

**NOMINATION OF WILLIAM D. EBERLE, TO
BE SPECIAL TRADE REPRESENTATIVE**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SECOND CONGRESS
FIRST SESSION

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OCTOBER 20, 1971
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(II)

CONTENTS

WITNESS

	Page
William D. Eberle.....	3

ADDITIONAL INFORMATION

Biographical sketch of William D. Eberle.....	2
Table—U.S. trade balance, 1960-70.....	11

(iii)

NOMINATION OF WILLIAM D. EBERLE, TO BE SPECIAL TRADE REPRESENTATIVE

WEDNESDAY, OCTOBER 20, 1971

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The Committee met, pursuant to call, at 2:05 p.m. in Room 2219 New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Ribicoff, Bennett, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. We are pleased to have before us the statement of Mr. William Eberle.

Senator JORDAN. May I have the pleasure of introducing him when the time comes?

The CHAIRMAN. Yes.

Senator JORDAN. Mr. Chairman and Members of the Committee, Mr. Bill Eberle is one of Idaho's most distinguished citizens. He was born in Boise, Idaho in 1923, received his A.B. degree from Stanford University in 1945, his M.B.A. degree from Harvard Graduate School of Business in 1947, and a Bachelor of Law from Harvard Law School in 1949. He was a member of the Idaho House of Representatives from 1953 to 1963, serving as Majority Leader in 1957, Minority Leader in 1959 and Speaker in 1961, and I take a little credit for starting him down that road, Mr. Chairman, because in 1953 as Governor I appointed him to the legislature to fill a vacancy. He practiced law in Idaho from 1950 to 1960, and became an officer of the Boise Cascade Corporation in 1960 serving until 1966. He was a director of Boise Cascade from 1952 until 1968. He moved to the East in 1966 to join American Standard.

He has been Chairman of the Board and Chief Executive Officer of American Standard. All throughout his career he has been active in public affairs of one kind or another. He presently serves as trustee of Stanford University, is a member of the Board of Advisors of the Stanford Graduate School of Business and has many other such activities.

I take great pleasure in commending Mr. Eberle to this Committee for any job that the President might entrust to him.

The CHAIRMAN. Thank you very much.

Today we will be hearing from William D. Eberle who has been nominated by the President to be the Special Trade Representative of the United States. While this nomination has been referred to the Foreign Relations Committee by precedent, it really belongs in the Finance Committee. It was the Finance Committee which created the

Office of Special Trade Representative in the Trade Expansion Act of 1962. This Committee has jurisdiction over our tariff and trade laws which govern the activities of the office to which Mr. Eberle has been nominated. The Committee on Finance attaches great importance to our international economic policies, particularly our trade policies, as they affect the lives of millions of Americans and their employment opportunities.

The full Committee has established a Subcommittee on International Trade under the able leadership of Senator Ribicoff. This Subcommittee has held extensive hearings on international trade and financial matters, and will continue to play a vital role in exploring the adequacy of the international trade policies of this nation.

Now, in view of the fact that in all probability we are going to favor this confirmation of this nomination, I don't believe in arguing about a distinction that makes very little difference and I believe we have worked out our jurisdictional problems, at least for now, with the Committee on Foreign Relations. So we will be pleased then, Mr. Eberle, to hear any statement that you care to make and at that point we will ask you a few questions about your job and about you.

We will also place your biographical sketch in the record.
(The biographical sketch of Mr. Eberle follows:)

WILLIAM D. EBERLE

Position for which nominated: Special Representative for Trade Negotiations.
Present Position: Chairman and Chief Executive Officer of American-Standard, Inc.

Office Address: New York.

Born: June 5, 1923, Boise, Idaho.

Legal Residence: Connecticut.

Marital Status: Married.

Family: Wife: former Jean Quick, Four children.

Home Address: 85 Club Road, Riverside, Connecticut.

Education: Stanford University; A.B. 1945; Harvard University Graduate School of Business; M.B.A. 1947; Harvard Law School; LL.B. 1949.

Experience:

Non-Government:

1950-1960: Partner, law firm of Richards, Hagan & Eberle; Boise, Idaho.

1960-1966: Vice President, Boise Cascade Corporation.

1952-1968: Director of Boise Cascade Corporation.

1966-present: Chairman and Chief Executive Officer of American-Standard, Inc., New York City.

Government: 1953-1963: Member, Idaho House of Representatives; Majority Leader in 1957, Minority Leader in 1959 and Speaker in 1961.

Memberships and Associations: Ebco Inc., Officer and Director 1950 to present; Atlantic Insurance Companies, Trustee 1968 to present; Centenal Insurance Companies, Trustee 1968 to present; PPG Industries, Director 1969 to present; Hewlett Packard, Director 1969 to present; Stanford University, Trustee 1971 to present; Urban America, Officer 1968-69; Trustee 1967-69; Non-Profit Housing Corp., Trustee 1970 to present; Urban Coalition (National), Co-Chairman and Trustee 1969 to present; Common Cause, Co-Chairman and Trustee 1970 to present; Idaho Children's Home, Trustee 1955 to present; Committee for Economic Development, Trustee 1968 to present; (Currently Chairman of the Board of the Committee on Economic Development on "The Enlarged Common Market and the United States"); Stanford Research Institute-Advisory Council, 1969 to present; United Control Corp., Director 1965-67; National Industrial Conference Board, Trustee 1967 to present. University Club; River Club, New York City; New Canaan Field Club; American and Idaho Bar Associations.

STATEMENT OF WILLIAM D. EBERLE, NOMINEE, TO BE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. EBERLE. Thank you, Mr. Chairman, and Senator Jordan.

Let me thank the Committee first for taking this time to schedule this hearing in the midst of your busy tax proposal hearings.

I might say I did prepare a few brief comments first because I think getting to the questions of letting you know what I really think is more important and, secondly, I have always been brief.

I am well aware that the Office of Special Trade Representative was sponsored by this Committee and created by Congress and also that any legislation for me to carry out this job will come before this Committee and I really want to develop a very close working relationship with this Committee and intend to do so on a continuing basis.

I noted yesterday my background in law, business and public service was referred to by my good friend Frank Church as a somewhat "checkered" career, but it is one in which I have had a great deal of experience in this whole general area.

I have also given the Committee a complete statement disclosing all of my business and non-business affiliations as well as all of my financial affairs, and if confirmed I believe I will be in compliance with the regulation and relevant statutes pertaining to and prescribing the standards of conduct for this government position. I have reviewed that with private counsel as well as government counsel and they advise me that if confirmed, I will be in compliance.

I don't approach this position with any fixed or doctrinaire attitudes. However, I do believe that we can have a maximum of world trade while avoiding injury to the legitimate interests of American workers and business. This is going to take creative and yet very firm programs and negotiations. I am idealistic enough to believe we can make progress and yet realistic enough to recognize that such progress is going to be slow and difficult.

I have no illusions about the job the President has asked me to take. I believe I understand not only the responsibilities of the office but some of the difficulties. I assure you that I will commit all of my talents and abilities to doing a good job for the United States. With that background, again let me thank you for scheduling this hearing and I will attempt to answer any questions that you may have.

The CHAIRMAN. Could I ask you this. Are you familiar with the conflict of interest statutes?

Mr. EBERLE. I am, sir.

The CHAIRMAN. Are you satisfied that there is nothing in your holdings that would present a conflict of interest when you assume your responsibilities on trade negotiation matters?

Mr. EBERLE. Yes, I am, sir.

The CHAIRMAN. As you know, there is a subcommittee established under the chairmanship of Senator Ribicoff which has followed closely the work of OECD. Do you foresee a period of negotiations within the OECD which would involve some very critical trade issues facing this Nation, and I would like to know if so, what do you think will be the main issues that you will be negotiating?

Mr. EBERLE. The OECD high level trade group which was formed last June and to which I also was appointed the U.S. representative, incidentally, will have its first scheduled meeting next Monday and Tuesday. If I can dream a little bit for a scenario I would have to say I do not see this as a negotiating session but as a pre-planning session that would discuss the problems of trade and the related problems in the trade field, trying to discern what those problems are and then trying to set forth some of the possible alternative solutions. I do think it is important that all of these issues, as they develop be brought to this committee on an information basis because this could well be the groundwork for a major trade negotiation, I would think, in late '72 or '73.

As far as the issues are concerned, I think the task of the OECD will be to determine where we go from here, what kind of goals we want to achieve, and then to try to determine the various alternative ways of getting there.

I think this goes to the kind of institutions and to the kind of rules. It will involve the goals for industrialized trade, for agricultural trade and for trade in raw materials.

I can't be more specific than that because I think the group itself will be setting the agenda next week. I think the important thing is that we will be looking at where we should be trying to go, what the problems are, how we can get there. As we progress, I intend to find a way in which to keep you informed. The preliminary work between your committee and my office should, I think assure that when we reach the time of negotiations we will both understand what has to be done.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Mr. Eberle, have you had time to study the GATT agreement?

Mr. EBERLE. In principle, yes.

Senator BENNETT. To what extent do you think the GATT agreement is binding on the United States?

Mr. EBERLE. Of course, I recognize the fact that the GATT was not approved by this Committee or the Senate. On the other hand, we have worked within its framework for a good many years. I think that, to the extent that we have operated within it, we would be bound by its general rules. On the other hand, I think we have the opportunity within GATT to present our point of view and to present our interpretation of it. We also can attempt to make the changes that may be needed from time to time.

Senator BENNETT. Would you be willing to supply the Committee from time to time, as they emerge, with your opinion and your recommendations as to the way in which GATT as an operating system could be improved for our benefit, the things we might do or that the government otherwise might do which would make it easier for the United States to operate within GATT and still protect its interests?

Mr. EBERLE. Not only would I be willing but I would go one step further. If I did not do so, I don't think I would have carried out my responsibilities under the office to create the kind of atmosphere and responsibility required by the Trade Expansion Act.

Senator BENNETT. Well, this is then one part of the communications system that you hope to set up?

Mr. EBERLE. That is correct.

Senator BENNETT. With the Finance Committee?

Mr. EBERLE. Yes, that is correct.

Senator BENNETT. This Committee has had some difficulties with the executive agreements which have attempted to bind the hand of Congress. The GATT is one. The Anti-Dumping Code is another. Can we be assured that you will not be a party to any executive agreement in the development of which Congress has not been taken into your confidence and the confidence of the Administration?

Mr. EBERLE. I can assure you, speaking as an individual, that this Committee will be informed prior to any such agreement and your advice certainly will be taken.

Senator BENNETT. I understand that at the moment you have no official negotiating authority. The law that gave you that authority has expired. The extension passed the Senate but has not yet come into law.

Mr. EBERLE. That is my understanding as far as any authority to negotiate new trade arguments. Of course there is under the Trade Expansion Act certain administrative responsibilities for various kinds of action which are continuous.

Senator BENNETT. Will you do what you can to help bring this authority up to date and then after you have it make sure that we have a part in the development of any negotiating programs that you will have thereafter?

Mr. EBERLE. I will not only be very willing to do so but I think again this is the kind of cooperation that is essential if we are going to create the will to have an effective trade program and policy—that is to have my office, the Administration and the Congress pulling together. The answer is yes.

Senator BENNETT. Thank you.

The CHAIRMAN. Senator Ribicoff.

Senator RIBICOFF. Mr. Chairman, I believe that Mr. Eberle has the qualifications for this position to which he has been appointed by the President. The fact that he has had experience in politics, business and law is significant.

Although Mr. Eberle comes from the State of Idaho, he now lives in Connecticut, even though his biographical sketch says he lives in the New York City area.

We in Connecticut think it is pretty good to live in Connecticut without saying you are from the New York City area even though you commute to New York. We would be pleased if you claimed Connecticut instead of the New York City area.

Mr. Eberle, does American Standard have plants abroad as well as in the United States?

Mr. EBERLE. Yes, sir; American Standard has plants in some 27 or 28 countries.

Senator RIBICOFF. Has American Standard ever been faced with a situation where one of your American companies makes the same product made by one of your foreign countries, and the wage rate of your American company is \$3.20 an hour and the average wage rate in your foreign company is \$1.08 an hour? How should a company treat a situation like that?

Mr. EBERLE. Let me try to put that in perspective this way.

First of all, American Standard really never has been faced with this problem.

Senator RIBICOFF. You have never been faced with it?

Mr. EBERLE. Because of the nature of the product and our exports are very substantial, in the one hundred million dollar area, whereas our imports are minimal, less than a million dollars. It may be a little more. They range from heavy vitreous china plumbing products which are noncompetitive other than on a local basis, to high technology products, such as transportation equipment, automotive braking and heavy industrial equipment where we have a competitive advantage worldwide.

Senator RUBINOFF. Even if this situation doesn't apply to your company now, one of the problems in the future, as I see it, is the whole problem of the multinational corporation which has many homes. You are going to have the problem of the American corporation with many branches or subsidiaries abroad while foreign corporations have branches making their goods in the United States.

How do you think we should handle the problem of the American multinational corporation with an average wage in the United States of \$3.20 and \$1.08 in a foreign country? Even with the 10-percent surcharge and the investment tax credit, for one company where labor represents 55 percent of the cost of doing business, it is still cheaper to manufacture abroad and send their product into the United States with tariffs and surcharges.

How should we handle such a situation?

Mr. EBERLE. Let me assure you I don't have all of the answers because I haven't had the full background in a lot of products, but let me try to give a philosophy that I think could be helpful here.

As with most other very complicated problems there are a number of aspects. First, we have the question of components exported for assembly and brought back. Here I think there has to be a better escape hatch because you could get market distortions here beyond what was anticipated.

Now, when it comes to the problem of whether you manufacture a product here or manufacture it abroad, you have a very serious conflict in a sense, a basic problem. This is simply that if you don't manufacture, let's say, a part of it abroad, you may not be competitive back in the United States for the total product.

It is not just that you are manufacturing a product abroad and bringing it into the United States, it is a component problem. You have the problem of whether you allow the component to be manufactured overseas and then brought in here so the complete product will be competitive, or whether you are just going to buy the entire product abroad. So there is a double aspect to it.

Here again I think that you have to look at this from both sides. You have to look at the market situation as to the total product, as well as to its component parts.

Thirdly, I think that if you are looking at the multi-national side you have to examine the job creation effects of a company's operation, as well as the job elimination effects. Unfortunately, in this area the statistics are not very good. I wish they were better.

Mr. Freeman, the Chairman of the First National Bank of Chicago, has sent out a questionnaire to most multinational companies trying to assemble some additional information. On balance, there may be more jobs created than jobs eliminated, I don't know. But I think the important point is that if present policies allow the multi-national companies to take jobs overseas for trade distorting reasons, whether those rea-

sons are created by us or by the foreign country, then we should find a way to stop that situation.

Senator Ribicoff. Let's say a company is faced with the business reality that its entire product can be made in any one of ten countries abroad or the United States at the same quality. However, the U.S. wages are \$3.20 an hour as against \$1.08 an hour abroad.

I think I have heard Senator Fannin talk many times about the question whether the United States is to become a service-oriented economy at the present time. Fifty percent of our work is service-oriented. It is obvious that no great nation can have a work that just takes in each other's washings. If all of our basic industries are going to manufacture abroad, then the United States will become a consumer and service oriented economy buying manufactured goods abroad. How can such a nation remain great?

How do you handle this dilemma?

Mr. EBERLE. There are two questions there as I hear it.

First, on the question of the wage differential alone. I think where that is the principal factor underlying market disruption—textiles, I suppose, is the most current example before us—there must be the kind of action, whether it be by quotas or other means, to prevent that disruption from happening. I think these are special kinds of situations.

On the other side of that question, and I think you can't just treat them all the same way, there may have to be marketing agreements, there may be quotas, or various kinds of tariff measures. I don't know what the specific answer for the product is. Where you get that kind of market disruption you have to take some action, assuming there was no trade distortion in the other side.

The second question I think is a more serious question and that is how we avoid becoming a service economy. And here I think that we have to be very sure to help the research activities of our companies and give them effective incentives. Second, I think we have to be much more active in seeing that our rights are protected so that we don't have the kind of trade distorting programs in other countries that prevent us from access to their markets. Thirdly, I think that we have to keep our own economy strong and non-inflationary so that we can remain competitive.

That is a general answer but I think these are the kinds of things that without getting into specific problems, we have to face up to and keep in mind all the time.

Senator Ribicoff. The trend is very widespread with all of the big American corporations today manufacturing abroad. They have a very tough problem with their balance sheets.

I can see that if I were President or Chairman of a board or controller I would be looking at this situation with some concern. The problem I think you are going to have to come back to time and time again before this committee is to try to develop a policy that allows an American industry to be competitive at home and abroad and yet assures that the basic industry a nation needs for its own survival, economically as well as militarily, exists domestically. We cannot be just a service oriented people living on accumulative fat.

I don't expect an answer from you on this now. This is a great philosophical problem that we are going to have to wrestle with and you more than any other man on a day to day basis are going to be charged with finding some answers. I don't have any. I am anxious to try to

find some and I would hope that as you discover some you would communicate with this committee.

Within the next few years this committee is going to have to take some action on this overall, basic problem. It is going to be the responsibility of the Finance Committee to come up with the answers.

Mr. EBERLE. I accept the challenge and hope you will share the responsibility with me.

Senator RIBICOFF. We will; we will. I don't think this Committee will duck it. We take our job pretty seriously but this is a problem that you are going to face in the days ahead and you have a lot more time to work on it than any member of this Committee.

Senator FANNIN. Mr. Eberle, you have a highly commendable record and I am sure that you will accept this challenge and do well.

I am very impressed with the answers you have given, and would like to just carry forward some of the questions that have been raised about imports of highly sophisticated capital goods while exporting raw materials. It doesn't seem that we were making very much headway so we had to have the surcharge of 10 percent applied and now there is a hue and cry that this surcharge is a violation of GATT and should be removed immediately. I hear no mention of the border tax in Europe, discriminatory taxes and tariffs that Japan levies or high level of tariffs in Canada.

I am asking if you think we can afford to remove the surcharge before we get fundamental changes in the trade advantages of other nations such as border taxes and others I mentioned?

Mr. EBERLE. I wish I could be as positive as I would like. All of those things could be done. Unfortunately, I believe that what we have to get is a commitment. First of all, we have to get the surtax off in a reasonable length of time—I don't mean tomorrow, but a reasonable length of time because there are signs of some retaliation appearing. Denmark has already announced its intention to impose a surcharge. I think that we can stand some of that. I don't think we can allow this situation to degenerate into a trade war. But I think the point is that we certainly must get some kind of progress moving in that direction with a specific commitment at an early date for serious negotiations involving this whole area. At the same time I believe that we must be more active in protecting our interests and raising these questions within GATT, and if they cannot be solved there there are other forums that these matters can be taken to.

So I think it is a parallel kind of program to go after that whole range of trade distorting barriers around the world. If we can't do that then we are going to have to find ways and means on our own side to see that our interests are protected.

Senator FANNIN. We have had a great deal of comment about a trade war. Don't you think that we have been discriminated against to the point where we were already losing that trade war. Consider the GATT agreement, for instance. Here we have auto equipment coming in just a few years ago at 5½ percent, last year 4 percent, this year 3, going down to 3½ under GATT. We had the Japanese with 17 percent rate long enough to penetrate our market, and that was a starter.

Don't you think we have already had that trade war under the situation that was existing in GATT?

Mr. EBERLE. Senator, there is no question in my mind that there have been some tactics that have distorted trade and limited our access to markets of other countries. Whether that should be called a trade

war or not I have to leave to anyone's individual judgment. But I think the key issue here is that there are other areas to consider. For example, if you look at the balance of payments and the current account, coming in from overseas investment we have annual incomes of over \$8 billion, which could create jobs for us, so that we should try to eliminate trade distortions without getting into a further tit for tat kind of relationship, unless that is the only way to get there. I hope that that will not prove necessary.

Senator FANNIN. I certainly agree with you that we must be fair and equitable, that we must demand the same treatment, we must have a balance, and we haven't had that balance. We have not been able to get into foreign markets so they have built tremendous production facilities—I think Japan is the best illustration—in a very few years because of their protective program, the electronics industry, when we could not even get equipment in at any price.

I can't understand why that 10 percent surcharge is any serious problem.

Mr. EBERLE. Well, again let me say I think Japan certainly creates trade distorting effects with its illegal quotas and with its prohibitions against foreign investment. We could go down a whole series. I think that problem has to be handled in many cases with particular countries, instead of across-the-board because we do have many friends that have played fair. We cannot act against everyone indefinitely, but I agree we should take very strong action where we find particular trade distorting effects in a country such as Japan.

Senator FANNIN. Yes, well, that is where we would have reciprocity and this pertains to our trading partners of the European community. We can't get them to the bargaining table to discuss the preferential trade agreements that they have entered into and this has been very unfair to the United States, don't you agree?

Mr. EBERLE. I think those preferential trade agreements are trade distorting and I think we have to get the EEC to the bargaining table. As you know, with respect to the citrus preferences, we have already given notice that we intend to use the complaint procedures of the GATT. I think this whole area has to be discussed further. The same thing is true as to the common agricultural policies of the EEC. These issues must be raised and they must be resolved within a reasonable length of time.

Senator FANNIN. Well, I am glad to hear you say that because here we are working on the Sugar Act recently and just about at the same time we had the citrus problem come up. Some of the countries that we were negotiating with in trying to remove preferential treatment and to give us the same treatment. Still they wanted all of the things their way as far as the Sugar Act is concerned, but they wanted a limitation and a time agreement on what would happen on citrus.

Do you think we can continue to operate under the GATT agreement as it exists today or should be pursue another agreement? I know that is a very tough question, but we haven't been doing too well under GATT. How much longer can we continue to operate under GATT?

Mr. EBERLE. I think, in general terms, if you didn't have the GATT, you would have to find some other mechanism like it. There is no question that there are areas where the GATT can be improved. Certainly one of these relates to enforcement of the rules. On the other hand, I think there are many cases where we have not pursued

our rights quite as hard as we should. I think from my point of view the important point is to take the issues and get them where they can be resolved. Then, if they aren't properly acted on in a reasonable time, I think we face the problem of what we do with the GATT.

Senator FANNIN. Well, Mr. Eberle, let me say I think we are very fortunate to have you accept this assignment and it is a very important one and I think you are very capable of taking care of it.

Mr. EBERLE. Thank you, sir.

The CHAIRMAN. I would like to bring up one or two other matters. Are you familiar with the controversy that has been going on for some time between this committee and the Executive with regard to these monthly "good news announcements" by the Department of Commerce in which we are told we have a favorable balance of trade and that foreign trade is the bright picture of our overall dismal balance of payments. Although if we kept our books the same way that everybody else keeps theirs, we didn't have a plus, we had a big minus.

Are you familiar with the controversy?

Mr. EBERLE. I am familiar not only with your bill but the correspondence between Mr. Shultz and Mr. Stans and the testimony before this Committee.

The CHAIRMAN. Well, may I say that for a long time I couldn't understand just what the purpose of this thing was. After conducting numerous hearings on this subject and asking a lot of people about it, I can only conclude that this whole thing is something to deceive the American public.

The reason I say that is some of us went down to the International Monetary Fund a few days ago and met with Mr. Schweitzer, the managing director. We found those people don't pay any attention to our misleading trade statistics. Those are the people that ought to be concerned whether we do or don't have a favorable balance of payments. They don't pay any attention to these official good news announcements because they calculate trade to include the freight and insurance. In a sense it is totally immaterial how we keep these official statistics on trade since when you add everything up we are in the red. They are not misled by them at all even though most countries do put the freight on their imports.

To me it is just ridiculous to say that when you buy something from Japan and it comes here in a Japanese ship that what you paid for it for balance of trade figures is the FOB price in Tokyo, or Yokohama when what you actually paid was a price which included the freight to get it over here. And that is how any businessman keeps his books, that is how the other governments keep their books. You don't buy an automobile based on the FOB price in Detroit. When you sell something usually the price you are selling would be the price that you received for it and the freight is something that the other fellow absorbed on the other end. Usually he is the one that pays the freight to bring it from your shipping point to his. He has to absorb that freight if he is not paying it.

So that the other countries keeping their books on a CIF basis and it seems to me that is the logical way to keep your import figures.

Now, I find myself asking how do we ever come to have it on any basis on a different basis and the best I can see that was because we were collecting our tariffs on an FOB basis. Relating to an obscure

point of Constitutional law, we are not supposed to discriminate between points with our tariff policy and, therefore, with the tariff to be levied on foreign value rather than the landed value of the product which might tend to discriminate somewhat in favor of the port that was nearest the other fellow's shipping point. But with the other people receiving more than 50 percent of all of the wages that are involved in the shipping—a lot more than 50 percent of the wages—and with their ships carrying more than 50 percent of the cargo that moves in American commerce, both in and out, it just doesn't make any sense at all to this Senator. The Secretary of Treasury has told me it doesn't make any sense to him. Secretary Stans said it made better sense to him to have the freight reflected in your balance of trade figures. This little lady who is Chairman of the Tariff Commission indicated it made better sense to her. And those are the people who are supposed to make that decision, and notwithstanding that we have Mr. Shultz down in the White House apparently still dictating, he and some people in the State Department, none of whom are listed in the statute as being people who should be consulted at all—dictating the good news announcements.

I know what tends to happen, these people come here from Japan, they come from Germany, they come from other countries, and they immediately insist on showing me this good news announcement in the New York Times that we had a favorable balance of trade when we had just the opposite, and now when we try to do something about a bad situation, we have people like my own colleague, Hale Boggs from Louisiana, who goes down to New Orleans and makes a speech to the foreign trade people, "This is the first year we have had an unfavorable balance in our trade picture."

Of course that is because of the fraudulent statistics that they dream up.

I will put this matter in the record indicating for the years 1966 through 1970, five years, they undertook to show a favorable balance of \$12.7 billion when if you take out the giveaways and put the freight into it you show up with a deficit of \$14.6 billion. So there is a difference on the unfavorable side of \$27.3 billion.

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, Gov- ernment- 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.

I was at the last OECD meeting over in Paris. Over there those people proceeded to tell us about the favorable balance of trade we had. All those people know better. But as long as we are going to continue to do this, every negotiation has to start out with them telling us we have a favorable balance of trade and we don't.

I was invited to go speak down to the people who sell these foreign-made automobiles and I told them over a period of time we can't stand this tremendous increase in foreign automobile sales. Something will have to be done about it sooner or later. Somebody immediately stands up and says, "Don't you know we have a favorable balance of trade with Germany, we have a favorable balance with France, we have a favorable balance with England," but they are not taking into account the freight nor are they looking at other relevant factors such as the troops in Germany and things of that sort which causes us to have an unfavorable balance.

I don't think it helps the situation at all to have our State Department dictating a decision year after year that our trade picture is \$5½ billion better off than it is. It makes the problem more difficult and frankly in the OECD negotiations, I think that as far as any achievement by the United States at that conference was concerned, it was dead to begin with.

We started out by suggesting that our bad trade or bad balance of payments situation was because of our defense problems. Countries like Finland that are committed to be neutral and a country like Austria, committed to be neutral, a country like France who threw us out of there because they didn't want to participate in our defense commitment—why would they want to pay for our troops. They said to us "please don't talk to us, don't you know who we are, we are not involved in this, we don't want anything to do with your defense problems and we are committed to be neutral." Other people say your war in Vietnam is responsible and things of that sort. If they don't approve of it why would they agree to pay for it.

As a practical matter, if you told them we had an unfavorable balance of commodity trade as well as having a big drain on the military part of it you could have made a much better presentation. I know you weren't there. At least you were not there officially in this capacity. Were you there at all?

Mr. EBERLE. No, I was not.

The CHAIRMAN. The point I am making is that those people would prefer to debate it from their side anyway and if they can confuse you in these negotiations by telling you that you have a favorable balance of trade, when you don't, and show you your own official figures, which are fraudulent, to their advantage rather than yours, it is going to make it that much more difficult to get around talking about what the real problem is.

Frankly, I am very dismayed about this effort and obviously these tremendous efforts to keep it that way when it makes no sense, can only be dictated by people feeling they can continue, they can keep getting away with unwise policies, perpetrate them and perpetuate them a while longer, but making a fraudulent presentation of our balance of trade.

Of course, implicit in that argument is this is the only bright spot in our overall trade, aid, defense picture so we must do more of the

same. As a practical matter we are losing about \$6 billion a year in this aspect of it.

I would hope that you will help us to reflect what the facts are about our trade rather than continuing to go along with the State Department and perpetuating this misrepresentation to the American people and the attempted misrepresentation to this Committee. If I do say, there are very few people on this Committee fooled by that, if anybody, but they sure fool some people around this country with that. I think it ought to stop.

Mr. EBERLE. Mr. Chairman, I think there are two comments I would like to make to that. First, I happen to be very much for full and accurate disclosure. I think these facts have to be spelled out accurately and in a way that makes them understandable, and as part of that they should, to the greatest extent possible, be comparable with other countries. I understand that there are at least 120 other countries reporting on a CIF basis and two talking about going one way, and two the other.

Second, I can assure you and the Committee that in the Office of Special Trade Representative we have the complete set of figures. If there is a problem, we are not going to be fooled by it either.

The CHAIRMAN. Well, I don't want this nation to be prejudiced nor to have the people of this nation deceived about this matter. Mr. Ahisi, who made a speech on our side at the United Nations, was at that meeting and we had dinner with him and some other representatives of these foreign nations that evening. After that meeting when the OECD concluded and I made the point to him that if we kept our figures the same way Japan kept theirs, and that was the way you should keep them, we didn't have a trade surplus, we had an enormous deficit and had had for the last five years. So at that dinner that night each person was invited to say something and in the course of my statement I proceeded to say that we didn't have a favorable balance of trade, we were losing our shirt as fast as we could lose it, and had for the 5 years, and he nudged me to indicate yes, I understand what you are talking about. They understand it if somebody else tells them but if you go around and say we are getting rich and can afford all of this I can see why people would continue to be victimized thinking you are still as rich as you lead people to think you were.

I don't want to poor mouth people but when we are going broke I think it is time to tell them we can't keep this up, we are losing money. I am encouraged you hope to get this matter straightened out and I hope you will give us your cooperation to help bring to an end the misleading figures, the fraudulent statistics which don't fool this Committee. When we meet with the House of Representatives on conference on these fraudulent bills we will understand what we are talking about, between us and Chairman Mills and his group. But we don't want the people deceived. What is the point in deceiving the American people telling them we are getting rich when we are going broke. Can you explain that to me?

Mr. EBERLE. On top of that, the unfortunate fact is that at present we are going broke on both sets of statistics.

The CHAIRMAN. That is exactly correct. But to publish these fraudulent figures leads one to think in this area we ought to keep doing business the way we do, and the fact is we can't afford to do it there like we can't afford to do it in the other part. We don't have an unfavorable

balance of payments in spite of the trade situation, we have it partly because of it, and I see you nodded you agree with that.

Mr. EBERLE. That is right.

The CHAIRMAN. We look forward to working with you. I think you have a good background and you appear to have something that is very scarce in government, that is common sense, and I hope you will put it to work on this job.

Any further questions?

Senator BENNETT. I have a group of questions here that I hope we can answer for the record. I don't think we need to take the time of the Committee today to discuss them.

The CHAIRMAN. All right.

Mr. EBERLE. I will be happy to.

Senator BENNETT. If you will answer them and submit the answers in writing.

Mr. EBERLE. Yes, sir.

The CHAIRMAN. May I give you this to carry away in your pocket.

Mr. EBERLE. Thank you very much.

(The questions with responses follow:)

Question. The United States has suggested the need for a turnaround in our balance of payments of \$13 billion, most of which would come about in a sharp change of trading patterns throughout the world. Have you studied the trade position of other countries to give us any general idea as to where this turnaround may come about. In other words, approximately how much can we expect to get from Japan, the European Community, Canada, and others?

Answer. I have not yet studied the overall monetary and trade position of each of the other countries in detail and, therefore, cannot give you the specifics. However, I think it is quite clear that both the extent of currency undervaluation and of impediments to trade varies considerably between countries. It is equally clear that the larger the currency undervaluations and the more restrictive the trade barriers when applied to large volumes of trade and large market potentials, the greater will be the possible turnarounds. Thus, the degree of currency adjustment and progress in trade liberalization by countries with whom we have major trade interests and opportunities for expansion will have very considerable bearing in correcting the present situation. In the overall relationships, there is room to approach such a turnaround.

Question. Have you ever written any articles concerning trade or foreign economic policy? If so, could you supply them for the record?

Answer. I have not. I have, however, recently chaired a panel of the Committee for Economic Development on "An Enlarged Common Market and the United States." The Report of this study will be made public toward the end of this month and I will make copies available to the Committee.

Question. I have the impression that the role of the Special Trade Representative has been greatly reduced since the days of the Kennedy Round. Do you have any plans to enhance the prestige of your office? Compare the responsibilities of the STR with those of the Council on International Economic Policy.

Answer. First, to put the situation in proper perspective, the large and complex activities involved in the negotiation of the Kennedy Round clearly required an augmented staff and served to underline the importance of the Office. An entirely justifiable reduction in personnel followed the completion of those negotiations.

There is no doubt in my mind that the responsibilities, and the workload, of this Office are now rapidly increasing. The volume of world trade and the intensity of international competition have both grown rapidly. With these increases have come a comparable growth in the problems arising out of trade. The Congress recognized the need for greater attention to these problems in granting the first substantial increase in several years in appropriated funds for fiscal 1972.

The creation of the Council on International Economic Policy by the President earlier this year is another step in the recognition of this need. The responsibilities of the Council involve the coordination of our various foreign policy

objectives, coordination between domestic and foreign economic policies, and a clear, top level focus on the full range of all of our international economic issues, including trade, monetary, development, etc.

The Office of the Special Representative has well defined, separate and independent responsibilities under the Trade Expansion Act of 1962. It is also a member of the Council on International Economic Policy and has a full input and participation in its activities and is within its coordination and harmonization functions.

Looking at the future, there is no question that there are a large number of trade-distorting barriers that must be negotiated away in the future and other trade problems which must be solved. Assuming that we have the support of the Congress and have sufficient authority to tackle these problems, I would anticipate that we can make a good beginning in 1972 and by 1973 should be in a position to begin a major, multilateral negotiation over the remaining problems in international trade.

Question. How long do you think a negotiation dealing with nontariff barriers might take? What kind of authority do you think our negotiators should have, and are there specific negotiating plans under consideration at this time?

Answer. The time required will depend on the kind of nontariff barriers involved, the scope of negotiations, and the kind of authority we have. A great deal of preparatory work has been undertaken in the GATT over the last several years. Out of this has come the possibility of tackling some types of barriers in 1972. Other types of barriers are more complex, and often involve both structural changes in the countries' economies and basic changes in national policies. These will clearly take longer to negotiate. Moreover, negotiating either short-term or longer-term will involve the problem of obtaining reciprocally balanced agreements. Such agreements may be possible in some areas and not in others. In the latter cases, success can probably best be achieved within the framework of a major trade negotiation.

On the question of authority to equip our negotiators in the nontariff barrier area, it may be more difficult for Congress to create negotiating authority comparable to that it has traditionally delegated in the past on tariffs. There is such a wide variation in the scope and effect of different kinds of NTBs that it may not be susceptible to a general definition of authority as has been possible with tariffs.

This whole matter of negotiating authority is under study right now. I would like to discuss it with this Committee just as soon as I have had an opportunity to finish this study and review it. I would certainly welcome your advice before we make a formal Administration proposal to the Congress.

Question. Do you feel that a system of flexibility exchange rates would be helpful in avoiding the shocks to the international monetary system that have taken place over the past decade?

Answer. I am not a monetary expert, although I have been a Director of the Federal Reserve Bank of New York. My personal feeling is that there must be greater flexibility in exchange rates and that there are obviously a number of ways in which our monetary system can be improved. Since these problems are now under international discussion, I do not believe it would be appropriate for me to make any further comment.

Question. Exchange rates play an important role in the trading positions of all nations. Can you really make the distinction between the monetary issues involving exchange rates, and trade issues involving, say, nontariff barriers? Is it reasonable to have one negotiator on trade and another negotiator on monetary matters when they are both so interrelated?

Answer. This is the basic and major reason why the Council on International Economic Policy has been created. All of these closely related matters can and must be harmonized. Negotiations in each may properly require the services of specialists in the field. Provided they all are properly coordinated and are working under a coordinated set of policies, it is not inconsistent to have specialists working in parallel.

Question. Could you tell us something about the size of the staff of the Special Trade Representative on a professional level—how many professionals currently staff that office? How does it compare with the staff in the White House, the National Security Council and the various Departments?

Answer. There are now 31 persons in the Office of the Special Representative. Including all grades, 17 of these are classified as professionals. Since the Office is part of the Executive Office of the President, I am not sure that comparisons with

the staffs of other parts is entirely meaningful. The only knowledge I have of the staffs of other agencies is based on the reports of the Senate Committee on Government Operations. It reports that the White House has about 500 employees, the National Security Council about 80, and that employment in the various Departments ranges from about 11,000 in the Labor Department, to 40,000 in the Department of State, to over a million persons in the Department of Defense. I have no knowledge of the proportion of professionals employed by other agencies.

Question. How would you characterize your trade philosophy? Are you a free-trader or protectionist, or something in-between? Do you think these terms have much relevance in today's world?

Answer. As I said in my confirmation hearing, I do not approach this position with any fixed or doctrinaire attitudes. I do believe we can continue to expand trade while avoiding injury to either American workers or business. As in most complex, public issues today, labels are usually neither helpful nor have much relevance.

Question. Have you studied the GATT Agreement? Could you supply this Committee, at some future date, with a memorandum giving your opinion as to each area in which the GATT Agreement might be improved upon? To what extent do you think the GATT is binding on the U.S.?

Answer. Although I have looked at the GATT Agreement from time to time, usually with a view to a particular question or problem, I am certainly not an expert on the Agreement. I do intend, however, to devote time to the details of the Agreement and especially those areas which closely affect our trade interests.

In responding to a question by Senator Bennett, I indicated that I would be very willing to supply the Committee with my opinion and recommendations as to the ways in which the GATT might be improved upon and, indeed, that that was consistent with my responsibilities to create the kind of atmosphere with Congress contemplated by the Trade Expansion Act. The Office of the Special Representative is studying various aspects of the GATT in detail—together with other agencies—and after I review this work and refine my own conclusions I will certainly supply the Committee with my opinion as to those areas in which the GATT might be improved.

Although the GATT was not approved by the Committee or the Senate, I believe that the GATT is nonetheless an executive agreement entered into pursuant to an act of Congress. However, as I understand the matter, the GATT is inferior to subsequent inconsistent domestic legislation and, for that matter, the GATT Agreement itself is subject to existing domestic legislation.

Apart from these legal questions and the fact that the GATT now includes an interlocking set of agreements on tariffs, there is a philosophical point to be borne in mind: While the GATT rules clearly can be improved, they are essentially the only rules we have to govern the conduct of nations in the international trade area. I think that rules are important if we are to avoid a situation tantamount to the law of the jungle in which every nation would be free to do whatever it thought best without concern for the interests of their trading partners. I would only add that if the United States is to be expected to follow the rules of the game—whatever they may be—we must require no less from our trading partners. I also believe we have the opportunity in GATT to present our point of view and our interpretations and to make the changes that may be needed from time to time.

(Whereupon, at 2:55 p.m., the Committee was recessed subject to call of the Chair.)