are less competitive is slackening. In the process, we have cushioned the impact with a major adjustment program—to wit, our commodity farm programs.

I suggest to this committee that a hard look at what has taken place in agriculture might be useful in seeking to develop a sound adjustment program where industry and its workers are concerned.

Finally, I would suggest to the committee that a great deal of the present U.S. balance of trade and balance of payments stem from the need for a more realistic exchange rate vis-a-vis the currencies of most other industrialized countries. A part, and in some product lines a large part, of the problem of import competition in the American market is the result of exchange rates that in effect subsidize the import of goods into the United States and penalize the export of American goods. A more realistic exchange rate for the dollar would help relieve a portion of the adjustment problem.

Incidentally, in that light, it is interesting to take a look and see that our total exports have been increasing very steadily the last 3 or 4 years, going up almost $3 billion a year, which has been greater than in the period immediately preceding that. Our problem in the balance of trade has not been in our exports, which have held up very well. It has been in our imports. Our imports are in significant part, in my judgment, because our money is over-valued, with the net result that we are facing unfair competition.

Mr. Chairman, it is clear that economic issues will be dominant in foreign affairs for the balance of this century. I appreciate very much having had the opportunity to set forth to this distinguished committee some of the economic and political forces that I believe must be considered if we are to shape a coherent national economic policy with the new and improved machinery of government and the consultative framework necessary to carry it out.

Senator TALMADGE (presiding). Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Secretary, we are very pleased to have you with us this afternoon. I remember the privilege of traveling in South America through some of the plantations when we were looking at their crops. That was just before you took office and we discussed some of these problems. I can recall talking about the rainfall that they had there and why their crops were so bountiful.

I do say this, that I agree with you as far as the multinational companies may produce greater volume and profits. But I just can't agree that we can give first consideration to profits; I think we must give first consideration to people. I certainly have not witnessed what you have said coming about with the companies that I have been involved with in my own State and some around the Nation. We have had testimony here in the last few days that would not be in agreement with your thought that these companies going overseas would still produce greater jobs here in the United States. The Zenith Corp. is one. The gentleman who is chairman of the board, I have talked with him about this problem. In fact, he has worked for years trying to get changes made in the tariffs where he could get the Japanese market and we could have equal tariffs on their products in this market. We have said if we could have it about 15 percent both ways, let them open their markets to us an we would open our markets to them, as we have, the Zenith Corp. would not need to go to Taiwan. But the chairman of the board, Joseph S. Wright, could not achieve that objective, so they did move to Taiwan. He wrote a letter to the Secretary of Commerce that when they get into full production in Taiwan, about 30 percent of their employees here in one plant will have their jobs in jeopardy.

So then we have the experience of the companies like Motorola, General Electric, Westinghouse, Bell and Howell. I just can't agree with your analysis of what has happened, in things like watches and shoes. I just do not follow that, Mr. Secretary.

Mr. FREEMAN. Well, it is clear that in a number of companies where they have moved, let us say, to Taiwan and other places, part of the transition process is underway to meet competition. And it has involved the employment of foreign nationals and in some instances, it may very well involve in that particular country the need, as I have tried to point out, for an adjustment here in the United States. But in terms of the total picture of what is taking place, why, I think the records will show rather clearly and dramatically that investment abroad has resulted in a strong increase of exports and also a very significant increase in employment within the United States.

Senator FANNIN. I would agree with you in many instances and I can take some concrete examples, when some of our companies have gone into the European area and established plants for sales in that market. That is a different matter than the ones that have gone in like the Zenith Corp. and others that are going into Taiwan, into Korea, and their volume is perhaps 90 percent back into the United States. I cannot see how that is going to help us on meeting our problem with jobs.

Mr. FREEMAN. The question is a tradeoff. When changes of this kind are taking place, as technology goes forward—there is nothing new about this. Japan, of course, is facing it herself very strongly. Japan financed her initial industrial revolution, so-called, primarily on silk. Today Japan is out of the silk business. They can no longer compete. Japan herself is having some very serious textile problems in some of these countries. There are any number of examples where this kind of change is going to take place all over the world. Such changes are the main reason the world has advanced as rapidly economically as it has in the last 20 years. As far as the Western World is concerned, we collectively have never had it so good. We have never had so much prosperity, so much production, and so many changes.

Senator FANNIN. Well, we have never had so much unemployment to contend with, and as far as I can see, there is not very much hope of reducing that unemployment.

Mr. FREEMAN. I gather, Senator, you are assuming that the unemployment is caused by the fact that some jobs, because of advancing technology, have been lost. I remember very well, as I am sure you do, the long-time debate about automation and that automation was going to wreck jobs. That did not happen.

Senator FANNIN. No, I would not infer that at all, Mr. Secretary. I would not even think of making that connection. I am talking about jobs—I could pick my own State, I could pick the chairman's State of Connecticut, I could pick many other States where we have actually had job dismissals when the plant establishes their production overseas.

Mr. FREEMAN. No question about this. You could identify any number. The only point I make is that in the overall and collectively, the result of this process has been to increase jobs, not to decrease jobs.

Senator FANNIN. Increase jobs worldwide?

Mr. FREEMAN. Within the United States.

Senator FANNIN. I cannot agree with you on that. The Labor Department estimates that 700,000 jobs have been lost to imports since 1967 and 400,000 have been occasioned by exports.

Mr. FREEMAN. That is 300,000 difference.

Senator FANNIN. That is a loss of 300,000.

Mr. FREEMAN. Let's take a look at a specific company, for example, Caterpillar. Caterpillar runs ads in the Midwest that their investments abroad have resulted in an increase in employment of 40,000 people in the Caterpillar Co.

Senator FANNIN. Well, you are picking out a company that certainly is very unique. Of course, the tremendous amount of their volume is going into Russia and other places in the world where we have not had the access for other exports.

Now, here is what Mr. Ford has said, Henry Ford II. Ford talked about imports in response to somebody's question. He said, for every 1 percent increase in foreign sales, U.S. jobs decrease by 20,000.

I certainly agree with the thought you have as far as meeting worldwide competition and what we can do. But all I would like from you is to give us your wise judgment on what we can do about jobs in this country.

Mr. FREEMAN. Well, in the first place, I do not think that the fact that we have 5 percent unemployment in this country, which is abominable—

Senator FANNIN. Six percent.

Mr. FREEMAN (continuing). Is caused by investment abroad or that any significant amount of that is caused by overseas investment. I think quite to the contrary. I think we have a whole host of problems in an inflationary economy resulting in deflation and a minidepression.

Senator FANNIN. How is this going to turn around? Wages go up, productivity is not increased in this country. We have just had a steady increase in wages without an increase in productivity. If you take the construction industry—and you can turn it all around because it is all relative to manufacturing, because when one wage goes up, the other is going to follow—22 percent increase in construction wages in the last year.

Mr. FREEMAN. Certainly, there is a question of our competitive position in terms of productivity. There is a question of whether we have been making adequate capital investments to stay on top, to keep our position of superiority worldwide and to support and carry what has been a high wage structure within this country compared to the rest of the world. I think in part, our ability to invest and produce abroad has contributed to meeting the problem, the danger of pricing ourselves out of certain markets.

Senator FANNIN. Well, the big problem, though, Mr. Secretary, I would just say this, that looking at it from the standpoint of the future and the chances for employment with our people, I am very concerned that we are taking a direction whereby we are pricing ourselves out of these markets. I agree on these multinational corporations, that the way to compete from a standpoint of profits and volume certainly is met in that manner. But that does not answer our problem of jobs. So that is, I think, the greatest risk we take in continuing this process, that we are still going to have high unemployment.

Mr. FREEMAN. I would only repeat; more research is needed, and Business International is going to be doing more. The very limited research we have been able to undertake so far is overwhelmingly in support of the conclusion I have stated. I think the basic problem is not to try to restrict investment abroad. I think that would be counterproductive. The basic problem is to try to ease the pain of adjustments which take place.

Senator FANNIN. I agree on that when we try to adjust with what is going on in our relationship to Japan. They are not operating as just private companies or they are not in the same category of activity as we are when we talk about even the conglomerate, because they are almost government controlled. Do you not agree that we are up against the problem there that they decide what they are going to make, whether they are going to export it or whether they are going to sell it locally. These are the problems, as I see, that we are up against. We must recognize it and must take steps to counteract it.

Mr. FREEMAN. That is another problem. I certainly agree that in terms of carrying forward the laws, the regulations on the books, enforcing the agreements and insisting that there should be reciprocal relationships and that the U.S. should get as well as give, why, I could not feel more strongly, and as I hope my opening remarks here made clear this is something that we have not done because the political in the past has dominated the economic. And I am sure this committee is going to make a real contribution in clarifying that. The rules are there to be lived by. I think our Government ought to make it very clear without browbeating or threatening in any way, but make it very clear that we are going to insist on compliance with GATT, we are going to insist that such things as dumping, such things as export subsidies, a whole list of things that we could name, in which we have not gotten as much as we have given, in which we have failed to, in effect, protect and promote our own trading units, that this has to change.


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Senator FANNIN. Well, I wholeheartedly agree with you. I have introduced legislation in every item you have mentioned to try to bring this about.

Mr. FREEMAN. But I do not think this can best be accomplished by establishing quotas and limits that are going to trigger retaliations. Economic changes can't be stopped, instead we must adjust to those that are inevitable.

Senator FANNIN. What I have tried to do in legislation is to bring about a way of handling our countervailing duties so that these will be processed in an orderly manner, the anti-dumping laws will be enforced in an orderly manner, and there will not be long waiting periods. Those are the approaches that I think are practical.

Mr. FREEMAN. I quite agree.

Senator FANNIN. Of course, you know, that the attitude has developed so much in this country that you do not have to work. That is why they say the Japanese are guilty of unfair labor practices; they work hard. This is one of the things we have to contend with.

I do appreciate the opportunity of having you appear before the subcommittee. It is certainly a privilege for us. I thank you for your responses.

Senator TALMADGE. Mr. Secretary, it is a pleasure to have you back before one of our committees again. Welcome.

I judge from your testimony that you think all is well with our economic and fiscal and trade policies at the present time. Is that correct?

Mr. FREEMAN. No.

Senator TALMADGE. What do you think we ought to do about it?

Mr. FREEMAN. One of the things I think we ought to do is to demand that there should be reciprocal relations and that other countries in the world, who in many cases have engaged in trade practices that were not consistent with their agreements, ought to be stopped in such practices. We ought to insist that they live by the rules, treaties, and agreements exactly as we should live by them.

Senator TALMADGE. You mean it is discriminatory if they have established variable levy and rebate systems and have tariffs of $17\frac{1}{2}$ percent whereas our is zero.

Mr. FREEMAN. It certainly is discriminatory if it is in violation of GATT and we have not agreed to it.

Senator TALMADGE. All right, what should we do there? Witnesses have come before us, they agree with our point. They say the U.S. protests, and the other countries in effect have said, go jump in the lake. What do you think we ought to do then?

Mr. FREEMAN. I think the United States ought to take a lead in reopening negotiations looking toward the elimination of as many barriers worldwide—and I am thinking particularly now of nontariff barriers, of all the maze of restrictions on trade, a whole host of different practices that are taking place around the world—and on an overall collective basis, set a stage and call for international action to eliminate these restrictions and to get at the maze of inequities, some of which are detrimental to our best interests and have grown up over the past 20 years. At the moment, we have certain commitments agreements we have negotiated that can only be adjusted in an orderly and equitable fashion.

Senator TALMADGE. Would you agree that something is fundamentally wrong with a situation where our balance of payments for the past 20 years could increase on a negative basis $48 billion?

Mr. FREEMAN. That figure speaks for itself and I would repeat, that is not only the trade figure, as we are both well aware. This has involved commitments that we have had, all kinds of things over an extended period of time.

Senator TALMADGE. Now, let's get to the trade factor alone. Are you aware of the fact, I am sure, that during the past 5 years, on a C.I.F. basis, 94 percent of the goods we imported came in foreign bottoms, so the exporting country gets the benefit of it and we have suffered a minus trade factor of $15 billion?

Mr. FREEMAN. Yes.

Senator TALMADGE. One other thing. You talked about the great glories of people building plants overseas. I agree with what you and Senator Fannin have said to the effect that on the long pull our investments overseas have earned more in interest and dividends than the outgoing flow of capital. I want to read a statement from George Meany's testimony earlier in the week:

"Let me cite an example of what all this means in terms of U.S. foreign investment, U.S. technology, and U.S. jobs. During last year's trade hearings before the House Ways and Means Committee, William Sheskey told how he purchased a modern U.S. shoe plant and immediately shut it down. He told the committee 'I shipped the lasts, dies, patterns, and the management and much of the leather to Europe and I am making the same shoes under the same brand name, selling them to the same customers with the same management, with the same equipment, for one reason: The labor where I am now making the shoes is 50 cents an hour compared to $3 an hour that I was paying. Here is a perfect example of where I took everything American except the labor, and that is exactly why I bought it.'"

How does that benefit us?

Mr. FREEMAN. Well, that particular instance, and this could be repeated in some other areas—electronics, perhaps some in textiles as well—certainly in the short run such a development quite obviously did not benefit us. But by the same token, the alternative to this is what? Should we ban imports of shoes into the United States; imports of textiles into the United States? Where does that trail lead us? That is the trail was tried to ride once before.

Senator TALMADGE. I do not say we should not have any imported shoes. But I say it ought not to reach the extent that it destroys the capacity of American business to employ people to manufacture shoes. What are you going to do with those shoe workers? Put them on welfare?

Mr. FREEMAN. This is the thrust of what I tried to say, that the real basic problem is not to try to prevent movement of capital and people and technology, but when it moves in response to places and conditions under which it can produce more efficiently, the adjustment, of the communities and the people and the business involved that are hurt by that change should be a high national priority. We should be prepared to give them real assistance and not expect a particular community or industry or a certain group of workers to carry the entire cost. Sundry cost of adjustment is a cost that society itself should bear.

As I pointed out, the U.S. Government has borne some of the cost of adjustment in agriculture. I think we ought to be prepared to invest significantly to help adjustments for the people that are hurt when changes take place in industry.

Senator TALMADGE. If you carry this to its logical conclusion and say that it is beneficial under all conditions in all cases, every business in America could go overseas. They would take their technology with them, take their equipment with them, and hire labor overseas. In this instance, the labor cost is 50 cents an hour overseas compared to $3 in our country. That is one-sixth the cost. You would have nothing left in the United States of America except people who are on welfare or adjustment assistance—and no jobs. How long would our Government last?

Mr. FREEMAN. Of course, the facts show, Mr. Chairman, that a relatively small amount of investment abroad producing for the American market has taken place, a very small amount. Shoes is a particularly dramatic example for a number of reasons. It is largely labor-intensive, it has fairly simple, easily transported technology, it is highly mobile.

Actually the amount of shipping back into the United States of production from companies that have invested and produce abroad is very minimal.

Senator TALMADGE. I think, Mr. Secretary, that in order to solve this problem on a reasonable basis, you cannot have a 100 percent protectionist policy; but by the same token, you cannot have 100 percent free trade policy because no other government on the face of the earth has a 100 percent free trade policy. They all talk it as a matter of theory, but none of them practice it. They have all these barriers that you have mentioned. Some of them are administrative, some of them are devious, some are highly concealed, some are tariffs, some are quotas, and some all of these. I think there must be some reasonable middle grounds between absolute protection and absolute free trade and I think our Government is going to have to come to that, or else were are going to see our unemployment level in this country rise a great deal more than 6 percent. Because people overseas are just as skilled as we are; they can develop and use technology just as well as we can. And when the wage differential is so vast, wherever you have an item where labor is a substantial part of the cost, you can be put out of business.

Mr. FREEMAN. Well, I certainly agree and tried to make the point that an onslaught of imports can be highly disruptive. There ought to be some kind of mechanism to cushion the shock, not only for the United States but for other developed countries as well. I think trying to develop some international machinery to do exactly that is imperative. But in the short run it is not tolerable to permit European countries to exclude imports and leave the gates open in the United States. Hence the need to move on an international level.

Senator TALMADGE. They have already done that; so has Japan. Every country on earth looks after its own constituents, except apparently the United States. I do not quarrel about it except as it affects the interest of the people in this country on a discriminatory basis. I had Japanese people from the Diet call on me last fall. They are extremely able and, highly competent people. I did not quarrel with them, I complimented them. I told them it was their business as elected officials of the people of Japan to look after the interests of the Japanese people. I told them the people of Georgia sent me to Washington, D.C., to look after the interests of my constituents and I intend to do so. That is where your conflict comes. If you have the choice of more jobs in Japan and less jobs in Georgia, I am in favor of more jobs in Georgia and less in Japan. That is what it gets down to, Mr. Secretary.

Now some questions from Senator Ribicoff. You emphasize the important positive contributions of the multinational corporation, but we have also seen problems arising from their behavior. For example, in their use of Eurodollars. I believe that the income from our foreign investments is increasingly crucial for our balance of payments. If we do not start doing something ourselves about controlling the multinational corporations, we may find foreign governments taking initiative on their own to do something about them. In the light of these considerations, what can we do to control or manage multinational corporations?

Mr. FREEMAN. Would you repeat the last part of that question, please? What can we do?

Senator TALMADGE. Senator Ribicoff wants to know, in the light of these considerations, what can we do to control or manage the multinational corporations?

Mr. FREEMAN. A lot of thought and discussion has been devoted to this question. Suggestions have been made periodically by different countries and different thought leaders that there ought to be some kind of international charter, some kind of international standards, which would set the ground rules, both in terms of what multinational corporations can do and also what is expected of them in the countries in which they operate. Such a charter would be highly complex, but I think not impossible to develop.

Actually, multinational companies do not operate completely without restraints. They operate in countries whose governments, by and large, are extremely sensitive to what multinational corporations do. They have substantial investments that they must protect. It may well be that the power pendulum has swung in most places, particularly in the less developed parts of the world, especially in Latin America, to government. Increasingly multinational corporations are forced to comply with a whole host of restraints; on the percentage of ownership, the question of sourcing, the question of profits, and in some places, exappropriation is a constant threat. So the conclusion that multinational corporations are above control and somehow operate without any kind of restraints on their conduct, is erroneous. Nonetheless, in my opinion there should be some kind of ground rules under which companies that operate worldwide can be measured. I think this is something that we ought to give thoughtful attention to.

Senator TALMADGE. The same part of that question, the Senator wanted to know should we try to negotiate an international code or in what ways might we change our present laws to deal with the problem?

Mr. FREEMAN. Well, as I said, I think we should try to negotiate some kind of an international code which would provide operating ground rules and which set certain standards.

Senator TALMADGE. What about our domestic laws?

Mr. FREEMAN. There are a number of areas in which our domestic laws, could be very usefully reviewed. For example, the world does not have standards, there is no definition of poison and few common standards which apply to pharmaceuticals. There are no uniform standards—that measure pollution, or apply common patent and copyright rules. In all of these areas domestic laws consistent with international standards are needed. Incidentally freedom to invest is another area where reciprocation is lacking. Almost any company can come into the United States and invest and operate a business here. I have seen figures that as much as 20 percent of American industry is owned by outside capital. U.S. restrictions on capital coming in are very limited. That's not true in Japan. For most enterprises in Japan, no outsider can own more than 50 percent and it is very difficult to get that. There are more restrictions on investment in most parts of Western Europe than there are in the United States.

I for one think complete freedom of investment worldwide with international standards to operate under would be highly desirable.

Senator TALMADGE. One final question of Senator Ribicoff. As a former Secretary of Agriculture, do you view the green revolution in Asia as a favorable development and what are its implications to the global market?

Mr. FREEMAN. Yes, I certainly do view it as a favorable development. Like many great changes, it has brought with it problems of adjustment—economic, social, and political. I think that it means that there is going to be a grain surplus in the world, at least until 1980. This is going to create lots of problem, including downward pressure on prices and the threat of price wars and dumping. Less developed countries are going to have grain and other agricultural commodities seeking commercial markets.

Already social and political disruption has been triggered as many countries try to accommodate increased production and major changes in production techniques. Long established patterns of relationship between tenants and landlords and between classes, that have been followed for many, many centuries in countries like India, have been suddenly disrupted. There is a danger that mechanized agriculture will eliminate in a world where unemployment is the No. 1 problem in the decade of the 1970's, like food was during the decade of the 1960's. If the green revolution displaces workers it may turn out to be a curse rather than a blessing. Nonetheless despite all these disruptions and dangers the green revolution has triggered the clear possibility that the world will produce enough to feed its growing population for some time to come. I personally have no doubt about that, at least until the year 1980. Any longer than that, one hesitates to make any estimates.

It may well be that the green revolution will help more people than any technical and scientific breakthrough in a comparable period of time in all of history.

Senator TALMADGE. Thank you very much, Mr. Secretary.

Unless you have further questions, Senator Fannin, we stand in recess until 9:30 tomorrow morning.

(Whereupon, at 4:10 p.m., the subcommittee was adjourned until Friday, May 21, 1971, at 9:30 a.m.)

# FOREIGN TRADE

**FRIDAY, MAY 21, 1971**

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 9:35 a.m., in room 2221, New Senate Office Building, Senator Abraham Ribicoff presiding.

Present: Senators Ribicoff (presiding), and Fannin.

Senator RIBICOFF. The committee will be in order.

Our first witness is George Shultz, rightfully referred to as one of the most important men in this administration.

From my experience with you, Secretary Shultz, a most able one, too. So will you give us your testimony, please?

## STATEMENT OF GEORGE P. SHULTZ, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. SHULTZ. Thank you, Mr. Chairman, Senator Fannin. I appreciate your comment and appreciate the opportunity to appear and take part in these hearings. I would like to emphasize in my testimony the administration's plans for improving the coordination and the coherence in our international economic policy.

First, I would like briefly to summarize some major trends and their implications, many of which have been discussed in detail by previous witnesses—and then turn to the subject of how we would expect to deal more effectively with the complex questions they pose. My later remarks will focus mainly on the President's new Council on International Economic Policy—why it was created, how it will operate, and what we expect of it.

The world economy has changed a great deal over the past two decades. From the late 1940's and early 1950's—when many of our policies and most of our attitudes on international economic affairs were formed—to the present—when these policies and attitudes often seem inadequate or irrelevant—the changes are striking.

First, the United States clearly is no longer the single dominant world economic power, in part by our own choice. From 1950 to 1970, world product increased more than fourfold, while our share of that product declined from more than 40 percent to about 30 percent. Put another way, during this period, output in the rest of the world grew half again as fast as in the United States, fueled in a major way by our substantial foreign assistance program in the early years. Starting with our mutual effort to rebuild economies ravaged by war, we have seen

Japan and the European communities make major advances. Today they represent a combined productive power which rivals our own. This implies that we no longer have the broad freedom to act unilaterally in international economic affairs, but must both compete and cooperate with these increasingly strong trading partners.

Let me emphasize this point—for it implies a significant change in the attitudes and the style which have governed our international economic policies for more than two decades. We shall have to refurbish and revitalize our tradition of being fair, hard-bargaining Yankee traders. I should underscore what some will regard as obvious: The Yankee trader is interested in expanding trade through fair and open competition, not in erecting barriers that make trade more difficult. Our partners must recognize that open competition is a two-way street. The challenge to the United States in this period is to make clear to these trading partners—in Europe, Japan, and elsewhere—that far greater benefits will flow to all of us from outward-looking, evenhanded actions in a thriving world economy, than might be gained from a preoccupation with self-serving, beggar-my-neighbor policies. Our own example, in word and deed, will help to serve this purpose, especially if that example is buttressed by hard bargaining in pursuit of our own interests.

Second, our foreign economic policy has become increasingly important in its own right. Much of this policy in the early 1950's may fairly be said to have served in support of our foreign policy and national security goals. We were willing to accept substantial economic costs for the sake of reconstructing and revitalizing the free world. Today, of course, the balance has shifted, and we have a more restrictive range of alternatives. In many cases, these involve hard choices between sometimes conflicting security, economic, and other foreign and domestic policy goals. The emergence of major economically competitive powers raises the stakes considerably, and we are forced to reassess much more carefully—and with greater precision when possible—the costs, gains, and longrun implications of our foreign economic policy choices.

Third, and by far the most fundamental to an understanding of the current environment, is the unprecedented degree to which more than 100 diverse national economies are now linked by worldwide flows of trade, capital, and new concepts, technological and otherwise. World trade has increased even more rapidly than world output, implying that producers and consumers in world markets are finding their needs better served. Form the standpoint of our national welfare, strengthening our sales abroad allows us to provide more jobs and better wages for American workers, while increasing our purchases of foreign products widens the choices for our consumers and helps assure them lower prices through competition. We know that to restrict our imports risks renewing inflationary pressures and can imperil our opportunities for expanding export sales.

The gains we enjoy today stand in sharp contrast to the events of the inter-war period when trade suffered at the hands of cutthroat nationalistic practices. The culmination was a series of competitive devaluations and exceedingly restrictive trade practices during the Great Depression. In 1958, convertibility reopened channels whereby the gains from trade could be enjoyed.

In an international environment of increasing interdependence and competition, national problems of economic adjustment have become far more acute. A number of factors have heightened economic and political frictions with our trading partners—the striking mobility of capital, management, and finished goods; the drastic changes in rates of foreign market penetration; technological progress racing ahead of the free market's ability to reallocate resources, especially in the agricultural sectors; and the absence of rules of the game which are ultimately enforceable on national governments. Serious problems arise when governments attempt to intervene in the market with taxes, tariffs, subsidies, quotas, controls, regulations, and similar policies designed to obstruct or bypass the adjustment processes required by increased international economic integration. Nevertheless, we should not let the discomfort of these problems cause us to lose sight of the basic desirability of policies which will expand world trade on an equitable basis.

Establishing adaptable but consistent national policies for operating within the dynamic environment I have just described as obviously a major challenge. Indeed, one of the unfortunate features of our postwar foreign economic policy has been a too frequent inability to avoid taking shortrun and parochial actions of debatable effectiveness to deal with issues which are chronic and frequently interrelated. The problem may be traced to understandable difficulties in recognizing long-term trends, but it has also been the fault of inadequate policymaking machinery.

On any given international economic issue, there is a wide variety of views, reflecting different perspectives and interests. Our mechanisms for resolving differences in those views—and for establishing long-range policies against which specific issues can be reevaluated—have been somewhat less than reliable. Despite, or perhaps because of, the involvement in international economic affairs of some 60 departments, agencies, boards, groups, committees, commissions, and councils, we have for some time needed a single, high-level, overall instrument for coordination. There is need for more rapid response to emerging issues, and for greater consistency among policies which may impinge on each other. More fundamentally, however, we need a clearer vision of our longrun objectives and how they may best be served by various policy choices.

While this discussion is at a high level of generality, it would be too time consuming today to explore the many specific issues which have been discussed in the previous 4 days of testimony. I must add, however, that in our international economic affairs, the failure to generalize and to perceive specific issues in a larger context has sometimes led to the adoption of conflicting policies which require extensive patchwork. Actions taken over the past decade in the name of balance-of-payments improvement, for example, collectively illustrate this general problem.

THE COORDINATING MECHANISM

As you know, the President moved to fill the gap in January of this year by creating the Council on International Economic Policy. At that time he named Mr. Peter G. Peterson, chairman and chief executive officer of the Bell & Howell Corp., to serve as both Executive Director of the Council and Assistant to the President for International Economic Affairs.

The specific purposes of the Council, which the President chairs, are these:

First, to achieve consistency between domestic and foreign economic policy;

Second, to provide a clear top-level focus for the full range of international economic policy issues, dealing with the various trade, investment, financial, and balance-of-payments policies as a coherent whole. This will include consideration of the international economic aspects of essentially foreign policy issues, such as foreign aid and defense, under the general policy guidance of the National Security Council; and

Third, to maintain close coordination of international economic policy with basic foreign policy objectives.

Membership of the Council reflects the widespread involvement in foreign economic affairs to which I referred previously. In addition to the Secretaries of State, Treasury, Agriculture, Commerce, and Labor, Council members also include the Chairman of the Council of Economic Advisers, the President's Assistant for National Security Affairs, the Executive Director of the Domestic Council, the President's Special Trade Representative, Ambassador-at-Large David M. Kennedy, and the Director of the Office of Management and Budget.

Many of you have met Peter Peterson who, as Executive Director, is a key man in the Council's operations. Acting with ready access to and direction from the President, he will provide leadership and a sense of direction for the long-range activities of the Council, will oversee its day-to-day operations, developing the agenda and supporting materials for Council meetings, and setting its continuing work programs. From time to time, he will be setting up ad hoc task groups on special topics, which may include appropriate representation from agencies which are not regular members of the Council. He will have the support and assistance of Council members and others in bringing to bear resources from all parts of the Government on the problems identified for review. He will be supported by a small staff in the Executive Office of the President.

In short, it will be his job to help the President assure the coherence and completeness of our foreign economic policymaking process. To meet its objectives effectively, the Council will also need a mechanism to insure that the President's international economic policies are carried out. This followup will be supplied by an operations group chaired by a State Department representative. The Operations Group will be responsible for coordinating Government actions when necessary in support of policy decisions. It will also carry out reviews of operational problems brought on by the actions of foreign governments or by major international economic developments. In many cases, the Operations Group, at the Executive Director's request, will conduct the preliminary study of an issue which will later be considered for policy action by the Council.

What I have described, of course, is the way we expect the Council will operate to meet the objectives assigned it by the President. There may certainly be departures from this plan as we log some experience, but so far we believe it is working well. The Council and the Operations Group have held their first meetings. A plan will be developed soon for consolidating a large number of the current groups and committees having special responsibilities into the overall Council structure.

At present the Council has underway or will soon initiate policy-oriented studies in many of the areas discussed before this subcommittee during the week, including the comprehensive studies requested by the subcommittee in Senator Ribicoff's letter of April 21. The Council has served as a coordinating point on several recent actions involving the interaction of foreign and domestic economic policies. And as you may know, Ambassador Kennedy is now in Europe to discuss at very high levels some of our current difficult problems in international trade, with a view to finding satisfactory and constructive solutions. The President announced this assignment in connection with his naming of Mr. Kennedy to the Council at its first meeting. Finally, a major event for the Council's work program will be the report of the President's Commission on International Trade and Investment Policy, which may be available as early as next month. We expect the Commission's report to set forth a number of important proposals geared to the new international economic environment I discussed earlier.

As you can appreciate, at this early date we are still speaking chiefly of the Council's potential rather than its performance. What I have tried to convey to you today is the very great need for a Council on International Economic Policy, and, in the face of that need, what we believe to be the Council's considerable promise for developing a coherent policy approach to our international economic relations.

I would be happy to try to answer any questions you may have.

Senator RIBICOFF. Thank you very much, Mr. Shultz. I am somewhat puzzled by statements on foreign policy which apparently commit the United States to programs which have never been studied by the Congress. Let me give you an example.

On page 47 of the President's statement on U.S. foreign policy for the 1970's, he states:

> To help other western hemisphere nations to increase their export earnings and thus contribute to balanced development of economic growth, I have committed the United States to a program which would help these countries improve their access to the expanding markets of the industrialized world.

Now, how can the President commit the United States to a basic policy if it is never presented to the Congress and the Congress has never ruled on it or voted on it.

Mr. SHULTZ. Of course, to the extent that we are operating within the framework of the laws and within the framework of the appropriations, that is the framework of the President's actions.

Senator RIBICOFF. You see, what has been bothering this committee for a long time is a series of executive agreements which have committed the United States and then over the years, Presidents come to the Congress and say, now, you cannot embarrass the President, he made this agreement—like the Canadian Automobile Agreement for one, the GATT agreements for the other. Now, do you not think that with the responsibility that Congress has, before there are any basic agreements, Congress should be consulted within its constitutional right?

Mr. SHULTZ. I do not claim to have studied this in detail, but I had the impression that on the auto agreement and the Kennedy round negotiations there was a great deal of consultation and these were not surprising developments.

Senator RIBICOFF. I think they were pretty——

Mr. SHULTZ. In fact, there is a program, a special adjustment assistance program in connection with the auto agreement, that is a little different from the general program that Congress enacted.

Senator RIBICOFF. You were not here and it was not President Nixon, so the criticism can't be leveled at you and the President. It was a previous President who committed the United States. But as I recall, the Canadian Automobile Agreement was a fait accompli—am I not right? The staff says yes. This caused a great deal of debate and I have been very intrigued to see in this morning's press that Prime Minister Trudeau has said he wants to enter into agreements with the Soviet Union to lessen the influence the United States has with Canada, right across the border. And of course, the Canadian automobile agreements have led to a fantastic balance-of-payments deficit between the United States and Canada in favor of Canada.

Mr. SHULTZ. I think the general problem of negotiation is certainly a difficult one. I will just draw on my observations in the field of labor relations and collective bargaining. It is very hard to have negotiations that do not have a person directing them that has some discretion and who negotiates not completely in a fish bowl, where everything is debated and every negotiating position is described in advance—in effect, given away in advance. I just do not think you can really conduct negotiations that way.

Senator RIBICOFF. But you see, the problem we have here is that up to now, there has not been a policy, an economic policy. You seem to indicate that you recognize this, with all these agencies having a role, and you want to overcome and correct it. But if you do not have a policy and there is no basic consultation, you will not have. Of course, during the GATT negotiations, there were observers—I was one. But there was an intermittent trip to Geneva, it was really surface, both with the House and the Senate.

My feeling is that the mood as you recognize in the Congress at the present time is such that Congress will definitely look with a jaundiced eye on any agreement that is entered into without consultation with Congress. I would hope that the Executive would avoid embarrassment to make an executive agreement and find that he could not put it across in the Senate in the future. I think it is something that is worth considering from the executive branch standpoint, looking forward to a real comity with the Congress on these issues.

Mr. SHULTZ. I think that is a fair point. At the same time, I think the other side of that coin is that if the only way for the United States to conduct negotiations on anything is to do it with a kind of full openness and with the Congress voting on each negotiating position and so on, there will not be any agreements, because you simply can't conduct negotiations that way; it is impossible.

Senator RIBICOFF. I recognize that, and I do not think it is the right of Congress or the duty of Congress or a wise policy for Congress to be looking over the executive branch at each point of the negotiation. But I do not think that once an agreement has been reached before there is consultation, it should be presented as a fait accompli. You will find there was great unhappiness and great debate in the Canadian-American automobile agreement and I would guess on similar agreements. Without some consultation with Congress, you are going to find Congress really obstreperous on these. I just lay this out as a caveat for the future.

Now, we have had a deficit in our balance of payments ever since 1950, with two exemptions. I think that cumulatively, these deficits total $48 billion-plus and over the same period, our gold stock declined by some $13.5 billion and our liquid liabilities of foreigners have increased from $7 billion to $44 billion. What do you think it is going to take to put our own house in order to eliminate these deficits? I realize you are not going to be able to do it overnight, but how do you see the United States doing it? I mean you say do not touch the problem of trade, do not touch military expenditures, foreign aid, which is an important aid. But where do we turn this around, Mr. Shultz?

Mr. SHULTZ. Well, as we approach that and other problems in the international arena, we have to be willing to touch all the areas that you mentioned. Quite the contrary to saying that we should not touch anything, we should be conscious of all these areas and others—such as monetary arrangements—and try to look on them not as individual pieces that stand on their own, solely on their own merits or demerits, but rather as an integrated set of things that relate to each other.

For example, I believe it is the case that over the last 10 years, roughly, other currencies—I do not say every other currency, but other currencies of our trading partners—have on the average devalued with respect to the dollar. That makes it more difficult for us to export and more likely that we will import Therefore, the changes in these rates between the dollar and other currencies have an effect on trade. We look at certain aspects of trade and we act as if those represent competitive cost problems that are independent of what it going on in exchange rates. We have to get over that.

At the same time we have to avoid falling into the reverse trap of regarding international monetary matters as set off by themselves not related to anything else and try to pull these pieces all together, relate them to each other, and come out with a coherent strategy and policy to which individual items can be related. I am trying to be responsive to your point, and basically agreeing with it. I think that this is the whole purpose of the new council, to draw these threads together and see if we cannot make sense of them.

Senator RIBICOFF. I go back for a minute to your statement about you cannot consult Congress on negotiations. As you stated, the operations group of the Council is chaired by the State Department. From your operation as a planner and coordinator, does this not reflect the divorce of planning from operation? Is this not giving back to the State Department the real power to make foreign economic decisions that the Council was supposed to have?

Let me give you an example of what bothers me. When I went abroad in January to study the problems of trade, this statement of the President was constantly thrown up to me, the President's U.S. foreign policy for 1970, the New Strategy for Peace. He says:

> Our support for strengthening and broadening of the European Community has not diminished. We recognize that our interests will necessarily be affected by Europe's evolution and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality of the west as a whole.

In other words, again, this is standard State Department policy: As long as we can work out our political problems, let us forget the economic problems. As I indicated in the phrase I used in my report to this committee, it is that while we are concerned with NATO battle plans, the Germans are concerned about orders for Volkswagens and the Japanese with orders for Sony television sets.

Now, under these circumstances, you have recognized that there is a need to coordinate economic policy. I do not know whether you agree with me or not, but the next 25 years of what I call ecopolitics will have much more to say in the future of nations than geopolitics in relation with one another. Yet you have Mr. Kissenger, Dr. Kissenger, he has about 140 professionals and Mr. Peterson, as I understand, has about 10 professionals. And also, these 10 professionals are not independent, but they are drawn from various agencies with the State Department dominating. So how is Mr. Peterson set up to really have some clout in the economic field if his staff is basically State Department staff and he has such a small handful of men to work with, when Dr. Kissenger has 140? Not that a lot of people necessarily do a better job.

Mr. SHULTZ. Well, your question covers a number of things, and I will see if I can deal with each separately.

First of all, the estimate of the number of people on the NSC staff is on the high side. I do not have those numbers, but I would like to make an insertion in the record, if I may, on just how large the staff of the NSC is.

(The following information was subsequently received for the record:)

As of May 21, 1971, professional staff of the National Security Council totaled 62.

Mr. SHULTZ. Second, I would like to say that anybody who has met Pete Peterson will not sell him short. He is a very able, effective person and will take good care of himself.

Third, I would just refer to the second point that I made in the background material on page 3 in my testimony, which I think states very much the President's view. It said "Our foreign economic policy has become increasingly important in its own right."

Then I tried to trace through the fact that as we move from the war-ravaged stage in which we were helping other economies to the position that we are in now, the relative importance of different kinds of objectives has changed. I think that as we look to the future, we are going to see international economic matters given a very high priority in this Council; its formation in effect stands for that. The word "council" rather than "committee" was chosen by the President deliberately to give it the same base as the Domestic Council and the National Security Council. The State Department is very much a part of this and very much on board as far as things that the Council is doing.

How the Council staff will develop, of course, remains to be seen. Pete Peterson has been considering how it might best develop and we will be bringing a proposal to the Congress on that matter.

The notion here, however, is not to build up a large executive office staff, but rather, to see if we cannot make much better use than now is the case of the very extensive staffing that there is throughout the executive agencies and departments and have the Council bring these people together in various ways and make use of those resources. That is the route that we want to try to follow. In other words, I expect that the staff of this Council will be small, and it is my observation that a small number of very good people will usually make much more of an impact than a large number of people who are dragging around. So I think that the prospects here are quite good and that Pete's role will be important.

Of course, the key is the President's very strong interest and his chairmanship of the Council. He is going to run it.

Senator RIBICOFF. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Shultz, I admire your statement, goals and objectives, and I commend you for what you have done personally. But I am vitally concerned about what is actually happening. You are talking about hard-bargaining, that we should be hard-bargaining traders, I think you stated.

Mr. SHULTZ. Well, I think we are trying to say, let's change the image of the United States from Santa Claus, who is very nice, to our image of the Yankee Trader.

Senator FANNIN. I agree with you wholeheartedly, but in my limited travels—I just came back from Japan—I have observed that we are not doing that and I find that the State Department continues to be a very soft touch. I have observed that for many years, and I still feel it is the case. Here we have one representative of the State Department who gave the impression that we do not even have a problem. Another suggested not placing a case on the GATT agenda because we may lose a decision; items like that. The cast is one of the most clear-cut cases we have had and if we cannot win this case, I want to know what we can win. It is a simple matter of citrus; still he does not feel it should be placed on the agenda. It seems that the State Department does not want to make changes in GATT because we may not receive the concessions that we should receive. I am very concerned as to why we cannot make an issue of the great differential now in tariffs that are applicable under GATT. Here we have a 6-percent tariff coming in, and a 24-percent tariff if we try to get into the Japanese market, but of course, we cannot get in, because there are other barriers. What is your idea as to what to do about GATT?

Mr. SHULTZ. Well, as a general proposition, I think our stance has to be very much one of looking toward our interests, bargaining for those interests, putting our economic interests high on the scale along with other aspects of our national policies. That is the thrust that stands behind this Council. That is what we are going to try to do. Regarding the notion of not taking up something because it might be abrasive or hit some raw nerves, we are just going to have to take the attitude, well, that is too bad. We are going to have to look to our interests.

Senator FANNIN. How soon are we going to take that attitude?

Mr. SHULTZ. Well, we are in the process of taking it.

Senator FANNIN. I have not observed that. Japan has become what I call a coordinated machine to get benefits at any price and our government has not assisted in our ability to take this position.

Mr. SHULTZ. I think there is a lot to be desired in the nature of our economic relationships with Japan and we are taking that up in the Council.

Senator FANNIN. Would you feel that the companies importing into this country should be under the same antitrust laws that our companies are under?

Mr. SHULTZ. I do not think we can impose our laws on the domestic situation of some other country, no.

Senator FANNIN. Why can we not if they are shipping into our country, taking advantage of our trade, competing with our businesses? Why should they not be subject to the same laws?

Mr. SHULTZ. How other countries want to organize themselves for operating their internal economy and conducting their own economic operations is their right, just as we would not accept somebody telling us to adopt some sort of internal policy. We have to operate our policies as we see them for our best interests and to bargain with others about their impact on us.

Senator FANNIN. When we go into Japan, we operate as they so determine.

Mr. SHULTZ. That is different. I think that we have to say, now, here are the rules and regulations that you are imposing on us, and if we find them onerous and we can pin that down, that is the sort of thing we want to talk about. And I think there are many onerous conditions placed upon our firms in Japan.

Senator FANNIN. That is right, and of course, we have let it slide.

Now, understand, I am not stating that this administration is at fault, but they have continued these programs and that is why I feel that we must, really, complain about what is happening. The Congress, I know, has not acted either, and I am concerned about that. I have tried to get legislation through that would help correct this and we have not been able to do so.

Mr. SHULTZ. Well, when countries place what we think are onerous burdens on our firms which operate or trade in that country, it seems to me we should bargain hard about the problems. If we feel that the situation is unfair, we should say so and see if we can do something about it.

Senator FANNIN. Well, I hope that that is the policy. I consider you the manager of our Government, so I hope that that is the policy you develop.

Mr. SHULTZ. You mentioned the GATT and the GATT rules. Of course, one of the problems you have with any kind of control mechanism is the ability of any participant in any control mechanism, if he does not agree with it, to figure out subtle ways to get around it. There are all sorts of ways of not violating any of the rules, but nevertheless, achieving a result that would, in effect, violate the rules. That is the sort of thing we have to get after.

Senator FANNIN. Well, the free trading areas—you take the European Economic Community. They practically ignored the GATT in many instances or they have been able to work around it. Japan has been able to work around it. But we still give these countries considerations under GATT. That is what amazes me.

Mr. SHULTZ. Well, everybody has his point to ride untarnished and everybody has his weaknesses, and we do, too. But I think the general propositions that I would put to you are, first, that as you look over the history of the post-World War II economic developments in the world, you see a major change taking place. As that change has taken place, certain outlooks toward our economic policy change, and I think we have reached a point where we are undergoing such a change. That seems to me to be appropriate and that is in a way what this Council is all about.

Senator FANNIN. We were talking about concessions under GATT. We have the countervailing duty provisions which is included in the GATT. It is my understanding that the Treasury Department has cases 2 or 3 years old under this provision, yet refuses to take any action. Is this the attitude of this administration?

Mr. SHULTZ. Well, I do not know the cases that you are referring to and I presume you put these questions to Secretary Connally. Whatever he said I will rest on.

Senator FANNIN. Well, I have written to you about them and I have not had any success in getting the type of action I feel should be forthcoming.

Mr. SHULTZ. I will look at them.

Senator FANNIN. You say that many studies are now taking place in the area of foreign economic policy. Do you feel these studies will culminate in a major legislative proposal to deal with foreign economic policy as a coherent whole rather than separate pieces of an integrated puzzle?

Mr. SHULTZ. Well, certainly, the objective is to develop that kind of coherent strategy and policy. What will come out of it and what kind of legislative proposals will be made, I would not prejudge. We are just getting into this. I would not want to make any kind of statement on that. We look forward to the Williams Committee findings and recommendations. We will study those as well as other things that we are doing on our own hook.

I might say that I agree very much with the comment that the Chairman was making, that on commission reports, our hope is that they state their views frankly and clearly and if clarity means a certain amount of dissent, that is all right. It is better to see what the problems are and what some of the points of view are than to have a highly generalized report that does not really tell you very much.

Senator FANNIN. I would just like to bring into proper focus what your thoughts are. I do not mean to be repetitious. But you mentioned on page 5 of your statement the absence of rules of the game in international trade and you also emphasize the need for fairness. Do you think it is time to establish new international trade rules with varying rules of international fairness? Perhaps it is time to replace this, like some of the things in GATT.

Mr. SHULTZ. I certainly would not jump to that conclusion, but I think we do have to recognize that we have work to do either to maintain the fairness and workability of current institutions or, if that cannot be done, to change them around.

Let me say, also, that because we have certain criticisms to make now does not mean that everything is bad. Actually, things have worked reasonably well and I do not think that you turn your back on something that has worked until you are pretty sure you have something that is generally better.

Senator FANNIN. I do not know how it could be much worse.

Mr. SCHULTZ. Just because something is new does not mean it is better.

Senator FANNIN. I have really been very disappointed with what is happening and as I stated earlier, I have been vitally concerned. I have read and listened some to the testimony; I have read all of it. But I am vitally concerned with the attitude that we do not have a real trade problem and if we do, that is can be cured by placing more workers on welfare through the adjustment assistance programs. I just feel that this is a lost cause. When we place more people on welfare because of unemployment, we are adding to our costs of doing business; we are adding to our inability to compete with the other countries of the world.

As I said, returning to Japan, there they have less than 1 percent unemployed. Of course, they have full employment, overly full in our way of computing it. But I just feel that if we do not recognize these problems, if the administration is not aware of them, then nothing is going to be done about it.

Mr. SHULTZ. Senator, I have to say I do not agree at all that the purpose of adjustment assistance is to put people on welfare. The purpose of adjustment assitance is to put people in jobs, to help them make adjustments or shifts due to international trade developments. But workers have to shift and firms have to shift due to many other kinds of developments. It is just this ability to be mobile, broadly speaking, of the U.S. economy that has made it such a great economy.

So the whole purpose of adjustment assistance is just to recognize, first, that we all benefit—I think that is a fact that we should not lose sight of here—that we all benefit from trade. It has been a great thing for the United States and for the world. Otherwise, it would not be taking place on the scale that it is.

But there are some people and some firms that are disadvantaged by it on a momentary basis, when their particular job or business gets hit. So it behooves the community as a whole, which benefits, in effect to provide some of those benefits to help those injured make adjustments. That is the purpose involved.

Senator FANNIN. Well, it is not a momentary basis when the company goes out of business. I agree to a certain extent, we must build world trade. I am very much in favor of that and I want to support any program that will help us in competing throughout the world. But when you were Secretary of Labor, I believe the Department made a study that shows 700,000 jobs were lost to imports from 1967 to 1969 while 400,000 were gained by exports. Our unemployment has skyrocketed over the last few years. What do you think we can do that will employ the unemployed steelworker, the unemployed textile worker, the unemployed shoe worker or the unemployed electronic worker?

Mr. SHULTZ. The ability of the American economy to expand and create new jobs has been very impressive over the decades. I think it is just as vital, just as able to do that now as it always has been. So as some industries decline in importance—and I do not mean by that to say that I think the industries you have named will decline in importance—but as industries do decline, new things will spring up, new job opportunities will spring up, new business opportunities will spring up. We want to provide the kind of environment where people can take advantage of the new opportunities. They will be there if we give the economy half a chance.

Senator FANNIN. The feeling I derive from meeting with the Japanese officials and with their businessmen is that we cannot compete in the markets we are talking about, but we can compete in producing food and fiber, so we should go back to an agrarian economy. I do not think the United States is ready to do that, but that is just about the attitude that some of these other countries are taking.

They were talking about our imports into their country, but they are nonlabor oriented imports. In other words, about 75 percent of our imports into Japan are non-labor-oriented, or very slight labor-oriented, where their exports from that country into the United States are almost all labor-oriented products. This is what really concerns me, that we start weighing our exports against the imports. Do you not think that the first consideration must be from the standpoint of jobs that are going to be produced or lost?

Mr. SHULTZ. I think our first consideration is to maintain a healthy, expanding domestic economy. When we have a healthy, expanding domestic economy that has reasonably stable prices, then within that framework, we will be able to solve our problems with relative ease.

I do not think there is any danger whatever of our becoming an agrarian society. We are the least agrarian society in the world. One of the marvels of the world is that we are able to feed not only ourselves but many other people with a very small fraction of our population working on farms.

Senator FANNIN. That is not my recommendation, that we become an agrarian society.

Mr. SHULTZ. I do not think there is any danger of it even if in full consultation with the full Congress, we decided that is what we wanted to do. We could not do it.

Senator FANNIN. But we brag so much about with 4.7 percent of the employees in the country, we produce all this food and fiber. At the same time, we must recognize that our exports have certainly been strong in those products and we are very pleased that they have been. But I think that when we are making a comparison of exports and imports, we must take into consideration the labor involved.

Mr. SHULTZ. Certainly, and in that connection, it is interesting to note that our strongest export position tends to be in the high technology industries.

Senator FANNIN. I have not been aware of that.

Mr. SHULTZ. Yes; that is the case. I think it suggests the importance of maintaining the position of the United States on the leading edge of science and technology and paying attention to what we do in the fields of research and development, not only as far as Government programs are concerned, but also in the way in which our policies impact on the private sector and encourage or discourage private firms to undertake research and development. That is an important part of our total picture.

Senator FANNIN. Yes; we have exported much more technology and of course, there are many countries of the world now that are even challenging us in technology. So when we say that our highly technological products, or the technically produced products have been a major source of our exports, I just can't agree with that without seeing the figures. But I will check on the figures.

Mr. SHULTZ. Well, if I could, I would like to provide a table on this and put it in the record if I may.

Senator FANNIN. Very good. Thank you.

(The table referred to follows:)

TRENDS IN U.S. FOREIGN TRADE

[In billions of dollars]

| | 1957 | 1964 | 1969 | 1970 |
|---|---|---|---|---|
| Agricultural products: | | | | |
| Exports | 4.7 | 6.3 | 5.9 | 7.2 |
| Imports | 3.9 | 4.1 | 4.9 | 5.7 |
| Trade balance | +.8 | +2.2 | +1.0 | +1.5 |
| Raw materials: | | | | |
| Exports | 3.3 | 3.4 | 4.8 | 6.1 |
| Imports | 5.0 | 5.5 | 8.1 | [illegible] |
| Trade balance | −1.7 | −2.1 | −3.3 | [illegible] |
| Manufactured products not technology intensive: | | | | |
| Exports | 4.0 | 4.4 | 6.2 | 6.8 |
| Imports | 2.9 | 6.0 | 11.7 | 12.9 |
| Trade balance | +1.1 | −1.6 | −5.5 | −6.1 |
| Manufactured products technology intensive: | | | | |
| Exports | 8.8 | 12.1 | 20.6 | 22.6 |
| Imports | 1.6 | 3.1 | 11.3 | 13.0 |
| Trade balance | +7.2 | +9.0 | +9.3 | +9.6 |

Source: Department of Commerce.

Senator RIBICOFF. Mr. Schultz, in the staff report that we have here.* May 14, 1971, they have raised a number of issues that are basically within the competence of the executive branch. I mean we do not have a staff with the knowledge to be able to gather them. Let me just read a couple of paragraphs to see if you do not think it is worthwhile to enlist the assistance of the executive branch to get this information.

What kind of education, retraining, and adjustment assistance would be necessary to shift employment displaced by imports to more lucrative and competitive areas? We do not know, for example, what the employment characteristics are of those laid off because of imports, including age, location, education, earning power. Answers to these questions are necessary if intelligent policy is to be set. The Department of Labor should undertake studies to provide these answers.

The Department of Labor has yet to do the difficult studies analyses necessary to assess the degree to which imports and exports have affected American jobs on an industry and a regional basis. We don't know enough about the job qualifications of the worker displaced by imports to understand whether alternative employment is available. This should be a major concern before a concession is granted. Unfortunately, it rarely is.

I think the problem that I think we have, whether it is in this country or any other country in the world, is that we can all be theoretical. We can be theoretical protectionists or theoretical fair traders. But when the chips are down, every nation, every State, every Congressman, every Senator, and even the President, must address himself to the political implications of a change in trade policy. It is all well and good to say that some other nation can produce goods cheaper and better, so let them do it and let the other region adjust and change. But if you have a region or a city or a town where an industry has

*Appendix B, p. 885.

been preeminent and is the basis of the economy of that region and you have workers who are 45 or 50 who will be displaced, who have lived for generations in that area, you have a manufacturer, if he is displaced and put out of business, it is all right to say there is an adjustment assistance. But try to figure out, where is he going to get the capital to go into a new business? How long is it going to take him to get the machinery and the designs to go into new business? How long is it going to take him to train his employees? So when everything is said and done, you get away from the theories and you have the very, very practical problem of what do you do?

You can see in this last crisis abroad, the Common Market is supposed to be united, but when it came down, when the chips were down, Germany and France split as to what their policy should be. The Germans had their own inflationary problems and the cost of living to their employees and what you would do with their farmers, what would the French do with their farmers, so they could not unite on a common policy. And there would be the differences.

I think you will find that to be the case in every instance. The problem we have in textiles—again, you are up against the problem that there are huge regions in this country where the basic industrial economy is based on textiles. So you say, well, let the Japanese or the Koreans or the Taiwanese or the people from Hong Kong put textiles into this market. But nobody is doing the long-range planning. If we are going to have to readjust ourselves, how do you plan for readjustment? If you are going to have to readjust, do you adjust overnight or do you phase out over a period of 5, 10, 15, or even 25 years?

Now, I wonder whether, if our committee staff got together some of these basic questions that bother us to help make policy, and if we sent them to you, if you would send them around to the different Departments in the executive branch to see if they could not get that information. Not only do I think we need it, but I think the President should have it and I think Mr. Peterson should have it.

Mr. SHULTZ. Mr. Chairman, I will be glad to do that, and I agree with the general thrust of exploring and getting a better understanding of what adjustment assistance of various kinds can do, what the problem is, what possible things can be done about it, and so on. As you well know, in the 1962 Trade Expansion Act, there was an adjustment assistance provision and that provision was never used until the Nixon administration. It has been used a number of times since then for a relatively small number of firms and workers.

I would say with respect to this area, that we are sort of in our infancy in understanding it and seeing how adjustment assistance can be made to work. So that is something that we want to work on and will be very pleased to work with the committee and the committee staff on.

Senator RIBICOFF. I think it is going to be important in the days ahead. It is pretty hard to take a manufacturer and the head of a company, maybe in his fifties, and suddenly you tell him, well, we will give you some adjustment assistance and you make a new industry. He is going to throw up his hands. I can see a big multinational company that has its research and planning, tries to watch the market and shifts from product to product, location to location. It has the depth, the power, it has the capital and it has the stay-with-it ability. But many of these industries that are displaced just do not have that power.

And of course, the employees, you just can't take and shift and throw people around. They get set in their ways, even though we are a mobile people and 5 million people move every year. But you take the basic industries, people have been there for generations.

Sometimes it would be better off for a community to diversify. I recall in my own State of Connecticut when Danbury was basically a hat city and all they did was manufacture hats. When the hat industry closed down, they thought it was the worst thing that ever happened. Today Danbury is probably one of the most prosperous towns in the conutry. It has fantastic diversification of all kinds of industry and the people of Danbury are much better off than they were when Danbury was a hat town.

Now, I can see there are certain industries that the community would be a lot better off. I think one of the greatest tragedies is to have a community tied up to one industry. But the problem is it is a hit-or-miss operation and there has to be long-range planning. I think one of Mr. Peterson's jobs, if he is going to coordinate, is to try to pinpoint for the future what industries are going to go under, because either domestic competition or international competition, the attrition rate is greater every year. But suddenly, there is a fate accompli because many industries do not have the imagination and the foresight to plan so far ahead.

Mr. SHULTZ. If I might make a few comments on all that.

Senator RIBICOFF. Certainly.

Mr. SHULTZ. I suppose it is true in Danbury that at the time of the demise of the hat industry, people thought it was a terrible tragedy.

Senator RIBICOFF. They certainly did.

Mr. SHULTZ. It was a great issue, and as it turned out, it has been a healthy thing for the town. I think that is a sort of marker for the fact that whenever a change comes along, for whatever reason, there is a tendency to view it as a tragedy, at least by many people. And yet over a period of time, the thing that really saves us, the thing that gives us a high and rising standard of living is this change and the capacity to change. We have to nurture that very, very carefully.

I do not know quite whether I agree with you or not in the statements that you have made. If what you have in mind by way of adjustment programing is that before any change can take place, we must have an accepted plan that tells how everything is going to come out, what is going to happen to the company, what is going to happen to each worker and so forth—then I do not think we will get very much change if we have that kind of condition. I do not know whether you meant that.

Senator RIBICOFF. No.

Mr. SHULTZ. I will say I am not a planned economy person at all. I do not really think that works. Where I would put my best is on good processes and a healthy environment for those processes to work in. Then I think that change can take place. Certainly, there are governmental obligations to put good processes into place and this is something we must work out.

Senator RIBICOFF. I think you and I look alike on it.

How do you feel about the possibility of more East and West trade with Eastern European countries, the Soviet Union, and China?

What is your own personal attitude? I am not asking you to bind the administration. Do you think as an economist, this is something we should be looking to?

Mr. SHULTZ. Well, I think as a general proposition, the broader the horizons of our trade, just from an economic standpoint, the better we are going to be; that is, the more markets we have access to for our exports and the more opportunities for diversified goods our consumers have, the better off we are economically.

At the same time, I would say that East-West trade is very much a subject in which economic considerations, security considerations, and foreign policy considerations come together, and I would not want to make any statement or judgment about it whatever out of that total context. It is not economic considerations alone that are involved here, obviously.

Senator RIBICOFF. Mr. Shultz, Senator Long had been looking forward to talking with you with great anticipation, but he had to be in Louisiana today.

Mr. SHULTZ. I am disappointed, because I was looking forward to it.

Senator RIBICOFF. I think he is, too. But he left a few questions for me to ask you in his behalf. So now I am Senator Long for a few minutes.

Can you define what your role is in this administration's foreign economic policy machine? For example, Senator Long has put in the record a letter from you to Mr. Stans which, in effect, vetoes a proposal which Mr. Stans made to the President about collecting c.i.f. statistics and which the President approved and directed Mr. Stans to implement. I am curious as to how you happened to get a veto power over the President.

Mr. SHULTZ. I am curious to know that, too. I do not recall it having happened.

What the President directed was an intensive study of the statistical basis for our balance-of-payments publications and that has been conducted. As you know, there are a number of agencies involved in this.

The role of the Office of Management and Budget is to coordinate such a study on a Government-wide basis to see that the views of the interested agencies and departments are made known and to see that there is a good discussion of the subject.

The result of this intensive review is a change in the way the statistics will be published, and I believe it will be implemented on June 30, structuring the balance-of-payments data in a different fashion, putting things together in a little different way, drawing some additional balances that we think will be useful. I do not mean to imply by that, however, that the result of this process is agreement on the two points, one affecting the import and the other export statistics, that Senator Long wanted.

But essentially, the President ordered an intensive review. That review has been conducted very intensively in wide ranging executive department consultation, and we think that a constructive result has come out of it.

Senator RIBICOFF. I gather from your letter to Mr. Stans that you do recognize that there is a valid place for analytical purpose for having

CIF-valued imports. Would you object to the Bureau of Customs collecting CIF data on each industry so that we can get a true picture of where we stand in trade, not only in an overall sense, but with each trading partner and for each commodity?

Mr. SHULTZ. Well, I think the question of how we get adequate data to deal statistically as distinct from conceptually with the CIF question is something we want very much to work on. We encourage the Commerce Department to come forward with proposals, and by encourage I mean we would encourage presenting it as a budget proposition. Then the Congress would have to review whether it thinks the expenditure of money for that purpose is justified.

I might say that as a general impression, particularly with respect to some of the informational statistics I was concerned about when I was Secretary of Labor, we have not had a great deal of luck in persuading Congress to help us strengthen international statistics of various kinds. I hope that one of the outcomes of hearings like this, in which people have their attention drawn to these problems, will be that we will be able to get a sounder and broader statistical base.

Let me just say that the CIF matter is just an example of the conceptual problems that one faces. If what you are interested in is the price of an imported commodity to compare with the price of a domestically produced commodity, then you want to know what that imported price is at the point of delivery in the United States compared with the domestically produced item at that point of delivery. Therefore, you want to know the CIF; you also want to know some things in addition to CIF. You want the duties; you want the internal transportation costs within the United States in order to make that kind of competitive comparison to show where we stand. You have to include those transportation, insurance, and other kinds of costs.

At the same time, if what you are interested in is what the balance of payments is, the flows of money for goods back and forth, then one has to recognize that part of that price that I mentioned is paid to the United States and not to foreign countries. So it is not proprely included in balance-of-payments statistics.

That is true of over-the- ocean transportation and insurance, just as it is obviously the case with internal transportation. So there is a disentangling problem that is not adequately handled, in our opinion, by the surveys that have been made of what the insurance and freight amount to at various points in time.

Senator RIBICOFF. Now, in the Trade Act of 1970, this committee provided for the collection of CIF data on all imports. A bill I recently introduced would accomplish the same result. As you may not be aware, section 484(e) of the Tariff Act provides the authority to the Treasury and Commerce Departments and the Tariff Commission to collect economic data on imports. Why has not this authority been invoked to collect CIF import data?

Mr. SHULTZ. That is a precise question and I will get a precise answer for you. I would imagine that appropriations to carry it out have something to do with it.

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I would like to make it clear that we are in no way objecting or trying to hold back on the collection of more adequate statistics to understand what is going on in international trade. We are all for it. We do not think that we have the statistical base now to move a category over from here to there and say we have a new and solid partition. We don't have that at the present time.

(The following was subsequently received for the record:)

Collection of c.i.f. import data would require both administrative changes and additional budgetary resources in the Departments of Commerce and Treasury. A preliminary estimate of the annual costs of such data collection is about $2 million. The Office of Management and Budget has been discussing with the Department of Commerce the development of an appropriate program for such data collection.

Senator RIBICOFF. You mentioned in your letter to Secretary Stans that with regard to your calculation of imports c.i.f., a significant portion of these charges is paid to U.S. firms and therefore does not represent an international payment. It is my understanding that American ships carry only about 6 percent of U.S. trade. Just what did you mean by your statement about a significant part is paid to U.S. firms? What do you consider to be significant?

Mr. SHULTZ. Well, the figures that I have, and these are estimates, are that the tonnage is about 5 percent; the Senator had 6 percent. Say 5 or 6 percent, in that range. By value, which is what we are talking about in our balance-of-payments statistics, it is about 20 percent. I consider 20 percent to be significant. Now, that varies. The reasons for the variations are clear, and they show why it is not so easy to take a few surveys and make some estimates and then, on the basis of that, put out a statistical series.

You are going to have variations from one time period to another because the mix of products being imported will change and the ratio of transportation costs and insurance costs to the value of the product varies according to the product. So if you have a changing mix of products, you are going to have a changing c.i.f. It is not standard.

By the same token, the transportation cost from a country that is twice as far away is going to be more than one that is close to you. Therefore, if the mix of country of origin changes, your transportation costs are going to change.

So to this extent, you have to have much more measurability if you are going to do a proper job on this subject.

Senator RIBICOFF. Is that not why you have to have the data by the Customs Bureau to indicate just what it is costing you?

Mr. SHULTZ. That is one way in which it might be done. As I understand it, we place our duties on the value at the point of shipment. That is the data which are easy and economic for us to collect. That is the reason we have the data on this basis.

Now, what is involved in adding on to that value at the point of customs and how much difficulty it will cause I do not know.

Senator RIBICOFF. Well, without objection at this point, we will place in the record a list of foreign countries which report imports on a c.i.f. basis and the relationship between the entered value and c.i.f. value.

(The information referred to follows:)

### Foreign Countries Which Report Imports on C.I.F. Basis

#### LATIN AMERICAN REPUBLICS

Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
El Salvador
Guatemala
Haiti
Honduras
Mexico
Nicaragua
Peru
Uruguay

#### OTHER WESTERN HEMISPHERE

Bahamas
Barbados
British Honduras
Guadeloupe
Guyana
Jamaica
Leeward and Windward Islands
Martinique
Surinam
Trinidad and Tobago

#### WESTERN EUROPE

Austria
Belgium and Luxembourg
Denmark
Finland
France
Germany, Federal Republic of
Greece
Iceland
Ireland
Italy
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
Turkey
United Kingdom
Yugoslavia

#### COMMUNIST AREAS IN EUROPE

Hungary

#### NEAR EAST

Cyprus
Ethiopia
Iran
Iraq
Israel
Jordan
Lebanon
Malta
Southern Yemen
Syria
United Arab Republic (Egypt)

FAR EAST

Brunei
Burma
Cambodia
Ceylon
Hong Kong
India
Indonesia
Japan
Korea, Rep. of
Laos
Malaysia
Pakistan
Philippines
Sabah
Sarawak
Singapore
Taiwan
Thailand
Vietnam, Rep. of

OCEANIA

New Caledonia
New Zealand

AFRICA

Afars and Issas (French)
Algeria
Angola
Cameroon
Central African Republic
Chad
Congo (Brazzaville)
Congo (Kinshasa)
Dahomey
Gabon
Gambia
Ghana
Ivory Coast
Kenya
Liberia
Libya
Malagasy
Mali
Mauritania
Mauritius
Morocco
Mozambique
Niger
Nigeria
Reunion
Sao Tome and Principe
Senegal
Sierra Leone
Somalia
Sudan
Tanzania
Togo
Tunisia
Uganda
Upper Volta
Zanzibar

Source: Official trade statistics of listed countries, United Nations.

RELATIONSHIP BETWEEN THE ENTERED VALUE AND C.I.F. VALUE, BY COUNTRY AND U.S. PORT OF ENTRY, FOR SELECTED ILLUSTRATIVE PRODUCTS, 1969-70

| Product description | Date of entry | Port of entry | Supplying country | Entered value f.o.b. | Ocean freight and insurance | C.I.F. value U.S. port of entry [1] | Ratio of C.I.F. value to entered value Percent |
|---|---|---|---|---|---|---|---|
| Datsun autos | May 1969 | Baltimore | Japan | $30,785 | $4,700 | $35,485 | 115.3 |
| Datsun trucks | June 1969 | Los Angeles | do | 26,910 | 1,726 | 28,636 | 106.4 |
| Datsun trucks | do | do | do | 93,800 | 14,049 | 107,849 | 115.0 |
| Triumph autos | July 1969 | Baltimore | United Kingdom | 8,612 | 610 | 9,222 | 107.1 |
| Auto parts, Datsun | September 1969 | New York | Japan | 6,187 | 1,068 | 7,255 | 117.3 |
| Radio parts | October 1969 | do | West Germany | 2,486 | 64 | 2,550 | 102.5 |
| Electrical parts | November 1969 | do | do | 3,691 | 110 | 3,801 | 103.0 |
| Preserves | June 1969 | do | United Kingdom | 764 | 54 | 818 | 107.1 |
| Women's boots | do | do | Japan | 4,086 | 646 | 4,732 | 115.8 |
| Cheese | October 1969 | do | North Ireland | 417 | 46 | 463 | 111.0 |
| Bottle caps | do | do | Portugal | 2,780 | 492 | 3,272 | 117.7 |
| Umbrellas | do | do | Japan | 1,426 | 49 | 1,475 | 103.4 |
| Stainless steel table spoons | January 1970 | Los Angeles | do | 2,475 | 147 | 2,622 | 105.9 |
| Polyester fabric | do | do | do | 15,785 | 607 | 16,392 | 103.8 |
| Electrolytic tinplate | do | do | do | 7,867 | 481 | 8,348 | 106.1 |
| Edam and Gouda cheese | November 1969 | do | Holland | 2,502 | 373 | 2,875 | 114.9 |
| Wool floor coverings | January 1970 | do | West Germany | 1,005 | 69 | 1,074 | 106.9 |
| Hinges (steel) | December 1969 | do | United Kingdom | 1,650 | 89 | 1,739 | 105.4 |
| Polyester film | January 1970 | do | do | 2,501 | 183 | 2,684 | 107.3 |
| Motorcycles | do | do | Japan | 89,491 | 4,748 | 94,239 | 105.3 |

[1] Excludes duty and handling charges at the U.S. port.

Source: U.S. Tariff Commission.

Senator RIBICOFF. Thank you, Mr. Shultz.

Senator Fannin?

Mr. SHULTZ. Could I make one comment on that?

Senator RIBICOFF. Certainly.

Mr. SHULTZ. Recognizing that there are many nations that do it on a c.i.f. basis, I think it is worth noting that recently, the British and French have discontinued the c.i.f. basis, Canada, Australia, and others are on a f.o.b. basis. Canada, I believe, is our biggest trading partner. So it is not as though the experience is all one way.

Senator FANNIN. Mr. Shultz, the statement that I made about the exports of agricultural products and all as compared with high technology products, I can see was wrong, entirely wrong. But it was based on information given to us and if you take 1969 to 1970, that would be true, our increase was about 15 percent on agricultural products as against about a little over 10 percent on the highly technological products or machinery, equipment and all.

Mr. SHULTZ. Well, our agricultural industry is very efficient.

Senator FANNIN. That is right. If we look back over the years, that has not been true as far as the percentages are concerned. So we do have the information we requested of you, but I do appreciate your offer to furnish that information. I did make a mistake in that regard, but I was basing it on the period 1969–70 and on the increases during that time.

We had a very, I think, beneficial witness yesterday as far as that is concerned from the Department of Agriculture that was emphasizing the increase in our exports of agricultural products and our ability to compete in those other markets as compared to our ability to compete on many of their items such as industrial items.

But I do thank you.

Senator RIBICOFF. Thank you very much. We are going to take a short recess. I just want to make one comment before I leave.

Senator Fannin and I must go to the floor to answer a live quorum. We will take a recess for 5 minutes after this comment.

Yesterday, Mr. Palmby of the Department of Agriculture was before us. He was a most impressive, knowledgeable witness. The thought occurs to me that in problems of trade and negotiation on a worldwide basis, why do we have to confine our people to compartments? If you find somebody in another department of the Government who seems to have really topnotch qualifications and interspective, why can't he be used on an overall trade team? I would commend to you searching through other departments of the Government, not merely State or Mr. Peterson's department and not just to confine a man like Mr. Palmby to Agriculture. He is good and knowledgeable.

It is just a comment of management that I make to you, sir.

Mr. SHULTZ. I welcome that comment and I agree with it. It is with that thinking in mind that we have thought this new council should not try to build up a big staff and do everything for itself, but rather to search out and find the best talent that we have and then to get it to ork ith some coordination from the Council. Our thought is to use people like Mr. Palmby, not only in his specialized area, but to get his talents to work on others as well.

Senator RIBICOFF. I think one of the dangers, and I am sure you are aware of it, is to make sure that a department who wants to get rid of somebody and who things they have a weak sister is to try to palm them off on somebody like Mr. Peterson. I think this is going to be one of the problems Mr. Peterson has, to make sure he gets who he wants, not somebody another department wants to get rid of.

Mr. SHULTZ. Mr. Peterson is a very good judge of people and I think he will look for the best.

Senator RIBICOFF. Thank you very much, Mr. Shultz.

The committee will stand in recess for 5 minutes. Then the next witness will be Mr. Borch.

(Recess.)

Senator RIBICOFF. The committee will be in order.

Our next witness is Mr. Fred J. Borch, Chairman of the Board of the General Electric Co. We welcome you here, sir. I suppose that if anyone has had experience on a practical basis on trade, both internally and externally, it is your company, sir, and we do appreciate your coming here to give us the benefit of your views.

Will you proceed at your own pace, sir.

## STATEMENT OF FRED J. BORCH, CHAIRMAN OF THE BOARD, GENERAL ELECTRIC CO.

Mr. BORCH. Thank you, very much, Mr. Chairman and Senator Fannin. It is a real pleasure, obviously, for me to be here and to talk on a subject that is near and dear to our hearts.

I think I should make it clear, I will speak primarily to our deteriorating trade balance and discuss what I believe to be a significant reason for it. I will be speaking as an individual observer, and not as a member of the President's Commission on International Trade and Investment Policy.

I will address myself to two main points:

1. The structural differences between other industrial nations and ours that reflect their higher priorities with regard to international trade.
2. The extent to which these structural differences, such as incentives for investment to improve productivity, put the United States at a disadvantage relative to our trading partners.

Obviously, if the United States is going to have any kind of equilibrium in our balance of payments we've got to have a trade and investment balance sufficient to cover all the other imbalances that spring from military expenditures abroad, U.S. tourists abroad, foreign economic aid, and so on.

Equally obvious, at least to me, is that the U.S. approach, the institutional bias of our country's policies and practices toward international trade is different from other industrial countries—they may not be right, and we may not be wrong—but we are different.

For one thing, and it is the one that accounts for a lot of other things, international trade is given a very high policy priority in most other countries. It is given a very low policy priority in our structure. I am glad to see that it is the intent of this committee to address the international economic problems of the United States with a priority fitting, in our judgment, their gravity.

The U.S. trade and investment position is not exactly weak, as Mr. Shultz pointed out—any nation whose industry and agriculture consistently run a multibillion dollar positive balance is not in a weak economic position. The problem is that the surplus would be substantially greater to cover our overall deficit—if all industrial countries were operating under the same basic ground rules.

What changes in the 1960's—what realities of the 1970's—account for the drastic slippage in the U.S. trade balance since 1964?

We have, all of us, heard repeatedly that the major cause has been our domestic inflation—we are not keeping our house in order—that this inflation sucks imports into the country at a growing pace, while it prices us out of the world's market by rapid increases in our production costs. Such an explanation is facile, and has the virtue of simplicity. But if inflation is the correct explanation, then all else being equal, there should be similar worsening trade balance effects in other major industrial countries, also plagued by inflation. Yet I have statistics that show plainly an equal or much higher rate of inflation occurring among most of the major industrial nations—including our biggest trading partners—while their trade balances have either improved or escaped our rate of deterioration.

Thus, considering our slower rate of inflation in an inflationary world, all else being equal, our exports to these major trading partners should have risen at a faster pace than our imports from them, if one accepts the simple theory that relative rates of inflation are the basic culprits. But the reverse has been the case, in fact. I must conclude, therefore, that all else has not been equal. Granting that our trade balance would be healthier in the absence of a domestic inflation, the performance of other inflationary economies suggests that other causes lie at the root of our deteriorating trade balances. Rising prices for goods and services result from wage increases not offset by productivity increases, and in no major industrial country—Japan included—have these wage increases been accompanied by fully commensurate increases in productivity.[1]

I believe that the important factors to which this committee is addressing itself, the trade distorting practices by which other governments seek to attain their international eocnomic objectives, are a significant cause of our declining trade balance. With tariffs since the Kennedy round a lesser hindrance to trade, these nontariff distortions have grown increasingly significant during the sixties and their exercise has become increasingly sophisticated. Some—such as concessionary financing, indirect or direct subsidies, rebates of indirect taxes, and rapid depreciation—have the effect of artificially reducing export prices. Others—such as higher border taxes, special levies against agricultural commodities, "Buy-National" procurement policies for nonmilitary goods, quotas and license requirements, and other barriers to imports—have the effect of artificially raising prices of imports or flatly barring imports in order to protect domestic producers.

These conditions have been visible to many of us for a number of years, but as a nation we are very late in recognizing them. In the statistics which I will present here, the influence can be fairly drawn that we have been badly outmaneuvered on the trade front.

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[1] In testimony last year before the Joint Economic Committee, I pointed out the connection between the growth in the services sectors—which by 1967 in this country had increased to 56 percent of the working population versus industry at 39 percent, and agriculture at 5 percent—to lower productivity and rising living costs. Thus, sectors of relatively low productivitp are folded in with those of relatively high productivity, and are in effect folded into manufacturing costs at the bargaining table.

If I might, with your indulgence, I would like to call your attention to exhibit A in the attachments at the end of these remarks. These are cast in index numbers. This shows the change in price, export levels and consumer price levels for the United States and six major industrial countries over the last decade. It is quite an elaborate table of IMF data.

To put the situation in a little closer focus than exhibit A, I've had three tables prepared which more graphically illustrate this situation. If you will now turn to tables I and II, in exhibit B, these compared what happened to domestic price indices and export price indices from each of the seven countries during two distinct periods—namely, in 1960-64, and in 1964 through 1970, when we had our sharper period of inflation.

Column B puts the various national inflation rates in perspective for the 1964-70 period, the period when the U.S. trade balance slipped so seriously.

Columns B and E to me rather dramatically illustrate that rises in domestic price levels are not necessarily reflected in commensurate rises in export price levels. The U.S. export price index seems obviously to have been affected by our domestic inflation; but Japan, the United Kingdom, and France (and Italy during the 1960 through 1970 period) with higher inflation rates managed to hold increases in export price levels to rates one-half or less than our.

How could this be done? In such economies, where diversified exports account for a significant share of the total manufactures, this is possible only when governments help exporting industries at the expense of their domestic consumers.

Now, if you will please turn to table III, it is designed to show the excess rate of increase in domestic price levels over the growth of export prices for each of the seven countries over three points in time—that is, 1960, 1964, 1970.

Column G indicates that, in 1960, all countries' export price indices were relatively higher than the domestic price indices—with the Japanese and Italian indices very appreciably higher.

Column H for 1964 shows a near statistical equilibrium, but with domestic price trends generally slightly steeper than export price trends.

Column I shows the dramatic change that took place between 1964 and 1970 with domestic price indexes from 16 percent to 33 percent higher than export price indices in Japan, Italy, United Kingdom, and France.

Senator RIBICOFF. Let me say to you now, what you are pointing out here is very significant. No one else has pointed it out up until now. Do our governmental agencies not know, or have knowledge of what you are telling us?

Mr. BORCH. I do not know, Senator. I did make this information available to Pete Peterson, quite recently.

Senator RIBICOFF. I mean between 1964 and 1970 when the shift was taking place, the Department of Commerce, Department of Agriculture, Department of Labor, State, did they have all of this information?

Mr. BORCH. The information, of course, was available. They are IMF statistics. Perhaps it was a little more important for General

EXPORT AND DOMESTIC CONSUMER PRICE INDICES
for
THE UNITED STATES AND MAJOR INDUSTRIAL COUNTRIES
(1963=100)

| Year | U. S. | | Canada | | Japan | | France | | Germany | | Italy | | U. K. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exp | Dom | Exp | Dom | Exp | Dom | Exp | Dom | Exp | Dom | Exp | Dom | Exp | Dom |
| 1960 | 99 | 96 | a | 96 | 102 | 82 | 99 | 89 | 93 | 91 | 102 | 83 | 95 | 91 |
| 1961 | 101 | 97 | 104 | 97 | 98 | 87 | 100 | 91 | 98 | 94 | 98 | 84 | 96 | 94 |
| 1962 | 100 | 98 | 100 | 98 | 98 | 93 | 99 | 95 | 100 | 97 | 98 | 93 | 97 | 98 |
| 1963 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100[b] | 100 | 100 | 100 | 100 | 100 | 100 |
| 1964 | 101 | 101 | 101 | 102 | 101 | 104 | 104 | 103 | 100 | 102 | 101 | 106 | 102 | 103 |
| 1965 | 104 | 103 | 103 | 104 | 101 | 112 | 105 | 106 | 102 | 106 | 102 | 111 | 104 | 108 |
| 1966 | 107 | 106 | 107 | 108 | 101 | 117 | 108 | 109 | 103 | 110 | 101 | 113 | 108 | 112 |
| 1967 | 110 | 109 | 109 | 112 | 101 | 122 | 107 | 112 | 102 | 111 | 102 | 118 | 108 | 115 |
| 1968 | 111 | 114 | 113 | 117 | 102 | 129 | 106 | 117 | 101 | 113 | 101 | 119 | 101 | 121 |
| 1969 | 115 | 120 | 116 | 122 | 105 | 136 | 109 | 124 | 104 | 116 | 105 | 122 | 105 | 127 |
| 1970 | 122 | 127 | 123 | 126 | 110 | 146 | 111 | 131 | 114 | 120 | 110 | 128 | 112 | 135 |

Source: International Monetary Fund, International Financial Statistics, various issues.

a Component parts of Canadian export index changed in 1961; on previous index, value for 1960 would be 109.

b Statistical base for the French domestic index changed in 1963 and following years.

EXHIBIT A

EXHIBIT B

Table I
% Increase in Domestic Price Indices

| Country | A. 1960-1964 | B. 1964-1970 | C. 1960-1970 |
|---|---|---|---|
| Japan | 27% | 40% | 78% |
| Italy | 28 | 21 | 54 |
| U.K. | 13 | 31 | 48 |
| France | 16 | 27 | 47 |
| Germany | 12 | 18 | 32 |
| Canada | 6 | 24 | 31 |
| U.S. | 5 | 26 | 32 |

Table II
% Increase in Export Price Indices

| | D. 1960-1964 | E. 1964-1970 | F. 1960-1970 |
|---|---|---|---|
| Japan | -1 | 9 | 8 |
| Italy | -1 | 9 | 8 |
| U.K. | 7 | 10 | 18 |
| France | 5 | 7 | 12 |
| Germany | 7 | 14 | 23 |
| Canada * | -3 | 22 | 18 |
| U.S. | 2 | 21 | 23 |

Table III
Excess of Domestic Price Indices over Export Price Indices
(expressed in %)

| | G. 1960 | H. 1964 | I. 1970 |
|---|---|---|---|
| Japan | -20 | +3 | +33 |
| Italy | -19 | +5 | +16 |
| U.K. | - 4 | +1 | +21 |
| France | -10 | -1 | +18 |
| Germany | - 2 | +2 | + 5 |
| Canada * | - 7 | +1 | + 2 |
| U.S. | - 3 | 0 | + 4 |

* Because of a statistical change in the Canadian export index in 1961, and following, in the case of Canada the 1961 figure is used instead of 1960.

Electric to stay on top of these things than it has been for other folks, but these things have been occurring for quite some time.

Senator RIBICOFF. I am sorry to interrupt you, but it is a point I wanted to make.

Mr. BORCH. With such patterns apparent in the ability of some of this countries' major trading partners to insulate their export pricing from their domestic economies, it appears obvious to me that it is dangerous simplification to generalize that inflation, by itself, is the cause of our own trade balance problem. The answer, I suggest, is more complicated.

Senator RIBICOFF. I would suggest that the staff send a copy of Mr. Borch's testimony to every Government witness which has been before us this week.

(Clerks' Note: This was done at the direction of the chairman. Replies from the Departments of Commerce and State, and the Council of Economic Advisers appears as appendix D, p. 943.)

Mr. BORCH. The figures, of course, do not prove by themselves that this dampening of export prices occurred because of systematic adoption of economic measures intended to distort fair trade and operate inequitably against U.S. firms at home and abroad. But in the experience of General Electric, as a competitior here in the United States, and in many markets overseas, we have seen this to be precisely the result.

Each major industrial country has its own technique, in particular combinations, for pushing exports and limiting or barring imports. Some clearly favor specific products for export, at the expense of others in their domestic economies. Most have industries which they protect from the rigors and challenges of international competition—specialty electronics, communications gear, and heavy electrical equipment, and I would add steel and a number of others are among their particular favorites.

In looking around for an explanation for this discrepancy between domestic and export prices—which one must admit is quite an economic phenomenon—some have pointed to relative increases in productivity. Such increases are highly desirable, here as well as abroad, and would account for an improvement in exports. And we know that in some foreign countries, notably Japan, the productivity increase has been substantial. But it would be naive to explain these figures wholly on the basis of increased productivity even in the case of Japan, and certainly in the case of France, Italy, and the U.K.*

I am convinced on the basis of all the evidence I have seen, that the answer is that we have been out-maneuvered on the international economic front. I refer to the combination of export rebates, dual pricing, tilted tax structures, indirect export subsidies, import restrictions, nontariff barriers, restrictive procurement policies for national governments and the like, which we face in international competition. Our trading partners like to point out that we, too, have import and trade barriers and this we must admit. On the other hand, the statistics I've just cited indicate quite clearly, at least to me, that our restrictions have not been near the order of magnitude of theirs as

*Certainly the effects of import restrictions which these major trading partners employ in maintaining high prices for agricultural products result solely from impediments to free, fair trade and have little or nothing to do with relative unit labor costs.

borne out by the fact that our domestic prices and our export prices are in much greater equilibrium. In short, we have not been able to so successfully shield our export prices from the effect of inflation nor to restrict imports to the same degree. I think the time has come when we can no longer view this situation with complacency. The recent currency crises, as well as a host of other indications, tell us that we cannot continue to maintain free trade unless it becomes fair as well as free.

Now, I would like to give just one example of an area where foreign governments have been alert to provide their manufacturers with an advantage that our Government has not provided.

I refer to the use of investment credit-type allowance and accelerated depreciation policies to reduce income taxes for the purpose of encouraging capital investment, and to provide an incentive for the renewal and modernization of factories. The purpose is to increase productivity, lower costs, and thus stimulate export business.

Recently the Treasury, at the request of the House Ways and Means Committee, provided information about the aspects of foreign income tax structures that encourage exports. I attach to my statement an excerpt from the Treasury's reply, giving such data for Japan.

(Exhibit C referred to follows:)

Exhibit C

EXCERPTS FROM MEMORANDUM OF U.S. TREASURY SUBMITTED TO HOUSE WAYS AND MEANS COMMITTEE, MAY 13, 1970. HEARING ON TARIFF AND TRADE PROPOSALS. 91ST CONG., 2ND SESS., P. 548

JAPAN

Direct income tax incentives relating to exports fall under four general categories:

1. Accelerated depreciation
2. Reserve for development of overseas market
3. Export allowances, and
4. Entertainment expenses.

*Accelerated depreciation in case of export sales*

A. A corporation is allowed a tax deduction for accelerated depreciation based on export sales made in the immediately preceding year. The amount of additional depreciation is computed by applying the ratio of export sales over total sales to maximum ordinary depreciation available. In other words, if export sales are 30% of total sales, ordinary depreciation is increased by 30%. Ordinary depreciation is at generous rates in the first place.

B. The aforementioned increase in ordinary depreciation is further increased by 80% if the company is recognized as a type "A" export contributing corporation or 30% if a corporation is recognized as a type "B" export contributing corporation.

If a corporation satisfies both of the following two conditions, such a corporation will be recognized as an "A" export contributing corporation if condition (1) is satisfied, but (2) is not, the corporation will be recognized as a "B" export contributing corporation:

(1) The first condition is that export sales for the immediately preceding year increased 1% or more over export sales for the year immediately prior to that year.

(2) The second condition is that the ratio of export sales to total revenue for the immediately preceding year exceeds such ratio for the year immediately prior to that year, or the increase in exports as a percentage exceeds ⅔ of the nation's increase in exports, also stated as a percentage.

In other words, the factor used to establish whether or not a company is entitled to the extra depreciation over and above that provided by merely having exports includes consideration for both the amount of the increase in exports and the ratio of exports to total sales.

For example: Assuming a percentage of export sales against total revenue of the preceding year of 80%.

| | Rank of corporation | | |
|---|---|---|---|
| | (A) | (B) | Other |
| Maximum ordinary depreciation | 100,000 | 100,000 | 100,000 |
| Rate of accelerated depreciation (percent) | 128 | 104 | 80 |
| Accelerated depreciation | [1] 128,000 | [2] 104,000 | 80,000 |
| Total | 228,000 | 204,000 | 180,000 |

[1] 160 percent multiplied by 80 percent.
[2] 130 percent multiplied by 80 percent.

The "special depreciation reserve" must be restored to taxable income in each of the next succeeding ten years at a minimum rate of 10% of the amount credit to the reserve. Thus, the relief is a deferral of taxes and increased cash flow.

*Reserve for development of overseas markets*

A. A corporation is allowed a tax deduction for a reserve for development of overseas markets to the extent of 1.5% (in case export of goods purchased from other, 1.1% if capital is more than ¥100 million) of the export sales in the immediate preceding year. The rates are increased from 1.5% to 2.4% for a type "A" export contributing corporation, and to 1.95% for a type "B". The same conditions as those mentioned previously govern the type "A" or "B" classification.

There is a decrease in these rates if the export is of goods purchased from others and an increase if the corporation is capitalized at less than ¥100 million.

B. The reserve is required to be restored to income, for tax purposes, at the rate of 20% of the amount originally provided, in each of the next succeeding five years. Thus, this provision represents a tax deferral mechanism. This reserve is not deductible for enterprise tax purposes.

*Export allowance*

A corporation may take an income deduction to the extent of the amount computed by applying various percentages to certain consideration earned to foreign currency during each qualified current accounting period. In most cases, the maximum deduction is 50% of taxable income for the period.

A. 20% of the consideration for rendering services regarding survey, and/or research, planning, advise, drawings, supervision or inspection for construction of manufacturing facilities, etc., which require scientific technical knowledge.

B. 30% of the consideration for transfer of motion picture films, copyrights and 30% of motion picture distribution revenue earned abroad.

C. 70% of the consideration for transfer and/or supplying of industrial technology, know-how, etc., created by a corporation.

D. 3% of the consideration for freight revenue on certain overseas export ship operations and repairing, processing or construction services.

Although deduction is not allowed for enterprise tax purposes, this item represents a permanent tax savings.

Mr. Borch. I will not go into detail here but it shows that by a combination of cost allowances and accelerated depreciation, which increase as export levels increase, reserves for development of export markets, and export allowances, Japan has used its tax structures to aid its international trade. Other countries all have similar incentive—though perhaps not to the same degree.

I might ad lib here that Japan in the last 5 years has increased its manufacturing capacity by an investment rate of 30 percent a year.

Senator Ribicoff. What is ours?

Mr. Borch. More recently, it has been flat. I think the highest I can ever recall is an increase of something like 16 or 17 percent, perhaps back in 1965, but this is phenomenal.

Now, in the face of this condition, what has our own Government been doing in this area to help the U.S. balance of trade? To answer this question, I would like to refer to data recently made available by the President's Task Force on Business Taxation.

(Exhibit D referred to follows:)

EXHIBIT D.—COST RECOVERY ALLOWANCES FOR MACHINERY AND EQUIPMENT IN LEADING INDUSTRIAL COUNTRIES

| | Aggregate cost recovery allowances (percentage of cost of asset) | | |
|---|---|---|---|
| | 1st taxable year | 1st 3 taxable years | 1st 7 taxable years |
| Belgium | 20.0 | 48.8 | 89.0 |
| Canada | 20.0 | 48.8 | 79.0 |
| France | 31.3 | 67.5 | 94.9 |
| Italy | 20.0 | 65.0 | 100.0 |
| Japan | 34.5 | 56.9 | 81.4 |
| Luxembourg | 28.0 | 60.4 | 101.9 |
| Netherlands | 10.0 | 42.4 | 77.1 |
| Sweden | 30.0 | 65.7 | 100.0 |
| Switzerland | 15.0 | 58.4 | 90.0 |
| United Kingdom [1] | 57.8 | 78.1 | 102.1 |
| Western Germany | 16.7 | 49.6 | 88.8 |
| Average percentages | 25.8 | 58.3 | 91.3 |
| United States: | | | |
| Pre-1969 tax treatment | 21.7 | 47.9 | 80.1 |
| Post-1969 tax treatment | 7.7 | 33.9 | 66.1 |
| Task force proposal | 10.2 | 50.1 | 88.0 |
| ADR | 14.0 | 44.0 | 76.0 |

[1] Does not reflect changes in United Kingdom as of October 1970.

Source: Report of the President's Task Force on Business Taxation. ADR figures supplied by NAM staff in conjunction with the U.S. Treasury.

These figures show that aggregate cost-recovery allowance, including both initial cost allowances and depreciation, given by 11 countries and the United States. In the case of machinery and equipment the data are given for three periods in the life of an asset: The first year, the first 3 years, and the first 7 years of useful life.

The present U.S. law, shown as "Post 1969 Tax Treatment," falls far short of the average percentage of cost recovery given in the 11 foreign countries:

The present U.S. rules allow an average recovery of 7.7 percent in the first year, as compared with an average of 25.8 percent for the foreign countries listed.

At the end of 3 years, our rules allow an average recovery of 33.9 percent, as compared with an average of 58.3 percent for our foreign competitors.

Finally, at the end of 7 years, the U.S. cost-recovery averages 66.1 percent compared with a foreign average of 91.3 percent.

You will note by reference to the pre-1969 treatment, that prior to the 1969 repeal of the investment tax credit, the gap between U.S. business and their foreign competitors was much narrower.

I think our lack of concern with our international economic problem is illustrated by the fact that in 1969, at the height of our difficulties with our export trade balance, the Government repealed a major incentive to greater productivity.

Happily, that is not the whole story, for I hasten to add that in January of this year, the administration proposed a relaxation of the strictures governing the choice of useful lives for machinery and equipment, and the substitution of the ADR, or asset depreciation range system.

The effect of this system is indicated by the bottom line on exhibit D as these figures show, ADR would be a substantial improvement over the present system—but we still have not regained the ground we lost in 1969 with the repeal of the investment tax credit. For example, the recovery at the end of the first year under ADR would average 14 percent, as compared with 21.7 percent when the investment tax credit was available.

Therefore, while ADR is a step in the right direction, it does not provide the favorable climate for productivity increases afforded by either the pre-1969 U.S. law, or by the policies of our foreign trading partners.

I commend to your attention the recommendation of the President's task force on business taxation. The effect that this would have is shown on the next-to-last line of exhibit D. While not quite as generous as the foreign treatment, there is an improvement over ADR in later years.

And that is only one illustration of the differences in tax treatment.

In conclusion, I must say that many of the charges we hear about exporting jobs are quite incomprehensible to me. Those of you who have been following the Lockheed story must know my preferences for American solutions—those that provide the maximum U.S. jobs with the optimum market basket for the U.S. consumers. We prefer to serve the American market as far as possible with American goods made with U.S. labor in U.S. factories. We establish factories overseas also, to serve those foreign markets with our products, when it is not possible or economic to do it with exports. These factories return dividends to the United States and are customers for U.S. exports of components, and many workers in the United States are employed manufacturing those export components. Regrettably, we have also been increasingly finding ourselves in a position of being unable to compete for the U.S. market with U.S. manufacture—and are faced with the alternatives of giving up the business entirely, or moving offshore. We prefer moving offshore to giving up a business in order to maintain the jobs of the General Electric people engaged in designing, engineering, and distributing the product in this market.

To complain that manufacturing abroad therefore is the exportation of jobs is nonsense. What should form the substance of the complaint is not the fact of foreign competition—which is as inevitable as domestic competion—but the fact of unfair foreign competition.

I am going to refrain, going to try to refrain, I guess, from specific recommendations here this morning since that is the role of the Commission on International Trade and Investment Policy, of which I am a member. I would, however, like to say that I regard the establishment of a central international economic policy body, the Council on International Economic Policy, under Pete Peterson, as an immediate adjunct to the Office of the President as a very important step.

Some of us have been proposing this for many years.

As an American businessman, I would observe that we have had two very important deficiencies in this country: (1) We have not had an international economic policy, and the fragmented steps we have taken have been of a far too low order of priority in the national scheme of things; (2) we have not, as do other countries, screened every prospective change in our domestic policy against the impact it will have on our international economic posture.

Other countries have done both of these things infinitely more successfully than we.

I sincerely hope the work of this committee will contribute to a more effective overall U.S. position on international trade and investment policy.

Thank you.

I would like to compliment Senator Long and you, Senator Ribicoff, for establishing this committee, which as far as I know, is the first time this has been done in the modern era, and express my thanks to you.

Senator RIBICOFF. Thank you very much. Your testimony is very provocative because it has opened up to us a few additional areas for our study.

I am curious, how many plants does General Electric have abroad?

Mr. BORCH. I think we have something like 200 in this country, and I do not know the figures, Senator, but I would say 55 offshore.

Senator RIBICOFF. How many employees in your offshore plants?

Mr. BORCH. We have about 295,000 I think at the latest count in this country, and perhaps 70,000 offshore. Do any of my associates wish to quarrel with the numbers?

Senator RIBICOFF. What has been the employment situation of production workers making electronic products over the last 5 years at home and abroad?

Mr. BORCH. I do not have the figures available to me, Senator, but I can assure you they have increased abroad and reduced in this country.

Senator RIBICOFF. In other words, you have increased abroad and reduced in this country?

Mr. BORCH. Right.

Senator RIBICOFF. The other day, or a few weeks ago, I was in Florida, and I was there and saw a GE table model radio which I thought was the best looking, most effective radio I have ever seen.

Mr. BORCH. Thank you.

Senator RIBICOFF. I had never seen one like this, and I said to my companion, I will bet any amount of money it is made in Japan, you see, and he said, oh no, it says GE, and I turned it around and there was a little thing that said Japan. I am curious, a radio like that, was that manufactured by one of your own companies, or is that somebody in Japan that manufactures that for you?

Mr. BORCH. If it said Japan, it meant that there were Japanese components in it. We, I think are the last radio manufacturers in this country.

Senator RIBICOFF. In other words, that radio was probably made abroad.

Mr. BORCH. The whole radio business has essentially moved offshore, the industry has moved offshore.

Senator RIBICOFF. Including the GE radio business?

Mr. BORCH. We have now moved, too. We were the last.

Senator RIBICOFF. I am just curious to know, with a radio like that, was it designed in this country?

Mr. BORCH. Oh, yes.

Senator RIBICOFF. You designed it here?

Mr. BORCH. Yes.

Senator RIBICOFF. It was manufactured abroad, but designed here.

Mr. BORCH. This was my reference to staying in business rather than abdicating the business.

Senator RIBICOFF. In other words, you found that if GE was going to sell radios at all that you could not make it here?

Mr. BORCH. That is right.

Senator RIBICOFF. What did you find when you had to make that decision, and it must have been a very tough decision to make——

Mr. BORCH. It was a tough decision.

Senator RIBICOFF. What did you find the differential in cost was, forgetting FOB and CIF, to deliver to a store in Washington, let us say, if it were manufactured in the United States or manufactured in Japan?

Mr. BORCH. The manufacturing costs over there are sufficiently low—that we can compete with anybody who manufactures offshore. Even with the freight, we found out that the total costs from Utica to New York City, were higher than the total costs from the Far East to New York City.

Senator RIBICOFF. Come again with that?

Mr. BORCH. Yes, the full costs from Utica, New York to New York City were higher than the full costs from the Far East to New York City.

Senator RIBICOFF. Well, I mean maybe I am stupid, but this is really a new fact for me. How do you explain it? I mean this is something that is really revealing.

Mr. BORCH. I am no expert, Senator, on shipping costs, but I understand that the costs are very much greater to ship from the United States to the Far East than the costs to ship from the Far East to the United States.

Senator RIBICOFF. Would that be because of United States ships, or would you still ship in Japanese bottoms to the Far East or from the Far East to the United States in Japanese bottoms?

Mr. BORCH. Yes, but there are shipping schedules and rates with which I am not familiar which could cause the results.

Senator RIBICOFF. Which also would be harmful reaction to your trade policy?

Mr. BORCH. It affects not only radios, it affects a broad spectrum of products, yes indeed, Senator.

(Mr. Borch subsequently submitted the following additional material:)

Based on business strategy studies conducted over the past ten years of the relative strengths and weaknesses of U.S. manufacturers in facing the threat of Japanese competition in our own domestic consumer electronic markets. It was determined that the differential in freight costs would not be enough to offset relatively higher manufacture and assembly costs, and, indeed, it was possible—assuming bulk shipment from Yokohama to New York City that the rates might be roughly comparable, or in certain cases involving special shipments of small quantities from Utica to New York City might actually be lower. The calculations were based on assumptions about the discounts from the conference rate available for foreign manufacturers shipping in foreign bottoms.

Senator RIBICOFF. I wonder if the committee staff could get together for us the backup material along the line as brought out by Mr. Borch.*

Now, how many, before you moved your radio business abroad, how many employees in GE were engaged in manufacturing radios?

Mr. BORCH. I would have to guess at this, perhaps two or three thousand, Senator.

Senator RIBICOFF. Three thousand?

Mr. BORCH. Two or three thousand, I think.

Senator RIBICOFF. Well, they might have been shifted to another product, but basically those were jobs lost.

Mr. BORCH. Those were jobs lost.

Senator RIBICOFF. What is happening with your TV business?

Mr. BORCH. It is being very badly hurt, Senator, and we see exactly the same trend here, with exception to date of the console TV; that is, the big floor model set. But, I think today half of the black and white sets today are being imported—and the percentage, I know that is increasing. And the percentage on the small color sets is growing at a very rapid rate, and I believe at the latest count it was about 30 percent, in that area, from almost nothing 5 years ago. So, the trend lines are following the same pattern.

Senator RIBICOFF. The trend lines are going the same way?

Mr. BORCH. The same way.

Senator RIBICOFF. And other manufacturers, American manufacturers of television are manufacturing their sets abroad too?

Mr. BORCH. Same thing, yes.

Senator RIBICOFF. And the freight problem?

Mr. BORCH. Same thing.

Senator RIBICOFF. Now, you are persuasive in your explanation that the basic trade problems are not caused by inflation, and I am glad you explained that to us, but by the array of nontariff barriers and subsidiaries employed by other governments in relation to our own. How would you suggest that we deal with this? How would we negotiate and strengthen our bargaining position in your opinion?

Mr. BORCH. Well, this is a matter that I can assure you has received intensive study on the part of the Commission.

Senator RIBICOFF. Forgetting the Commission, I just want to know what Mr. Borch's attitude and opinion is.

Mr. BORCH. All right, I will give you my opinion, which I should hasten to add is not shared completely with the other members of the Commission.

Senator RIBICOFF. That is all right. I just want to be frank with you. Mr. Williams and part of his staff happened to just visit with me this morning before these hearings, and Mr. Shultz alluded to it. I told him this, that from my experience over many years in the executive branch and in the Congress, I have watched the Presidential Commissions with great amusement, and there are very few Congressional Commissions that have ever amounted to anything, and I have been on some myself. The objective has been always to get a unanimous report. So consequently there is always this graying down of a sharp differential of opinion, and you would get a report that really was meaning-

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*See app. F, page 985.

less. I would hope that this problem was so important that the Williams Commission would allow a majority, and minority reports or individual views, just like the Supreme Court or Congress of the United States. We have many controversial issues and there are the majority or the minority report, and there are additional views, because unless the President and the Congress and the country can see nakedly what the issues and the problems and the thinking might be, it is impossible for us to make in my opinion, an intelligent judgment and come to an intelligent conclusion. And I told Mr. Williams that I thought that the best thing that he could do for the President and the country is not to try to gray down and get a unanimous report, and I hope you would abide by it.

Mr. BORCH. I assure you that at the first plenary meeting of this Commission before we got in business this subject was thoroughly covered, and the dissent procedures thoroughly outlined, and Mr. William's ground rules are perfectly satisfactory or many of us would not have served on the Commission at all.

How, I have been very concerned personally with the procedures in GATT. Your staff paper* outlined in considerable detail many of the frustrations that we face here, and I think, that however, we must recognize as a country that we, the United States, are responsible for a great many of these deviations from the GATT rules and procedures and enforcement.

We in the United States, when the British had their problem, we prevailed on the other members of GATT not to apply the enforcement procedure, but to let these import duties and surcharges and rebates on exports apply to help them out of their problem, and innumerable cases where we now complain about GATT not enforcing, not doing this, we were at least partially responsible in this country for twisting other members of GATT to get them to go along with these things. Now we are reaping the benefit of this.

I think today with the widespread violations of GATT, their voting procedure, which requires very cumbersome difficulties in the voting procedure to find a country in violation of GATT rules, makes the current procedures relatively ineffective. When you come up against a combination of countries who have worked very harmoniously together until the last week or so, namely the EEC countries in Europe, they have the voting ability, and as they extend their preferential treatment not only to the Mediterranean, but down into Africa and now into the Caribbean if England comes into the Market, you have a situation here now where very frankly we do not have the votes, even if we have the rightness of our position. And the approach that George Shultz talked about, to have "hard bargaining" is intriguing, but in my judgment somewhat theoretical, because when one is bargaining things that they have already done, and you try to get them to remove those things, they want something in return, and so would you and I if we had a fait accompli and now they asked us to give this up. They want something in return.

Now, what is that something in return? What is that something in return that is going to help the fundamental situation? So, the problem really, I believe, is that we should use the existing world mechanisms, GATT, OECD and IMF. They are in place, they have routines established, they have their meetings, and they are organized on-going

*Appendix C, p. 917.

bodies. I think we should work as hard as we can to strengthen them and not to tear them down and replace them, any of them.

I do believe, as George Shultz said, however, that we should look for a combination of interest between some of these. We have taken monetary issues on the one side, trade issues on the other, and never the twain have met. And as George indicated so completely, these must be looked at in the same context because changes in exchange rates themselves would obviate a great many of these inequities we see today. If, for example, the Japanese were to reevaluate the yen 20 percent you would see quite a difference in the relative trade balances we find today; but, these things obviously have got to be the subject of considerable negotiation.

My concern is that it would take 5 years with the best of intent on our part, and the best of intent on theirs, to really make a fundamental change in the situation in which the United States now finds itself.

Senator RIBICOFF. Well, if it is going to take 5 years, then we should start now to try to set up the mechanism to get it going, instead of waiting for the further deterioration with all the major trading partners.

Mr. BORCH. I have a concern, Senator, that 5 years from now our situation will be sufficiently worse that we cannot let 5 years go by. And then you ask: Well, how can we really get at this? I am afraid that I come to the fact that given their preoccupation today with the EEC, the extension of it to including England, the preferential tariffs extending to the Mediterranean and into Africa, and subsequently to the Caribbean with what the English will bring into the picture—all of these things are going to adversely effect the U.S. interest. And yet under the GATT rules these are nonnegotiable. I mean, the GATT rules provide custom unions and free trade areas as being perfectly legal and authentic, and so we watch what we had considered to be our market gradually deteriorate. So, what we are quarreling about are the basic premises on which these international institutions would stand, and as George Shultz said, 25 years ago, that was the right framework, the Marshall Plan and all of this.

Today we are in an entirely different position, and I frankly despair at any ability through international negotiations to bring anything about of the type you and I think we would like to see, short of unilateral action on the part of the United States.

Senator RIBICOFF. Are you afraid of that?

Mr. BORCH. No, this is not very receptively received by those folks who, in the last analysis, are going to have to negotiate, but I say that the lever, the only strength that the United States has today, in relation to its trading patterns is just one thing, and that is the basic attractiveness of the U.S. market.

Senator RIBICOFF. And we should use that?

Mr. BORCH. That is the only thing, Senator, that we have to use, in my opinion.

Senator RIBICOFF. I know that from a trading standpoint, if, let us say, the Japanese who had a 1.2 or 1.3 billion trade surplus, and Canada about the same, they are not going to be very anxious to lose that.

Mr. BORCH. No, they are not.

Senator RIBICOFF. And that gives us a lot of leverage.

Mr. BORCH. Right. I should add here, too, Senator, something that

I am not sure has come out in hearings to this point, that when we get all upset about Japan, I think we have got to recognize that they have managed their affairs very well indeed, and I think they get full marks for the way they have managed their economy and the job they have done with their industry. On the other hand, I think one of the main problems that the United States faces, as a result, is the fact that the Europeans for some strange reason do not have Toyotas or Datsuns, they do not have Japanese electronics, except to a very minor degree, and this is by their use of the "grandfather clause" under GATT. As a result of this I believe that something like 3 percent of the EEC's trade is with Japan, versus a very much higher percent for the United States. What I am suggesting is that if we, and Japan, could collaborate here to open up the Common Market to Japanese products, the pressure would be off the Japanese to put so much in this market. So, it does require a multilateral consideration, but unfortunately we at the moment are not in the strongest possible position as we have discussed before.

Senator RIBICOFF. Would you say that Government industry is closer in other countries on international trade matters; and in what specific ways could the U.S. Government-industry cooperation be made more effective?

Mr. BORCH. I am going to assume, Senator, that was not a facetious question.

Senator RIBICOFF. I am very serious.

Mr. BORCH. I can add that I know of no country where there is less cooperation and working together on the international trade front than in the United States.

I can say this, if I might be a little bit facetious myself, that one of our executives who was in charge of international operations some years ago had a very strong practice—when we were doing business, and trying to get export business in other countries—because he happened to be on the board of our Canadian General Electric, he would not use the U.S. Embassy but would use the Canadian Embassy to give him the help that he needed to get to know people, and to influence them to give us business.

Now, this is, as I say, a minor point, but is indicative of the way that other countries have structured themselves. And I came back to what I consider the most critical thing; while we have been preoccupied, and correctly so, in geopolitical arenas, as you call it, Senator, the others have been preoccupied in the eco-area, that you referred to, which I think is very good. Therefore, their top priorities, or one of their very high priorities has been in the international trade situation, and we have not even had a national policy on it. So, I think while I can say that cooperation between industry and Government on the international trade front has been minimal, I am not critical of the Government in this regard. It has not been considered very important. So, industry has been left to fight its own battle, industry and agriculture. But I think agriculture has had more help than industry has had there, and pretty effective help, too.

Senator RIBICOFF. Now, your comments on tax treatment in other countries are very important. Do you find it difficult to get this thought across to either the executive branch or to Congress?

Mr. BORCH. Senator, here you put an industrialist in a very difficult position. I would be the last one to suggest that U.S. tax policy should be designed for the 7 percent of our GNP that is involved in international trade, and saying, well, we will let the 93 percent suffer.

That is domestic. The other countries, I might add, have followed more the latter policy. In other words, their tax structures are specifically set up to help them in their own international trade, and I think the numbers reflect that they are perfectly willing to have their domestic consumers pay the price. He is paying prices, today, substantially higher than he would be if their tax structures were different, and so they have a philosophy here which I do not think the United States should have.

So, I think our tax structures are pretty good. All I am saying is that theirs is much more effective from the standpoint of international trade. The TVA tax, the value added tax they have in Europe is a very good example, and if I may refresh your memory for a moment, the last time that Germany revalued, you recall the ultimate revaluation was about 9 percent for that general area a few years ago, the first step that the Germans took at that point was to reduce their value added tax that applied to imports about 4 points.

Now, this indicates that the value added tax there, and the treatment on imports, additional charges, and export rebates is a pretty effective little thing; but I am not recommending that the United States substitute its corporate income tax, but the other way around.

But I think it is something down the road. I think the United States will want to take this into consideration because this places us at a tremendous disadvantage, and if the other fellows will not repeal theirs we ought to look at it with at least a little more attention than we have.

Senator RIBICOFF. Now, you say that you have 70,000 employees in plants abroad, so you must be as the Chairman of the Board aware of trends in the thinking and philosophy in foreign countries. Are you concerned about possible changes in industrial policy in relations abroad which might affect American corporation doing business there? Do we need an international code of regulations of multinational corporations on the treatment of foreign investments? This is a very, very big field.

Mr. BORCH. It is a very difficult one, Senator, and I think the time is coming when we definitely will. All American industrialists were—to say shocked and horrified is to put it rather mildly—when a report, an unofficial report called the Colonna report was issued about a year ago.

Senator RIBICOFF. What report?

Mr. BORCH. The Colonna report, which recommended treatment for European-based companies that disadvantaged U.S.-owned companies based in Europe vary substantially. A number of us, acting individually, made representation to the governments of these other countries expressing our concern about this, and the report has been "dropped." But, I think it is indicative of the type of thinking that can very well prevail, and I think in our own protection, yes, it is something that we should look at, and seek to have. Well, today, the international covenants in the OECD provide for equal treatment irrespective of nationalities. The Colonna report was recommending a departure from that basic principle which all of the industrial countries have signed, so today the rules of the game are clearly and explicitly set forth, Senator.

My concern is, if we see a drifting away from those rules, that would be my concern. The rules of the game are pretty well stated today.

Senator RIBICOFF. In other words, it has become apparent that on the international table are potentially explosive, important and big issues, the multinational corporation, monetary policy, trade policy, investment policy, and as you say, these changes are taking place and it will take a long time to try to get an understanding because of the complications, so somebody should take the initiative, and pretty soon, to get something started in these fields?

Mr. BORCH. I hope that some of the agricultural experts who testified before you, Senator, expressed their concern about the inclusion of England in the Common Market and its impact on agricultural exports into England, because the papers, the press is very clear on this, that the prices of food in England will go up 18 to 20 percent, and whether the English consumer is going to go along with Parliament I do not know, but that is a condition to get in. Now, with the European trade barriers on agricultural products, where we are the most efficient by far of any country in the world, where we are statistically increasingly being shut out, where their consumer pays higher prices and this, of course, counts in part for the discrepancies between export prices and domestic prices, these import restrictions, the immediacy of this concern to our agricultural friends is right now, right now, because I think even——

Senator RIBICOFF. Well, I know in January, when I was abroad there was not a person in any country, whether they were for or against England, coming into the Common Market that did not agree that it would mean two things, an immediate decline in American agricultural products to England, and also a relative rise in prices to the consumer. And I asked Mr. Palmby yesterday, and apparently they never figured it out, and while they do know what it would cost, I would like to relate it, this cost to a housewife on a loaf of bread and a pound of meat, and what her monthly grocery bill would be.

I think this is where we are deficient in getting across the story of these variable levies, what they will cost to the consumer, and if we are subsidizing $8 to $11 billion, and no one really has a figure on the value of food, and you have the problem of inflation, and wages being earned by any of your European countries, even the most prosperous ones, cannot compare anywhere near the wage return that the American worker gets, and if the price of food gets so high, you know—I was surprised to go in and see the price of food anyplace in Europe, and to compare it even with an expensive restaurant in the United States, I mean they are right down to the nose. You pay just as much for a meal there, and even those restaurants that you go into that are not one of these three star restaurants, posh, and you get a check there, and for a European or an American it was darn high, and you wonder how the average worker maybe who earns $25 or $30 a week, how he can even put bread on his table, so there are basic internal problems that they are going to have to face.

Mr. BORCH. You know, Senator, this is very interesting and some of us have facetiously said from time to time that we ought to run full page ads in the newspapers and call attention to the people in the foreign country who do not understand what is going on. We had an interesting and fascinating experience, you know, when the United States found that Japan was guilty of dumping TV's in the United States, and they had one horrible year in 1970 because it held up exports to the United States. But, even more, the Japanese when they read this in the paper, the Japanese consumers boycotted them when they heard the news, so the consumers do have some voice.

Senator RIBICOFF. I have some more questions, but I want to turn this over to Senator Fannin, and then I will come back with a few more.

Senator FANNIN. Thank you, Mr. Chairman. Mr. Borch, I want to compliment you for your highly pragmatic statement, it is very sound, although we may have some areas of disagreement, especially about what we are going to do about employment in this country.

I do feel that you have brought out that if we could have all industrial countries operating under the same basic rules it would alleviate many of the problems that we now have.

Now, what do you think can be done if we do not have a complete revision of GATT to control the expanding of this problem?

Mr. BORCH. If we were in a position, Senator Fannin, to devalue, to change the value of our own currency, unilaterally, and other countries have, but we are the only country in the world as I understand who cannot do this—if we cannot do this and the other countries will not revalue, and there are not too many of them that should——

Senator FANNIN. The Japanese principally?

Mr. BORCH. Principally the Japanese, and if they would not revalue, and we do not have in our arsenal of weapons things they could do to make their adjustments unilaterally, we seek other means.

I mean, what other things could we do? The Congress considered last year a whole series of import quotas and restrictions. Personally, I think Roger Ahlbrandt and I differ a little bit on this, but spreading this all the way across the economic community, I do not think it is a healthful thing to do.

I would much rather do everything we could to maintain trade as wide open as possible, but try to balance the situation, and the only way I can think of doing this is by the imposition unilaterally of an added import duty, and an export rebate. Now, this again is illegal, except the quotas, strangely enough are legal under GATT to adjust your balance of payments, but there are considerable difference of opinions by the experts as to whether the unilateral imposition of this sort of thing is right or not.

But, it has the advantage of letting the trade adjust itself under free market conditions without specifically limiting by product line or by sector. In addition to that, however, where our employment situation is badly hurt, like on steel, or on textiles, shoes, things of this kind, I think you have got to supplement this by an arrangement which permits the foreigners to share in the growth of the market, and I think the steel and textile industries have played their programs out here pretty effectively. But, I do not think we are going to get there by hoping the problem will go away.

Senator FANNIN. I agree with you, and I also agree that we have brought a great deal of this problem upon ourselves.

But, do you think that the starting of the "Buy American" policy might bring to their attention the seriousness of our situation in this country, and of our determination?

Mr. BORCH. Let me divert for a moment and come back to that, Senator. No. 1, some of my friends say that the reason the Japanese program is so successful is because General MacArthur, when he broke up the five major trading groups there had to find something else to put in its place, so he put in the best plan and program ever invented anywhere, and the Japanese are now benefiting from some of this U.S. invention in this. This may be a rather provincial position. No. 2, we must bear in mind when we talk about the European community today that our balance of trade with them overall is favorable, and the net of investments and the return from investments plus trade are favorable, but it has got to be more than favorable to cover our military expenditures, our aid programs and all of this sort of thing. So, each of the European countries looks at us, and we have the favorable trade balance, and they say, look, you have got a favorable trade balance, and why do you want to do this to us? This is a very persuasive argument on their part.

Then, at the same time, they say get your house in order, with the currency and inflation and all of that sort of thing, which I do not think is much more than propaganda.

No. 3, with respect to Buy America, you open up an entirely different subject here, Senator Fannin. We are victims in the United States in two ways of nationalistic procurement policies on the part of other countries that are very, very effective. We currently have in this country, as you know, a Buy America Act where if the Government buys anything it is a 6-percent differential generally, and if it is in the distressed areas it is 13 percent, but 6 percent is it. That is the statute on our books, everybody knows it, and it is wide open.

Now, on the same basis, TVA, just to give you an example which is near to my heart, under law, must put that 6-percent differential in, and then if the price is lower, then they buy. So, TVA is one of the greatest of purchasers of foreign electrical equipment in the world, if not the largest purchaser of foreign electrical equipment in the world today, and TVA has to do it by U.S. law.

Now, let me turn the coin around. In England and France, and I will just pick two here, there is quite a different situation. There is no open bidding procedure. The Central Electricity Board in England, which is a Government-owned utility, sits down with two groups of manufacturers, one on switchgear and one on transformers, and there are four or five manufacturers in England in each. The record of the proceedings in the Restrictive Practices Court indicates the agreement between the Government and these two groups is that they will make 16⅔ percent on their investment, and the prices will reflect this, and they divide sales between the four manufacturers, and that is that.

There is no bidding, no outsider even knows when the orders are going to be placed. U.S. industry, therefore, cannot go in there and offer its equipment for sale. The result of this policy—and that is their business; they are a sovereign country and they can do exactly what they want to do—the result of this policy and its subsidiary effect is often lost until one studies it as we have per force had to.

As the result of the guarantee of profit on their domestic business they have their fixed costs completely covered on their domestic business. They are then able to price products for sale to TVA and Bonneville and so forth in the United States at prices we figure vary between 30 and 40 percent below what they are charging in England.

Now, you say, well, another dumping procedure. Well, the dumping procedure has been filed, but you are dealing with the British Government, and the extent to which you are able to get hard facts on this, as I am sure you would say, is problematical. So, my own conviction is on how do we deal with this problem so as not to have a buy America policy. I would not mind if the buy America policy were removed from the books and there were substituted, a policy that if the other countries have the same kind of competing bidding system as TVA has, and I put TVA down as a yardstick here—wide open, no buy America, no 6 percent, nothing—because then we would be able to go in there and quote our own domestic prices, which would be lower than what they are paying now in England and France for their own gear, and that would stop this two-price system. Do I make my point? Not that we would expect to get any business, Senator, because they would still buy from their own suppliers, but at least we would have the price in there to the point that the public record would indicate just what was going on.

So, no, I would not recommend, in specific answer to your question, any buy America policy, but I would recommend a much harder-nosed attitude.

Senator FANNIN. Well, if we do not protect ourselves——

Senator RIBICOFF. Will the Senator yield a second?

Senator FANNIN. Yes.

Senator RIBICOFF. In other words, I think the key point you are making here is in the field of international trade, reciprocity becomes a key factor in any policy that we should have, reciprocity?

Mr. BORCH. Domestic reciprocity, Senator? Well, I see what you are saying.

Senator RIBICOFF. Reciprocity—you deal with another country like you are dealing with us?

Mr. BORCH. Bilaterally.

Senator RIBICOFF. By reciprocal——

Senator FANNIN. Well, it is quid pro quo, and if they have certain rulings in their countries that they would restrict us from going into their market, then we apply the same restrictions ourselves.

Mr. BORCH. That is what I consider fair competition, and then we are really up against the economic facts of life.

Senator FANNIN. Now, Japan even restricts to whether or not their companies export or sell to their domestic market.

Mr. BORCH. Oh, yes.

Senator FANNIN. I did not realize that until I was over there recently, and somebody asked me to pick up something for them, and they said, well, we only export that item. It is manufactured in Japan but it is only exported.

Well, we have this problem of so many people saying, well, only 5 percent of whatever it may be of our total business is in the export area, but what would happen if General Electric would just overnight lose 5 percent of their volume in some particular department? What effect would that have on you?

Mr. BORCH. Very serious, because we do about, according to the latest figures as I recall, something like $600 million in direct export business, and there are an awful lot of jobs involved in $600 million.

So, we are, I think, one of the major exporters, but we are not exporting television sets or radios, we are exporting high technology equipment, nuclear powerplants, large steam turbines; things of this kind, where we have frankly a technological lead, and our trading partners understand this.

Senator FANNIN. And this 5 percent in the United States, it does not necessarily say that if we lost 5 percent of that market that we would not lose more than 5 percent from the standpoint of the jobs involved. So, I do not think we realize the consequence of that 5 percent.

Mr. BORCH. It would be a major disruption, Senator, a major disruption. That is why I think the General Electric posture has been consistent throughout the years; that we believe in the freest possible international trade, providing it is fair.

Senator FANNIN. Well, that is what I certainly feel also, I feel that way about it, and I introduced legislation to try to bring that about. We have problems under antidumping, and countervailing duties and we have been doing better in the last couple of years, and I think, making a greater effort.

Mr. BORCH. May I interrupt you there, Senator, for a moment?

Senator FANNIN. Yes.

Mr. BORCH. Had we taken the same type of action on dumping protest and so forth, 6, 7, or 8 years ago, had the Government been taking that kind of action, 6, 7, or 8 years ago, as they have shown an interest in the last 2 years, we would not have the demise of the radio business and the television business in this country.

Senator FANNIN. Well, I think that is true. If we had been realistic in the automotive equipment, for instance, with the tariffs going down and their tariffs staying at a high level so we have lost their market but they have gained ours, and their costs are lower as a resutl of it, and they have increased volume, and now we find ourselves in a position where it is very difficult to compete.

What effect would this have on your industry, the American companies operating on foreign soil if we said or would say we would have it 50–50, and in other words, we would make it explicit that their markets would be open to the same percentage of volume that our markets would be open to in that regard?

Mr. BORCH. It would be a little hard to conjecture what would happen there, but I can assure you that it would cause us to take another look at all our plans, and most companies do, I think, Senator, take a look at the trends to try to plan a little bit ahead. And currently we are estimating where the next round will be, where the imports will disastrously hit our U.S. production, and we are planning ahead as to what our counter steps will be, and what steps we can take, looking over all of these things, and making recommendations to our Government or our people who are supposed to negotiate these things, with tongue in check, admittedly, while we are doing our planning. If the sort of thing you are talking about actually came to take place, I do not see how it could come into place without the negotiations we are talking about, and I, therefore, say that I am not too optimistic, but if it were to come in place it would mean an immediate replanning.

Senator FANNIN. But you would have less incentive to go offshore if we equalize these tariffs?

Mr. BORCH. Definitely. All we want to do is survive here, and make a modest profit, but when you are selling below cost it does not work very well.

Senator FANNIN. It is just one of the facts of life that we did not correct early enough, and if we are going to try to protect American jobs and look to the future then we must take steps that may be injurious to some of our companies that have gone offshore.

Thank you.

Mr. BORCH. That kind of injury we would be glad to stand, Senator.

Senator RIBICOFF. I am curious. You have been an outspoken opponent of the U.S. Government making a loan to Lockheed so that they can put Rolls Royce engines in the Tri Star. How does this jibe with your testimony?

Mr. BORCH. Senator, I suspect that I will be invited to testify for another senatorial committee on this subject, in the next few weeks, so let me confine my remarks, if I might, to the context of this committees' interest.

Our concern—leaving aside for the moment whether or not the Government should bail out Lockheed, which is a different question—the protestations that we have made to the Administration center on one critical point; international competition.

We find ourselves, we find the situation to be that the British Government permits their manufacturer of Rolls-Royce, heavily involved in defense, to go into bankruptcy.

By going into bankruptcy they escaped some wary major liabilities which they owe for poor performance, lack of delivery, inability to meet schedules and specifications, very heavy penalties, contractual penalties involving Lockheed and the U.S. airlines.

Now, the English take the position, the English Government takes the position that well, that is all right, but now we face the possibility of Lockheed going into a deficit, and we do not want you to let them go bankrupt because that might be injurious, and we will not sell Rolls-Royce engines to Lockheed unless the Government guarantees to keep Lockheed from going bankrupt. The British Government did not guarantee to keep their company whole, Rolls-Royce, but they would like us to guarantee to keep Lockheed whole.

The inconsistency is absolutely paradoxical as an approach on this, and very frankly, it is difficult for me to understand particularly when one considers the basis on which Rolls-Royce got the business under some very hard competition, with General Electric and Pratt Whitney some years ago.

But, the final straw that broke the camel's back, because Rolls-Royce had never demonstrated the competence to make engines of this size or complexity, with that the British Government came offering to come up with some $200 million of financing to our airlines, for the financing of these engines; 10-year loans, 90 percent of the value of the engines an interest rate of 5¾ percent with a carrying charge of ½ making it 6¼ percent. In succeeding months, when the prime rate in this country rose to as much as 8½ percent, and the cost of long-term money to the airlines went up to 10 percent or more, this offer at a fixed 6¼ percent on the part of the British Government amounted to a subsidy in the area of several hundred thousand dollars a plane.

Senator RIBICOFF. One-half million?

Mr. BORCH. About, or in that neighborhood. Now, this is a financial inducement hidden under a government financing project, and it is a little bit tough for an American company to compete with that. We cannot get $6\frac{1}{4}$-percent money, or could not in those days, so you have the situation here now where the British Government still have that proposition out on the table, and it is very attractive to the airlines who had ordered those planes, and my suggestion is, that if the Government, that if the U.S. Government is going to put its money behind this project it also give equal treatment and match the British Government on the financing for the airlines. I mean, the British Government is doing it, and the United States Government, when this came up, I must admit, back in late 1967 or 1968, and we began to understand what was going on—and you know in these tough negotiations it takes a while to find out what happened there—so we found out what was going on.

Large turbine generators have since been sold, $20 million in one case, $40 million in another case, with the same type of foreign financing to our electric utility customers in the United States, and again we cannot match this.

Now, this is what I mean by how other governments help their manufacturers, you see, and I particularly resent it—it is bad enough in third-country markets where we do have a better chance because of our own Ex-Im Bank, who does a wonderful job, they are very good—but in the United States we have no recourse.

Senator RIBICOFF. Now, you say you do about $600 million in export business, and basically highly technology items, which indicates that many of the countries that buy from you probably cannot compete with the same type of goods.

Is that so?

Mr. BORCH. I do think that the performance of our equipment and the technological advance edge we have are worth the higher price we receive, and apparently our good customers think so, too, so we are not price competitive, but I think we are value competitive.

Senator RIBICOFF. Value competitive?

Mr. BORCH. Right.

Senator RIBICOFF. Now, suppose the Government took off restrictions on East-West trade? I mean, keeping in mind, of course, that we will protect ourselves on any defense oriented items for American security, would you foresee that that would open a substantial market for us with Eastern Europe and the Soviet Union, if there was not any Government restrictions on your doing business with them?

Mr. BORCH. Not appreciably, Senator Ribicoff. Over a long period of time, assuming relations continue to improve, and very substantially improve, it could be important to U.S. industry. But, I think here again, we have got to distinguish between different countries. I put Yugoslavia in quite a different posture from, for instance, Russia.

I would put Cuba and China in a different posture, and I do not like to blanket the countries, and I think we ought to look at them rather individually on this basis. But, I think as far as General Electric is concerned, Senator, that if the product were commodities and commodity type products, toasters, air conditioners, or things of that kind, yes, we would be interested in expanding business with them. But, when it comes to high technology products, General Electric, as a company, even though the restraints were removed, would take a look at this in our own, shall we say, enlightened self-interest. We are not sure of patent protection, we are not sure of hard money, we are not sure where this would come back to bite us. The rules of the game here are sufficiently nebulous at this point that General Electric would take a very hard look at just where we might go, irrespective of what Congress did in loosening the list.

Senator RIBICOFF. Well, forgetting your company, do you think that there are prospects of expanding East-West trade that are substantial if we could work out credit arrangement so that you would get the goods paid for, taking the securities factors aside, do you think in general that there is a good prospect, sir?

Mr. BORCH. Not substantial, in my judgment, for the next 5 to 10 years, not substantial.

Senator RIBICOFF. In other words, in 1969, the so-called free world did some $16 billion worth of business with Eastern Europe, and we did $440 million.

Would you say that $16 billion was substantial between West and East, $16 billion?

Mr. BORCH. Yes, I would say so. That is substantial enough, of course, to have our interest. But, again you get to the question, have to include in it, the question of financing and long-term credit which the European governments are willing to extend. I question whether the United States would be willing to extend long-term financing to all of these countries, at least, and you could not get the business without it in international competition, so I think the Europeans have accommodated themselves to this in a way that I would doubt that the U.S. Government would.

So, I think the critical question is not what is on the list, I think it is the revision on our Ex-Im Bank.

Senator RIBICOFF. Where would you see, as the result of your testimony and your very obvious deep knowledge, where do you see the potential for expanding American exports?

Mr. BORCH. Are you speaking generally country by country?

Senator RIBICOFF. Generally, products and nations, where do you see us expanding our trade?

Mr. BORCH. I think we will expand and continue to expand it, and I think Senator Fannin, you asked George Shultz to give you some information of the high technology products, statistics on that, which are readily available, and they indicate that a major part of our trade surplus and the growing part of it has been in high technology products.

The so-called commodities, and agriculture, has been pretty much flat and the so-called commodities have gone down very sharply. So, I think the result, assuming no major changes, Senator, no successful negotiations to remove inequities, I think what you are going to see is a continued growth in high technology products, assuming that we keep our research and development going, as we are committed to do, and a gradual deterioration of the commodity products, and I look for our trade balance overall to deteriorate over the next several years at an increasing pace.

Senator RIBICOFF. When you say high technology products, will you give us some examples of what you mean by that?

Mr. Borch. Yes, commercial jet engines, U.S. aircraft, large steam turbine generators in those exotic sizes, nuclear power plants, steel mill automation equipment, things of this kind that we happen to be familiar with, and I am sure that there are many others in other industries, but it is this type of thing, where you are on the leading edge of technology and pushing the border a little further all of the time, and I think we will do very well.

Senator Ribicoff. What is the labor content of these high technology products? Do they generate much employment?

Mr. Borch. Oh, yes they do, and in addition to the labor content in man-hours, as far as that is concerned, it is not nearly as great as labor content dollar wise, because these are highly skilled people, awfully good people, highly skilled and very well paid.

Senator Ribicoff. So, if there were a trade war between the United States and Western Europe and Japan, would you see damage to our trade in high technology items, or would they have to take them because they had no alternative?

Mr. Borch. There would be damage, Senator, and then you would get to the national question of how bad do they want this, and my observation has been that our trading pattern partners are pretty pragmatic.

Senator Ribicoff. You know one of the problems of trade, becomes very obvious from what you say, that there is a very strong identity between foreign governments and economic ministries and foreign traders. They work very closely and very cooperatively together and I would gather that the man in charge of international trade is about as close to the top as you can find in any government abroad.

How do you recruit the Fred Borchs to government to be part of a negotiating team? This is one of the great dilemmas.

Mr. Borch. Put them on Commissions.

Senator Ribicoff. Yes. But what the trouble is, we put you on a Commission, and the bureaucrats really steal you blind. You see, I have been in this for nearly 30 odd years, and there they are working on this, on a day-to-day basis, year in and year out, through Democratic and Republican administrations, and they are doing the work, and they are writing the reports, and they are doing all of the talking, and you come down and you volunteer once every 2 months, and your intentions are good, and you intend to do well, but you have your own business and affairs to take care of.

But, you get into a situation where you are negotiating, where you talk of hard bargaining and hard negotiating, and how are you going to have hard bargaining and hard negotiating when you have men, however well intentioned, who do not have the experience in hard bargaining, hard negotiating, and also the technical confidence to deal with their opposite numbers?

Mr. Borch. Senator, you are putting your finger on what I consider to be a very, very important point, and I would certainly follow along your implied suggestion, to the extent that when the next round of trading begins, that not only industry, but key Members of Congress, be either advisory to those doing the actual negotiating, or even in Congress I think it could very well be that a Member of Congress be on the negotiating team. Business men should not be.

We are very bad at negotiating because we do not speak the language of diplomacy, and this becomes increasingly clear to me when I discuss problems of this type with the State Department. So, I would suggest that businessmen should be represented as an advisory group to those who are negotiating, and past experience has indicated that sometimes this works very effectively, and sometimes not so well.

But, if negotiating teams were instructed to preview all of the negotiating tactics in advance, with their advisory group, and not ignore them, and put them in another room, then it might be effective, Senator.

Senator RIBICOFF. You see, this is the great, the very key problem, in that I have been trying to emphasize this in my reports, and in looking ahead that the place for ecopolitics in the world, and let us say that we have got the nuclear stalemate, and it is almost conceivable that the world is going to survive, that there is never going to be a direct nuclear confrontation between the Soviet Union and the United States, but the competition is going to continue in the economic field for economic gain, and all you have to do is see the fantastic rise of Japan and Germany, and whether you decry what has happened to the business and you must tip your hat to them, for the fantastic gains and successes that they have achieved, and so we do not have the backup, we do not have the understanding or the experience in economic matters, and we have been interested in geopolitics since World War II, when the others have been interested in ecopolitics.

We have given away commercial advantages for vague political goals and what happens, when bureaucracy does this and I say the bureaucracy because I am sure the President did not realize that this was slipped into his speech when he said, "That we consider that the possible economic price of a truly unified Europe is outweighed by the gains of the political vitality of the West as a whole," what happens when you do this is that you really are giving a charter to Western Europe to go ahead, get together politically and anything that happens to us, economically we are going to take it, you know, and because this gets thrown out, and this becomes a charter for every one of our negotiators, and our policies keep on going along, and I do not know how much we have gotten out of geopolitics, after all is said and done.

Mr. BORCH. Senator, on that point if I might offer a comment, one with respect now to congressional authority to the negotiators, one of the hangups on any further round of negotiations, as has been expressed to me by European counterparts, it is that the Europeans, in their judgment quite frankly can take the position why should we spend the infinite number of hours in negotiating with you fellows when the negotiations are not binding until Congress acts on them.

Senator RIBICOFF. That is right.

Mr. BORCH. This is a very important point that they use to say that we do not want to negotiate. I mean, they use that as a reason not to negotiate, Senator.

Senator RIBICOFF. All right, so therefore, there has to be ground rules, and I think there is a further awareness, but we know from our experience that we have come out at the short end of the stick and most of these negotiations, and this is a very disturbing factor, and I will almost stack up any man that has been successful in the great competitive life of politics and banking in the U.S. sector to negotiate much better than the average man in the State Department.

Mr. BORCH. I would subscribe to that, Senator.

Senator RIBICOFF. I mean, you have to understand human nature, you have to understand your people, and you understand every part of it, and if you are any darn good, as a U.S. Senator, you have to understand the problems of industry, and the problems of labor, and the problems of agriculture, and the problems of investment, you know. These are the sort of things that come out, and also it is a question of we do have constitutional responsibility in matters of trade and tariff, and I am hoping that in hearings such as this, that we will continue, that there will be more and more realization in the executive branch of the value of consultation with the Congress, and also a concern because as pointed out to the executive branch, it was my opinion, that if what had been tacked on to that welfare bill had come to the floor, the trade sections of it, would have passed the Senate 2 to 1. I am not so sure that it would have been wise. I did not go along, I filed additional views because I did not think trade should have been put on as a rider on the welfare bill, but it becomes very apparent that you do have some deeper problems. The Canadian auto agreement was one of them. I mean, where with the point in the advance of the amounts that were involved in the first few years.?

You take the Automotive Product Trade Act of 1965, and the balance in automotive trade, although it accounted for millions of dollars in 1965 to 1970, we start with a plus of $613 million plus $422 million plus $239 million, and then we go to minus $160 million, minus $681 million, minus $1,042 million. Now, I recall at that time debating it on the floor and pointed out that this deterioration would naturally happen, that not only would we be manufacturing, but people supplying parts to the automobile companies would start buildings their plants in Canada, naturally, so, because, to fit in with that market, and to do business, they were not going to be lucrative in that market, and they were just going to expand their plants into Canada.

But, I do think that the William's Commission has an important role to play. I think that the President is going to pay attention to you. I hope that the Congress will too.

There is one single final question. From your experience and work on the William's Commission, is there one single factor which you would consider the most important in our trade relation with the world? Is there such a thing as a one or two factors that you consider they key to it all?

Mr. BORCH. I do not think that there is much question about the circumstances into which we find ourselves, Senator. I do not think there is too much debate about the general approach to what needs to be done. The main concern that I think that I have is the length of negotiation, and what will happen while this is going on, and what we will give up in return for a regressive balance. This is the major concern.

Senator RIBICOFF. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman. Mr. Borch, just getting back for a moment to the Rolls Royce situation, could we not use the countervailing duty provisions against the British subsidy in this case?

Mr. BORCH. As a practical matter, probably not.

Senator FANNIN. The intent would certainly be for that purpose, and I just wonder, do you have any recommendation for changing those provisions so that it would be more effective, because certainly

I am sure that the Congress had this in mind as the intent of the law, that this would give that protecion.

Mr. BORCH. I think that what is fundamental, Senator, and is required there is a meeting of the minds among the industrial countries of the world on the extent, terms, and degree of finance overall, because this is getting to be a financing generosity battle now, particularly in third country markets, you see; and I know of no other, I know of no instance which foreign government financing into another country has been made without the consent and approval of the receiving country. So, I am protesting this one, but the United States is not protesting.

Senator FANNIN. That is what applied to the heavy generating case too.

Mr. BORCH. Same thing.

Senator FANNIN. Of course, I feel what we have been trying to do, and I think in the statements referred to as far as the press is concerned, we have been so anxious to expand these markets, and when the President says, "I have committed the United States to a program that would help these countries improve their access to the expanding markets to the industrialized world," I would hope that the intent there was to also to help us. But, what does disturb me is that we do not have, in your way of thinking, a protection, that I assumed was in effect, as far as the Rolls Royce situation, and also the generator case. I just think that we are not enforcing these countervailing duty laws.

Mr. BORCH. We have not.

Senator FANNIN. We will see what we can do about that.

Mr. BORCH. Thank you.

Senator RIBICOFF. Thank you very much for your very valuable testimony, and I hope, Mr. Borch, that we would have an opportunity of having you appear here again in the future.

Mr. BORCH. Thank you very much.

Senator RIBICOFF. Thank you very much.

Mr. Kenneth Davis. I appreciate you being with us, Mr. Davis, and will you proceed, sir.

## STATEMENT OF KENNETH N. DAVIS, JR., FORMER ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS

Mr. DAVIS. Thank you, Senator Ribicoff. My name is Kenneth N. Davis, Jr. For some 20 years I was in an international company, before coming to Washington as Assistant Secretary of Commerce. Since returning to business last year, I have continued to follow the field that is the subject of your hearings with great interest.

Perhaps I am a little bit unique among your witnesses this week in that I have had an opportunity to see the trade problem from both sides of the fence—the business side and the Government side.

America is in deep trouble in international trade—trouble far more severe and important to the Nation than the public has realized. There is growing evidence that our trade difficulties are at the root of two of the most critical problems confronting the Nation's policymakers today—persistent high unemployment in the United States and the threatened demise of the dollar as the foundation of the world monetary system.

After many years of balance-of-payments deficits, our country has reached a crucial turning point. And I think that I should interject here that your hearings and the testimony you have heard from gentleman like Mr. Borch have made that point more eloquently that I can today.

We must make long overdue changes in our trade policy now if we are to continue as the world's leading industrial Nation. Unfortunately, despite the crisis atmosphere, there is still no consensus that trade is the fundamental problem. Your hearings have demonstrated again and again that a basic disagreement continues to divide us. The corrosive and unproductive "free trade" versus "protectionist" debate rages on. It is vital that your hearings mark the end of this debate. The time has finally come to act.

## BACKGROUND

My chief duty at the Commerce Department was to work with American industry on its problems in international trade. I had the opportunity to talk often with people like Mr. Wright who testified earlier this week, and Mr. Callaway, and Mr. Borch. Because of my previous business background, I had come to Washington convinced that the world was fast becoming a global marketplace. That the jet freighter and instant communications would inevitably result in a free flow of trade seemed to me from where I sat to be a foregone conclusion. I am as convinced as ever that we will one day have such a world. But my experience in Commerce convinced me that much more than jets and communications satellites will be required to break down trade barriers and wipe out economic nationalism. I saw firsthand that our trade representatives have no real negotiating leverage to deal with such inequities as Japan's trade and investment restrictions against our companies.

Again referring to Mr. Borch's testimony, he talked about the need for negotiation. What worries me is that we do not have the leverage to go about the negotiation he would like to see. In Washington, I became convinced that stronger action must be taken by the United States to assert its rights to fair and equitable treatment in world trade. New legislation is definitely needed, both to spur U.S. exports and also to prevent the wiping out of major American industries by extreme import penetration.

I will come back to this point again, but I think that we just must face that there is a need for legislation. The laws on the book are not doing the job and will not do the job.

This was why I urged the administration last June to back the so-called "Mills Bill" providing for quotas on textiles, apparel, and shoe imports to share in the growth of our market, the world's largest market. In its limited original form, that legislation would have passed on a bipartisan basis, I believe. It would have given the long-needed signal to the rest of the world that the United States was not going to just talk about fair treatment, but would also act when it had to. Unfortunately, during this week, I think we have heard more from some of the Government witnesses of a theme of "let us talk some more," rather than "let us act."

What happened is history. Instead of a limited "Mills bill," the final bill became something of a "Christmas Tree" in committee. Part of the problem was that the administration refused to back anything but textiles. Why the shoe industry, which had been much more severely impacted than textiles, could not be supported by the administration was never very clear. But neither the Ways and Means Committee or your committee would agree to exclude shoes. The result was that the legislation failed.

The administration's position has apparently not changed. Now, however, Mr. Mills is no longer backing even textile legislation and hasn't scheduled any hearings on trade in this session. The result of these confusing developments is that U.S. trade policy is sitting on dead center. Your hearings are the only hope in sight for stimulating early action. And the threat to the dollar shows that we must act now.

## DETERIORATION OF THE UNITED STATES INTERNATIONAL TRADE POSITION

Industry and labor are facing a rapidly deteriorating situation. Their plight is brought on both by intensive foreign competition and by American producers moving out to other countries to utilize low cost labor to compete in the United States. What was once a trickle of plant closings and work cutbacks affecting only a few of our older, labor-intensive industries has now become a flood-tide of trouble for most of U.S. business. Even such modern bellwether industries as automobiles and electronics have been severely impacted. Automobile imports, which were only 2 or 3 percent of our market 10 years ago reached 16 percent in April, up from 12.6 percent a year ago, and the dollar figures, as you have just mentioned in the Canadian-American agreement example, Senator Ribicoff, are much more impressive than the small percentage numbers might imply.

Mr. Wright of Zenith told you the tragic story of the virtual elimination of America's radio and TV-manufacturing industry. Mr. Borch commented on it too today. Radios are now practically 100 percent imported, black and white TV sets 50 percent imported, and color TV already 20 percent imported and rising fast. TV would seem to have been a prime example of the kind of new technology product to provide jobs for workers displaced from older industries like textiles. It is fair to ask, if not a giant new industry like electronics, what industry can provide jobs now and for the future? The first sign has been given that auto production jobs will be lost, too. Chrysler has announced that its "mini-car" to compete with Vega and Pinto will be the Dodge Colt. The Colt will be manufactured completely in Japan by Mitsubishi for Chrysler to sell in the American market! No American manufacturing jobs will be created by this move, of course.

As of now, there is little hope that the U.S. producers can make up for lost market shares at home by increasing export business. You may have noticed the lament of a Ford executive in a recent weekly news magazine: "The Japanese can land a Toyota here for $50 in duty and taxes, while it costs $450 to get a Pinto into Japan," he said. There will be very few Pintos sold in Japan while tens of thousands of Toyotas are coming here. Mr. Henry Ford himself spoke vehemently on the subject to his stockholders last week. In fact, he said if we don't do something to stop losing manufacturing jobs we are going to become a service economy only.

Are these just a few isolated examples, or does the claim stand up that there is an overall deterioration of our trade position? And, if true, is the trade problem the main cause of our balance-of-payments difficulties rather than currency exchange rates or other factors. In a minute I am going to put some charts up, one which I am sure you have seen before, and one of which you may not have seen.

Now, this first chart is a standard chart of U.S. balance of payments, liquidity basis, and the one most generally used as a measure of the strength of the dollar. It shows deficits in the early 1960's, and particularly shows a deterioration from 1965 through 1970, with one exception year, 1968, when there were some unusual Government transfers of funds.

The first quarter figures for 1971 have just come out. They show a $3 billion deficit in the liquidity balance of payment already, and it is probably going to be $7, $8, or $9 billion for the year.

Now, the second chart is one I do not think you have seen before. This shows the trade balance of some selected of major U.S. industries that have been hurt most by foreign competition. I think you will agree, it is a most peculiar chart. It shows a steady plus for 4 or 5 years and all of a sudden the bottom drops out. This chart combines automobiles and trucks, steel, textiles and apparel, consumer electronics, and shoes. Those five industries together accounted for a $5 billion in deterioration of our balance of payments in 5 years! For the period from 1965 to 1969 they went from a small surplus to a $4½ billion deficit. These figures were available when I was still in the Commerce Department last year. I asked again recently for the Commerce Department to update these for me. It turns out that in 1970 we have slipped another $1,200 million in those five industries, resulting in a $5.7 billion deficit.

Now, compare that with our overall balance-of-payments deficit. It almost looks as though these five industries alone account for the entire U.S. balance of payments problem. Referring to some testimony earlier this week from a representative of the Council of Economic Advisors who said there was no significant indication of impact on our industries from our trade problems, I think that this data refutes that testimony very strongly.

Now, I do not propose that we attack the balance of payments problem merely by focusing on these five industries.

What I do suggest is that we cannot cure our balance of payments difficulties if our major industries' trade positions continue to deteriorate as fast as this. The Nation cannot afford to lose in such a short period the hundreds of thousands of jobs represented by such immense trade losses, trade losses which we never experienced before in our history.

Some have said that adoption of flexible currency exchange rates will restore world monetary stability. They say that no significant change in U.S. trade policy is needed. In view of these charts, I doubt that they are right.

I was impressed by Secretary Connally's testimony on Monday, because I got the same impression from what he said that he believed that much more than monetary adjustment is needed to straighten out what is wrong with our international economic affairs. I agree with him.

Even if some type of monetary arrangement could be worked out to postpone facing up to our trade problem, we cannot afford the weakening of our whole industrial framework that a further decline in our trade position will cause. When production is transferred overseas or plants are dismantled, the loss is permanent and unrecoverable. It has been said that when inflation is brought under control all of our problems will be solved. This is just not so! For bringing inflation under control will not reduce imports' share of our market to former levels. And factories that have been dismantled will not be reopened. The Toyotas and Volkswagens will not go home, nor will jobs which have been lost be restored. Although it may be easier to just wait calmly for better times, business all over the country know that the very real problems they are facing in the world on international competition will not be solved by waiting!

How can we have such a conflict in thinking? How can we have one group of intelligent, well-meaning people saying one thing and another group of intelligent well-meaning people say another? I believe that it gets down to economic principles versus world realities. It gets down to long standing attitudes and biases.

Where business and the Congress have been divided into free trade and protectionist camps, the Nation's economists have been almost unanimous in their principles in this area. Across the whole spectrum from liberal to conservative they have strongly backed an extreme free trade posture for the United States, even in the face of restrictive practices by other leading nations. They can rightfully take much of the credit for the great achievements in world economic progress since World War II. It seems, though, that the U.S. balance-of-payments deficits and the world monetary problem also stem from their principles.

One striking recent example of the near unanimity of the economists was their petition against the Trade Act of 1970. Economists across the Nation opposed that bill, largely because of the provisions for quotas on textiles and other products. A lot of people do not realize the influence exerted by our economists. They think that the State Department is the main force in U.S. international economic policy. I do not agree. There are economists all the way through the government, and in business. I believe they have had a stronger role than the State Department in our foreign trade policy, maybe simply because there are more of them in more places.

The material that was sent out by economists groups at the time the trade bill was under consideration included references to the possibility that the consequences of passage of legislation would be comparable to those of the infamous, Smoot-Hawley Tariff Act of 1930, although some key factors are actually quite different today. The problem of U.S. manufacturers moving out to low-wage countries to compete in the American market is one phenomenon that is very different from what happened in the 1930's. Also there have been basic technological changes. We did not have the jet freighters bringing shoes and electronics and other articles from anywhere in the world, over night, back in the 1930's.

Underlying the economists' stand is the principle of comparative advantage—each nation should sell that which it finds it can produce most efficiently. If a few nations make all of the textiles or shoes, all well and good. Others will build autos or airplanes or computers. The principle is fundamentally sound and unassailable on theoretical grounds. I do not think we should challenge that. A corollary concept to comparative advantage is the idea of the adjustment process. When one country cannot withstand foreign competition in a particular industry, that industry should go through an adjustment phase into some other field.

We have seen this work in our country and an example of it is the hat industry, which was an excellent one given by Senator Ribicoff. The adjustment concept is sound in principle, particularly when Government assistance is provided to help an industry adjust out of its traditional business into something else. Economists have put great stress on the Adjustment Assistance provisions of present and proposed U.S. trade law as the answer for our industries that are suffering from intense foreign competition. However, there are severe practical limitations to this concept. There are 35,000 textile and apparel companies, for example. They employ some 2.5 million workers, one out of nine of all American factory workers. It would not be feasible to assist even a small part of such a giant industry. I think that this is clear on its face.

American economists have also generally not been much interested in U.S. exports. They note that exports constitutes only 4 percent of our GNP (while in Europe figures of 15 to 20 percent prevail, and in Japan, 10 percent). In these times of fiscal stringency, they are unsympathetic to export-expansion measures that require additional budgetary support, such as improved export credit or more liberal tax treatment for exports.

It is in the practical application of economic theory that difficulty arises. To be truly effective, the principles should be applied evenly in all countries. Unfortunately, this is not the case. Economic nationalism is pursued vigorously in virtually every country except the United States. I saw it in country after country that I visited in my government assignment,. and I knew of it in business.

Where many of our economists consider the balance of payments to be of secondary importance, in other countries the payments position is a matter of top priority. As a matter of basic national policy, they adopt trade rules for their own benefit, often to the serious detriment of the U.S. balance of payments and of the business interests of our companies. Our international companies know all too well about foreign governments' activities in matters affecting their vital business interests. There is no comparable U.S. Government intervention in their behalf. I tried to be of some help to our companies when I was there, and it is just not possible to be effective the way we are set up today.

I am going on at some length about economic principles because I think it is very necessary that this committee recognize that, along with the foreign relations considerations, these principles have influenced American trade policies very, very strongly. No major change in trade policy can be effective without the strong support of the nations' economists, I believe.

Now may be just the opportune moment for this influential group to broaden its view to recognize the practical problems confronting the United States in world trade today. It may be that one result on the monetary crisis will be a receptivity both here and abroad to new proposals to save America's trade position at long last. Nobody wants to see the American economy and the world's monetary system crumble.

Because of my background it seems appropriate that I comment a bit on the functioning of bureaucracy.

Foreign trade and economic matters probably involve more government agencies, bureaus, and commissions than any other policy area in government. State, Treasury, Commerce, Defense, Agriculture, Justice, the special trade representative, CIA, USIA, the Tariff Commission, the Ex-Im Bank, and many others take positions on the important trade issues. The number of problems that come before the interagency working committees or are handled within the individual agencies is simply incredible. Never in business did I encounter the number of variety of problems that people in the trade field in government must handle. With every industry and every country a possible candidate for some problem on any given day, one can appreciate the complex and heavy workload carried by agency personnel.

I was greatly impressed by the knowledge, thoroughness and dedication of the people I worked with, both in Commerce and in other agencies. But I was disappointed by the inefficiency of the decision process and the inflexibility of agency positions. Of greatest concern was the built-in bias, in nearly every agency, against helping U.S. business if any sort of action against foreign competition might be needed. This is not an idle charge. It exists. It is there today and it will be there tomorrow unless this committee does something about it.

I will try to give you an example of what I mean. I want to describe briefly an almost unbelievable case of uncertainty, delay, and a built-in bias against assisting U.S. business. It is a still-active matter that shows how lacking in responsiveness our government agencies are, even today.

I have here the application of the Miniature and Precision Ball Bearing Industry for import relief under the National Security Provisions of the Trade Expansion Act of 1962. Miniature precision ball bearings are required in thousands of critical products ranging from space and medical science to the most advanced weaponry. The techniques for making these tiny bearings were a United States exclusive until a few years ago.

So everybody can see what we are talking about, here is one kind of bearing that you all can see from up there, and here is one here that is so small that you cannot even see it from up there. This very small bearing is a complete working ball bearing that is used in a highly classified national security application. Now, there are only two companies left in this country that are able to make these essential devices. These are the finest, most precise mechanical parts in use today anywhere in the world.

The date of this application is January 31, 1969. The decision from the Office of Emergency Preparedness (ruling against the industry) was issued on May 5, 1971, over 27 months after the original filing! It is of interest that since this provision (sec. 232, the Trade Expansion Act) became law, there has been only one decision in favor of import relief—for petroleum—and more than 25 decisions against relief. Section 232 originated in the Senate Finance Committee back in 1955. I have seen some of the past reports of hearings of your committee in which the committee time and time again has asked that those provisions be made operative, but the bureaucratic resistence persists.

Experienced Commerce staff people told me that this was the best national security case that they had ever seen. The Commerce Department, and after some months of delay, the Defense Department as well, recommended that import relief be granted. The Labor Department attested to the critical skills that would disappear if our two sole remaining producers were lost. In fact, the Defense Department has become truly alarmed and has issued orders that all defense procurement of these bearings must be from the United States or Canada. It is ironic however, that within a few days after Defense's announcement in late April, the newspapers carrier this item:

> New Hampshire Ball Bearings, Inc., announced today that it is closing its Laconia, New Hampshire, plant on May 1.
>
> Richard Cherwin, the company's president, said that the Defense Department's action last week was a constructive step but it was too little and too late.

The company will transfer what business it has left to its remaining facility. Unfortunately, defense business alone is not sufficient to sustain the industry's capability.

It is not possible to go into all of the details of the case here today, of course, but in a minute or two you can get a feel for it as a clear-cut example of just how impossible it is for an American industry to obtain relief from import competition, despite Congress's intent.

Both of these companies happen to be located in New Hampshire. There are other ball bearing manufacturers, of course, but none with the unique capabilities possessed by these two companies. Each successive layoff of workers has caused considerable public concern. Their employment is now only half what it was 4 years ago. Both Senators and Congressmen have actively supported the companies' case with the executive branch. It is doubtful that there would even be a decision yet if Congressman James Cleveland had not made a personal crusade of this matter. His file on this case now has literally hundreds of papers, yet, after all of these months, a negative decision has been rendered, blaming general business conditions rather than foreign competitors. Paradoxically, existence of significant Japanese competition is acknowledged in the rejection. Can anyone remotely imagine that the Japanese Government would have so accommodated one of our industries if a reverse situation existed? It seems obvious that your committee and the Congress did not expect this kind of decision when section 232 was put into law. That this and so many other cases have been decided adversely indicates something is seriously wrong!

This is just one example, of course, involving only a few million dollars and several thousand jobs. The national security implications are alarming in themselves in this case. But this week you are concentrating on much broader economic implications. It is our major industries that must concern you more than smaller cases like this. However, this case does show that our current attitudes are wrong. If we cannot help a vital, small U.S. industry when no significant foreign relations or economic harm could result to another nation, how can we face the much bigger problems? We must change our attitudes and biases from hindering American business to helping it thrive in world competition.

In conclusion, I have attempted to make two principal points today. First, America's world trade position is a critically important matter, far more important than is understood by the public. And, second, the U.S. trade position is in a very grave condition.

I am convinced that meaningful steps to improve our trade position would make a major contribution toward relieving unemployment—hundreds of thousands of jobs are at stake. From the standpoint of the rest of the world, an improvement in the U.S. trade position is also essential. Only in that way can we effectively restore U.S. balance of payments stability and preserve the international monetary system.

Just to digress one moment, Mr. Wright in his testimony on Monday mentioned that in consumer electronics that we were going to see the trade deficit go from about $1 billion in 1970 to $3,500 million in 1975. We hear talk about getting out of Vietnam and how that will solve our balance of payments problem. Getting out of Vietnam is going to save perhaps $2 billion or $2,500 million. The radio and TV equipment industry alone, according to Mr. Wright's figures is going to have trade deficit that will more than offset everything we are going to save by getting out of Vietnam. That is one way to look at the parameter with which we are working.

It will be no easy matter to find a common platform for trade policy that will satisfy all of the diverse elements of business and Government. But a common platform must be found, and the futile free trade versus protectionist debate stopped.

The Congress, the Nation's economists, and the bureaucracy hold the keys to achieving a new direction for U.S. trade policy. Now, here I disagree with Secretary Connally, because the main thrust of his argument was business and labor had to solve the Nation's international competitive problems. I say that business and labor must change, too, but the leadership must come from Washington.

Mr. Chairman, you and your fellow committee members are to be congratulated for bringing the international trade issue to the fore at this critical time. We have been woefully slow to recognize the crisis proportions of the Nation's world competitive problems. The painful job of converting entrenched attitudes in the bureaucracy and forging new legislation in the Congress must be accomplished quickly. There is still time to preserve the Nation's vital industries by adopting new trade policies now. At stake is nothing less than the fundamental soundness of the American economy. That is the key to the future of all of us. In turn, the stability of the world's economy lies in the balance as well. We have far too much to lose to permit our actions to be too little, too late.

Senator Ribicoff. Thank you very much. Could you come back at 2 o'clock for some questions?

Mr. Davis. Yes, sir.

Senator Ribicoff. The committee will stand in recess until 2 o'clock.

(Thereupon, at 1:05 p.m., the committee recessed to reconvene at 2 p.m., this same day.)

2 p.m.

AFTERNOON SESSION

Senator RIBICOFF. The committee will be in order.

## STATEMENT OF KENNETH N. DAVIS, JR., FORMER ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS—Resumed

Senator RIBICOFF. May I try to clarify your position. On page 1 you imply that trade is the No. 1 problem in our economy and in relation to unemployment, the balance of payments, and so forth. Trade is only a small percent approximately of our gross national product. What about the effect of our defense costs in the balance of payments?

Mr. DAVIS. On the balance of payments, yes, defense is a big factor. I mentioned that just for Vietnam, for example, we run a deficit of several billion dollars. If my recollection serves me right, the NATO and other wiser military costs run a $3 billion deficit. That may be a little high.

If we could wipe out all oversize defense costs it might reduce our balance-of-payments deficit by $4½ to $5 billion. I do not think that is reasonable to think that we would wipe out all oversize defense commitments. Perhaps we could cut it in half, to $2½ billion. But here in five industries alone we have lost $5 billion in only a few years.

Senator RIBICOFF. You express unhappiness about the administration's handling of last year's trade bill and you talk about the Christmas tree aspects of what the Finance Committee did, but from a practical point of view, once you handle one item or two items how can you keep off items that are pinching and hurting other industries? Once you start how can you stop at one?

Mr. DAVIS. Well, that is a fair observation. The view I took was I think very much like the initial view of Congressman Mills, which was that of our major industries, the three that were suffering most were textiles, apparel, and shoes by combination of percentage of import penetration and dollar magnitude of the impact. Not wanting to go to a total protectionist position in this country and yet knowing something had to be done to take a step for those three major industries that had gone past the point of being helped by any normal transitionary kinds of things, I agreed with quotas for those three. The way I put it was "Let this be the signal to the world that if the United States cannot open markets for our other industries we might have to go further with quotas at some later time."

Now, I realize that that may seem a little discriminatory—if you are going to have quotas for anyone—have quotas for all. However, these were the three major industries impacted the most by foreign competition, with one exception, that being the radio and TV business, but we had already lost that. Our own companies had already moved their production offshore. There was an attempt made in the Congress some years ago, 5 or 6 years ago to provide quotas in the radio–TV area. Legislation was introduced, as I remember it was Senator Brooke of Massachusetts who sponsored it at the time, and that failed, and once it failed our industries moved out.

Senator RIBICOFF. You explain about the inequality of conditions of access to industry around the world. Other witnesses have done the same. What strategy would you recommend to improve our foreign trade without provoking a trade and investment war? We do have a lot of investments now that are returning is a very substantial return. Do you think that foreign countries would stand idly by under these circumstances?

Mr. DAVIS. Well, I think it is a matter of where we are at the moment. I was impressed by Mr. Calloway's testimony that it is not a matter of provoking a trade war, but recognizing that we are already in one was the way he put it. The inequities that exist today against the United States are so strong that unless we take some strong actions ourselves, unless we give our negotiators some true leverage, we are not going to make progress.

I think that probably the biggest difference we have right now is that while the administration is talking about, become Yankee traders and so forth, there is no real action. The question is how firm do we become, what sort of things do we do. I am convinced that we have talked too long to ourselves and not enough to our trading partners in very forceful terms.

Let me give you an example. In my testimony I mentioned this automobile duty and tariff matter with Japan. I think it is just ridiculous today to have—I think it is 150,000 Toyotas coming into this country, duty and taxes of $50 roughly, when Ford and General Motors cannot sell Pintos and Vegas in Japan because duties and taxes would be $450. It is time for us to say to the Japanese, "You cannot do that any longer." Yet, the position of our negotiators when they go to a meeting with the Japanese is that they have no authority to say, "We will put quotas on your cars"—the Japanese know we have no means to enforce what we are asking for. Our negotiators have no means in a legislative way.

Senator RIBICOFF. You think our negotiators are really better off if we have some congressional muscle behind them?

Mr. DAVIS. I certainly do.

Senator RIBICOFF. Do you think that would get more for this country? What do you suggest would be done to improve the effectiveness of the executive branch in the foreign trade area?

Mr. DAVIS. Well, I must agree that the establishment of the Peterson Council is a very constructive step. The greatest frustration I had in my job as Assistant Secretary of Domestic and International Business, was when I went to the White House in those days with a problem involving a major domestic industry and its difficulties in international trade there was no one place to go. There was a domestic council headed by Mr. Ehrlichman and the National Security Council headed by Mr. Kissinger. International economic policy fell in between these two councils. Now, Mr. Peterson's council should fill the gap.

So I say No. 1, having a central point in the White House is vital. They have it.

Now, the question becomes how does it function. Does it take a somewhat remote coordinating kind of role or a very active role in managing what is going on in the agencies. I know that many of the agencies would object to this, but I would opt for their taking a very active role and I question whether the 10-man staff, Mr. Shultz described can do it.

I think, for example, that this matter of the ballbearing case which I cited ought to get to that group before a decision like that is made. They ought to know we are making another negative national security decision.

I think the countervailing duties and dumping activities ought to be watched by them. They should constantly ask whether Treasury is moving aggressively enough to apply the statutes that exist.

Senator RIBICOFF. In other words, you look at the Peterson group not just as sort of a watchdog, but an active intervenor for American interests when they are justified?

Mr. DAVIS. I do. I think they should be the manager of this area.

Let me give you another example. With all the agencies that have a stake in foreign economic policy, we typically would have 20 agencies in a room debating policy-East-West trade policy, tariff preferences for the less-developed countries, and so on. Here would be 20 agencies going to a meeting, all assistant secretaries, let's say, but with nobody having the power to control that meeting. I would much rather have had somebody from the White House like Mr. Peterson be there to run the meetings.

Senator RIBICOFF. So basically you had a situation where nobody was in a position to make a decision or make a recommendation?

Mr. DAVIS. What we had was for each issue one agency might be assigned a lead role, State one time, Commerce another, Treasury another. There would be a coordination among the agencies to prepare a position paper. We would negotiate endlessly on what the position paper should say, what options there should be, and how they should be structured. Finally after all these meetings a piece of paper would go to the White House which would then be passed through some White House staff hands to the President.

Those of us that were in direct contact with the problems, you know, felt a remoteness from the point of decision that was devastating.

Senator RIBICOFF. So it would have a built-in inertia right there, everything was set up to put off decisions instead of making them?

Mr. DAVIS. I would not quite say it that way, Senator. I would not say it was set up that way intentionally.

Senator RIBICOFF. It was inevitable that would happen that way?

Mr. DAVIS. Yes.

Senator RIBICOFF. I do not think it was set up but it was inevitable it would happen that way?

Mr. DAVIS. Yes. Then you have this matter of what I call "built-in bias," the fact that most agencies were operating off the bias that grew after World War II, that America had the resources, and should take care of all the problems in the world. So on every issue it would be eight or nine agencies on one side and one or two on the other and rearguing what direction the Nation should take, whether the ones I mentioned or quotas or untying AID or whatever. Every time we would start over again, knowing full well which position each agency would take, what arguments they would use, and progress would be nill.

Senator RIBICOFF. In other words, did everyone think that the world stood still? They had an idea in 1945 or 1951 that there were no other tenable ideas or the world had not turned to change in 20 years?

Mr. DAVIS. I hate to say it, but that was the net effect. We would point out, for example, the availability of jet transportation, changing the logistics of world sourcing, that it was now possible for a U.S. manufacturer to ship his designs or his patterns overseas and get things made overseas and back as fast as he could get them done in the garment district in New York, for example. This was a physical fact of life that had changed. It was an important new fact and yet we would find the economic theorists saying well, that is just a practical problem and somehow U.S. buisness must cope with it.

Senator RIBICOFF. Were you surprised to hear Mr. Borch say it costs as much to ship a piece of merchandise from Utica to New York City as it does from Tokyo to New York City?

Mr. DAVIS. I was surprised at the dramaticness of his example. I know there are drastic inequities in freight rates. Another thing that ties right into his point is that in the international air freight rate negotiations the countries that we deal with have certain items on which they want preferential treatment. The best example I can think of is Italy and shoes. The first thing the Italians want to negotiate in international air freight rate neogtiations is the rate on shoes. They want that rate as low as possible because they are making a major effort to bring shoes into this country. I have not checked lately, but the cost of getting shoes from Rome to New York was very comparable to the kind of example Mr. Borch gave.

Senator RIBICOFF. In other words, whoever negotiates the rates on international air freights must have, must be deeply grounded in economic factors of what he is doing?

Mr. DAVIS. Yes; yet a good deal of that gets negotiated by the air carriers on their own without Government intervention.

Senator RIBICOFF. My staff points out that the foreign governments basically own their airplanes, so you have got a foreign government in effect, negotiating with our private airlines. Almost all of them, my understanding is, practically every foreign airplane operates at a very substantial loss.

Mr. DAVIS. That is my understanding as well.

Senator RIBICOFF. Let me ask you a final question. You were an officer of IBM which is a multinational corporation. Do you feel that a multinational firm, moving from the United States to a low wage area, should be controlled in any way or do you think it is in the national interest to allow an American corporation to move wherever it will to take advantage of labor and cost differentials some place else in the world?

Mr. DAVIS. The direct answer is no, I do not think they should be controlled. I do not think that is workable. But I would like to add to that answer. I do not think it is as simple as companies saying we must hold our U.S. market no matter what and if it means going offshore that is where we should go. I think it is incumbent on the company or the industry that is going to go offshore to come to the Government first, explain the circumstances of that industry and say unless something is done we will have to move offshore. This gets at the point you were making this morning. We have no strategy, we have no national plan. We have nothing comparable to the Japanese Government's approach to planning which industries they will go into, which products they will export and so on. In fact, quite the contrary. Our companies go and negotiate directly with the Japanese Government. They will go on their own. The computer companies, the generator companies, and so on, go and negotiate their own terms individually.

I do not like to suggest that we now have to get into government planning of what our industries are going to do. But what I do think we may be able to do, and we were starting on this when I left, was to form some sort of a joint business/government strategy operation where the computer people and the generator people and automobile people and textile people and so on would work with the Government on a regular basis on what their problems are and what kind of trade problems they faced.

Senator RIBICOFF. We regret—evidently no one called convening votes today, but it seems to be very busy. Would you be good enough to suspend for another 5 or 10 minutes while Senator Fannin and I go vote.

Thank you, gentlemen.

(At this point in the hearing a short recess was taken.)

Senator RIBICOFF. The committee will be in order.

Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. DAVIS. Excuse me. Could I just finish on the point we were on before the break, I was in midanswer to that last question.

What I was saying was that we have no mechanism for business and government to work together on some sort of an industrial strategy. I do not think we want to go into national planning as extensively as the Japanese do. But we do need to get a meeting of the minds that it is important let us say, to preserve the steel industry, to preserve the textile industry, to preserve a viable kind of industry and what does it take to do it.

Maybe our preeminent position in the computer and aircraft industries for example, can be used in broad negotiations to help us in these other industries. This is a delicate matter because it does get into our country's free enterprise system. But we can go a lot further than we do in working out effective national strategies. I saw an absence of it. I think business has to give up a little of its total independence here, its ability to "wheel and deal" on its own for the overall good of U.S. industry.

Senator RIBICOFF. Thank you.

Mr. Fannin?

Senator FANNIN. Mr. Davis, I do commend you for the excellent service you have made and for the outstanding service I think you have performed while you were with the Commerce Department.

Incidentally, when you were in the Commerce Department were there any goals that were set as far as American trade is concerned?

Mr. DAVIS. Yes, there was, we had a $50 billion export goal for 1972 with a $5 billion trade surplus—1972 or 1973, that could be checked. But there were two elements, $50 billion in exports and $5 billion in trade surplus. My guess is that we will reach $50 billion in exports, partially due to inflation, but we definitely will not meet the $5 billion trade surpus goal.

Senator FANNIN. In achieving that goal do you have changes you wanted to bring about, tariff changes or any other?

Mr. DAVIS. Yes, there were months of interagency work on a program to bring about those results. There were two key elements required in it, greater export credit and better tax treatment of exports. Legislation has been introduced on both of those but has not succeeded. The tax plan was a part of the trade bill, the so-called "Disc." That fell when the trade bill fell, and the liberalization of export credit I think is still under consideration. A bill has passed the Senate but not the House. This is 2 years from the time we determined we needed it.

Senator FANNIN. Until we have better equalization of tariff as you talked about earlier, 3½ percent for cars to come into this country and about 17½ percent for our cars to go to their country, besides nontariff barriers, without these changes do you think these goals will have any chance of being reached?

Mr. DAVIS. I do not think without some changes in tariffs and/or quotas we are going to meet these goals, no.

Senator FANNIN. It is going to be very difficult?

Mr. DAVIS. Very difficult. In those early days since the first studies were made we had no idea how fast the deterioration in our trade position, which you can see up here on my chart, was going to take place. We have to offset this some way, either stop some of our industries from losing ground as fast as they are or find substitutes. We all know there are no industries coming along fast enough to replace these giant industries.

Senator FANNIN. You heard much of the testimony that as far as our countervailing duties and dumping and other trade practices, do you feel we would be in a better position if we could have all these trade laws under one agency, either an existing agency or a newly created agency?

Mr. DAVIS. Maybe ultimately. I do not think you could do it in the near future. There are too many different activities going on now that are intertwined with the other operations of their agencies. I think if we can start with better management at the top, with a really extensive reaching-out, perhaps from the Peterson council, into all agencies so that there is greater surveillance and followup that maybe we do not get to get them altogether in one place.

Senator FANNIN. As I understand the problem, the decisions made—and this has been expressed during these hearings here and been countermanded by another agency—and that if we continue handling it on that basis we are going to have difficulty accomplishing our goals, and I was wondering if it would be a newly created or just a consolidation might be possible, even if it takes some time. Do you think that would be a goal?

Mr. DAVIS. I think some consolidation can take place. Really what I was questioning is whether we can get them altogether or the bulk of them together in one place. Overall consolidation would be difficult because, let us say, certain agricultural matters are tied into the other workings of the Department of Agriculture, certain Treasury matters in the workings of the Treasury Department. I doubt that you can pull all international economic matters together in the agency. If they do achieve this one Economic Affairs Agency as part of the proposed Presidential reorganization plan, they would all pretty much fall into one house, although admittedly down the line in the organizational structure.

Senator FANNIN. I feel that personally should be the goal, but if it comes about by the reorganization change that would be more beneficial perhaps.

In your testimony you cited an example of the ballbearing case in New Hampshire. I heard the Senators testifying, Senator McIntyre and Senator Norris Cotton speaking on the floor and complaining about this and asking for relief, and you refer to one of the Congressmen that was very active. I am vitally concerned about this, especially when you stated that there could be involved a very serious matter as far as something in defense is concerned. Do you consider this a very serious problem?

Mr. DAVIS. Yes. Let me say first of all I was somewhat involved in the case when I was in the Commerce Department. I was, I guess, instrumental in Commerce being the first agency to decide that the Government should support this application. In reaching that position I spent a lot of time on the case, visited the plants and so forth, and became impressed with the capability and what the Nation would lose if these companies succumbed to foreign competition.

It would be wrong to either lose their capability altogether or perhaps to have the Government set up its own capability as was done for jewel bearings. No independent producers were left, and so a Government facility had to be put up to be sure the Nation would have them available for defense needs.

That could happen in this case, too, I suspect, certainly with the trends that are going on. I think it is an important case on its own. For your hearings I think it is probably more important as an example of the attitude that is so general. I think it is very pertinent to your interests right now.

Senator FANNIN. Well, since it is under the Office of Emergency Preparedness, I think we should learn about it.

Mr. Chairman, it might be advantageous to have General Lincoln appear before the committee, because if this is very widespread it could have serious repercussions, especially when you say there is a possibility of the Federal Government building a plant to continue the manufacture of this item?

Mr. DAVIS. That could be the ultimate conclusion if the manufacturers drop out. I know that one of the two companies has now diversified its activities to where this is only 20 percent of its remaining business, and it keeps asking itself the question of whether it should stay in this business. So it is not just a matter of serving the companies' interest. It is also a matter of the country's interest.

Senator FANNIN. I heard Senator McIntyre refer to this on the floor, and he was talking about how few companies in this country can produce that bearing. I guess the profitability of it would be the determination, so if they cannot remain in business would the manufacturer of that bearing—and perhaps it would not be taken over by some other country—but as I understand it the Japanese have taken over the large volume of bearing business; is that right?

Mr. DAVIS. That is right.

Senator FANNIN. That leaves a great concern. If I remember it, they were talking about the number of bearings involved, the models that were widespread, but the volume was all in just a very limited number. I mean, when they talk about say 300 or 400 hundred bearings in a line of work that there might be 50 or 25 or fewer that represent most of the volume of a great percentage of the volume?

Mr. DAVIS. Yes. I remember one of the particular points they made in their case is that there are many very special short-run small items to be produced for very necessary applications that are not particularly profitable. High-profit runs are where foreign competition is coming in. If all the volume high-profit business goes, there is no point in the domestic companies staying in the specialty business alone. If they go out of the business, the capability needed for space satellites, medical instruments, or whatever will be lost.

Senator FANNIN. But for maintenance and all, if that bearing is available the unit may be just worthless; is that it?

Mr. DAVIS. Yes. It does seem to me that for this committee's interest, here is a section of the law which has been in effect since 1955. It has only been applied once. Perhaps it is worth looking at one tangible case closely to find out what is wrong with the law or the administration of the operation.

Senator FANNIN. Thank you very much.

Do you have any comments on what Mr. Shultz said this morning about the American capital, American business, and American labor can adjust to meet the import competition?

Mr. DAVIS. I think I would rather stand on the record of what has happened. Again, look at what five of our strongest and biggest industries have done. They have not been able to stand on their own.

The alternative of moving out to find low-cost labor so that they can continue to at least distribute and sell products is not a very happy solution for this country either in the employment area or in the balance of payments area. I think the facts are here. Someone once said it is harder to know you have a problem than it is to solve it.

It is getting acceptance that we have a trade problem, getting people to look at those numbers that have been so difficult, as Mr. Callaway of Burlington Industries said the other day, I believe the evidence is there if we will only look.

Senator FANNIN. Well, I agree. I think the evidence is there. But some of the witnesses we have had, especially from the Government, are not in agreement. Some of them just feel that the problem will go away.

From what I have observed and what has been stated by other witnesses, would lead me to believe that we must either say the GATT will work as originally planned, or we get new legislation that will take care of our own country with full consideration of the consequences of international trade.

Mr. DAVIS. Might I make one more observation, sir?

Senator FANNIN. Yes.

Mr. DAVIS. This is the strangest problem I have ever dealt with in my life. In 20 years in business I never saw a problem that was as hard to get agreement on as this. I just never saw anything like it. It is complicated, yes. There are many divergent points of view to reconcile. What we are trying to do here is change a national attitude, and this is very, very difficult to do. We found how hard it is to change our attitudes on Vietnam, for example. A change of national attitudes is awfully hard to bring about.

We need a breakthrough, and your committee hearings this week may be the turning point. It just may be that finally it is dawning on the Nation that there is something new the country has to get concerned about.

I was much impressed when I saw the mention in your hearing notice about the need for public awareness. That is where the weak point has been. The public has not understood this issue. Industry has done a bad job in telling its story. Industry has, I think, gone too much the political route and has not done enough to reach the public. It has not gotten its story across well. You have given them a wonderful platform to get their story across and I think it will help. We are all dealing with a problem that runs against the American grain of being liberal and helpful to other nations. Having to turn firm and tough on trade is not in keeping with our national character right now.

I have come to the conclusion myself that we are being too tough militarily and politically and not enough economically. We have just got to cross that bridge.

Senator FANNIN. Well, I know that there is a great difference between free trade and fair trade. You know so many times people talk to us, as they did in Japan, that they still want to retain free trade. We mention fair trade because how can you say free trade when we have all these protectionist policies they carry through, but they do not look at it from the standpoint of a fair-trade policy program.

Well, I appreciate very much the information you have given. Thank you very much.

Senator RIBICOFF. Thank you very much. We do appreciate your joining us, Mr. Davis.

(The prepared statement of Mr. Davis follows. Hearing continues on p. 555.)

### STATEMENT OF KENNETH N. DAVIS, JR., FORMER ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS

#### INTRODUCTION

*American is in deep trouble in international trade*—trouble far more severe and important to the nation than the public has realized. There is growing evidence that our trade difficulties are at the root of two of the most critical problems confronting the nation's policy makers today—*persistent high unemployment in the United States and the threatened demise of the dollars as the foundation of the world monetary system.*

After many years of balance of payments deficits, our country has reached a crucial turning point. We must make long overdue changes in our trade policy now if we are to continue as the world's leading industrial nation. Unfortunately, despite the crisis atmosphere, there is still no consensus that trade *is* the fundamental problem. Your hearings have demonstrated again that a basic disagreement continues to divide us. *The corrosive and unproductive "free trade" vs. "protectionist" debate rages on.* It is vital that your hearings mark the end of this debate. The time has finally come to act!

### BACKGROUND

My chief duty at the Commerce Department was to work with American industry on its problems in international trade, Because of my previous business background, I had come to Washington convinced that the world was fast becoming *a global marketplace.* That the jet freighter and instant communications would inevitably result in a free flow of trade seemed to me a foregone conclusion. I am as convinced as ever that we will one day have such a world. But my experience in Commerce convinced me that much more than jets and communications satellites will be required to break down trade barriers and wipe out economic nationalism. I saw firsthand that our trade representatives have no real negotiating leverage to deal with such inequities as Japan's trade and investment restrictions against our companies. I became convinced that *stronger action* must be taken by the United States to assert its rights to fair and equitable treatment in world trade. *New legislation* is definitely needed, both to *spur U.S. exports* and also to *prevent* the wiping out of major American industries by *extreme import penetration.*

### "MILLS BILL" AND THE "TRADE ACT OF 1970"

This was why I urged the Administration last June to back the so-called "Mills Bill" providing for quotas on textiles, apparel, and shoe imports to share in the growth of our market. In its limited original form, that legislation would have passed on a bipartisan basis, I believe. It would have given the long-needed signal to the rest of the world that the United States was *not going to just talk about fair treatment*, but *would also act* when it had to.

What happened is history. Instead of a limited "Mills Bill," the final Bill became something of a "Christmas Tree" in Committee. Part of the problem was that the Administration refused to back anything but textiles. Why the shoe industry, which had been much more severely impacted than textiles, could not be supported by the Administration was never very clear. But neither the Ways and Means Committee or your Committee would agree to exclude shoes. The Administration's position has apparently not changed. Now, however, Mr. Mills is no longer backing even textile legislation and hasn't scheduled any hearings on trade in this session. The result of these confusing developments is that *U.S. trade policy is sitting on dead center.* Your hearings are the only hope in sight for stimulating early action. And the *threat to the dollar* shows that *we must act now.*

### DETERIORATION OF THE UNITED STATES INTERNATIONAL TRADE POSITION

Industry and labor are facing a rapidly deteriorating situation. Their plight is brought on *both* by intensive foreign competition *and* by American producers moving out to other countries to utilize low cost labor to compete in the U.S. What was once a trickle of plant closings and work cutbacks affecting only a *few* of our older, labor-intensive industries has now become a flood-tide of trouble for *most* of U.S. business. Even such modern bellwether industries as automobiles and electronics have been severely impacted. Automobile imports, which were only 2 or 3% our market ten years ago reached 16% in April, up from 12.6% a year ago. Mr. Wright of Zenith told you the tragic story of the virtual elimination of America's radio and TV manufacturing industry. Radios are now practically 100% imported, black and white TV sets 50% imported, and color TV already 20% imported and rising fast. TV would seem to have been a prime example of the kind of new technology product to provide jobs for workers displaced from older industries like textiles. It is fair to ask, if not a giant new industry like electronics, what industry *can* provide jobs now and for the future? The first sign has been given that auto production jobs will be lost, too. Chrysler has announced that its "mini-car" to compete with Vega and Pinto will be the Dodge Colt. The Colt will be *manufactured completely in Japan* by Mitsubishi for Chrysler to sell in the American market!

As of now, there is *little hope* that U.S. producers can make up for lost market shares at home by increasing export business. You may have noticed the lament of a Ford executive in a recent weekly newsmagazine. "The Japanese can land a Toyota here for $50 in duty and taxes, while it costs $450 to get a Pinto into Japan," he said. There will be very few Pintos sold in Japan while tens of thousands of Toyotas are coming here! Mr. Henry Ford spoke vehemently on the subject to his stockholders last week.

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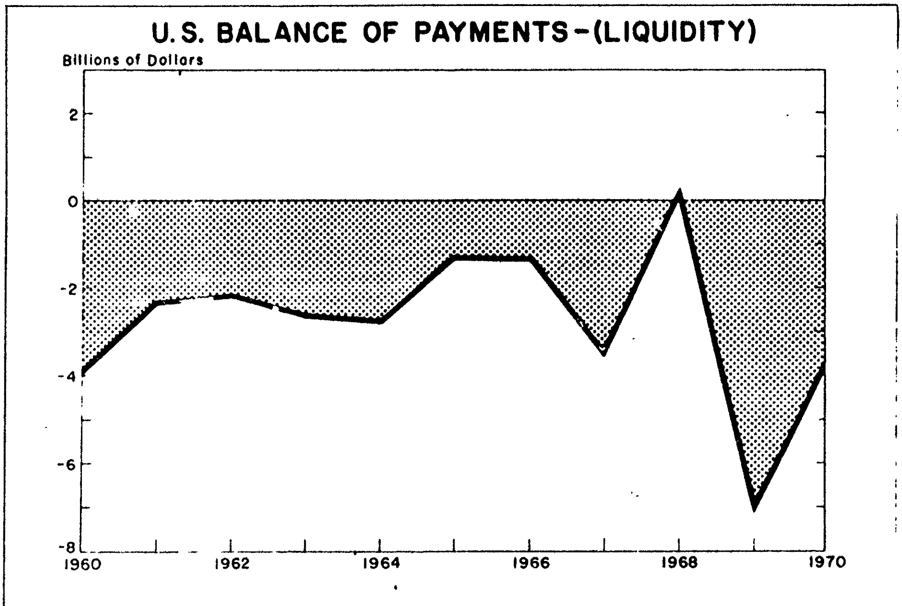


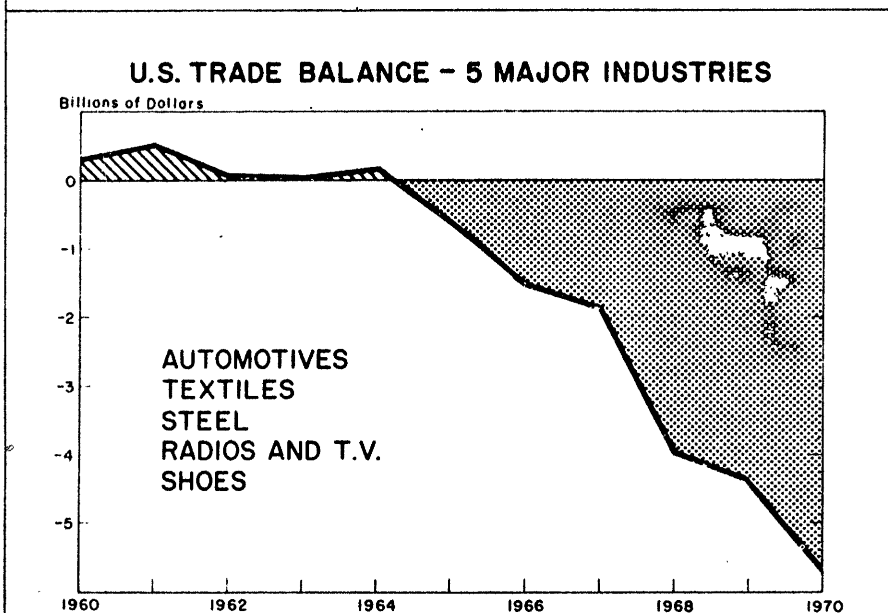


Source: U. S. Department of Commerce

Are these just a few isolated examples, or does the claim stand up that there is an *overall deterioration of our trade position?* And, if true, is the trade problem the main cause of our *balance of payments* difficulties rather than currency exchange rates or other factors. Here are two charts, one of which I am sure you have seen before, and one of which you may not have seen. The first shows the U.S. balance of payments performance over the years. Note that with one exception, 1968, there has been a *steadily growing deficit.* From a deficit of about one billion dollars in 1965, the deficit grew to *seven billion in 1969.* The second chart shows the trade balance of some selected major U.S. industries that have

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been hurt most by foreign competition. The trade balances of *five major industries* have been combined in this chart. *Automobiles, steel, textiles and apparel, consumer electronics*, and *shoes* show more than a *five billion dollar decline in their trade balances in the 1965–1970 period.* From a steady surplus in the early 60's they dropped precipitously to a four and one-half billion dollar deficit in 1969. and a *5.7 billion dollar deficit in 1970.* It could almost seem that they alone account for the whole U.S. balance of payments slump. There are, of course, other pluses and minuses, but these are among the most extreme problem cases. I do not propose that we attack the balance of payments problem merely by focusing on these industries. What I do suggest is that we *cannot cure* our balance of payments difficulties if our major industries' trade positions continue to deteriorate as fast as this. The nation cannot afford to lose in such a short period the hundreds of thousands of jobs represented by such *immense trade losses.*

Some have said that adoption of flexible currency exchange rates will restore world monetary stability. They say that no significant change in U.S. trade policy is needed. In view of these charts, I doubt that they are right. But, even if some type of monetary arrangement could be worked out to postpone facing up to our trade problem, we cannot afford *the weakening of our whole industrial framework* that a further decline in our trade position will cause. When production is transferred overseas or plants are dismantled, the loss is *permanent and unrecoverable.* It has been said that when *inflation* is brought under control all of our problems will be solved. This is just not so! For bringing inflation under control will not reduce imports' share of our market to former levels. And factories that have been dismantled will not be reopened, nor will the jobs which they once provided be restored. Although it may be easier to just *wait calmly for better times*, businesses all over the country know that the *very real problems* they are facing in the world of international competition *will not be solved by waiting!*

### ECONOMIC PRINCIPLES AND WORLD REALITIES

Economists in government and in business have played a leading role, and perhaps *the* leading role, in establishing America's foreign trade policy. Where business and the Congress have been divided into "free trade" and "protectionist" camps, the nation's economists have been almost unanimous in their principles in this area. Across the whole spectrum from liberal to conservative they have strongly backed an *extreme free trade posture for the United States*, even in the face of *restrictive practices by other leading nations.* They can take much of the credit for the great achievements in *world economic progress since World War II.* It seems, though, that the *U.S. balance of payments deficits and the world monetary problem* also stem from their principles.

One striking recent example of the near unanimity of the economists was their petition against the Trade Act of 1970. Economists across the nation opposed that Bill, largely because of the provisions for quotas on textiles and other products.

They likened the consequences of passage of that legislation to those of the *infamous Smoot-Hawley Tariff Act of 1930*, although some key factors are actually *quite different today.* The problem of *U.S. manufacturers moving out to low-wage countries* to compete in the American market is one phenomenon that is very different from what happened in the 1930's.

Underlying the economists' stand is the principle of "comparative advantage"—each nation should sell that which it finds it can produce most efficiently. If a few nations make all of the textiles or shoes, all well and good. Others will build autos or airplanes or computers. The principle is fundamentally sound and unassailable on theoretical grounds. A corollary concept to "comparative advantage" is the idea of the "adjustment process." When one country cannot withstand foreign competition in a particular industry, that industry should go through an "adjustment" phase into some other field. Again, the principle is sound, particularly when government assistance is provided to help an industry "adjust" out of its traditional business into something else. *Economists have put great stress on the Adjustment Assistance provisions* of present and proposed U.S. trade laws as the answer for our own industries that are suffering from intense foreign competition. However, there are *severe practical limitations* to this concept. There are 35,000 textile and apparel companies, for example. They employ some 2.5 million workers, one out of nine of *all* American factory workers. It would not be feasible to assist even a small part of such a giant industry.

American economists have also generally not been much interested in U.S. exports. They note that *exports constitute only 4% of our GNP* (while in Europe figures of 15% to 20% prevail, and in Japan 10%). In these times of fiscal stringency, they are unsympathetic to export-expansion measures that require additional budgetary support, such as improved export credit or more liberal tax treatment for exports.

It is in the practical applicataion of *economic theory* that difficulty arises. To be truly effective, the principles should be applied *evenly in all countries*, Unfortunately, this is *not* the case. *Economic nationalism is pursued vigorously in virtually every country except the United States.* Where many of our economists consider the balance of payments to be of secondary importance, in other countries the payments position is a matter of top priority. As a matter of basic national policy, they adopt *trade rules for their own benefit*, often to the serious detriment of the United States' balance of payments and of the business interests of our companies. Our international companies know only too well about foreign governments' activities in matters affecting their vital business interests. There is no comparable U.S. Government intervention in their behalf.

It is necessary to give due weight to the economic principles which, along with foreign relations considerations, have influenced American trade policy so strongly. No major change in trade policy can be effective without the strong support of the nation's economists. *Now* may be just the *opportune moment* for this influential group to broaden its view to recognize the *practical problems* confronting the U.S. in world trade today. It may be that one result of the monetary crisis will be a *receptivity both here and abroad to new proposals* to save America's trade position at long last.

THE BUREAUCRACY'S BIAS ON INTERNATIONAL TRADE

Because of my background, your staff asked that I comment on the functioning of *"The Bureaucracy."*

Foreign trade and economic matters probably involve more government agencies, bureaus, and commissions than any other policy area in government. State, Treasury, Commerce, Defense, Agriculture, Justice, the Special Trade Representative, CIA, USIA, the Tariff Commission, and many others take positions on the important trade issues. The *number of problems* that come before the interagency working committees or are handled within the individual agencies is simply *incredible.* Never in business did I encounter the number or variety of problems that people in the trade field in government must handle. With every industry and every country a possible candidate for some problem on any given day, one can appreciate the *complex and heavy workload carried by agency personnel.*

I was greatly impressed by the knowledge, thoroughness and dedication of the people I worked with, both in Commerce and in other agencies. But I was disappointed by the *inefficiency of the decision process* and the *inflexibility* of agency positions. *Of greatest concern was the "built-in bias," in nearly every agency, against helping U.S, business if any sort of action against foreign competition might be needed.*

I will try to give you *an example* of what I mean. I want to describe briefly *an almost unbelievable case* of uncertainty, delay, and a "built-in bias" against assisting U.S. business. It is a still-active matter that shows how *lacking in responsiveness* our government agencies are, even today.

This is the application of the Miniature and Precision Ball Bearing Industry for Import Relief under the National Security Provisions of the Trade Expansion Act of 1962. *Miniature precision ball bearings* are required in thousands of critical products ranging from space and medical science to the most advanced weaponry. The techniques for making these tiny bearings were a United States exclusive until a few years ago. Now there are *only two companies left* in this country that are able to make these essential devices. These are the finest, *most precise* mechanical parts in use today.

The date of this application is January 31, 1969. The decision from the Office of Emergency Preparedness (ruling against the industry) was issued on May 5, 1971, over 27 months after the original filing! It is of interest that since this provision (Section 232) became law, there has been only one decision in favor of import relief—for petroleum—and more than twenty-five decisions against relief. Section 232 originated in the Senate Finance Committee back in 1955. Your Committee has time and again asked that it be made operative, but the bureaucratic resistance persists.

Experienced Commerce staff people told me that this was the best National Security case they had ever seen. The Commerce Department, and after some months of delay, the Defense Department as well, recommended that import relief be granted. The Labor Department attested to the critcial skills that would disappear if our two sole remaining producers were lost. The Defense Department has become truly alarmed and has issued orders that all defense procurement of these bearings must be from the U.S. or Canada. It is ironic, however, that within a few days after Defense's announcement in late April, the newspapers carried this item: "New Hampshire Ball Bearings, Inc. announced today that it is closing its Laconia, New Hampshire, plant on May 1. Richard Cherwin, the company's president, said that 'The Defense Department's action last week was a constructive step but it was too little and too late.'" The company will transfer what business it has left to its remaining facility. Unfortunately, defense business alone is not sufficient to sustain the industry's capability.

It is not possible to go into all of the details of the case here today, of course. But in a minute or two you can get a feel for it as a clear-cut example of just how impossible it is for an American industry to obtain relief from import competition, despite Congress's intent.

Both of these companies happen to be located in New Hampshire. There are other ball bearing manufacturers, of course, but none with the unique capabilities possessed by these two companies. Each successive layoff of workers has caused considerable public concern. Their employment is now only half what it was four years ago. Both Senators and Congressmen have actively supported the companies' case with the Executive Branch. It is doubtful that there would even be a decision yet if Congressman James Cleveland had not made a personal crusade of this matter. And yet, after all of these months, a negative decision has been rendered, blaming general business conditions rather than foreign competitors. Paradoxically, existence of significant Japanese competition is acknowledged in the rejection. Can anyone remotely imagine that the Japanese government would have so accommodated one of our industries if a reverse situation existed? It seems obvious that your Committee and the Congress did not expect this kind of decision when Section 232 was put into law. That this and so many other cases have been decided adversely indicates something is seriously wrong!

This is just one example, of course, involving only a few million dollars and several thousand jobs. The National Security implications *are* alarming in themselves. But this week you are concentrating on much *broader economic implications.* It is our major industries that must concern you more than smaller cases like this. However, this case does show that *our current attitudes are wrong!* If we cannot help a vital, small U.S. industry when no significant foreign relations or economic harm could result to another nation, *how can we face the much bigger problems? We must change our attitudes and biases from hindering American business to helping it thrive in world competition!*

## CONCLUSION

I have attempted to make two principal points today. First, *America's world trade position is a critically important matter*, far more important than is understood by the public. And, second, *the United States trade position is in a very grave condition.*

I am convinced that meaningful steps to improve our trade position would make a major contribution toward relieving unemployment—*hundreds of thousands of jobs are at stake!* From the standpoint of the rest of the world, an improvement in the U.S. trade position is essential. Only in that way can we effectively restore U.S. balance of payments stability and *preserve the international monetary system.*

It will be no easy matter to find a common platform for trade policy that will satisfy all of the diverse elements of business and government. But a *common platform* must be found, and the futile "free trade" vs. "protectionist" debate stopped.

The Congress, the nation's economists, and the bureaucracy hold the keys to achieving a new direction for U.S. trade policy. Business and lagor must change too, but *the leadership can only come from Washington.* Mr. Chairman, you and your fellow committee members are to be congratulated on bringing the international trade issue to the fore at this *critical time.* We have been woefully slow to recognize the *crisis proportions* of the nation's world competitive problems. The painful job of *converting entrenched attitudes in the bureaucracy* and *forging new legislation* in the Congress must be accomplished quickly. There is still time to preserve the nation's vital industries by *adopting new trade policies now*. At stake is nothing less than the fundamental soundness of the American economy. In turn, the stability of the world's economy lies in the balance as well. *We have far too much to lose to permit our actions to be "Too little, too late"!!!!*

Senator RIBICOFF. Mr. Ahlbrandt, please.

## STATEMENT OF ROGER S. AHLBRANDT, PRESIDENT, ALLEGHENY LUDLUM INDUSTRIES, INC., PITTSBURGH, PA.

Senator RIBICOFF. Mr. Ahlbrandt, we do appreciate you giving us your time and would you proceed with your testimony, sir.

Mr. AHLBRANDT. Thank you very much, Mr. Chairman, and also Senator Fannin.

My name is Roger S. Ahlbrandt. I am president and chief executive officer of Allegheny Ludlum Industries, Inc., with corporate headquarters in Pittsburgh, Pa.

Allegheny Ludlum Industries, Inc., is a diversified manufacturing corporation with sales of over $500 million annually and ranking 217th among the Fortune 500.

We thank the committee for this opportunity to appear and present our views on national trade policies and international rules and institutions.

The United States is well into the beginning of a new era in international economic relationships and we as a Nation face a greatly changed international economic environment. New economic superstates have risen, in the European Common Market and in Japan; and these States appropriately view the entire world as their market.

It thus appears to us that our Nation faces important decisions in two principal areas:

1. In the arena of international world trade, where the formulation of a definitive and realistic American policy is an immediate imperative.
2. In the arena of foreign policy, where in the past, political objectives have virtually excluded economic considerations but where economic issues now will have to assume first priority.

In addition, our Nation faces immediate problems of short-term measures of vast importance to several of our most vital industries, since the solution to certain of our trade imbalances—affecting employment, profitability, and in some cases sheer survival of an industry—cannot await long-term settlement or future policy determination.

The new international economic environment can be viewed in perspective if one but contrasts the principal characteristics of the American economy and the economies of the emerging trading powers in the Common Market and Japan.

The American economy is a mature, profit-oriented economy, with a high standard of living, built on productivity, technology, and the work of an educated and skilled labor force. It is highly capital intensive in its industrial establishment and supports a high tax structure.

Government policies in America, as they affect monetary and fiscal considerations, have resulted in a long series of deficits both in the Nation's balance of payments and in the Federal budget. And, of grave concern, these policies have contributed greatly to the high rate of inflation in America, some 5 percent annually, compared with less than a 3 percent rate just a few years ago.

In addition, the American economy has formulated no real international trade policy, strategy, or objectives—except the general support of lower tariffs and the principle of free trade. U.S. industries define their relevant market as the United States and not the world. Numerous Government policies encourage this market myopia, among them the following:

1. U.S. antitrust policy attempts to provide for effective competition. However, the focus has been only on an industry structure of U.S. companies producing for the U.S. market. The economic environment in our world has changed—and our antitrust officials must take this into consideration today. Merger movements in Japan and Europe are producing combined companies—larger than U.S. Steel, for instance—most efficient and most competitive in the world market not only because of size but also because of national incentives.

2. U.S. tax policy penalizes financial success and investment opportunities and, at the same time, limits competitive strength and growth.

3. The American economy has no coherent policy of protecting its strategically important markets. Protection is invoked on an ad hoc basis, only after crises develop. Industries experience deep penetration of their markets, lost sales, sharply reduced profits or losses, and unemployment before corrective action, if any.

Our people are acutely conscious of the need for environmental quality improvement and of other elements in social responsibility of business, but are almost totally unaware of the added costs to business and finally to themselves as the ultimate consumers.

Because of U.S. tax policy and other considerations, American industries have exported both capital and technology overseas in order to participate in the growing foreign markets and to reexport the value-added product back to the United States—to the detriment of growth in our domestic economy. The number of job opportunities thus exported from the United States is in the hundreds of thousands.

On the other hand, gentlemen, in the new international economic environment, foreign economies are dedicated partnerships between Government, industry, finance, and labor. The business characteristics of the new trading powers differ greatly from those in the United States.

In Japan, relations between government, business, and financial institutions enable companies to support higher debt-to-equity ratios than their U.S. counterparts. This permits them to finance new facilities for growth largely with debt capital. Since they are less dependent upon retained earnings to finance growth, they can operate on lower profit margins, and hence can price lower than their U.S. counterparts. Finally, since they rely less on the equity markets for growth capital, they are less concerned about short-term profits, consistent earnings trends, high dividend payout, and price-earnings ratios. Instead, they can afford to take a longer-term focus, to invest heavily for market dominance, sign long-term contracts for scarce raw materials, and defer profit realization. But due to fixed labor costs and high-interest costs, foreign industry generally has a higher break-even production cost and must operate at close to capacity at all times.

In our competing world economies, particularly in Japan, the tradition of "permanent employment" of workers and their paternalistic employment policies result in apparent greater labor harmony and a dedicated, enthusiastic work force. They enjoy a rising standard of living, which like the American economy is built on productivity—with "borrowed" or licensed technology, most of it from the United States, and much of it acquired at bargain rates.

A large, trained work force is available but at a lower absolute cost than in the American economy. And because rapidly rising foreign wages are largely offset by productivity gains, the gap between unit labor costs in these countries and in the American economy continues to widen.

Government monetary and fiscal policies in those economies have been successful in encouraging industrial growth, increasing favorable balance of payments, promoting international trade, and gaining major portions of important growth markets throughout the world.

Specifically speaking of the Japanese economy, we note well-planned, long-range economic objectives and programs for international trade.

1. An entire array of incentives to export is provided; and there are situations where government guarantees low interest rate loans.

2. Distribution for export is centralized, not fragmented as in the American economy. Long-established trading companies, operating on an international scale with offices and contacts throughout the world, allow introduction of new products to a worldwide market at a reasonable cost.

3. The Japanese economy, further, takes every advantage of ocean logistics, creating port facilities to accommodate the specially designed and largest tonnage vessels afloat—now upward of 200,000 tons—and builds industrial facilities on deep water.

It is a general assumption and wide belief that Japan's economic success rests principally on cheaper labor. This is a basic and very important factor but emphasis on it alone could contribute to actions by our policymakers which would not bring out truly constructive solutions. We must examine differences in growth rates, cost declines, and rates of inflation to make a fair analysis and help determine our own future course.

To this end, we have found a revealing view of the dynamics of the Japanese economy and its accomplishments in the post-World War II period in a publication of the Boston Consulting Group entitled "U.S.-Japan Trade in the 1970s." I believe it will prove useful to the committee and I herewith submit it for the record of these hearings.

Senator RIBICOFF. Without objection it will go into the record.

(The publication of the Boston Consulting Group referred to by Mr. Ahlbrandt, and accepted by Senator Ribicoff for incorporation into the record, appears as appendix H, page 1011.)

Mr. AHLBRANDT. The Boston Consulting Group has developed a strategic tool, called the "Experience Curve Concept." This analytical tool enables us to calculate the changes in relative costs of the Japanese and American economies for any given industry. And it readily enables us to determine the relative and changing cost positions of the two countries for a given industry. It has been demonstrated that, for a variety of industries, total cost in constant dollars—yen, marks, et cetera—adjusted to exclude the effects of inflation, will decline by a characteristic amount each time accumulated production experience, or manufactured volume, doubles. This is found to be true in entire industries as well as in individual companies. And it is equally true of national economies.

Studies covering a wide range of industries indicate that constant dollar costs decline between 20 percent and 30 percent with each doubling of accumulated production experience. These cost reductions result from greater economies of scale, the familiar "labor learning curve" effect, distribution efficiencies, substitutions for high-cost inputs, and investments for cost reduction and expansion.

Therefore, an American industry can maintain relative price competitiveness only if it:

1. Has a faster growth rate than the competing industry in another country.
2. Has a steeper rate of cost reduction.
3. Has lower initial production costs.
4. Or if the United States has a lower inflation rate than competing economies.

The first variable, growth rate, is the most dynamic and is a function of "time and entry" into the market and production volume of the industry in each country. Japanese and European producers in many basic industries have been able to achieve relative cost advantages by supplying the growth markets in the postwar Japanese and European economies as well as high growth export markets. It is more difficult to double production rates in a mature economy such as the United States than it is in Japan where initial production began after World War II.

The second and third variables, relative cost reduction rates, and lower initial production costs, depend mostly on such forces as industrial concentration—size or companies—unionism, technology, raw materials, government, and public attitudes and policies.

Foreign industries have the benefit of U.S. technology; foreign governments have provided encouragement to high growth; and a good labor climate has been fostered, more so in Japan than in certain other nations.

The fourth variable, inflation, is primarily a function of a nation's fiscal and monetary policies. The United States has recently run deficits in both its domestic fiscal budget and its balance of trade position. This has caused a greater relevant degree of inflation compared with Japan, for example, making U.S. products less competitive in world markets.

And each of these variables, it must be pointed out, can be influenced by changes in various key factors, depending on decisions by businessmen and government policymakers.

I hope this very brief mention of the experience curve concept method of analysis will help highlight for this committee the serious economic dilemma which our Nation faces and which we, in the steel industry and the specialty steel industry in particular, have been attempting to understand and cope with for some time.

In trying to remove both our traditional concepts, such as the "cheap labor" observation, and emotion, which is difficult to do when we watch market share disappear, profits decline, and unempolyment grow, we have come to the conclusion that we must develop the real facts, no matter how bitter, and business, Government, and labor must work out solid, long-range solutions.

One of the long-held concepts proudly held in America has been that the industrial skills of the U.S. are great enough to insure that, under conditions of reasonably free, world-wide competition, our country can outcompete other countries in any market it chooses to enter. This, we now know, is not wholly correct. And to continue this view as an instrument of our Government's future international trade policy would be damaging to the Nation, its business, industry, labor, and consumers.

The deliberate policies of industrial specialization and world market penetration in chosen industries of the new economic superstates result not only in the kind of penetration of domestic markets which we feel so sharply in specialty steels in the United States but also in "trade-offs" which their economic policy dictates as the price of greater international competitiveness for the U.S. economy.

This is clearly a part of the basic philosophy of Japanese industrial policy. The Japanese shift emphasis from one industry to another, phasing out low-growth, labor intensive industries and committing national resources to higher growth, more capital intensive industries. Thus we see the Japanese, with deliberate care, successfully emphasizing textiles, electronics, steel, ships, autos, heavy machinery, petrochemicals, and computers.

In summary, there is a pressing imperative for the United States to formulate as quickly as possible a strategy and policy for international trade, one which will protect our Nation's vital interests, just as the vital interests of competing economies are being protected. Such a policy must recognize the changed world economic, rather than political, environment—and, with a long-range view, must be formed to meet the challenges of the advancing new economic powers as they head into ever new directions.

Our monopoly phobia and our views about present day antitrust policy will have to be examined and possibly changed. The new competitive factors, such as steel imports' being the third largest steel "company" in the United States, cannot be ignored in setting antitrust policy for the future. Such policy must be related to world industry dynamics and not merely to U.S. producers. Consideration must be given to rationalization and concentration of industry where necessary to allow American producers to compete efficiently on a worldwide scale, whether in manufacturing or in marketing.

The Government must recast its tax policy to encourage the efficient competitor, perhaps through a value-added form of taxation, among others. In addition, investment tax credits and depreciation guidelines must be redesigned to encourage the capital investment necessary for U.S. companies to remain competitive internationally.

We must also study other incentives which may be required—such as export tax credits and proposals like the U.S. Treasury Department's idea of Domestic International Trade Corporations.

Our Government must take a realistic look at American marketing and distribution for international trade and establish policies and programs for the encouragement of international trading companies, development of adequate port facilities, et cetera.

We further believe that a major, conscious effort will have to be made in our country, probably led by our Government, to change political, social, financial, and cultural attitudes in order to bring about economic resurgence and become more competitive in the world market. Greater cooperation between Government, business, and labor will have to be worked out on an equitable basis.

We will either do these things rationally, intelligently, and in an organized manner, or economic events—some of them possibly catastrophic in nature—will force them upon us.

Meanwhile, however, I submit that our Congress and the administration will have to look seriously at the protection of those of our important industries which have been heavily impacted by imports, in order to stabilize their position while the United States forges a consistent international trade policy.

While I cannot speak for textiles, electronics, shipbuilding, automaking, petrochemicals, or computers, I have a duty to tell you that, in steel and specialty steel, there lies a major area of responsibility for the Congress and the administration in this matter of urgent, immediate protection—through stricter voluntary arrangements, legislated quotas, tariffs, or other measures.

Steel requires this help—and it needs it now. Japan has become the third-ranking steel producing power in the world; soon will be second; and by 1975 could move into first place.

Steel imports, most of them from Japan, as I stated earlier, represent "the third largest company" in the American domestic market for steel.

In specialty steels, certain of our most important product lines are heavily impacted by imports. Some 34 percent of the stainless cold-rolled sheet market is now held by foreign imports; 65 percent of stainless wire rod and cold-drawn stainless wire; 16 percent in tool steel. And because of the economic advantages I have cited and the pricing strategies designed to capture markets for their expanding capacities, foreign producers are selling these products in the American market at discounts of 18 to more than 50 percent of our published prices. We believe some of these prices are below their manufacturing costs, but this is most difficult to substantiate.

As a result, the stainless and tool steel producers of our country are currently operating some of America's most important specialty steel facilities, many of them as modern and technically advanced as any in the world, at a loss—a situation which, of course, cannot long continue. For if relief from current levels of important penetration is not forthcoming immediately, some of these plants may have to be closed.

Japanese producers have violated the intent of the product mix provision of the voluntary limitation arrangement and increased their imports and specialty steels into the United States each year since the signing in 1969.

If legislated quotas are required, in our view, they should provide for immediate, mandated study and action when imports of a particular product or industry reach 15 percent of the U.S. domestic market. Also, although designed to regulate trade in a fair manner, the Countervailing Duty Act, the Anti-Dumping Act, the Unfair Trade Practices Act, and the Trade Expansion Act of 1962 have been largely ineffective and unworkable.

For one thing, it is impossible to comply with rules governing "substantiation" to prove injury. There is no central agency responsibility and the procedures to effect conclusive action are too time-consuming, resulting in extraordinary expense, frustration, and loss by affected industry.

In closing, gentlemen, I submit that our Nation and Government must take realistic views of the change that has come about in the world economic environment, take a world view of markets and marketing opportunities, and formulate a new policy and strategy for international trade which will make our Nation more competitive in the global arena. That is the long-range objective.

While we take the necessary time to accomplish these things, we must move to protect American industries heavily impacted by imports.

And we must help bring about a conscious change in many of our cultural, economic, financial, and political attitudes which, though having perhaps served our Nation well at another time in our economic history, are clearly out of step now with the new economic superstates in the world environment and are proving major obstacles to America's economic well-being.

I thank you very much, sir.

Senator RIBICOFF. Thank you very much, sir.

Mr. Ahlbrandt, you suggest our antitrust laws are obsolete in relation to foreign competition. What do you suggest we do about our antitrust laws in this field?

Mr. AHLBRANDT. Mr. Chairman, that is a very deep question. I know that people have given great study to it. I think that we are going to have to look at our industries one by one or totally and forget bigness within an industry. Certainly our foreign competitors have done so, and if you follow the experience curve we have to be able to double our production in order to bring our costs down at a more rapid rate. Today within our own industry we will be doing well to bring our costs down, say on a 10-percent line over a 5-year period, whereas I am sure that large Japanese combinations and European combinations that have been made, they have the opportunity to bring their—that is reduce their costs down the experience curve by maybe as much as 20 percent at a faster rate than we.

Senator RIBICOFF. Now, you have emphasized the problems of import levels in steel. Let me ask you: Has your company, either from domestic or foreign plants, ever refused to sell to an American firm, that had primarily been engaged in importing steel from abroad, but was seeking an American source? Take the specific case of stainless steel.

I have a letter which came to me yesterday from a California importer which claims that no U.S. importer, including your own, would sell to him in carlots. I wonder if you are aware of this?

Mr. AHLBRANDT. I do not know who that is. I am sure that if he is willing to pay the price that he would be accommodated, although I am not familiar with the case that you have cited.

Senator RIBICOFF. I will give you a copy of the letter. I will have the staff make, while you are here, carbon copies of this. It is rather a long letter explaining his problem, and he sort of—what he concludes.

he said in addition to United States Steel he sent a similar inquiry to seven U.S. steel mills with the following results:

Armco Steel said they wanted no more business on the West Coast. They also indicated they did not deal with mere carload buyers, stating all their jobs carried "multimillion dollar inventories."

Republic Steel said they needed no more business and indicated they dealt with members of the Steel Service Center Institute, the jobber's union.

Jones & Laughlin also said they wanted no more business and had taken on jobbers since 1958. Their president was convicted and fined $25,000 in 1965 for price fixing when he was assistant to the vice president of sales of Bethlehem Steel. I do not know if he was promoted because of this or if he took the rap for the rest of the "boys" or not but now he is a leading spokesman for the steel industry in pleading for help from the Congress to save them from imports.

Allegheny Ludlum refused to even consider selling to me from their American or from their mill in Gink, Belgium, although this mill has a large deficit in trying to get the Belgian Government to assess a special import levy and import subsidy or a large loan. In 1962 they offered to sell to me but only if I could prove I would not resell them in this country.

Eastern Stainless Steel refused stating they wanted no more business and refused to sell to me from their new mill in Middleburg, South Africa.

Senator RIBICOFF. I wonder if you would make some copies. I will give you a copy of this whole correspondence for you to look at. Maybe it never came to your desk. I am sort of curious about that, if a man wants to buy in carload lots why no steel company will sell to him. I do not know. I never heard of this company and I just get the letter yesterday. I do not know if his credit is any good or what it is all about.

Mr. AHLBRANDT. I will be very happy to look into it and I will see you get the proper response.

(Correspondence referred to follows:)

FRANK E. MCCOY,
*San Mateo, Calif., May 15, 1971.*

Re: Japanese stainless steel imports.

Senator ABRAHAM RIBICOFF,
*Chairman, Finance Subcommittee on International Trade,*
*U.S. Senate, Washington, D.C.*

DEAR SIR: We are enclosing copy of a letter we wrote to Mr. Ahlbrandt of Allegheny Ludlum who is going to testify before your committee. He has not answered our letter. In fact, we have written to the chairmen and presidents of various stainless steel mills in this country and for many years we have received no answer from any of them.

Sincerely,

FRANK E. MCCOY.

FRANK E. MCCOY,
*San Mateo, Calif., April 17, 1971.*

Mr. ROGER S. AHLBRANDT,
*President, Allegheny Ludlum Industries,*
*Pittsburgh, Pa.*

DEAR SIR: You have been complaining in the press about imports of stainless steel and you are asking the Congress for still more help. However, you must admit you have carefully omitted the following most pertinent facts concerning these imports. First, the tariff is over 10%, plus port charges, drayage, ocean freight and insurance. You must admit there must be something wrong with the management, equipment or sales methods (or perhaps all three) of domestic mills that cannot compete behind this high tariff wall.

Second—since we are not on the metric system, unlike nearly all other countries, every single item of every order must be rolled separately by a foreign mill whereas domestic mills can have long runs at far less expense. Our mills have long ago lost much of their exports because of their failure to adopt the metric system and now they will never do so unless it is made compulsory, because the present arrangements makes imports far more difficult. Because of this, and our high tariff, no foreign mills will quote us except the Japanese.

Third—Because of the above, the arrival date from Japanese mills is several months whereas domestic mills can usually ship promptly from their mill stock. This compels the importing jobber to carry a far larger stock because of this long replacement time.

Fourth—Type 304 stainless is about 72% steel, 19% chrome and 9% nickel. We must import an ever increasing amount of our iron ore and most of our chrome. We now refuse to buy from our main supplier, Rhodesia, because we disapprove of their government. But we can buy their ore, via Russia, at a far higher price. We have little nickel and during the Canadian strike we could obtain nickel from our former mine in Nicaro, Cuba, also via Russia, at a fantastic price. Since we have only about 6% of the world's population and we use (and waste) over 35% of the world's metals, it ill-behooves us to try to restrict any imports of any metals from any country.

Fifth—Altho our Dun & Bradstreet rating, BA1, is very good, Allegheny Ludlum, as well as every other American and Canadian mill, have always flatly refused to sell to us. Apparently your reason is that we re-sell at far lower than your jobbers' fixed prices, which are so exorbitant we can re-sell stainless sheets as much as one-half their prices and still make an excellent profit. You must know this refusal is contrary to our laws.

Some time ago we called upon your branch in South San Francisco which is in the same county as our warehouse in the Port of Redwood City. We stated we thought we were paying as much or even more than the American mill price to the Japanese mills since they had raised their prices about 30%. We told them we would give them our import costs and asked them if they would inform us if this was true. There were three men in your office; one was working and one, who seemed somewhat the worse for wear (it was the day after New Year's), was sitting down and staring at the ceiling. We were told they would give us no information whatever, stating they knew nothing about imported stainless, and could not care less! They said they followed instructions from their Pittsburgh office and if we wanted any further information we could write to Pittsburgh. We did so and the only answer we received was a letter from this same branch refusing to sell to us.

Sincerely,

FRANK E. MCCOY.

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FRANK E. MCCOY,
*San Mateo, Calif., January 25, 1967.*

U.S. STEEL CORP.,
*San Francisco, Calif.*

DEAR SIRS: I carry a warehouse stock of stainless, copper and aluminum sheets in the Port of Redwood City which I sell to sheet metal shops in California and Nevada. For years I have imported stainless from Japan but now I am looking for a new source as the Japanese mills are booked up for 7 or 8 months. Also, they have raised from 9% to 12% so I believe their prices are about the same as American prices.

I understand domestic mills have raised only 5%, from 39¢ to 41½¢, plus various extras and less 10% to jobbers. If you care to do so, please quote me, FOB the Port of Redwood City, on the attached list of guages and sizes. I usually buy 4, 5 or 6,000 lbs. each item for a total 40,000 lb. carload. My Dun & Bradstreet rating is B+1.

According to the "Metal Market" the domestic mills are in a slump right now and with the very high tariff wall on stainless and the increased Japanese prices and long delivery dates it seems to me that American mills could increase their volume considerably if they cared to do so.

It also seems to me that every effort should be made to increase our exports and to decrease our imports. For many years we have had a large excess of exports but this is diminishing.

Sincerely,

FRANK E. MCCOY.

In addition to U.S. Steel I sent a similar inquiry to seven other American stainless steel mills, with the following results:

U.S. Steel, McLouth Steel and Washington Steel; No reply of any kind.

Armco Steel said they wanted no more business on the West Coast. They also indicated they did not deal with mere carload buyers, stating all their jobbers carried "multimillion dollar inventories."

Republic Steel said they needed no more business and indicated they dealt only with members of the Steel Service Center Institute, the jobber's union.

Jones & Laughlin also said they wanted no more business and had taken on no new jobbers since 1958. Their president was convicted and fined $25,000 in Sept. 1965 for price-fixing when he was assistant to the VP of sales of Bethlehem Steel. I don't know if he was promoted because of this or if he took the rap for the rest of the "boys" or not but now he is a leading spokesman for the steel industry in pleading for help from the Congress to save them from imports.

Allegheny Ludlum refused to even consider selling to me from their American mill or from their mill in Gink, Belgium, altho this mill has a large deficit and is trying to get the Belgian government to assess a special import levy and an export subsidy or a large loan. In 1962 they offered to sell to me but only if I could prove I would not resell them in this country!

Eastern Stainless Steel refused stating they wanted no more business and also refused to sell to me from their new mill in Middleburg, South Africa. In spite of all their cheap labor, this mill, the only one in the southern hemisphere, is asking the South African government for a 20% tariff just for their benefit. Incidentally, nearly all the equipment for this mill came from Italy and Japan! Maybe they have not heard of the "Buy in America" movement!

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FRANK E. MCCOY,
*San Mateo, Calif., October 12, 1968.*

U.S. STEEL CORP.,
*Pittsburgh, Pa.*

DEAR SIRS: I carry a stock of stainless, copper and aluminum sheets which I sell to sheet metal shops. For many years I have imported stainless sheets from Japan but now I read in the trade papers that American mill prices are as low, or lower, than the prices I am now paying for Japanese sheets.

According to the "Metal Market" American mills are in a slump right now and with the very high tariff wall and the long delivery dates on imported stainless it seems to me that American mills could increase their volume considerably if they cared to do so. I would appreciate it very much if you would quote me, FOB the Port of Redwood City, on the attached list of guages and sizes. I usually buy 4, 5 or 6,000 lbs. of each item for a total of a 40,000 lb. carload. You will find that my Dunn & Bradstreet rating is very good.

Domestic mills, including your concern, have refused to sell to me for many years because I re-sell at prices as much as 50% lower than other jobbers. I really believe that this price-fixing policy should be dropped by you, not just because it is illegal, but simply because it is no longer effective.

Many of my customers prefer imported sheets because of the ill-will built up against American mills by the exorbitant prices, especially on small sales, and refusal to combine gauges, sizes, etc. However, this could be avoided if you sold me sheets without the name of your mill on either the sheets or the cases. Also, this would avoid any conflict with any of your own price-fixing jobbers. I have been selling a certain non-stainless domestic item in this manner for many years.

It seems to me that every effort should be made to decrease our imports. For many years we have had a large excess of exports but this is rapidly diminishing.

Sincerely,

FRANK E. MCCOY.

In addition to U.S. Steel I sent a similar inquiry to the other stainless mills with the following results:

U.S. Steel: No reply; in fact, they have never replied for the past 25 years.

Washington Steel and McLouth Steel—No reply.

Republic Steel—No reply. Last time they refused, indicating they sold only to members of the jobbers' union; the Steel Service Center Institute.

Alleghany Ludlum—No reply from their mill in Pittsburgh or their mill in Gink, Belgium.

Eastern Stainless Steel on Oct. 31st stated they would not sell to me from their mill in Middleburg, South Africa, and on Nov. 11th their VP of Sales wrote stating they had so much business in California they would not consider selling me anything from their mill in Baltimore.

Armco Steel's West Coast manager in Los Angeles replied stating "It was so nice to hear from you again" but he said their position was the same as last time which was that they needed no more business and indicating they did not deal with mere carload buyers but that their jobbers all carried multi-million dollar inventories.

Jones & Laughlin—No reply. Two years ago they told me they would permit me to come to Los Angeles and talk to them but they also indicated they would not sell to me whether I came or not!

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SAN MATEO, CALIF., *June 6, 1970.*

U.S. STEEL CORP.,
*San Francisco, Calif.*

DEAR SIRS: We carry a stock of stainless, copper and aluminum sheets in our warehouse in the Port of Redwood City which we sell to 175 shops in California and Nevada. For many years we have imported our stainless from Japan because your mill and all the other American mills have refused to sell to us, altho we would certainly prefer to buy in this country. For many months the "American Metal Market" has repeatedly stated "Domestic stainless mills are hungry." This seems borne out by their June 1st report "Price cuts are being extended by several stainless producers, it's reported in trade circles. Allegheny Ludlum confirmed they are making such concessions to meet competition. On stainless sheet the discount is now as high as 8% off mill list".

On June 2nd George A. Stinson, chairman of the American Iron & Steel Institute and president of National Steel, complains entirely too much steel is being imported. He states American specialty steels, about 90% stainless, are selling at an average price of $1,130 per ton. Since the Japanese have raised their prices we are now paying about $1,200 per ton for their stainless, or more than the American mill price, according to Stinson.

Now we are perfectly willing to pay your mill this price as it would enable us to increase our inventory with a lesser investment since it take several months delivery time on imports against a few weeks out of a domestic mill's stock. Also, it should now be quite apparent to all of us every effort must be made to increase our exports and decrease our imports. For many years we have had a large excess of exports but this is rapidly vanishing. If you care to do so, please quote us on 40,000 lb. carloads of the attached list of sizes, each item to be 5,000 to 10,000 lbs. Our Dun & Bradstreet rating is B+1.

We understand the reason American mills refuse to sell to us is that we re-sell stainless sheets far below the regular fixed prices. We believe you should seriously re-consider your position in this matter, not just because it is illegal (as you very well know), but simply because it is, in our case, no longer effective.

Sincerely,

FRANK E. MCCOY.

NOTE.—We also wrote the seven other stainless mills—Allegheny Ludlum, Armco, Crucible, Jones & Laughlin, McLouth, Washington Steel & Eastern but received no answer whatever.

Republic Steel handled our inquiry in an almost unbelievable manner. Their San Francisco manager phoned us a month later and started right out giving us a "snow" job (as we soon found out). We had never heard of him before but the first thing he said was "Now Frank I want to see you right away. I can be at your warehouse in 45 minutes." We knew, by his super-friendly words, Republic was going to sell to us and all our supply problems were solved. But when he arrived he said "Now Frank I am going to tell you the absolute truth. We at Republic would dearly love to sell you carload lots of stainless sheets but the real honest-to-God truth is that we are so swamped with business that we just cannot possibly do so. Our jobbers in this area are Castle-Pacific, Jorgensen, Ducommon, Ryerson (Inland Steel) and we also sell to Esco. We cannot possibly keep them fully supplied so it is just impossible to take on another account." We told him we thought we were paying more for imported sheets than the American mill price and we offered to tell him our import cost if he would give us their carload price. He said the imported price was of no interest to him and he said he did not know Republic's selling price! But he said when he got back to his office he would find this out and would phone us but that he would not put it in writing.

And that was the last we heard from him!

U.S. Steel called on us for the first time in 30 years as you can see by the attached.

FRANK E. McCOY,
*San Mateo, Calif., April 10, 1971.*

Re alleged Japanese stainless dumping.

BUREAU OF CUSTOMS,
*Director of Appraisements and Collections,*
*Washington, D.C.*

DEAR SIR: We understand you are making an investigation to determine if Japanese stainless is being sold here at lower prices than in Japan, and if so, whether this is causing injury to our mills.

Apparently the American mills have been doing this very same thing for a long time as you can see by the attached. They are now making an effort to cover this up by using the letters "Neg." instead of figures in their latest prices for export. This shows their domestic price for 304 sheets is 21% higher than their last export price. This is a good example of "The Pot Calling the Kettle Black"! This may not be pertinent to Japanese home prices but it should indicate our mills must be making money for export at 48.19¢ else they would not do so. Since their domestic price is 58.25¢ how could they possibly be in distress selling at this price here? Also, export prices include freight but domestic prices do not. Export packing charges are far higher than domestic.

There is an unusual reason for importing stainless sheets, and possibly other sheets, but we do not know if it would come within the scope of your investigation. Since we are not using the metric system all sheets imported must be rolled to order. Our selling methods are somewhat primitive, that is, a 16 US guage stainless sheet, 48" by 120" may be any one of 8 decimal thicknesses, from .058" (97.44 lbs.) to .065" (109.2 lbs.). The average, theoretical or "mook" weight is 101 lbs. In recent years nearly all domestic jobbers pick up an extra profit by charging their customers "book" weight and delivering them sheets much lighter. This is to do with Japanese stainless sheets since their mills are far more accurate than ours and they can deliver 16ga. sheets at a weight of 97 or 98 lbs. or even less, and the jobbers charge for 101 lbs. The difference for a 12ga. sheet could be as much as 11 lbs., or $7 to $10 or more clear profit.

Some jobbers apparently became too greedy and ordered some sheets still lighter, so much so that we received some sheets, evidently rolled along with these other orders, supposedly 16ga., were actually 17ga., weighing only 92.7 lbs. each. In these cases the Japanese mill does not put their name on the outside and do not label each sheet with the guage and heat number on the under side, as is customary. If you should be interested in this angle we will give you the US Custom entry number and date. We sell to some precision shops who can not use such sheets but we no longer have this problem because this mill has stopped selling to us because of pressure from the other jobbers.

Incidentally, the American mills are apparently also charging book weights and shipping lighter weights.

Since most of all the different alloys, sizes, gauges and finishes used in Japan are different from those used by us, we believe you have a difficult task. If there is any information you desire from us we will be glad to furnish it.

Sincerely,

FRANK E. McCOY.

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ALLEGHENY LUDLUM INDUSTRIES, INC.,
*Pittsburgh, Pa., July 2, 1971.*

Hon. ABRAHAM RIBICOFF,
*Senate Office Building,*
*Washington, D.C.*

DEAR SENATOR RIBICOFF: Please accept our sincere apologies for the delay in acknowledging your request in regards to the letter I received from Mr. Frank E. McCoy of San Mateo, California, copy of which he sent to you. It is most regrettable that the draft of our reply was mislaid in the office of our General Counsel.

Let us state, first, that the sales policy of Allegheny Ludlum Steel Corporation does not close the doors on any qualified purchaser of the materials and metals which our Company manufacturers. In the case of distributor sales, we do have a policy wherein items for resale are sold only through recognized distributors. To do otherwise would be to create chaos in the marketplace.

In the matter of Mr. Frank McCoy, our investigation shows that this gentleman seems to specialize in periodically "baiting" the steel industry. He first contacts individual companies, makes impossible demands, displays annoyance, and writes letters to Congressmen and Senators. This activity occurs about every four years, according to our records, the most recent being in 1967.

In his visits to our sales offices in California, he presents himself as a "Japanese Steel Importer" (you can imagine what a red light that poses immediately!), insists on being quoted prices, and wants to be shown sheet stock which he claims is in our warehouses. After thoroughly irritating the sales group, at least three of whom personally see him during each visit, he leaves with threats of all kinds, not the least of which is that he is going "to write his Congressman."

Our sales policy is clearly outlined to him during each visit. We are informed that this pattern of conduct by Mr. McCoy is to be found at each of the ten or so steel company sales offices that he periodically visits.

He is an aged gentleman to whom all courtesy is shown by our people, despite the repeated unpleasant visits.

Should the Chairman wish to see the complete record of correspondence going back to earlier years, we would be happy to make it available.

Sincerely,

ROGER S. AHLBRANDT.

Senator RIBICOFF. Do only Japanese exporters dump? How about us in the United States? Have you every sold at lower prices than domestic prices? Have you or any other U.S. steel company sold for export at a cheaper rate than you sell domestically?

Mr. AHLBRANDT. Well, I think that that can be answered in this way, that the foreign market price at one time or another may have been lower than the U.S. price. Yes, we have sold steel in the foreign market at one time or another. Although today we are unable to sell any steel because their prices are lower than ours generally speaking.

Senator RIBICOFF. While you might have done it one time, basically today foreign prices are lower than yours?

Mr. AHLBRANDT. They are, and by the time you add on the duties and order taxes plus the freight, as well as the insurance, generally speaking we are uncompetitive overseas.

Senator RIBICOFF. Were you here when Mr. Borch testified?

Mr. AHLBRANDT. Yes.

Senator RIBICOFF. Did you listen to his testimony that it cost him more to send an item from Utica to New York City than from Japan to New York?

Mr. AHLBRANDT. I have heard that, not as close as Utica to New York. I know there are advantageous rates waterwise which are far lower than their freight rates. But I was surprised at that time.

Senator RIBICOFF. Discriminatory freight rates would be a very substantial factor in our ability to compete, would they not? How much do you figure that freight represents in the cost of an item, what percentage generally?

Mr. AHLBRANDT. Of our items?

Senator RIBICOFF. Generally from your company?

Mr. AHLBRANDT. We sell free on board in certain areas, but I would say that we are—well, freight from Pittsburgh to Chicago is about $20 a ton. I am trying to remember what freight is from Pittsburgh to Houston. However, I would say it is probably three to four times that of barge shipments. We do ship a lot of material by barge down to the southern district.

Senator RIBICOFF. There is no reason that I expect you to have that information. I was just wondering what your experience was, because I was rather surprised at Mr. Borch's testimony. Our staff will look into it, because without a question this is a very serious factor for an American company to deal with.

Mr. AHLBRANDT. It would also depend, Senator, whether freight was added and paid for by the customer or whether you were delivering to that area for import competition reasons.

Senator RIBICOFF. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Ahlbrandt, there are some serious problems that we recognize in American industries, certainly in your particular one, and we have had our attention called to some very special problems.

It is my understanding that in 1968 the voluntary steel agreements with Japanese did not work as anticipated for the specialty steel industry. Would you want to explain this?

Mr. AHLBRANDT. Well, I have been trying to determine in my own mind why it did not work. It could be that the Japanese have not recognized the provision and the word "intent." In other words, the arrangement of that—it was not agreed upon, but the arrangement is worked out with the State Department. They said that it would be the Japanese intent to abide by the historical pattern for product mix and geographical distribution. The European agreement was much the same, a little different wording but, again, it would be their intent to hold to this historical pattern.

The European countries have held in stainless pretty much to that pattern. They may have violated or at least overrun it by some 4 or 5 percent.

But in the case of Japanese, and I have been on record with our State Department, they are some 40 to 50 percent over their intent for the year 1970. Japanese stainless was 53.7 percent over the voluntary restraint for 1970 and for 1969 they were some 32 percent over.

Senator FANNIN. I understood this has not worked out, that they had shipped far beyond the intent?

Mr. AHLBRANDT. Right.

Senator FANNIN. I also understand that there are negotiations continuing on this problem. What is happening?

Mr. AHLBRANDT. Well, the last word I had from Mr. Samuels was that the State Department had approached both the European countries and the European steel companies, as well as the Japanese, and that from what I read in the Japan Metal Bulletin they have more or less indicated, although there is no official word back to the State Department, they have indicated that they would probably be willing to extend the voluntary restraint for some 2 years as requested, a possibility of maybe meeting some lesser growth rate from 5 to maybe 3 percent.

However, so far as the specialty steel is concerned, they did not indicate they were willing to backdown from the base year of 1970, as I read in these releases, they are so far over in 1970 and probably will be over in 1971 if they do not watch it.

Senator FANNIN. I understand there is dissatisfaction existing, and your statement I think refers to the Japanese having been dumping steel in the United States, and you say that—

> Although designed to regulate trade in a fair manner, the Antidumping Act, the Unfair Practice Act, and the Trade Expansion Act of 1962 have been largely ineffective and unworkable.

Have you brought any cases against the Japanese in this regard?

Mr. AHLBRANDT. Yes, Senator, three or four of the companies—stainless steel companies filed action with the Treasury Department around January. We understand that they have taken it up for investigation, which means that it will probably be another 6 or 8 months, as I understand, before they will arrive at any decision.

Senator FANNIN. I did not know whether your company was involved. I knew that there had been some action.

Would it be helpful if you could substantiate the cost of their steel? In other words, you state that some of the imports are sold here below their manufacturing cost but that this is difficult to substantiate. Would it be helpful to you if you could substantiate that?

Mr. AHLBRANDT. Yes, it would be. Unfortunately, we do not and are not able to obtain invoices, which is one of the criteria of substantiation in Japan, nor can we get them in France or Sweden or Ireland.

Senator FANNIN. I have introduced legislation that provides if the foreign manufacturer refuses to disclose information when there has been a suit filed his exports are barred from the United States.

Mr. AHLBRANDT. I have not seen that bill.

Senator FANNIN. Of course, you would have to file a civil suit in the Federal court and utilize the Federal rules of discovery, but it would, under this legislation, be possible for you to either have them furnish information or, if they would not disclose information, the exports involved could be banned.

Mr. AHLBRANDT. I think that would be an excellent one, be most helpful.

Senator FANNIN. What I would like to do, and I am sure that the Chairman would like to do, is to try to bring out all of the problems that are involved and see whether approaches to the settlement of these problems will be through legislation or enforcement of our rules and regulations, just what—or a combination, what it will take to try to assist American industry and to hold these jobs in this country.

I agree with you that the way that the Japanese are operating is vastly different than the way we operate in this country. They are so much more profit-oriented without other considerations that it is going to be very difficult for us to meet their competition.

But I do feel we are giving them advantages that have permitted them to buildup this superiority, perhaps, in lower cost production and we certainly should do everything in our power now to correct that inequity. I do not know about the specific duties involved in the specialty steel industry.

Are there inequities in that respect?

Mr. AHLBRANDT. Well, I think the duty in the United States that foreigners must hurdle is something like 8 percent, whereas we must hurdle, going into Belgium maybe another 3, 4, or 5 percent on top of that. They also have handling taxes in various countries. In Japan, I am ashamed to say, I do not know what the duty is because we cannot ship any material there.

Senator FANNIN. Of course, we realize that problem.

Mr. AHLBRANDT. Yes, sir.

Senator FANNIN. We are trying to work out either legislation or a change, we hope, in policy as far as the Departments are concerned to assist in this regard.

We do appreciate your help and need your help.

Mr. AHLBRANDT. Senator, may I ask a question. You had a bill, I think it was 4007, that was introduced in the last session, I think last July, in which you suggested that agencies be brought together where we can have a centralized administration. Has that been——

Senator FANNIN. Well, I am trying to get more information—trying to determine just what should be done. Of course, there has been a great improvement in handling of the claims under the Antidumping Act, but at the same time it still has a long way to go before it would be satisfactory. But we would like to try to consolidate the different activities. As far as I am concerned, I would like to consolidate, if possible, the different activities involved with these problems of foreign trade.

Mr. AHLBRANDT. It has been sort of like the Christians fighting the lions way back when, our score has been very poor up to the moment.

Senator FANNIN. I agree with you.

Thank you very much.

Senator RIBICOFF. Thank you very much, sir for coming here and staying with us so late in the afternoon. I know it has been a long day for you and we do appreciate your appearance before this committee.

Thank you very much.

Senator RIBICOFF. The committee will stand adjourned until further call of the Chair.

(Mr. Ahlbrandt's prepared statement, with an attachment, follows:)

STATEMENT OF ROGER S. AHLBRANDT, PRESIDENT, ALLEGHENY LUDLUM INDUSTRIES, INC.

My name is Roger S. Ahlbrandt. I am President and Chief Executive Officer of Allegheny Ludlum Industries, Inc., with corporate headquarters in Pittsburgh, Pennsylvania.

Allegheny Ludlum Industries, Inc., is a diversified manufacturing corporation with sales of over $500 million annually and ranking 217th among the Fortune 500. Allegheny Ludlum is comprised of four groups of companies: Specialty Steels, Consumer Products, Magnetic & Electronic Materials, and Industrial Products. The corporation has subsidiary and affiliated operations in Canada, Belgium, Ireland, Mexico, and in South America.

We thank the Committee for this opportunity to appear and present our views on "National Trade Policies and International Rules and Institutions."

The United States is well into the beginning of a new era in international economic relationships and we as a Nation face a greatly changed international economic environment. New economic superstates have risen, in the European Common Market and in Japan; and these states appropriately view the entire world as their market. We, in America, on the other hand always have viewed exports as an economic "windfall," to be taken as desired; for we built and have enjoyed a vast market inside our own borders—a market, incidentally, which others now also increasingly are enjoying, to the great present harm of some of our industries, businesses, and communities.

It appears to us that our Nation faces important decisions in two principal areas:

1. In the arena of International World Trade, where the formulation of a definitive and realistic American policy is an immediate imperative.
2. In the arena of Foreign Policy, where in the past policy objectives have virtually excluded economic considerations but where economic issues now will have to assume first priority.

In addition, Gentlemen, our Nation faces immediate problems of short-term measures of vast importance to several of our most vital industries, since the solution to certain of our trade imbalances—affecting employment, profitability, and in some cases sheer survival of an industry—cannot await long-term settlement or future policy determination.

The new international economic environment can be viewed in perspective if one but contrasts the principal characteristics of the American economy and the economies of the emerging trading powers, in the Common Market and Japan.

The American economy is a mature, profit-oriented economy, with a high standard of living, built on productivity, technology, and the work of an educated and skilled labor force. It is highly capital intensive in its industrial establishment and supports a high tax structure.

Government policies in America, as they affect monetary and fiscal considerations, have resulted in a long series of deficits both in the Nation's balance of payments and in the Federal budget. I am sure I need not point out to this Committee the devastating effect these policies have had upon the value of the American dollar on the international scene, especially since the recent monetary repercussions in Europe. And, of grave importance, these policies have contributed greatly to the high rate of inflation in America, some 5% annually, compared with less than a 3% rate just a few years ago.

The American economy has formulated no real international trade policy, strategy, or objectives—except the general support of lower tariffs and the principle of "free trade". Too many U.S. industries continue to view exports as "bonus" sales. They define their relevant market as the U.S. and not the world. Numerous government policies encourage this market myopia, among them the following:

1. U.S. anti-trust policy attempts to provide for effective competition. However, the focus has been only on an industry structure of U.S. companies producing for the U.S. market. But the economic environment in our world has changed—and these changes have come also in the American market. Let me take an example from the American steel industry.

Combined steel imports now equal the production of Bethlehem Steel, the second biggest producer in America; and are more than double that of Republic Steel, the third biggest U.S. producer. And this import tonnage is the 1970 figure, reduced under the Voluntary Limitation Arrangement from the 18 million tons of 1968. In addition to this market factor, which our anti-trust officials must take into consideration today, merge movements in Japan and Europe are producing steel giants in the class of U.S. Steel, and their new size helps make them more efficient producers at home and more competitive in the world market.

2. U.S. tax policy tends to protect the inefficient producer. The profitable, efficient company pays high taxes while the margin producer often pays none. The government' tax and anti-trust policies too often serve only to protect competitors and not competition.

3. The American economy has no coherent policy of protecting its strategically important markets. Protection unfortunately often is invoked on an "ad hoc" basis, after crises develop, workers and unions complain to government about growing unemployment, and companies and industries experience deep penetration of their markets, lost sales, and sharply reduced profits, or losses.

Our people are acutely conscious of the need for environmental quality improvement and of other elements in the "social responsibility of business"—but are almost totally unaware of the added costs to business and finally to themselves as the ultimate consumers. In addition, these factors and the activists engaged in the pursuit of "public interest" problems, foster strong ant-business sentiments in our nation, and tend thus to contribute to the uncompetitiveness of U.S. industry in the world market.

In the American economy, again for anti-trust and other reasons, export distribution is fragmented and provides no real base for aggressive marketing on the international scene. Further American industries have exported both capital and technology overseas in order to participate in the growing foreign markets and to re-export the value-added product back to the United States—to the detriment of growth in our domestic economy. The number of job opportunities thus "exported" from the United States is in the hundreds of thousands.

On the other hand, gentlemen, in the new international economic environment, foreign economies are dedicated partnerships between government, industry, finance, and labor. The business characteristics of the new trading powers differ greatly from those in the U.S. Specifically, many of them act to put U.S. Firms at a distinct disadvantage in international trade. For instance, in Japan, our most dynamic trading competitor, relations between government, business, and financial institutions enable companies to support higher debt-to-equity ratios than their U.S. counterparts. This permits them to finance new facilities for growth largely with debt capital. Since they are less dependent upon retained earnings to finance growth, they can operate on lower profit margins, and hence can price lower than their U.S. counterparts. Finally, since they rely less on the equity markets for growth capital, they are less concerned about short-term profits, consistent earnings trends, high dividend pay-out, and price/earnings ratios. Instead, they can afford to take a longer-term focus, to invest heavily for market dominance, sign long-term contracts for scarce raw materials, and defer profit realization.

In our competing world economies, particularly in Japan, the tradition of "permanent employment" of workers and paternalistic employment policies result in apparent greater labor harmony and a dedicated, enthusiastic work force. They enjoy a rising standard of living, which like the American economy, is built on productivity—with "borrowed" or licensed technology, most of it from the United States and much of it acquired at bargain rates. A large, trained work force is available but at a lower absolute cost than in the American economy. And because rapidly rising foreign wages are largely offset by productivity gains, the gap between unit labor costs in these countries and in the American economy continues to widen.

These new economies are no longer lacking in industrial capability and access to capital. International trade in manufactured goods is growing much more rapidly than international trade in raw materials and agricultural products—and our most dynamic competitors are making gains in these high growth, manufactured goods areas.

Government monetary and fiscal policies in those economies have been successful in encouraging industrial growth, increasing favorable balance of payments, promoting international trade, and gaining major portions of important growth markets throughout the world. Government policies in these economies also encourage free trade in international markets but take actions to protect high-growth and infant industries at home. Many of the governments and publics are pro-business, success-oriented, and expansion-minded.

Specifically speaking of the Japanese economy, we note well-planned long-range economic objectives and programs for international trade. A consistent strategy which has been observed in various industries there takes three steps:

1. Production experience is built on the home front and the domestic market is developed.
2. International marketing efforts extend first into the developing countries.
3. Once these bases are built, marketing efforts extend into the vast U.S. market.

Inside the Japanese economy, competition between companies and between industries is encouraged; there are anti-trust laws on the books; but excesses are decried and regulated and the concept of "fair competition" is often organized, promoted, and observed.

An entire array of incentives to export is provided; and there are situations where government guarantees low interest rate loans, especially to smaller industries.

In the Japanese economy, distribution for export is centralized, not fragmented as in the American economy. Long established trading companies, operating on an international scale with offices and contacts throughout the world, allow introduction of new products to a worldwide market at reasonable cost.

A relatively small company in Japan, for example, finds both its marketing and transport costs to be highly competitive in the world market, since a trading company can afford to put a varied assortment of goods on one vessel and since a single office in a foreign nation can handle a variety of products at little added cost. Incidentally, the trading companies compete aggressively against each other, as do the major elements of Japan's industrial structure, such as Toyota and Datsun, its principal auto makers.

The Japanese economy, further, takes every advantage of ocean logistics, creating port facilities to accommodate the specially designed and largest tonnage vessels afloat (now upwards of 200,000 tons); building industrial facilities on deep water; and thus enjoying the advantage of scale in their larger tankers, larger ore boats, larger blast furnaces, etc. Failure of the United States to do likewise has placed our nation at a disadvantage in international trade.

Also, it is the general assumption and wide belief that Japan's economic success rests principally on cheaper labor. This view may be misleading and could contribute to actions by our policy makers which would not bring out truly constructive solutions, *because additional analytical insights into the basic issues involved are necessary.* We must examine differences in growth rates, cost declines, and rates of inflation to make a fair analysis and help determine our own future course.

To this end, in seeking a sound insight into this problem, we have found a revealing view of the dynamics of the Japanese economy and its accomplishments in the post-World War II period in a publication of the Boston Consulting Group entitled "U.S.-Japan Trade In the 1970's". This study contains in detail a penetrating analysis of the Japanese economic phenomenon. I believe it will prove useful to the Committee and I herewith submit it for the record of these hearings.

The Boston Consulting Group has developed a technique of economic analysis, a strategic tool, called the "Experience Curve Concept". This analytical tool can assist in assessing the strategic options open to Japanese and U.S. businesses, independently or in cooperation with their respective governments.

It should be recognized that each industry in each country evolves through a product life cycle which ranges from a "Start-up Phase" to "Growth", "Maturity", and finally, Decline". A nation's industrial spectrum is constantly shifting with respect to industrial development and competitiveness. Japanese and American industries have been going through such a process for a long time—and the result of their interaction is apparent in present trade positions.

A rational assessment of the process, considering the experience curve effect, enables us to calculate the change in relative costs of the Japanese and American economies for any given industry. And it readily enables us to determine the relative and changing cost positions of the two countries for a given industry. It has been demonstrated that, for a variety of industries, total cost in constant dollars (yen, marks, etc.), adjusted to exclude the effects of inflation, will decline by a characteristic amount each time accumulated production experience, or manufactured volume, doubles. This is found to be true in entire industries as well as in individual companies. And it is equally true of national economies.

Thus, costs are a function of:

1. The initial reduction costs in Japan, Europe, and the U.S.
2. The relative reduction in real costs, over time, for each doubling of production, based on growth rates of each country.
3. The relative rates of inflation.
4. The monetary exchange rates.

Studies covering a wide range of industries indicate that constant dollar costs decline between 20% and 30% with each doubling of accumulated production experience. These cost reductions result from greater economies of scale, the familiar labor learning curve" effect, distribution efficiencies, substitutions for high-cost inputs, and investments for cost reduction.

Therefore, an American industry (such as steel) can maintain relative price competitiveness only if it:

1. Has a faster growth rate than the competing industry in another country.
2. Has a steeper rate of cost reduction.
3. Has lower initial production costs.
4. Or if the U.S. has a lower inflation rate than competing economies.

The first variable, growth rate, is the most dynamic and is a function of "time of entry" into the market and production volume of the industry in each country. Japanese and European producers in many basic industries have been able to achieve relative cost advantages by supplying the growth markets in the post-war Japanese and European economies as well as high growth export markets.

The second variable, relative experience curve slopes or cost reduction rates, depends mostly on such institutional forces as industrial concentration (size of companies), unionism, technology, government and public attitudes and policies. Foreign industries have the benefit of U.S. technology; foreign governments have provided encouragement to high growth; and a good labor climate has been fostered, more so in Japan than in certain other nations.

The third variable, lower initial production costs, indicates that the speed with which a new producer can overtake the cost position of the innovating producer depends not only upon their relative growth rates but also upon the new producer's initial production costs. If he can enter production with initial costs lower than those with which the innovating producer began production, he can overtake the cost advantage of the innovator more easily than if they had started with equal production costs. A follower's initial production costs might be lower for a number of reasons: either because he has obtained low-cost technology through licensing, or has lower labor or raw material costs.

The fourth variable, inflation, is primarily a function of a nation's fiscal and monetary policies. The United States has recently run deficits in both its domestic fiscal budget and its balance of trade position. This has caused a greater relevant degree of inflation compared with Japan, for example, making U.S. products less competitive in world markets.

And each of these variables, it must be pointed out, can be influenced by changes in various key factors, depending on decisions by businessmen and government policy makers. In this manner, competitive positions and product life cycle development can be altered—and, in fact, in both Japan and, to a lesser degree in the Common Market, this is exactly what we see. And domestic handwringing over Japan's competitive advantages often overlooks this kind of analysis.

I hope this very brief mention of the experience curve concept method of analysis will help highlight for this Committee the serious economic dilemma which our nation faces and which we, in the steel industry and the specialty steel industry in particular, have been attempting to understand and cope with for some time. In trying to remove both our traditional concepts (such as the "cheap labor" observation) and emotion (which is difficult to do when we watch market share disappear, profits decline, and unemployment grow), we have come to place confidence in this analytical tool. As a consequence, we believe that it is a disservice to our nation to take unfounded, unrealistic views. The real facts, to the extent that they can be developed and no matter how bitter, will surely help us all—business, government, and labor—to work on solid, long-range solutions.

One of the long-held concepts proudly held in America has been that the industrial skills of the U.S. are great enough to insure that, under conditions of reasonably free competition, our country can out-compete other countries in any market it chooses to enter. This, we now know, is fallacious and misleading. And to continue this view as an instrument of our government's future international trade policy would be damaging to the nation, its business, industry, labor, and consumers.

We who have been so deeply concerned with the import problems as they affect the specialty steel industry, a business rooted deep in technology, are convinced that even further technological advance, unless it represents a *major substitution,* may not take our industry in America down the experience curve fast enough to effectively compete with Japan and the Common Market.

The deliberate policies of industrial specialization and world market penetration in chosen industries of the new economic superstates reesult not only in the kind of penetration of domestic markets which we feel so sharply in specialty steels in the United States but also in "trade-offs" which economy policy dictates as the price of greater international competitiveness for the U.S. economy.

Each economy must decide which of its industries, in fact, have to be deemphasized and which industries, on the other hand, will best utilize the strengths and resources of an economy. This is clearly a part of the basic philosophy of Japanese industrial policy. The Vice Minister of the Ministry of International Trade and Industry of Japan, in a speech less than one year ago, stated:

"In order to sustain the smooth expansion of the world economy in the 1970s by means of efficient use and distribution of world resources, we must push with will and reason for adjustments in the international industrial structure The solution of this problem is to be found, according to economic logic, in progessively giving away industries to other countries, much as a big brother gives his outgrown clothes to his younger brother."

The Japanese, it thus appears, are not "hung up", to use the modern vernacular, on "critical industry" considerations, as we in the West are. They shift emphasis from one industry to another, phasing out low-growth, labor intensive industries and commiting national resources to higher growth, more capital intensive industries. Thus we see the Japanese, with deliberate care, successively emphasizing textiles, electronics, steel, ships, autos, heavy machinery, petrochemicals, and computers.

Despite the furor in our nation last year about Japanese textile imports into the United States, the fact is that they are getting out of basic textiles, as Korea, Taiwan, India, and Pakistan move into that industry. Japanese logistics call for *every* major industry in Japan to locate at deep water ports. And if we in America do not quickly build the deep water port facilities which we will need to compete with the Japanese in petrochemicals, the next great invasion of the American market could very well be in that area.

There is a pressing imperative, gentlemen, for the United States to formulate as quickly as possible a strategy and policy for international trade, one which will protect our nation's vital interests, just as the vital interests of competing economies are being protected. Such a policy must recognize the changed world *economic*, rather than *political*, environment—and, with a long-range view, must be formed to meet the challenges of the advancing new economic powers as they head into even new directions.

Our monopoly phobia and our views about present day anti-trust policy will have to be examined and possibly changed. The new competitive factors, such as steel imports being the third largest steel "company" in the United States, cannot be ignored in setting anti-trust policy for the future. Such policy must be related to world industry dynamics and not merely to U.S. producers. Consideration must be given to rationalization and concentration of industry where necessary to allow American producers to compete on a world-wide scale, whether in manufacturing or in marketing.

The government must re-cast its tax policy to encourage the efficient competitor, perhaps through a value-added form of taxation, among others. In addition, investment tax credits and depreciation guidelines must be re-designed to encourage the capital investment necessary for U.S. companies to remain competitive internationally. We must also study other incentives which may be required—such as export tax credits and proposals like the U.S. Treasury Department's idea of Domestic International Trade Corporations.

Our government must encourage industrial specialization and movement into high growth industries, recognizing that such policies may require new thoughts on dislocation adjustment assistance, temporary tariffs or quotas to enable orderly changes in industrial patterns over a period of time, etc.

Our government must take a realistic look at the American marketing and distribution infrastructure for international trade and establish policies and programs for the encouragement of international trading companies, development of adequate port facilities, etc.

We further believe that a major, conscious effort will have to be made in our country, probably led by our government, to change political, social, financial, and cultural attitudes in order to bring about economic resurgence and become more competitive in the world market. Greater cooperation between government, business, and labor will have to be worked out on an equitable basis.

We will either do these things rationally, intelligently and in an organized manner, or economic events (some of them possibly catastrophic in nature) will force them upon us.

Meanwhile, however, I submit that our Congress and the Administration will have to look seriously at the protection, for the short term, of those of our important industries which have been heavily impacted by imports, in order to stabilize their position while the United States forges a consistent international trade policy.

While I cannot speak for textiles, electronics, shipbuilding, automaking, petrochemicals, or computers, I have a duty to tell you that, in steel and specialty steel, there lies a major area of responsibility for the Congress and the Administration in this matter of urgent, immediate protection—through stricter voluntary arrangements, legislated quotas, tariffs, or other measures.

Steel requires this help—and it needs it now. Japan has become the third-ranking steel producing power in the world; soon will be second; and by 1975 could move into first place. Steel imports, most of them from Japan, as I stated earlier, represent "the third largest company" in the American domestic market for steel.

In specialty steels, certain of our most important product lines are heavily impacted by imports. Some 34% of the stainless cold rolled sheet market is now held by foreign imports; 65% of stainless wire rod and cold drawn stainless wire; 16% in tool steel. And because of the economic advantages I have cited and the pricing strategies designed to capture markets for their expanding capacities, foreign producers are selling these products in the American market at discounts of 18% to more than 50% of our published prices.

As a result, the stainless and tool steel producers of our country are currently operating some of America's most important specialty steel facilities (many of them as modern and technically advanced as any in the world) at a loss—a situation which, of course, cannot long continue. For if relief from current levels of import penetration is not forthcoming immediately, some of these plants may have to be closed. The consequent loss of jobs in areas where these plants are located will severely impair our economic recovery in this nation, will add to unemployment, injure tax collections, and bring vast economic change to small communities where such plants are the principal industry.

One small beginning was made, starting in an earlier Administration, to effect restraint on steel imports from the European Common Market and Japan. A Voluntary Limitation Arrangement was signed and it included a rollback of 22% from the 1968 rate of steel imports. This Arrangement expires at the end of the current year—just a bare few months from now.

The Arrangement did not seek to keep *all* imports of steel out of the United States. It *did* seek to establish some foundation for "fair trade" and provided for a 5% growth factor annually, plus maintenance of product mix and historical patterns of geographic distribution.

Admittedly an imperfect instrument (the 5% growth factor, for one, was unrealistic and the product mix limitations should have been spelled out by

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product), the Voluntary Limitation Arrangement did, nevertheless, work fairly well for carbon steel products.

But, as the figures I cited a moment ago indicate, it proved a disaster for the specialty steel industry. Japanese producers violated the intent of the product mix provision and increased their imports of specialty steels into the United States each year since the signing.

The process continues—with new specialty steel import records having been set for the First Quarter of this year. In 1970, stainless steel imports were 31% above the voluntary export restraint level and tool steel imports were 77% above that level. These are products used in jet engines, in other aerospace applications, and in essential components of many products vital to national defense and national security.

Negotiations are currently under way for improvement and extension of the Voluntary Limitation Arrangement. We hope they succeed and that limitation of imports of specialty steels is spelled out in the new, extended instrument by Tariff Schedule Classifications. A mere extension of the Arrangement would mean little or nothing to the specialty steel industry and probably would continue the damage suffered over the past three years.

I have gone into some detail about the specialty steel industry, gentlemen, to demonstrate the urgency of the situation as it affects a vital American industry, and other American industries in a similar fashion. Voluntary restraint arrangement and/or legislated quotas are found to be necessary in the interim period as the American government takes time to decide what our international trade policy will be. In our case, the need for import restraint is now.

If legislation is required, in our view it should provide for immediate, mandated study and action when imports of a particular product or industry reach 15% of the domestic market. Although designed to regulate trade in a fair manner, the Countervailing Duty Act, the Anti-dumping Act, the Unfair Trade Practices Act, and the Trade Expansion Act of 1962 have been largely ineffective and unworkable. For one thing, it is impossible to comply with rules governing "substantiation" to prove injury. There is no central agency responsibility and the procedures to effect conclusive action are too time-consuming, resulting in extraordinary expense, frustration, and loss by affected industry.

But since these are the only avenues available to us, we have attempted to live with that legislation and have taken necessary actions under it (such as anti-dumping cases, etc.) in our efforts to seek relief from excessive imports of specialty steels. We have studied other proposed legislation for interim relief which is designed also to meet current international trade problems of our economy, and find that some have merit—such as S4001, introduced by Senator Fannin last year, and S1476, introduced by Senator Fannin this year. The former bill would transfer to the U.S. Tariff Commission certain functions and duties now vested in the President and Secretary of the Treasury under the Anti-dumping Act of 1921, the Tariff Act of 1930, and the Trade Expansion Act of 1962, in an attempt to streamline these efforts. The latter, S1476, seeks amendment of the Anti-dumping Act of 1921 to bring about certain improvements. These bills, and others, indicate clearly that our Government is seriously concerned about matters of international trade and American industries' uncompetitiveness. And while there has been no lack of concern, study, and interest at various levels of Government, I submit that this Committee and all other branches of the Congress and the Administration must now move with an even greater sense of urgency, which our nation's economic situation in the new world trade environment demands.

In closing, gentlemen, I submit that our nation and Government must take realistic views of the change that has come about in the world economic environment, take a world view of markets and marketing opportunities, and formulate a new policy and strategy for international trade which will make our nation more competitive in the global arena. That is the long-range objective.

While we take the necessary time to accomplish these things, we must move to protect American industries heavily impacted by imports.

And we must help bring about a conscious change in many of our cultural, economic, financial, and political attitudes which, though having perhaps served our nation well at another time in our economic history, are clearly out of step now with the new economic superstates in the world environment and are proving major obstacles to America's economic wellbeing.

Thank you.

(Whereupon, at 3:35 p.m., the Subcommittee on International Trade of the U.S. Senate Committee on Finance adjourned, to reconvene subject to the call of the Chair.)

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